# RESPONSIBILITY OF SUBJECTS OF CORPORATE ENVIRONMENT

## 1. Fundamental Theoretical Principles of Responsible Enterprise

◊ **The Corporate Responsibility** (CR) in entrepreneurial subjects.

⇒ Can be performed on different fundamental theoretical principles (Fig.1: Fundamental Theoretical Principles of Responsible Enterprise)

⇒ Even intuitive - **by applying of basic moral principles: fairness, justice and responsibility**.

**Figure 1: Fundamental Theoretical Principles of Responsible Enterprise**

| | THE ECONOMY SUPPORTING MORAL ENTERPRISE | REPRESENTATIVE |
|---|---|---|
| 1. | Corporate Responsibility | T. Cannon, W. C. Frederick, K. Davis, J. E. Post |
| 2. | Business Ethics | W. M. Hoffman, J. M. Moore, L. K. Treviño, K. A. Nelson, M. G. Velasquez, P.Ulrich, A. Remišová, S. Luknič |
| 3. | Social Economy<br>Economy by Moral Dimension | Amitai Etzioni |
| 4. | Economics of Giving<br>Reciprocity and Altruism | Serge-Christophe Kolm<br>Jean Mercier Ythier |
| 5. | Economics of Altruism | Stefano Zamagni |
| 6. | Economy of Communion | Chiara Lubich |
| 7. | New Institutionalism<br>Ethics and Economics | Amartya Sen |
| | | |

◊ Principles as **objectiveness, fairness, common good:**
Transformed into practical economics

⇒ Create an enterprise on the basis of social responsibility, ethics codex and other systems applying moral principles in business praxis.

◊ In entrepreneurial activities it shall be substantial result – **responsible enterprise.**

## 2. Current Appreciation of the Corporate Responsibility

◊ At present, academic community, official institutions (the European Union, the United Nations Organization …) and business area present **several comprehensive and important definitions**.

◊ The most relevant definitions:

⇒ **The Government of the UK**, country with a high level of CR institutionalization:
"The Government sees CR **as the business contribution to our sustainable development goals**. Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides."

⇒ **United Nations Development Programme** (of the United Nations Organization):
"The management of, and response to, social, environmental, broader economic and ethical issues – and the extent to which businesses are responsive to stakeholder's expectations on these issues.
Corporate responsibility is an increasingly **powerful tool of modern societies** – carried out by companies on a voluntary basis working to deliver social cohesion and environmental sustainability as well as economic development."

⇒ **World Bank Group's,** the institution permanently protecting the sustainable development: “Corporate responsibility is the commitment of businesses to **contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives** in ways that are good for business and for development.”

⇒ **European Commission:**
„The Commission has defined CSR as the responsibility of enterprises for their impact on society. CSR should be company led. Public authorities can play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation. Companies can become socially responsible by:
* following the law;
* integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations.”

**European Commission Strategy on CSR**
The Commission promotes CSR in the EU and encourages enterprises to adhere to international guidelines and principles. The EU’s policy is built on an agenda for action to support this approach. It includes:
1. Enhancing the visibility of CSR and disseminating good practices
2. Improving and tracking levels of trust in business
3. Improving self and co-regulation processes
4. Enhancing market rewards for CSR
5. Improving company disclosure of social and environmental information
6. Further integrating CSR into education, training, and research
7. Emphasising the importance of national and sub-national CSR policies
8. Better aligning European and global approaches to CSR.

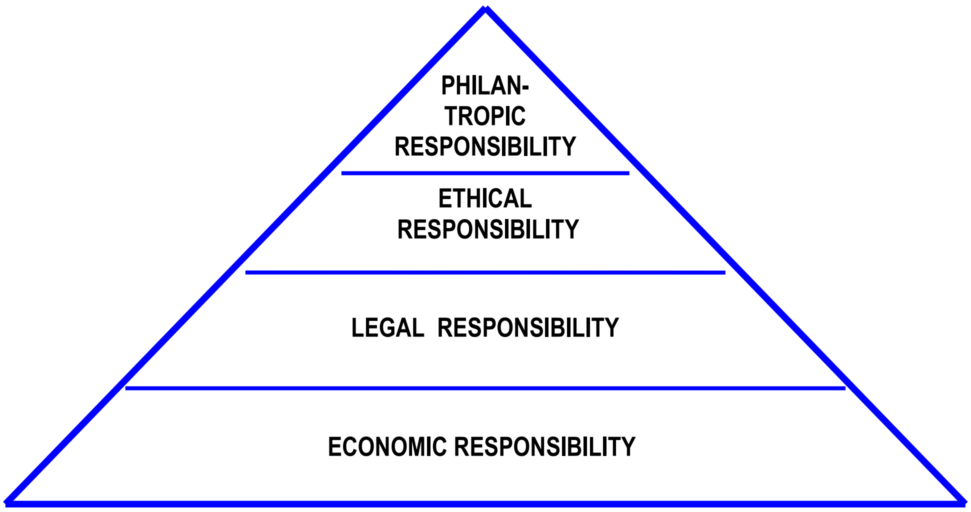
⇒ **World Business Council for Sustainable Development:**
“Corporate Responsibility is the continuing commitment by business to **behave ethically and contribute to economic development while improving the quality of life** of the workforce and their families as well as of the local community and society at large.”

⇒ **International Labour Office**
“CR is concerned with treating of the stakeholders of **the firm ethically or in a responsible manner**. ‘Ethically or responsible’ means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The natural environment is a stakeholder. The wider aim of corporate responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation.”

## 3. Basic Structure of the Corporate Responsibility

◊ **CR – conceptualized as a pyramid constituting** of four kinds of responsibilities that must be considered simultaneously**: economic, legal, ethical and philanthropic (**L. K. Treviňo and K. A. Nelson).

**Figure 2: Corporate Responsibility Pyramid**




⇒ **Economic responsibilities**

- Refer to business´ primary function as a producer of goods and services that consumer needs and wants, while making an acceptable profit
- This responsibility is considered to be primary, because without financial viability the other responsibilities become moot issues
- M. Friedman:
  - Is the most outspoken proponent of argument that management's sole responsibility is to maximize profits for stakeholders
  - Yet, even he states that management should " make as much money as possible while confirming to the basic rules of society, both those embodied in the law and those embodied in ethical custom
  - Interestingly, this statement tacitly embraces two of the three additional components of the CR pyramid: legal and ethical responsibility

⇒ **Legal responsibilities**

- In addition to its economic responsibilities, business is expected to carry out its work in accordance with law. The law guiding business practice can be viewed as a fundamental precept of free enterprise system and coexisting with economic responsibilities.

⇒ **Ethical responsibilities**

- Obviously, not every societal expectation has been codified into law. Therefore, ethical responsibilities encompass the more general responsibility to do what's right and avoid harm.
- For example:
  - In PPG Industries, Inc.´s Worldwide Code of Ethics, the Chairman's letter states: In all of our dealings, whether internal or external, it is not enough to simply say that our conduct is lawful. The law is the floor, compliance with it is the absolute minimum expected of a PPG associate, no matter where he or she works.
  - Our ethics go beyond the legal code. They require us to behave in a manner which is not only lawful but also morally acceptable to all of the constituencies with whom we have dealing
- The ethical responsibility category frequently interacts with the legal category, **pushing the expansion of legal responsibilities**, and placing expectations on business persons to

function at a level above the law. **Business ethics involves how business organizations manage both their legal and ethical obligations**.

⇒ **Philanthropic responsibilities**

* Involve the corporation's active involvement in activities that promote human welfare or goodwill.
* This generally includes donations of time and money, such as donations to the United Way or mentoring programs for disadvantaged youth. Because philanthropy is considered to be a voluntary or discretionary aspect to corporate social responsibility, failure to be philanthropic is not considered to be unethical.

## 4. Principles of Corporate Responsibility

◊ The level of application of these principles is institutional and is **based on a firm's basic obligations as a business organization.** The value of this level is that it defines the institutional relationship between business and society at large, and specifies what is expected of any business. It has three major elements:

- ⇒ **Legitimacy** concerns business as a social institution, and frames the analytical view of the inter-relationship between business and society;
- ⇒ **Public responsibility** concerns the individual firm and its processes and outcomes within the framework of its own principles in terms of what it actually does;
- ⇒ **Managerial discretion** whereby managers and other organizational members are moral actors. Within every domain of corporate social responsibility, they are obliged to exercise such discretion as is available to them towards socially responsible outcomes.

## 5. Why Are Companies Engaged in CR?

◊ Companies that are socially responsible in **making profits** also contribute to some, although obviously not all, aspects of **social development (M. Hopkins)**:

- ⇒ Every company should not be expected to be involved in every aspect of social development - That would be **ludicrous and unnecessarily restrictive.**
- ⇒ But for a firm to be involved in some aspects, both within the firm and on the outside, will make its **products and services** (for example financial services) **more attractive to consumers as a whole**, therefore making the company more profitable - there will be increased costs to implement CR, but the benefits are likely to far outweigh the costs.

◊ It is difficult, **in either statistical or quantitative terms**, to make a strong causal link between CR actions and such financial indicators as share prices, market value, return on assets invested and economic value added (EVA).

**This is because a correlation does not necessarily mean a causal link and a good correlation could simply occur by chance, although no correlation is obviously not a good sign!**

What most commentators have done up so far is to argue, qualitatively, that there is a business case. There are at least six main issues:

⇒ **First,**
equity created in companies reputation or brand can easily be harmed or even lost. This is particularly the case for companies whose **brand equity depends on company reputation**. Reputation is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment.

⇒ **Second,**
access to financing is an issue since, as will be seen below, **the market for socially responsible investment** (SRI), though still relatively small, is growing. This increase is a result of the growing support for the business case for CR, together with regulatory (for example, United Kingdom pension funds), market and societal pressure. These trends are also **supported by the creation of new financial indices**, such as the FTSE4Good and the Dow Jones Sustainability Index (DJSI), which publicly rank major international companies according to their environmental and social performance.

⇒ **Third,**
CR is an important factor **for employee motivation** and in attracting and retaining top quality employees.

⇒ **Fourth,**
**innovation, creativity, intellectual capital and learning** are helped by a positive CR strategy. Given that 80 per cent of the value of many new economy companies is now their intellectual capital, its preservation through the positive treatment of internal stakeholders is becoming more and more necessary.

⇒ **Fifth,**
**better risk management can be achieved** by in-depth analysis of relations with external stakeholders. Factors such as new technologies and changing societal, regulatory and market expectations are driving companies to adopt a broader perspective when analysing the range of risks that they may encounter. Expensive and time-consuming lawsuits, as well as lost investments, are driving companies to take a more proactive stance to establishing the necessary guidelines and **processes to minimize this kind of risk**.

⇒ **Sixth,**
there is a wider impact **as public expectations grow of greater CR** as a result of the heightened public debate on the benefits and shortcomings of globalization and the perceived role of business in this process. The number of transnational companies is increasing still. Example: The Companies With the Best CSR Reputations (Figure 3 Responsible Companies (Examples of the Ranks).

**Figure 3: Responsible Companies (Examples of the Ranks)**

**I.**

100 Best

# CR's 100 Best Corporate Citizens

CR's 100 Best Corporate Citizens 2017

Indicates "yellow card" caution; remains on list. Indicates "red card" caution; removed from list.

| Rank | Company | Symbol | Weighted Average Score | Environment Rank | Climate Change Rank | Human Rights Rank | Employee Relations Rank | Corporate Governance Rank | Philanthropy Rank | Financial Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| | | WEIGHTING | | 19.5% | 16.5% | 16.0% | 19.5% | 7.0% | 12.5% | 9.0% |
| ★ 1 | Hasbro, Inc. | HAS | 15.14 | 5 | 1 | 4 | 8 | 81 | 3 | 64 |
| ★ 2 | Intel Corp. | INTC | 22.90 | 12 | 23 | 6 | 6 | 45 | 12 | 111 |
| ★ 3 | Microsoft Corporation | MSFT | 24.97 | 1 | 88 | 1 | 14 | 16 | 1 | 68 |
| ★ 4 | Altria Group Inc. | MO | 42.79 | 74 | 13 | 33 | 13 | 191 | 10 | 42 |
| 5 | Campbell Soup Co. | CPB | 45.08 | 46 | 33 | 59 | 31 | 13 | 27 | 121 |
| ★ 6 | Cisco Systems, Inc. | CSCO | 47.94 | 8 | 36 | 25 | 7 | 147 | 96 | 142 |
| ★ 7 | Accenture plc | ACN | 48.19 | 40 | 17 | 83 | 46 | 82 | 17 | 83 |
| ★ 8 | Hormel Foods Corp. | HRL | 51.62 | 85 | 76 | 6 | 25 | 8 | 113 | 22 |
| ★ 9 | Lockheed Martin Corp. | LMT | 52.38 | 13 | 40 | 16 | 81 | 179 | 73 | 36 |
| ★ 10 | Ecolab, Inc. | ECL | 56.20 | 15 | 2 | 33 | 21 | 160 | 7 | 350 |

**Microsoft** In 2016, two now former employees from Microsoft were implicated in corruption case involving bribes paid to Romanian officials to buy over market cost software licenses. The employees implicated are now separated from the company and Microsoft is cooperating with all aspects of the investigation and according to the chief prosecutor, is not a target of the ongoing legal probe.

**II.**

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**III.**

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## DJSI World – Largest Additions & Deletions

### Largest 10 Additions

*(Ranked by Float Adjusted Market Capitalization as per 31st July 2017)*

| Name | Country | Industry Group |
|---|---|---|
| Samsung Electronics Co Ltd | Republic of Korea | Technology Hardware & Equipment |
| British American Tobacco PLC | United Kingdom | Food, Beverage & Tobacco |
| ASML Holding NV | Netherlands | Semiconductors & Semiconductor Equipment |
| Colgate-Palmolive Co | United States | Household & Personal Products |
| Honda Motor Co Ltd | Japan | Automobiles & Components |
| General Motors Co | United States | Automobiles & Components |
| Cigna Corp | United States | Health Care Equipment & Services |
| Infosys Ltd | India | Software & Services |
| NTT DOCOMO Inc | Japan | Telecommunication Services |
| Banco Bradesco SA | Brazil | Banks |

### Largest 10 Deletions

*(Ranked by Float Adjusted Market Capitalization as per 31st July 2017)*

| Name | Country | Industry Group |
|---|---|---|
| Enbridge Inc* | Canada | Energy |
| Reckitt Benckiser Group PLC | United Kingdom | Household & Personal Products |
| Rio Tinto PLC* | United Kingdom | Materials |
| Panasonic Corp | Japan | Consumer Durables & Apparel |
| BAE Systems PLC* | United Kingdom | Capital Goods |
| Cie Generale des Etablissements Michelin | France | Automobiles & Components |
| Nissan Motor Co Ltd* | Japan | Automobiles & Components |
| RELX PLC | United Kingdom | Commercial & Professional Services |
| E.ON SE | Germany | Utilities |
| Autodesk Inc* | United States | Software & Services |

*Remains a component of a regional DJSI
(DJSI Europe, DJSI North America, DJSI Asia Pacific and/or DJSI Australia)

## 6. Theory of Stakeholders

◊ **An unresolved matter in the literature** - although the broad outlines are known:

⇒ **Freeman's seminal conception** - stakeholders included all affecters and affectees of corporate policies and activities (i.e., all relevant interests)

* Historically, this identification was non-controversial and widely applied.
* The affecter set combined contributors and non-contributing influencers. The affectee set combined beneficiaries and non-benefiting impactees.

⇒ **Starik** argued for extending the stakeholder notion to embrace nature.

⇒ **Donaldson and Preston:**

* Argued for a distinction between non-stakeholder influencers and "true" stakeholders
* This distinction means that stakeholdership involves something more complicated than simply the union of influence (i.e., affecters) and impact (i.e, affectees).
* The question is whether a simple distinction between influencers (affecters) and stakeholders (contributing beneficiaries) is sufficient to describe reality: stakeholder theory is grounded in a claim of descriptive realism.

◊ We can identify two groups of stakeholders (**O. C. Ferrell – J. Fraedrich – L. Ferrell)**:

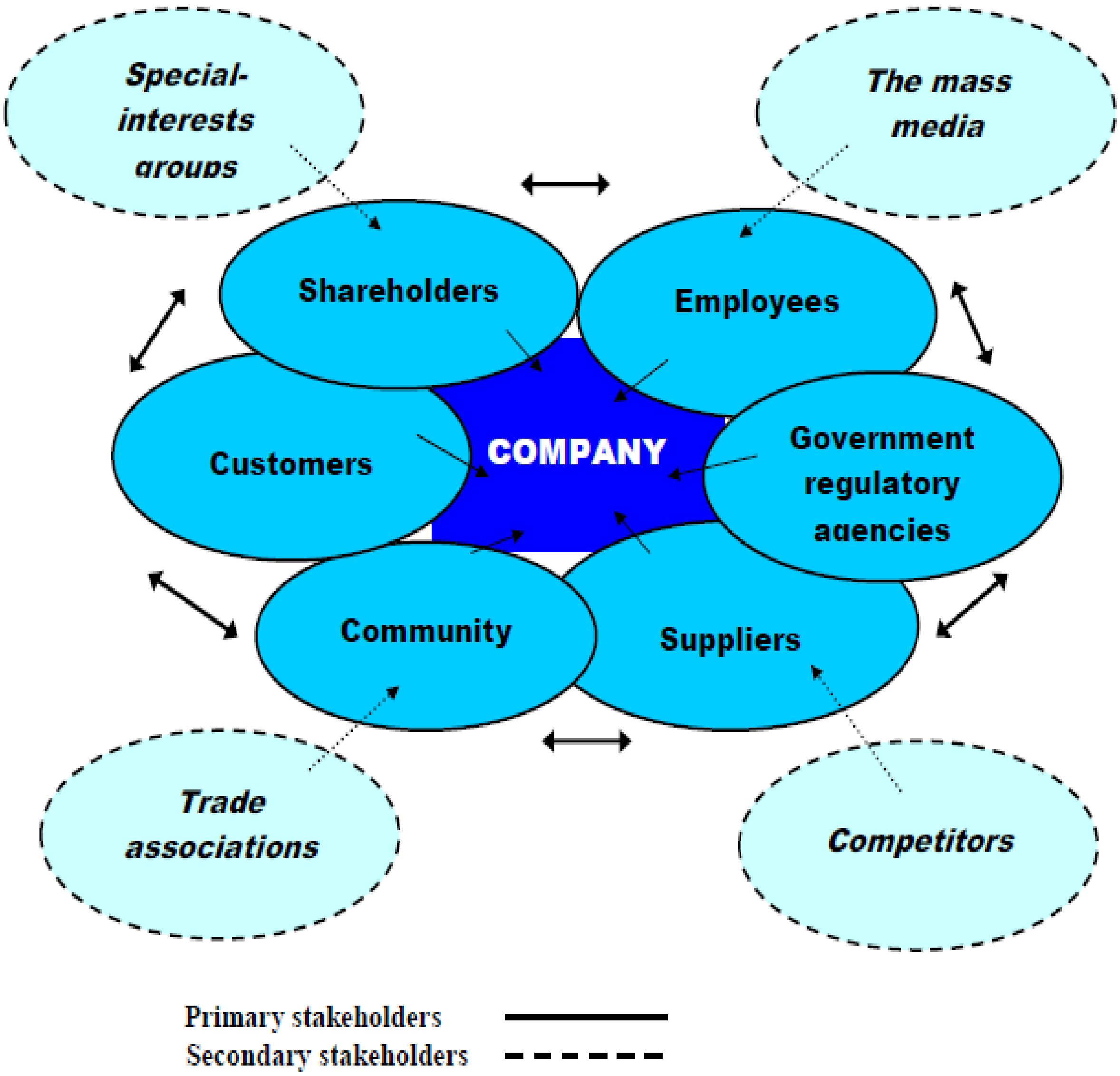
⇒ **Primary stakeholders:**

- Are those whose continued association is absolutely necessary for a firm's survival
- These include: employees, customers, investors, shareholders, suppliers, governments and communities that provide necessary infrastructure

⇒ **Secondary stakeholders:**

- Do not typically engage in transactions with company and thus are not essential for its survival
- These include the media, trade associations, special – interests groups.

**Figure 4: Stakeholder System**




⇒ **Both embrace** specific value and standards that dictate what constitutes acceptable or unacceptable corporate behaviours

⇒ It is important for managers to recognize that while primary groups may present more day-to-day concerns, **secondary groups cannot be ignored** or given less consideration in the ethical decision-making process.

## 7. Institutionalisation of Ethics into the Enterprise

### A. DEFINITION OF CODE OF ETHICS

◊ According to **L. T. Hosmer:**

⇒ Ethical codes are **statements of the norms and beliefs of an organization**. These norms and beliefs are generally proposed, discussed, and defined by the senior executives in the firm and then published and distributed to all of the members.

◊ According to **S. Webley:**

⇒ A code of ethics (otherwise an ethical policy, code of conduct, statement of business practice or a set of business principles) can be a management tool for **establishing and articulating the corporate values, responsibilities, obligations, and ethical ambitions of an organisation and the way it functions**. It provides guidance to employees on how to handle situations which pose a dilemma between alternative right courses of action, or when faced with pressure to consider right and wrong.

◊ According to **O. C. Ferrell – J. Fraedrich – L. Ferrell**:

⇒ A statement – three different forms: a code of ethics, a code of conduct and a statement of value:

| CODE OF ETHICS | CODE OF CONDUCT | STATEMENT OF VALUE |
|---|---|---|
| * It is the most comprehensive and consists of general statement, sometimes altruistic or inspirational, that serve as principles and the basis for rules of conduct.<br>* It generally specifies methods for reporting violations, disciplinary action for violations and a structure of due process. | * A formal statement that describes what an organization expects of its employees.<br>* It is a written document that may contain some inspiration statements but usually specifies acceptable or unacceptable types of behaviour.<br>* It tends to be developed without broad-based participation from stakeholders. | * It serves the general public and also addresses distinct groups such as stakeholders.<br>* They are conceived by management and are fully developed with input from all stakeholders |

⇒ It is important to recognize that these terms are often used **interchangeably**

◊ According to **L. K. Treviňo and K. A. Nelson:**

⇒ Codes vary substantially in length, content and readability, but they're generally perceived as the main road map, the ground rules for ethical conduct within the organization.

◊ According to **M. S. Schwartz:**

⇒ Corporate codes of ethics often contain about six core values or principles in addition to more detailed descriptions and examples of appropriate conduct The six values that have been suggested as being desirable for codes of ethics include: (1) trustworthiness, (2) respect, (3) responsibility, (4) fairness, (5) caring and (6) citizenship.


## B. DEVELOPING CORPORATE ETHICS PROGRAMME

◊ Steps for a company wishing to develop its own corporate ethics programme:

**1. Find a champion**

⇒ Unless a senior person – the best person is **the chief executive officer**

⇒ Is prepared to drive the introduction of a business ethics policy, the chances of it being a useful tool are not high.

**2. Get endorsement from the Chairman and the Board**

⇒ Corporate values and ethics are matters of governance. The board must be enthusiastic not only about having such a policy but also about receiving regular reports on its operation.

**3. Find out what bothers people**

⇒ Merely endorsing a standard code or copying that of another will not suffice.

⇒ It is important to find out on what topics employees require guidance.

**4. Pick a well-tested model**

⇒ Use a framework which addresses issues as they affect different constituents or shareholders of the company.

⇒ The usual ones are: shareholders, employees, customers, suppliers, and local/national community. Some might even include competitors.

**5. Produce a company code of conduct**

⇒ This should be distributed in booklet form or via a company intranet.

⇒ Existing policies, for example on giving and receiving gifts or the private use of company software, can be incorporated. Guidance on how the code works should also be included.

**6. Try it out first**

⇒ The code needs piloting - perhaps with a sample of employees drawn from all levels and different locations.

⇒ An external party such as the Institute of Business Ethics will comment on drafts.

**7. Issue the code and make it known**

⇒ Publish and send the code to all employees, suppliers and others.

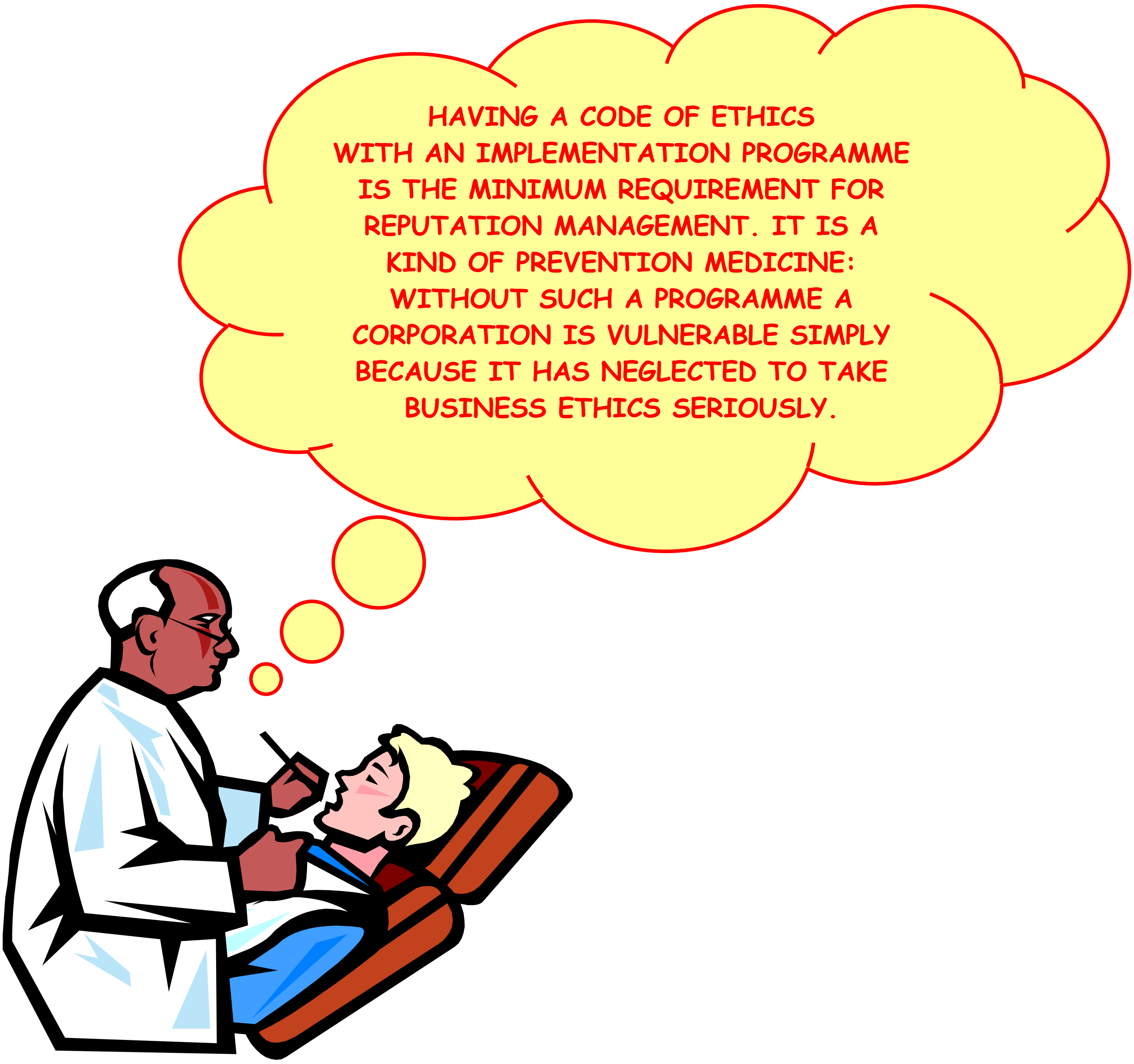
⇒ State publicly that the company has a code and implementation programme that covers the whole company.

⇒ Put it on your Web Site and send it to joint-venture and other partners.

**8. Make it work**

⇒ Practical examples of the code in action should be introduced into all company internal (and external) training programmes as well as induction courses.

⇒ Managers should sign off on the code regularly and a review mechanism should be established. A code 'master' needs to be appointed.



## C. THE CONTENT OF CODE OF ETHICS

### I. Preface or Introduction

◊ **Must be signed** by the Chairman or Chief Executive Officer or both

◊ Starting with a **formulation on the purpose of the Statement**:

⇒ Mention the values that are important to the top management in the conduct of the business such as:

- **Integrity**
- **Responsibility**
- **Reputation**.

⇒ Describe the **leadership commitment** in maintaining high standards both **within the organisation and in its dealings with others**.

◊ **Set out the role of the company in the community** and end with a personal endorsement of the code and the expectation that the standard set out in it will be maintained by all involved in the organisation.

### II. Key areas

**A. The purpose and values of the business:**

⇒ The service, which is being provided - a group of products, or set or services.

⇒ Financial objectives and the business' role in society as the company sees it.

**B. Employees:**

⇒ How the business values employees.

⇒ The company's policies on: working conditions, recruitment, development and training, rewards, health, safety & security, equal opportunities, diversity, retirement, redundancy, discrimination and harassment.

⇒ Use of company assets by employees.

**C. Customer relations:**

⇒ The importance of customer satisfaction and good faith in all agreements, quality, fair pricing and after-sales service.

**D. Shareholders or other providers of money:**

⇒ The protection of investment made in the company and proper 'return' on money lent.

⇒ A commitment to accurate and timely communication on achievements and prospects.

**E. Suppliers:**

⇒ Prompt settling of bills.

⇒ Co-operation to achieve quality and efficiency.

⇒ No bribery or excess hospitality accepted or given.

**F. Society or the wider community:**

⇒ Compliance with the spirit of laws as well as the letter.

⇒ The company's obligations to protect and preserve the environment.

⇒ The involvement of the company and its staff in local affairs.

⇒ The corporate policy on sponsorship as well as giving to education and charitable appeals.

**G. Implementation:**

⇒ The process by which the code is issued and used.

⇒ Means to obtain advice.

⇒ Awareness raising examples.

⇒ Training programmes for all staff.

**H. Assurance, reporting and reviews:**

⇒ Suggest ways of knowing if the code is effective.

⇒ Report to the board or board committee at least annually.

⇒ Review procedures for updating the code.

## D. Implementation of Code of Ethics

◊ **The most important steps** for Implementing Code of Ethics:

**1. Endorsement:**

⇒ Make sure that the code is endorsed by the Chairman and Chief Executive Officer

**2. Integration:**

⇒ Produce a strategy for integrating the code into the running of the business at the time that it is issued.

**3. Circulation:**

⇒ Send the code to all employees in a readable and portable form and give it to all employees joining the company.

**4. Personal response:**

⇒ Give all staff the personal opportunity to respond to the content of the code.

⇒ An employee should know how to react if he or she is faced with a potential breach of the code or is in doubt about a course of action involving an ethical choice.

**5. Affirmation:**

⇒ Have a procedure for managers and supervisors regularly to state that they and their staff understand and apply the provisions of the code and raise matters not covered by it.

**6. Contracts:**

⇒ Consider making adherence to the code obligatory by including reference to it in all contracts of employment and linking it with disciplinary procedures.

**7. Regular review:**

⇒ Have a procedure for regular review and updating the code.

**8. Enforcement:**

⇒ Employees and others should be aware of the consequences of breaching the code

**9. Training:**

⇒ Ask those responsible for company training programmes at all levels to include issues raised by the code in their programmes.

**10. Translation:**

⇒ See that the code is translated for use in overseas subsidiaries or other places where Slovak is not the principal language.

**11. Distribution:**

⇒ Make copies of the code available to business partners (suppliers, customers etc.), and expect their compliance.

**12. Annual Report:**

⇒ Reproduce or insert a copy of the code in the Annual Report so that shareholders and a wider public know about the company's position on ethical matters.