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## Knowledge Economy requires Socially Responsible Entrepreneurship

*Though not fully consciously mankind has in various ways always defined the conditions under which goods and services were produced and supplied to the consumers. For a long time we were not fully aware that economic processes are conducted under the decisive influence of legislation, law-enforcement, but equally by public's reward of honest and fair business conduct. If the public interest is properly protected, the well-functioning market is an irreplaceable mechanism, securing responsible allocation of resources to provide for the needs of the members of society – individually, as well as at various levels: from the family to the state.*

*However, during later stages of liberal capitalism the unconstrained greed of the rich – being in control of political power and governmental institutions – has created conditions in which socialism appeared as a logical and humane system – being introduced through violent revolutions. It did not take long to realize that the nature of the ruling class (based primarily on economic power or political control) remains a secondary problem, the primary one being the actual exercise of power, and the more or less sophisticated way of manipulating democratic institutions for the benefit of the power elites.*

*What lies behind the imperfection of modern democracies? Public interest tends to be protected only by exceptional leaders operating in transparent democratic systems, with effective checks and balances, and last but not least, a proactive and responsible involvement of the citizenry through efficient interest & pressure groups, and non-governmental organizations. With all these conditions fulfilled the legal, social and political environment tends to push economic actors to perform socially responsibly.*

*The task of economic theory is to define business models, which allow entrepreneurs to be compensated fairly for their efforts, and make solid return on their financial investment, while acting in full respect of public interest. Some 20 years ago the concept of Corporate Social Responsibility (CSR) has been introduced – but we are generally still quite far from reaching a satisfactory real situation. Unfortunately, many companies claim their commitment to CSR principles primarily for PR reasons. And one cannot blame only the corporate sector – the authorities, and indeed the entire*

***societies are not doing enough to create an ecosystem conducive to support and encourage responsible entrepreneurship.***

***Knowledge economy and indeed knowledge society cannot be achieved and prosper unless CSR is respected and implemented consistently at all levels.***

## **The origin of the concept of CSR and the Economy for the Common Good**

**Corporate social responsibility (CSR)** is a type of international private business self-regulation. While once it was possible to describe CSR as a corporate self-regulation and a corporate ethic strategy, that time has passed as various international standards and codes have been developed and various organisations have used their influence to push it beyond individual or even industry-wide initiatives. It has moved considerably from voluntary decisions at the level of individual organisations, to mandatory schemes at regional, national and even transnational levels (see Infographics Nos. 1,3,4).

Corporate social responsibility has been **defined by Benedict Sheehy<sup>1</sup> as international private business self-regulation**. Sheehy examined a range of different disciplinary approaches to defining CSR. The definitions reviewed included the economic definition of "sacrificing profits," a management definition of "beyond compliance", institutionalist views of CSR as a "socio-political movement" and law's own focus on directors' duties – as a legal definition. Further, Sheehy considered **Archie B. Carroll's** description of CSR as a **pyramid of responsibilities<sup>2</sup>, namely, economic, legal, ethical, and philanthropic responsibilities** (Infographic No. 2). Carroll's CSR Pyramid is a simple framework that helps argue how and why organisations should meet their social responsibilities. The **key features** of Carroll's CSR Pyramid are that:

- CSR is built on the foundation of profit – therefore profit must still come first;
- Then comes the need for a business to ensure it complies with all laws & regulations;
- Before a business considers its philanthropic options, it also needs to meet its ethical duties.

While Carroll was not defining CSR, but simply arguing for classification of activities, Sheehy developed a proper definition. His four part definition of CSR was originally stated as follows: **“Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time”**. This set of four responsibilities creates a foundation that helps to characterize the nature of businesses' responsibilities to the society of which it is a part.

1. **Economic Responsibilities:** This is the responsibility to provide investors with adequate and attractive returns on their investments. Be profitable. Maximize sales, minimize costs. Make sound strategic decisions. Be attentive to dividend policy.

Businesses employ many business concepts that are directed towards financial effectiveness. In today's hypercompetitive global business environment, economic performance and sustainability have become urgent topics. Those firms that are not successful in their economic or financial sphere go out of business and any other responsibilities that may be incumbent upon them become moot considerations. Therefore, the economic responsibility is a baseline requirement that must be met in a competitive business world, according to Carroll.

2. **Legal Responsibilities:** Here, the responsibility is to obey all laws, adhere to all regulations. This included environmental and consumer laws, laws protecting employees, fulfilling all contractual obligations and honouring warranties and guarantees. More precisely:

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<sup>1</sup> Sheehy, Benedict (2015-10-01). "Defining CSR: Problems and Solutions". Journal of Business Ethics. 131 (3): 625–648. [doi:10.1007/s10551-014-2281-x](https://doi.org/10.1007/s10551-014-2281-x). [ISSN 0167-4544](https://www.elsevier.com/locate/jbusethic).

<sup>2</sup> Carroll, Archie B. (July 1991). "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders". *Business Horizons*. 34 (4): 39–48. [doi:10.1016/0007-6813\(91\)90005-g](https://doi.org/10.1016/0007-6813(91)90005-g). [ISSN 0007-6813](https://www.elsevier.com/locate/jbusethic).

- Performing in a manner consistent with expectations of government and law.
  - Complying with various federal, state, and local regulations.
  - Conducting themselves as law-abiding corporate citizens.
  - Fulfilling all their legal obligations to societal stakeholders.
  - Providing goods and services that at least meet minimal legal requirements.
3. **Ethical Responsibilities:** This is the obligation to do what is right, just, and fair and to avoid or minimize harm to stakeholders (employees, consumers, the environment, and others). Avoid questionable practices. Respond to spirit as well as letter of law. Assume law is a floor on behavior, operate above minimum required. Do what is right, fair, and just. Assert ethical leadership. More precisely:
- Performing in a manner consistent with expectations of societal mores and ethical norms.
  - Recognizing and respecting new or evolving ethical/moral norms adopted by society.
  - Preventing ethical norms from being compromised in order to achieve business goals.
  - Being good corporate citizens by doing what is expected morally or ethically.
  - Recognizing that business integrity and ethical behavior go beyond mere compliance with laws and regulations.
4. **Philanthropic Responsibilities:** Business is expected to be a good corporate citizen - to fulfill its philanthropic responsibility to contribute financial and human resources to the community and to improve the quality of life. Provide programs supporting community - education, health/human services, culture and arts, civic. Promote and engage in volunteerism.

Corporate philanthropy includes all forms of business giving. Corporate philanthropy embraces business's voluntary or discretionary activities. Philanthropy or business giving may not be a responsibility in a literal sense, but it is normally expected by businesses today and is a part of the everyday expectations of the public.

According to **Archie B. Carroll**, the following four strong drivers of CSR taking hold in the 1990s and continuing forward have solidified its primacy: **globalization, institutionalization, reconciliation with profitability, and academic proliferation**. Globally, countries have been quickly adopting CSR practices in both developed and developing regions. CSR as a management strategy has become commonplace, formalized, integrated, and deeply assimilated into organizational structures, policies and practices. The fourth factor driving CSR's growth trajectory has been **academic acceptance, enthusiasm, and proliferation**. There has been an explosion of rigorous theory building and research on the topic across many disciplines and this is expected to continue and grow.

Here, let us refer also to the Indian National Research Professor **R. A. Mashelkar**, head of the Global research Alliance, chairman of KEN International Advisory Board, and a global authority on innovation and entrepreneurship. In response to the important changes to the very nature of the innovation process, and emphasizing the societal responsibility of entrepreneurs, he developed the **ASSURED Model of Innovation**, consisting of the following 7 criteria:

- A** (Affordable)
- S** (Scalable)
- S** (Sustainable)
- U** (Universal)
- R** (Rapid)
- E** (Excellent)
- D** (Distinctive)

The model is not covering only the interest of the innovator/entrepreneur, but also their social responsibility.<sup>3</sup> The case in point is the Indian patented mammography instrument, being superior in any aspect but its application costing only 1 USD – compared to its Western competitors costing 100 USD!

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<sup>3</sup> »Mind the Market Place – on Building World Class Innovation Ecosystem« Keynote Presentation at DOBA Conference, Maribor, 2018, slide 35. The concept is further elaborated in the new book co-authored by Ravi Pandit »Leapfrogging to Pole Vaulting – Creating the Magic of Radical yet Sustainable Transformation« Penguin, 2019.

## Who is preventing the development of a »Civilized Economy«?

Some **critics** believe that CSR programs are undertaken by companies to distract **the public from ethical questions posed by their core operations**. Moreover, some studies find that CSR programs are **motivated by corporate managers' personal interests** at the cost of the shareholders. **Aguinis** and **Glavas**<sup>4</sup> conducted a comprehensive review of CSR literature, covering 700 academic sources from numerous fields including organizational behaviour, corporate strategy, marketing and HRM. It was found that the primary reason for firms to engage in CSR were the expected **financial benefits associated with CSR**, rather than being motivated by a desire to be responsible to society.

Some authors argued that the primary purpose of CSR is to **provide legitimacy** to the power of businesses.<sup>5</sup> As wealth inequality is perceived to be increasing it has become increasingly necessary for businesses to justify their position of power. **Joel Bakan**<sup>6</sup> is one of the most prominent critics of the conflict of interest between private profit and public good, and his argument is summarised by **Haynes** claiming that **"a corporate calculus exists in which costs are pushed onto both workers, consumers and the environment"**<sup>7</sup>. CSR spending may be seen in these financial terms, whereby the higher costs of socially undesirable behaviour are offset by a CSR spending of a lower amount. Research has found that firms which had been convicted of bribery in the USA under the [Foreign Corrupt Practices Act](#) (FCPA) received more lenient fines if they had been seen to be actively engaging in comprehensive CSR practices. It was found that typically either a 20% increase in corporate giving or a commitment to eradicating a significant labour issue, such as child labour, was equated to a 40% lower fine in the case of bribing foreign officials.<sup>8</sup>

Sometimes companies use CSR to direct public attention away from other, harmful business practices. For example, [McDonald's Corporation](#) positioned its association with [Ronald McDonald House](#) and other children's charities as CSR, while its meals have been accused of promoting poor eating habits. [Prusiner](#), who discovered the protein responsible for [CJD](#) and won the 1997 Nobel prize in Medicine, thanked the tobacco company [RJ Reynolds](#) for their crucial support. **RJ Reynolds** funded the research into CJD. [Proctor](#) states that "the tobacco industry was the leading funder of research into genetics, viruses, immunology, air pollution".

[Milton Friedman](#) argued that a corporation's purpose and prime societal responsibility is to maximize returns to its shareholders and that obeying the laws of the jurisdictions within which it operates constitutes socially responsible behavior. While some CSR supporters claim that companies practicing CSR, especially in developing countries, are less likely to exploit workers and communities, critics claim that CSR itself imposes outside values on local communities with unpredictable outcomes.<sup>9</sup> Better governmental regulation and enforcement, rather than voluntary measures, are an alternative to CSR that moves decision-making and resource allocation from public to private bodies.<sup>10</sup> But critics claim that effective CSR must be voluntary as mandatory social responsibility programs regulated by the government interferes with people's own plans and preferences, distorts the allocation of resources, and increases the likelihood of irresponsible decisions.<sup>11</sup>

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<sup>4</sup> Aguinis, Herman; Glavas, Ante (2012-07-01). "What We Know and Don't Know About Corporate Social Responsibility: A Review and Research Agenda". *Journal of Management*. **38** (4): 932–968. doi:10.1177/0149206311436079. ISSN 0149-2063.

<sup>5</sup> "Corporate Social Responsibility in Retrospect and Prospect - Research@CBS". *research.cbs.dk*. Retrieved 2017-04-29.

<sup>6</sup> Bakan, Joel (2012-03-01). *The Corporation: The Pathological Pursuit of Profit and Power*. Little, Brown Book Group. ISBN 9781780337418.

<sup>7</sup> Haynes, Michael (2007). "Rationality, morality and Joel Bakan's *The Corporation*".

<sup>8</sup> Haynes, Michael (2007). "Rationality, morality and Joel Bakan's *The Corporation*".

<sup>9</sup> c.f., Aquino, M.P., *Nuestro Clamor por la Vida. Teología Latinoamericana desde la Perspectiva de la Mujer* (San José, Costa Rica: Departamento Ecueménico de Investigaciones, 1992), et al.

<sup>10</sup> Ganguly, S (1999). "The Investor-State Dispute Mechanism (ISDM) and a Sovereign's power to protect public health". *Columbia Journal of Transnational Law*. **38**: 113.

<sup>11</sup> Armstrong, J. Scott; Green, Kesten C. (2013). "Effects of corporate social responsibility and irresponsibility policies" (PDF). *Journal of Business Research*.

## Closing Thoughts

The importance of CSR is growing, partly due to pressure of legislation, partly due to the pressure of NGOs, partly due to the pressures from within the companies, and partly also due to increased awareness of the corporate leaders that ignoring it will sooner or later harm the company, while acting accordingly will benefit it – at least in the long run. And here comes the cynical part: if communicated to the public through intelligent PR, it will benefit the company also in the short run.

One thing should be made very clear: **principles of CSR are not against companies making profit** – what really matters is **how profits are being made**: if they are the result of manipulating the consumers and business partners through dishonest business practices and providing false information, that certainly cannot be classified as responsible. Many “smart” business people do exactly that – at least as long as they get caught. And then they are not smart any more, but appear rather stupid and pathetic – in some cases even being convicted and getting plenty of time to reflect about their behaviour in prison, or at least paying a hefty fine. Finally, they come to the conclusion that **“Crime doesn’t pay!”** In extreme cases the company is lost and investors have lost their money. So irresponsible business behaviour finally damages everyone involved. The conclusion is obvious: responsible business conduct is not only fair and honest, it is simply more rational than ignoring responsibility.

Those business leaders who understand their social responsibility and act accordingly, are normally rewarded by the consumers and partners – appreciating that they are receiving the value for their money, and remaining loyal to the respective company for years. Particularly in the modern hyper dynamic and unpredictable world, trust is highly appreciated. And with trust the transaction costs are lower. Practice has shown again and again that **“Honesty is the best policy!”**

Unfortunately the number of “sinners” seems to be so big that the Catholic Church does not want to lose them, and developed the whole system of redemption and forgiveness. A bit of that attitude is to be detected also in the background of those corporate strategies, which attempt to make maximal profit under any conditions, and then making big PR out of their philanthropic contributions.

In terms of social responsibility, one could classify corporate performance into: **legal** (not breaking any legislation and regulation), **legitimate** (acting in transparent fashion and in line with relevant codes and standards), and finally **ethical** (when our goal is social good, and public interest is not affected negatively).

It is rather clear that the concept of CSR – as a protector of public interest in many domains: from optimal use of all resources, respect of law and government policies, to protecting the consumer, maintaining fair relations among economic actors, helping reduce socio-economic differentiation, and protecting the environment – comes very high among the conditions for developing knowledge economy and society. Its effective implementation contributes in many ways to a sound and sustainable economic and social system, paying adequate attention to knowledge, innovation and supports responsible entrepreneurship.

**Prepared by the KEN Secretariat: Prof. dr. Boris Cizelj and prof. dr. Ajda Fošner**

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## ANNEX

### Infographic No. 1: Corporate Social Responsibility

Corporate social responsibility means that businesses act in ways that balance profit and growth with the good of society.

- Corporate social responsibility often translates into profits. This advantage for business is sometimes described as “doing well by doing good.”

Corporate Social Responsibility = Doing Well by Doing Good

- One type of socially-responsible corporate behavior is **ethical sourcing**, which means buying from suppliers who provide safe working conditions and respect workers’ rights.

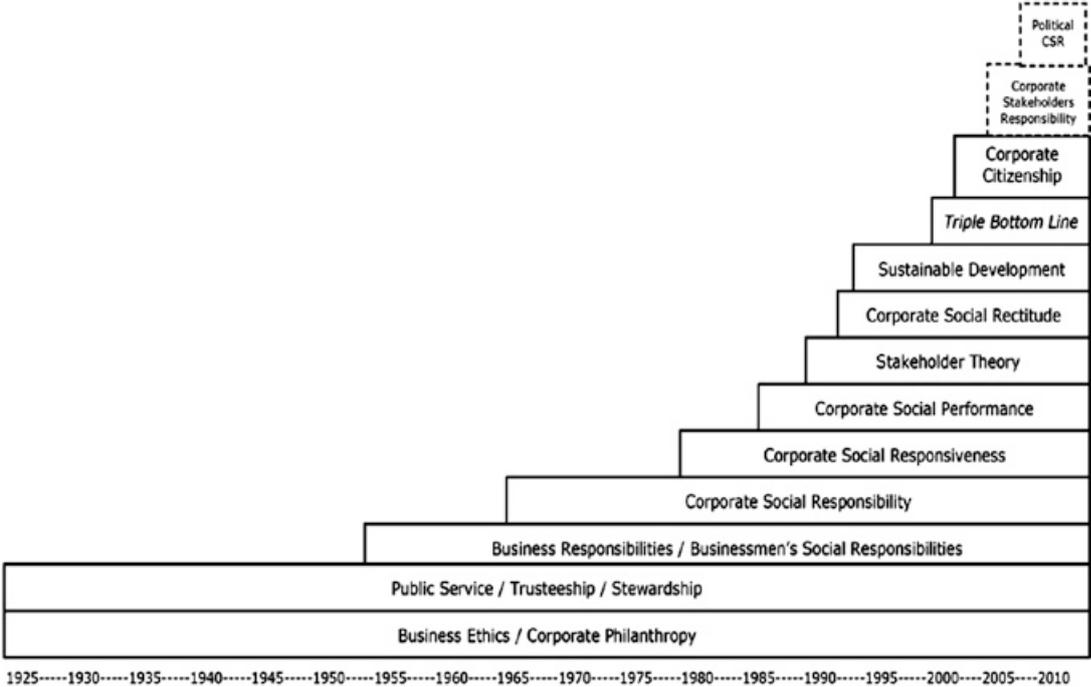
Source: <https://slideplayer.com/slide/10120014/>

### Infographic No. 2: Carroll’s pyramid – the four responsibilities



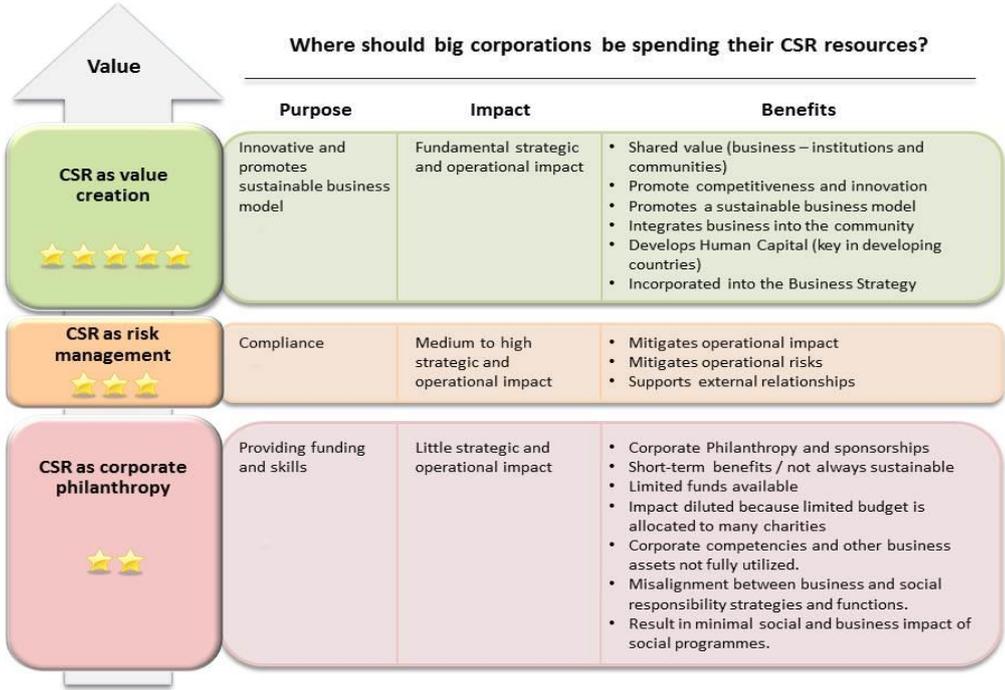
Source: <https://www.tutor2u.net/business/reference/carrolls-csr-pyramid>

# Infographic No. 3: Escalating concept of corporate social responsibility



Source: [Adopted from Mohan \(2003\)<sup>12</sup> and Gond and Moon \(2011\)<sup>13</sup>](#)

# Infographic No. 4: Corporate Social Responsibility



Source: [https://en.wikipedia.org/wiki/Corporate\\_social\\_responsibility#/media/File:CSR\\_framework\\_-\\_value1.jpg](https://en.wikipedia.org/wiki/Corporate_social_responsibility#/media/File:CSR_framework_-_value1.jpg)

<sup>12</sup> Mohan A (2003) Strategies for the management of complex practices in complex organizations: a study of the transnational management of corporate responsibility. Unpublished doctoral dissertation, University of Warwick, United Kingdom.

<sup>13</sup> Gond J-P, Moon J (2011) Corporate social responsibility in retrospect and prospect: exploring the life-cycle of an essentially contested concept, No. 59-2011 ICCSR research paper series - Routledge major work on corporate social responsibility.