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## CONCEPTUAL FOUNDATIONS OF SOCIAL RESPONSIBILITY OF CORPORATE STRUCTURES: HISTORICAL ASPECT

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The article considers the evolution of the social responsibility of business in the historical period up to the XXI century. The study shows that in its development, corporate social responsibility in countries with developed market economies has passed a series of hysterical stages. In the period from the 1900's to the 1930's the first stage of emergence and theoretical understanding of social responsibility of business in the countries of the developed capitalism passed. The second stage (from the 1930's to the 1950's) was the stage of institutionalization of corporate social responsibility. The third stage (from the 1950's to the middle of 1970's) was characterized by the flourishing of traditional philanthropy (or charity). Companies tried to maximize business and social activity, focusing on helping the most vulnerable categories of population (children and people with disabilities) or cultural institutions. At the fourth stage (from the middle of 1970's to the 1980's), the strategic philanthropy of business which is characterized by readiness to get optimum profit instead of maximum and also by the focal approach to the solution of social problems (aiming at the solution of the problem, but not on fight against its results) was created. The desire of business to coordinate the solution of social problems with strategic goals of the company is the base of this approach. From the middle of 1980's to the early 2000's, the concept of corporate citizenship was created. At the local level, the corporate citizenship is manifested in the form of social investments of business, which means the joint work of the commercial, non-profit and public sectors for the purpose of solving the urgent social and economic problems of local communities.

**Key words:** social responsibility of business, philanthropy, corporate egoism, corporate altruism, corporate citizenship.

### **[Л.К. Гуриева Концептуальные основы социальной ответственности корпоративных структур: исторический аспект].**

В статье рассмотрена эволюция представлений о социальной ответственности бизнеса в исторический период до XXI века. Проведенное исследование показывает, что в своем развитии корпоративная социальная ответственность в странах с развитой рыночной экономикой прошла ряд исторических этапов. В 1900 – 1930 гг. прошел первый этап появления теоретического осмысления социальной ответственности бизнеса. Второй этап (1930-1950 гг.) – этап институционального оформления корпоративной социальной ответственности. Третий этап (1950 – середина 1970 гг.) характеризовался расцветом традиционной филантропии (или благотворительности). Компании старались максимально «развести» деловую и социальную активность, основной упор делая на помощь наиболее незащищенным категориям населения (детям, инвалидам) или учреждениям культуры. На четвертом этапе (середина 1970 – 80-х гг.) сформировалась стратегическая филантропия бизнеса, которая характеризуется готовностью получить оптимальную прибыль вместо максимальной, фокусным подходом к решению социальных проблем (нацеленностью на решение самой проблемы, а не на борьбу с ее результатами). В основе этого подхода лежит желание бизнеса увязать решение социальных проблем со стратегическими целями компании. В период с середины 1980-х до начала 2000-х гг. сформировалась концепция корпоративного гражданства. На местном уровне корпоративное гражданство проявляется в виде социальных инвестиций бизнеса, означающих совместную работу коммерческого, некоммерческого и государственного секторов для решения актуальных социально-экономических проблем местных сообществ.

**Ключевые слова:** социальная ответственность бизнеса, филантропия, корпоративный эгоизм, корпоративный альтруизм, корпоративное гражданство.

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The interest in the topic of corporate social responsibility (CSR) seriously appeared only in the end of the last century. However, the first proponent of CSR is considered to be the founder of U.S. Steel A. Carnegie, who is known for generous investments in community projects. At the beginning of the twentieth century, he, for the first time, formulated the term "social responsibility" and the principles "necessary for every self-respecting capitalist" in his work "The Gospel of Wealth", published in 1900 in the United States. In his opinion, the rich should subsidize the poor through the charity and consider themselves not as owners, but as managers of capital that works for the benefit of society [1].

Another supporter of this concept was Robert E. Wood, the head of the "Sears Company". In the 1936th annual report, Wood mentioned "those broad social obligations which cannot be expressed mathematically but, nevertheless, it can be considered that they are of paramount importance". Wood meant strong indirect influence of society on the organization functioning in this society. He claimed that it was not easy to quantify or interpret the economic costs and benefits for society caused by the social responsibility of business. Wood was one of the first business leaders who recognized the "multi-layered nature of the general public" (highlighting, for example, consumers, local communities, shareholders and employees) served by the company [2]. He was also a defender of the approach to solving social problems not so much from the positions of the state, as from the managerial positions.

Historically, however, the idea of CSR grew in the 19th century from the trade Union movement in Europe and in the United States, when the prevention of labor unrest and the obtaining of public recognition became the main goals of the employers [1].

Both of these factors, which are still in effect, have sharply increased the concentration of capital. By the end of the 19th century in most industries, especially in the USA, the big monopolists had been dictating the prices of almost all socially important goods and services.

The situation was changed by antitrust laws, active promotion of business in politics, the First World War and economic crises accompanying it. At this time the state regulation of the economy increased in developed countries significantly. In the USA, the Great Depression of the 1930's was a turning point in the relations between business and society. At this period the special service for monitoring the preparation of "fair competition codes" was created in the administration of President F. Roosevelt. These codes included the state control over the protection of public interests and the guarantee of the workers' rights to create their own organizations and also to participate in the conclusion of collective agreements. After the war the problem of the improvement of the living standards of black population was added to the general standards of labor relations in the USA. The solving of this problem was largely shifted on the employers by the officials. European countries took the similar steps to protect workers' rights before and after the Second World War.

In 1950-1970 the CSR of companies was introduced almost everywhere.

Employees obtained legal foundation and tools to defend their interests. The extent of employers' concessions to employees and the extent of enterprises' investments in the social security of employees have been still a subject of bargaining between companies and trade unions.

Finally, the concept of corporate social responsibility was established in the 1930s. The supporters of this concept of at that period were characterized by the position of L. Brown, the Chairman of the Board of Directors of "Jones Manville" company. He wrote: "As a result of the evolution of a complex industrial society the social responsibility of managers has expanded accordingly. Managers no longer represent the interests of owners alone as they did

earlier... Today, the manager of any business is accountable not only to his shareholders, but also to the members of his working organization, to his customers and to the public." [3].

This concept was further developed in the postwar period. In this context the book of the American economist H. Bowen "Social Responsibilities of the Businessman" (1953) is indicative, in which such responsibility was defined as "the duty of businessmen to make those decisions and follow those lines of activity which are desirable from the point of view of goals and values...of society". In fact, H. Bowen's work laid the foundation for modern studies of social responsibility of business, because in this work the term "corporate social responsibility" received the status of an economic category, the fundamental approaches for the conducting of CSR were identified, the problem that the business is a part of society before which it is responsible was highlighted conceptually [4].

H. Bowen's work emphasized the idea that organizations should be accountable to the society in which they operate, directing a part of their resources and efforts to the social needs, while paying attention to such spheres as environmental protection, health care, consumer protection, etc.

Despite the active development of the approach of H. Bowen his approach was not shared by everybody in further studies of K. Davis, R. Blomstrom, A. Carroll and other authors. Thus, one of the well-known representatives of the monetary school, the Nobel laureate M. Friedman described it as "fundamentally subversive doctrine, the wide application of which will destroy a free society". In a free economy, he argued, there is one and only one social responsibility of business, which is the usage of the resources and the carrying out activities aimed at the increasing of the profits as long as it remains within the rules of the game, i.e. participates in open free competition without cheat and fraud" [5]. This idea was consistently defended by M. Friedman in the article "Social responsibility of business is to increase the profits". He argued that even the mere recognition of social responsibility in words "reinforces the prevailing belief that the pursuit of profit is bad and immoral and must be curbed by some external forces". As soon as this judgment is recognized, M. Friedman continued, the market will be curbed by the "iron fist of government bureaucrats" but not by the "social conscience" of managers, no matter how highly it is developed [5].

The influence of the authority of the Nobel laureate M. Friedman literally in a few months led to the decrease of socially responsible and especially philanthropic behavior of the largest American companies. The point in this confrontation was put by the Economic Development Committee of the USA. In a short period of time, the previously published statement of the Committee was circulated, in which the approach to CSR was directly opposed to the point of view of M. Friedman. The authors of this statement judged from the concept of "enlightened benefit", based on the recognition of the deep interdependence between business and society. The following was stated in the statement: "Today, it is widely recognized that the interests of the corporation are closely related to the welfare of society of which business is an integral part... There is a growing awareness that a corporation depends on a supportive relation of the society which can support or undermine its existence through the public pressure on the government". Therefore, it was emphasized in the statement, "from the point of view of "enlightened benefit" it is necessary for the corporation to promote public welfare". It was also stated that it was more profitable for businesses to have as employees or buyers, better educated people, living in better conditions than the poor and ignorant. Therefore, business should take a "fair share of responsibility" for social improvement, so that the interests of the corporation won't be in danger. Starting from these guidelines, the statement also attempted to systematize the responsibilities of business in nine main spheres:

- education,
- employment and training of labor,

- civil rights and equal opportunities,
- urban renewal and development,
- environmental pollution reduction,
- conservation of natural resources and recreation,
- culture and art,
- health care,
- improvement of government activities [6-7].

Subsequently, M. Friedman's approach was called the "theory of corporate egoism", and the approach of the Economic Development Committee was called the "theory of corporate altruism".

A number of intermediate concepts also emerged at this period. Less radical economists, who generally supported Friedman, tried to find a place for CSR within his theory. So D. Uli claimed that the concept of Friedman readily admits CSR, but "with limiting the priority of the interests of shareholders", that's why he offered the leadership of the corporations to enter into a special agreement with the shareholders to maximize profits. Supporters of neo-classical economic liberalism T. Donaldson and N. Bowie assumed that corporations should be profitable, while respecting certain moral foundations and respecting human rights, that is, following a certain social agreement between business and society.

As a result, in most developed countries the concept of a "reasonable selfishness" has become generally accepted, when investing in social programs is considered one of the factors of ensuring the stability of business, investing a part of the money on social and philanthropic programs, corporations reduce their current profits, but in the long term create a favorable social environment and, thus, sustainable profits in the future. Companies should try to better understand their influence on society and use it in decision-making.

In 1979, the American scholar, A. Carroll, proposed the interpretation of the CSR, which implied "compliance with the public economic, legal, ethical and discretionary expectations of the organization at the moment" [8]. This approach, on the basis of which an appropriate model was later developed, is one of the main for modern studies on CSR problems. According to this model, corporate social responsibility is a multi-level responsibility, which is represented in the form of a four-level pyramid, including economic, legal, ethical and philanthropic responsibilities. The economic responsibility underlying the pyramid is directly determined by the basic function of the company in the market as a producer of goods and services that meet the needs of consumers and thus generate profits. In other words, any business structure that implements its economic responsibility to society is socially responsible. The legal responsibility implies the need for law-abiding business in a market economy, the compliance of its activities with the expectations of the society, fixed in the legal norms. The ethical responsibility, in turn, requires the business community to conform to the expectations of society, not stipulated in the legal norms, but based on the existing norms of morality. The philanthropic (discretionary) responsibility encourages business to take actions aimed at maintaining and developing the welfare of society through the voluntary participation in the implementation of social programs. Of course, the interpretation of CSR as a "pyramid" in itself does not remove all the issues related to the social responsibility, but allows systematizing them [8].

In the middle of 1980's of the last century all over the world the concept of corporate citizenship has replaced the strategic philanthropy. At the local level, corporate citizenship is manifested in the form of social investments of business, which means the joint work of the commercial, non-profit and public sectors for solving the urgent social and economic problems of local communities. Companies don't only allocate goods, money or their employees, but are included in affiliate programs with all their resources.

In 1987, on the instructions of the UN, the issues of human impact on the environment were studied and the term “sustainable development” was used for the first time, which was understood as “the current use of resources, taking into account their mandatory availability in the future”. Very soon this term for corporations began to mean the requirement of harmony with the surrounding world, including shareholders, employees, nature and society.

Since 2000, CSR has become one of the priorities of the transnational corporations. In July 2001, the European Commission published the Green paper on corporate social responsibility and 2005 was declared the year of social responsibility in the EU. Today, CSR is becoming an important factor in shaping the policy of leading companies in many countries. Large world corporations (Microsoft, Google, Apple, etc.) implement many social projects aimed to help children and the poor, to finance cultural and medical projects in different countries of the world, to improve the environmental situation. This activity is often discussed at international forums, becomes the agenda of the business community, and widely covers in the media. Directions and types of social responsibility of medium and small corporations are determined directly by the firm based on its goals and ideas. It is common that the occupation of social responsibility is an attractive area among potential partners and consumers, is the subject of public-private and municipal-private partnership [9].

On the basis of the study we have identified a number of historical stages of development of corporate social responsibility. From 1900's to 1930's the first stage of emergence and theoretical understanding of social responsibility of business in the countries of the developed capitalism passed. The second stage (from 1930's to 1950's) is the stage of institutionalization of corporate social responsibility. The third stage (from 1950's to the middle of 1970's) was characterized by the flourishing of traditional philanthropy (or of charity). Companies have tried to maximize business and social activity, focusing on helping the most vulnerable categories of the population (children, people with disabilities) or cultural institutions. Aid was allocated in the form of natural or monetary donations on the basis of personal sympathies of the head. On the fourth stage (from the middle of 1970's to 1980's), strategic philanthropy was a response of business to the economic crisis, public and government pressure due to corporate reluctance to take care of their own employees and local communities, as well as disregard for environmental issues, quality standards and workplace safety. The companies, forced to engage in social activity, decided to take maximum advantage of it. Strategic philanthropy of business is characterized by a willingness to get the optimal profit instead of the maximum and by the focus approach for solving social problems (the focus is on solving the problem itself, not on fighting with its results). This approach is based on the desire of business to link the solution of social problems with the strategic goals of the company.

From the middle of 1980's to the early 2000's, the strategic philanthropy was replaced by the concept of corporate citizenship. At the local level, corporate citizenship is manifested in the form of social investments of business, which means the joint work of the commercial, non-profit and public sectors for solving the urgent social and economic problems of local communities.

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