

The Social Responsibility of Business

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The Role of Business

That the business sector has a central part in the social development of the nation is an engaging proposition. This assertion appears contradictory to the underlying rationale of business which is to accumulate assets. To put business and social development side by side just seems to be violative of all tenets of liberal capitalism.

In 1970, a prominent academic by the name of Milton Friedman said that the sole mandate of business is to generate as much profit for its owners/shareholders within the bounds of the legal system and ethical principles. It is the government which has the responsibility and expertise to deal with concerns pertaining to social development.²

Admittedly, Mr. Friedman's point-of-view has some strong logic behind it. People go into business because they want to earn money. Revenue is the core premise of this undertaking. Whereas, the additional burden of social concern can be a significant constraint to the income potential of the business. The result of which can ultimately be detrimental to the owners/shareholders and to the business endeavour itself.

And so, is this Friedman philosophy the current norm in the Philippines? Or does the business sector hold any responsibility other than

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² Milton Friedman, "The Social Responsibility of Business is to Increase its Profits", *The New York Times Magazine*, September 13, 1970.

the “development” of its own coffers? A quick survey of our nation’s business legislation reveals a very interesting answer.

Section 13 of Article XII of the Constitution-

Section 13. The State shall pursue a trade policy that serves the general welfare and utilizes all forms and arrangements of exchange on the basis of equality and reciprocity.

Article 2(2) of the Omnibus Investments Code of 1987-

ARTICLE 2. Declaration of Investment Policies. —

2. The State shall ensure the holistic development by safeguarding the well-being of the social, cultural and ecological life of the people...

Section 2 of Republic Act No. 7042 or Foreign Investments Act of 1991-

SEC. 2. Declaration of Policy. - It is the policy of the State to attract, promote and welcome productive investments from foreign individuals, partnerships, corporations, and governments, including their political subdivisions, in activities which significantly contribute to national industrialization and socio-economic development to the extent that foreign investment is allowed in such activity by the Constitution and relevant laws...

Section 2 of Republic Act No. 8799 or the Securities Regulation Code -

SEC. 2. Declaration of State Policy. - The State shall establish a socially conscious, free market that regulates itself, encourage the widest participation of ownership in enterprises, enhance the democratization of wealth,...

Without a doubt, private enterprise is the engine of the Philippine economy. Since 1986 this has been the economic dogma of all government administrations irrespective of the political persuasion of the times. But it is very clear from all the commercial laws of our country, that Mr. Friedman’s exclusively profit-oriented model for business has not been adopted in the Philippines. Words such as *serves the general welfare, safeguarding the well-being of the social, cultural and ecological life of the people, significantly contribute to national industrialization and socio-economic development, and enhance the democratization of wealth* cannot be any more convincing.

It is very evident from the foregoing enactments that the State policy is to use private enterprise as a means towards a social development end. It is not just about attaining maximum GNP or GDP. Essentially, the business sector in the Philippines, including both foreign investors and domestic entrepreneurs, has been laden with a responsibility to contribute to the social development of the country.

Corporate Social Responsibility

That business has inherent and inescapable social obligations is already a universally accepted fact. The best evidence for this assertion is the United Nations (UN) Global Compact initiated in 2000 by the UN in partnership with thousands of businesses around the world. It now serves as a global platform for businesses “committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.”³

The widely recognized formal term for this intrinsic feature in business is *corporate social responsibility* or CSR. The most frequently cited authority on CSR is an American academic, Prof. Archie B. Carroll, who actually credits the landmark book of a more senior scholar, Howard R. Bowen, as the literary basis of the modern understanding of CSR⁴ In this book, *Social Responsibilities of the Businessman* published in 1953, Mr. Bowen proffered the very first definition of CSR, to wit—

It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.

It appears therefore, decades before Mr. Friedman put forward his ultra-capitalist theory, the contention that business has obligations to society more than just to earn profit has already been in the mainstream of business academia. It seems that Mr. Friedman challenged this established line of thinking and failed. Therefore, even in the face of globalization and

³ United Nations Global Compact, <http://www.unglobalcompact.org/index.html>, viewed on 17 February 2011.

⁴ Archie B. Carroll, 1999, Corporate Social Responsibility Evolution of a Definitional Construct, *Business & Society*, Vol. 38 No. 3, September 1999, pp. 268-295.

the ever expanding reach of the free market system, business still carries with it social responsibilities.

Today, most scholars in the field of business and management subscribe to the definition of CSR set forth by Prof. Carroll, to wit—

The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.⁵

Note however that CSR does not reside merely in the confines of academic discourse. Many governments have tried to incorporate this idea in their national business systems. The most successful so far to have done this is the European Union (EU) which defines CSR with more specificity as such—

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.⁶

Even the World Bank (WB) has waded in with its own characterization of CSR—

The concept of CSR is based on the recognition that businesses are part of society, and that they have the potential to make a positive contribution to societal goals and aspirations in ways that are both good for business and good for development.⁷

Yet the definition that best captures the essence of CSR is from the international business group, World Business Council for Sustainable Development, to wit-

⁵ Archie B. Carroll, 1979, 'A Three-Dimensional Conceptual Model of Corporate Performance', *The Academy of Management Review*, Vol. 4, No. 4 (Oct., 1979), pp. 497-505.

⁶ COMMUNICATION FROM THE COMMISSION CONCERNING CORPORATE SOCIAL RESPONSIBILITY: A Business Contribution to Sustainable Development, 2002, Commission of the European Communities, European Union, Brussels.

⁷ Colin Hubo, Julia Lewis, Michael Warner, January 2004, 'Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility (CSR) Conclusions and Recommendations from Technical Assistance in The Philippines F I N A L R E P O R T', World Bank.

...the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.⁸

Ergo, regardless of where one is in the world, there is a unanimous consensus that CSR is the means by which the business sector contributes to social development. But keep in mind that CSR is not limited to purely development issues. As Prof. Carroll maintains, the social responsibilities of business encompasses four levels- economic, legal, ethical and discretionary (philanthropic) responsibilities.

But the discussion of CSR in this article focuses on its use by the business sector as a way to attain development goals. Moreover, by social development this article refers to its most basic and common connotation such as the peoples' access to education, health care, shelter and a safe environment, food and livelihood. The most fundamental needs of persons "to improve their quality of life", yet still denied to many in the world.

CSR as a Development Tool

In a general sense, the business sector employs CSR to address these social concerns. But as to the specifics of the use of CSR, there will be variances across the board. Obviously, each business entity will differ in the focus of their CSR agenda. Furthermore, the actual implementation of CSR will also vary from one country to another.

In Australia for example, mining companies have taken great pains to ensure that they have programs and systems in place to cause as little damage as it can to the ecosystem surrounding their mines and to respect and preserve the native lands of the Indigenous Australians. Whilst these corporations provide thousands of jobs and give business to hundreds of SMEs, they are still mindful of the overall effect of their business activities to the society at large. Hence, their CSR programs are geared towards maintaining environmental sustainability.

Our northern neighbour South Korea also implements CSR programs involving good ecological practices. Surprisingly, there are also a good

⁸ World Business Council for Sustainable Development, "The Business Case for CSR", Switzerland, February 2002.

number of Korean corporations who direct their CSR agenda towards giving scholarships to poor students from the rural areas to give them a chance to study in the big universities in the cities. Another beneficiary of Korean CSR is retirement homes. Clearly, even the business sector in developed nations utilizes CSR to help their less fortunate citizens.

In the Philippines, CSR has been a lifeline for many Filipinos. Take the case of the SM Foundation which is the CSR arm of the SM Group of Companies. In its annual report for 2009, aptly entitled *Social Worker*, the foundation reported all of its social action advocacies. As reported in their website, their CSR education program has 900 college scholars at anytime nationwide enrolled in 73 colleges and universities. As of date, the foundation has helped 1180 scholars graduate and not surprisingly, many of them are gainfully employed with SM.

But SM is not the only big Philippine business entity engaged in “social work”. Practically all, if not all, of the publicly listed companies have some form of social action programme in their corporate plan. This can be confirmed by simply viewing the Sustainability Reports available in their respective websites.⁹ Regular feeding programs in public elementary schools, tree planting, micro-financing, giving academic scholarships, bestowing performance awards, building barangay health centres, establishing community waste and water management systems, holding entrepreneurship training programs are just some of the examples of CSR activities being undertaken by Philippine corporations listed in the Philippine Stock Exchange (PSE).

The seminal book published by the Asian Institute of Management (AIM) in partnership with the De La Salle Professional Schools entitled, *Doing Good in Business Matters: CSR in the Philippines, The Practice*,¹⁰ also demonstrates how CSR is used by the Philippine business sector as a development tool. This publication presents twelve (12) actual cases of how CSR practice can attain development goals. Here are a few samples of the cases in the book:

⁹ For some samples please see Appendix A below.

¹⁰ *Doing Good in Business Matters: CSR in the Philippines, The Practice*, 2007, Asian Institute of Management and De La Salle Professional Schools, Manila, Philippines.

- 1) Synergeia, a non-profit corporation, using its vast network of influential corporate leaders to raise awareness and funds to improve the primary education in the Philippines.
- 2) The Coca-Cola Foundation Philippines, Inc. empowering Filipino youths through its Youth Development Program.
- 3) The Lamoian Corporation providing training and employment for the hearing impaired.
- 4) Smart Communications Inc. and Gawad Kalinga Community Development Foundation partnering to build vibrant and productive communities.

A survey of SMEs in the Philippines conducted in 2007 to 2008 by Newsbreak with the support of the British Embassy reveals that those who participated openly declared that they incorporate community work in their business activities.¹¹ About 47% the respondents focused on livelihood training for their immediate community specifically targeting out-of-school youths and indigent families. And about 28% implemented programs related to education such as book donation, training teachers, apprenticeships programs for students and giving scholarships. These CSR practices may not be in the same scale or scope compared to those earlier cited, but they still share the same objective. And that is to help the marginalized sector in the country.

However, the best illustration of CSR as an instrument for social development in the country is the Philippine Business for Social Progress (PBSP). The PBSP was founded in December of 1970 by fifty (50) Filipino businessmen. Commercial pioneers who pledged to set aside 1% of their respective enterprise's net income to pursue poverty reduction programs. This concept was patterned after the Venezuelan model, *Dividendo Voluntario para la Comunidad*.¹²

¹¹ Newsbreak, <http://www.newsbreak.ph/2008/01/17/newsbreak-survey-yes-smes-do-csr/>, viewed on 14 January 2011.

¹² Philippine Business for Social Progress, http://www.pbsp.org.ph/index.php?option=com_content&view=category&layout=blog&id=37&Itemid=132, viewed on 16 January 2011.

Hence, for more than four decades the PBSP has been doing grassroots community work helping Filipinos earn a decent livelihood, provide good education to their children, and have access to proper health services. The group has also taken on the fight against environmental degradation and has again trooped down to the community level to help them establish systems to adapt and mitigate the effects of climate change.

What is unique about the PBSP is that it is an association of business entities organized specifically for the purpose of utilizing CSR as a social development tool. It is essentially the business sector itself **performing** its social responsibility pertaining to development goals.

As of date, the most laudable and noteworthy work of PBSP is its mobilization effort in Mindanao coming in the form of a guidebook entitled-“Planting Development, Harvesting Peace: A Business Roadmap to Investing in ARMM”. Obviously, the main goal of this publication is to promote Mindanao, particularly, the Autonomous Region in Muslim Mindanao (ARMM), as a desired investment destination. To spur more entrepreneurial activity in order to generate more sources of income and livelihood for the people of this impoverished area of the country.

The book itself is indicative of the role of the business sector as a crucial factor in bringing development and stability in the region. One President thought that resurrecting a has-been Muslim intellectual was the solution. Another leader still gleams with pride recalling the bombing of villages and camps as the best solution done so far in addressing the “Mindanao problem”. Well, it is now common knowledge that the most recent President, and her ilk, exploited to their benefit the vulnerable state of the people in the region for nine long years, and ignored the problems that have plagued this part of the country for decades. So maybe, the business sector can offer a better and more realistic outcome. Perhaps this time, CSR can be the catalyst for change in Mindanao.

CSR is a global phenomenon with broad implications. It covers corporate governance, business ethics, sustainable development, and a host more pertaining to responsible business practices. But its most critical function for the business world today is making a significant contribution to social development. There is indeed a clear concerted effort from the business sector to use CSR to accomplish development goals. And this is especially true in the Philippine context.

Why bother with CSR?

The peculiar aspect of CSR is that it is a purely voluntary initiative. Society may have imposed a responsibility upon the business sector but the latter is still free to pay no heed to this. Many companies have actually done so. One would think that this apathy can have no dire consequence to society. But the Global Financial Crises (GFC) of 2008 tells us otherwise.

At this stage though, no government in the free world has set up sanctions against businesses which ignore the social needs of their community and refuse to adopt CSR measures. The words of the laws cited earlier are very clear as to its policy directives but are merely persuasive in character. In fact, there is no law that specifically mandates the business sector to incorporate CSR in its activities. It thus begs the question- why should business even concern itself with development issues? Or simply put, why should it bother with CSR?

The immediate answer is that given the prevailing circumstances all around, it is simply the right thing to do. Some business leaders do not need any highfalutin justification for their CSR program. They see a problem, and they do something about it. That's that.

For many though, there is a deeper reason why CSR is part of their way of doing business and that is the influence of religion. Many CSR programs in the world have underpinnings of Confucian, Buddhist, Jewish, Islamic, and Protestant principles. Palpably, altruism is a key teaching in all of these faiths. In the case of the Philippines, many businesses engage in corporate social action because they sincerely believe it is their Christian duty to do so. Following the dictum of Jesus Christ that what you do to the least of your brethren you do unto Him. The words of Mr. Ricardo Pascua, President and CEO of Fort Bonifacio Development Corporation (FBDC), in his interview by Asia Society¹³, cannot be any more succinct, “When I do good as a corporation, it assuages my Christian conscience.”

¹³ Asia Society, “Corporate Social Responsibility in the Philippines, 18 January 2009, <http://asiasociety.org/business-economics/development/corporate-social-responsibility-philippines>, viewed on 23 January 2011.

An unusual reason is the one proposed by academics from the Harvard Business School, the theory they call The Bottom of the Pyramid (BOP) economics.¹⁴ The gist of the BOP concept is that the “real source of market promise is not the wealthy few in the developing world, or even the emerging middle-income consumers: It is the billions of *aspiring poor* who are joining the market economy for the first time.” This basically means that business also has a pecuniary interest in engaging in CSR. Obviously, the very people these programs are helping will eventually become *bona fide* consumers themselves. To put it bluntly, this segment of society is a huge source of potential revenue for the business sector.

A more pragmatic motivation is the one articulated by Mr. Pascua again. He said that it does not make sense (referring to FBDC) in establishing an “*island of prosperity in a sea of poverty*.” For him, it is worthwhile to help the community within the periphery of the FBDC because it can lead to peace and order in the area and thus enable his employees to travel to and fro safely. With his workers doing their jobs without hassle or threats to life and property, he anticipates better productivity and ergo better results for the company.

In the end however, it is just extremely difficult to ignore the many social problems besetting our country. Rampant poverty, substandard healthcare, lack of decent and regular shelter, ecosystem degradation- all urgent concerns of the Filipino people. If these issues are unchecked, what kind of society will be left to make doing business even worthwhile? It is simply hard to imagine that businesses in the Philippines will shirk from this enormous challenge. In any event, however way one looks at it, implementing CSR programs to aid the social development of the country is still in the best interest of Philippine business.

CSR Caveats

Although Philippines businesses are, in a manner of speaking, obliged to adopt a CSR strategy, it is not advisable for them to just lunge into one. Being an integral component of socio-economic development, CSR is not

¹⁴ Prahalad, C. K. & Hart, S. L. 2002. The Fortune at the Bottom of the Pyramid. *strategy+business*, 26, pp. 2-14.

about simply making donations to charitable institutions or NGOs. To really make a difference, the CSR strategy must be embedded within the business structure. The aspect that differentiates CSR from simple alms-giving or dole-outs is that it is an activity for the long term. Its aim is to have a far reaching effect in the community. Hence, necessarily CSR in this sense must be part and parcel of the business process itself.

Given that CSR is a matter of immense implication for the business entity, the formulation of this strategy entails serious work. Some corporations even have separate departments in their *plantilla* to do this. This article does not in any way claim any expertise in this particular area. But raising some matters of caution may well benefit business leaders (and lawyers) when putting together a CSR action plan.

First, there is no “one size fits all” CSR template for everyone to follow. Each business must prepare its CSR program in the context of its particular circumstances such as its main business activity, the community where it is situated, its financial capability, and other details pertinent to the business entity. Obviously, the *situs* of the business plays a crucial role in the determination of the CSR strategy for this is the main beneficiary of the whole endeavour. Thus, some CSR programs may work in the United States but not in the Philippines and vice versa.

Second, when organizing the CSR plan, it is imperative that business managers involve all the pertinent stakeholders. The inputs of the shareholder, workers’ union, suppliers, the local government, clients, the academe and other relevant sectors are very important and indispensable. The point here is to make sure that the CSR program is broad and widespread in scope and effect. Ideally, all stakeholders in the business must be involved from planning to implementation.

Third, CSR is not simply about business philanthropy as social development is not limited to poverty alleviation. The CSR strategy must necessarily involve related issues such as employee welfare, occupational health and safety standards, consumer protection, sustainability and biodiversity measures, accounting and financial transparency and corporate governance. Business leaders must never forget that the assimilation of ethical business practices is a crucial feature of CSR.

Fourth, business managers must recognize that the CSR program is not merely a public relations gimmick. This particular activity of the business is not simply a marketing ploy although it can be coordinated with the over-all marketing plan of the business. However, making use of only a modest level of media exposure would greatly enhance the credibility of the CSR agenda. And will also encourage the community, including the abovementioned stakeholders, to readily accept and support its implementation.

Last and most important of all, businesses must remember that CSR was never designed to replace government service. Hence, the CSR strategy must not aim to do everything. Suffice to say, the CSR component of the business must not exceed the capabilities and resources of the business entity. At this juncture, it is worthy to note that a survey done on The State of Corporate Citizenship in the Philippines in 2008 revealed that the main barrier for business entities in the country in having a CSR program is lack of resources.¹⁵ It behoves business managers therefore to be also rational in their approach to CSR.

For no matter how laudable and opportune CSR is for the Filipino public, the institution primarily responsible for the socio-economic development of the country is still the government. Such that even if we have a strong and stable CSR infrastructure in the country (which we actually do not), government is still not absolved from its social accountability. Governments may have a strong incentive to encourage and facilitate CSR, but this does not give them an excuse to be remiss with their chief function of public service nor their ultimate objective of socio-economic development.

Last Word

Two seemingly contradictory realities have been revealed in this article. First, it is State policy to implore the business sector to actively participate in attaining development goals. And in fact the business sector has been doing just this as evidenced by the plethora of CSR programs in the country.

And yet, despite the tremendous effort of the business sector, the Philippines continues to lag behind in terms of social development. In the

¹⁵ RVR Center for Corporate Social Responsibility, Asian Institute of Management, <http://www.rvr.aim.edu/search.asp>, viewed on 24 January 2011.

Human Development Index (HDI) for 2010 prepared by the United Nations Development Programme, the Philippines ranked 97th out of 168 nations.¹⁶ It is below countries such as Fiji, El Salvador, Bolivia, Sri Lanka and Thailand. And just above Botswana, Mongolia and Egypt.

Just to put this point in perspective, the HDI is the most utilized measure of social or human development among nations. It is a composite index of three major indicators, namely health, education and income. With its current ranking, the Philippines is classified as a nation with Medium Human Development. Obviously, the Philippines is not a dirt poor *Kamote* republic. Yet the painful reality is, the social ills the nation was facing in 1986 are fundamentally the same ones it is facing now (poverty, squatting, under-education, et. al). The current state of the country seems to be just too incongruous to all the hard work being put in by Philippines businesses in terms of CSR.

At this juncture, it is worthy to note that CSR is not even a novelty in the Philippines. In 2009 two very important international events pertaining to CSR were held in the country. First, the CSR Expo Week organized by the League of Corporate Foundations held in July. And second, the eighth annual Asian Forum on Corporate Social Responsibility organized by RVR Center for Corporate Social Responsibility of the AIM held in November. In a sense, the Philippines can be deemed as a CSR bailiwick in Asia. And yet, the country is still behind in terms of social, and even economic, development compared to its regional neighbours.

Indeed, this is a very perplexing situation. An easy way out of this quandary is to simply blame all the past governments from Marcos to GMA. Obviously, there are other factors that must be put in the mix. It is possible though, that under the present set up, CSR is actually underutilized. Maybe restraining the CSR agenda within the clique, so to speak, should be reviewed by the business sector. In the three (3) day sessions of the CSR Expo Week in 2009, there was not one resource speaker or participant from the government side.¹⁷

¹⁶ United Nations Development Programme, Human Development Index, http://hdr.undp.org/en/media/HDR_2010_EN_Complete_reprint.pdf, viewed on 2 March 2011.

¹⁷ CSR Expo 2009, <http://www.teamasia.com/events/LCF2009/Program.aspx>, viewed on 2 March 2011.

Perhaps the challenge for the business sector is to engage in an innovative joint venture with the government. Notably, the CSR Expo Week for 2010 made a complete change in its tactics. The theme of the event was “Synergizing for Change” with attention to the enhancement of public-private partnerships through CSR.¹⁸ As to whether this collaborative effort will be fruitful, still remains to be seen.

Truth be told, Philippine socio-economic development needs CSR now more than ever. The current administration has all but admitted that it cannot finance most of the social expenditures the President promised in his first State of the Nation Address (SONA). Talks are now rife of the government’s plan to sell Camp Crame and Camp Aguinaldo in order to raise funds. This basically means that the business sector has to make up for the slack in addressing the pressing social issues in the country. Philippine businesses must simply lift their side of the CSR agenda to a higher level.

But the need for more CSR action is not limited to the domestic arena. In September 2000, all the leaders of the world assembled in the United Nations Headquarters in New York and signed the United Nations Millennium Declaration, thereby committing their respective constituents to a new global partnership to address extreme poverty and other social development goals by 2015. This universal task is now referred to as the Millennium Development Goals.¹⁹

Patently, the call to come together under a global development agenda is one made to everyone in the world. The global business sector has responded actively as evidenced by the growing prominence of CSR in the world stage. Philippine business in particular has enthusiastically answered this challenge by the UN as shown in this article.

To further drive the importance and relevance of CSR, this article shall end with a paragraph taken from a paper commissioned by the United Nations Development Programme and the International Business Leaders Forum entitled, Business and the Millennium Development Goals: A Framework

¹⁸ League of Corporate Foundations, 2011, <http://www.lcf.org.ph/newsmembernews/89-fpsd>, viewed 29 March 2011.

¹⁹ United Nations – Millennium Development Goals, <http://www.un.org/millenniumgoals/bkgd.shtml>, viewed on 3 March 2011.

For Action.²⁰ At the end of the day, business leaders must account for their actions and decisions to their principals. And these words may best express for him or her as to why CSR measures must be undertaken, to wit–

International objectives such as peace, security, sustainable development, human rights and poverty alleviation, are increasingly interlinked. They have ramifications for all sectors of society and their achievement requires complex and collaborative solutions. Whilst governments must carry primary responsibility for achieving them, **it is increasingly in the interest of business to be part of the solution rather than be part of the problem.**

²⁰ Jane Nelson and Dave Prescott, 2003, Business and the Millennium Development Goals: A Framework For Action, United Nations Development Programme and the International Business Leaders Forum.