

The Concept of Social Responsibility of Business: From Economics to Law

Farda Ildarovna Khamidullina*

Doctor of Juridical Sciences, Associate Professor, Department of Civil Law Under Kazan (Privolzhsk) Federal University (Russian Federation, Kazan).

<https://orcid.org/0000-0001-6775-4622>

E-mail: FIHamidullina@kpfu.ru

Gazizullin Rishat Ilurovich

Candidate of Economic Sciences, Associate Professor, Department of Economic Security and Taxation of the Institute of Management, Economics and Finance under Kazan (Privolzhsk) Federal University (Russian Federation, Kazan).

<https://orcid.org/0000-0002-0303-5378>

E-mail: Rishat.Gazizullin@kpfu.ru

Received September 17, 2021; Accepted December 15, 2021

ISSN: 1735-188X

DOI: 10.14704/WEB/V19I1/WEB19217

Abstract

The article discusses the concept of social responsibility of business, which underlies the theory of corporate management, and traces its evolution from economic to legal content in the XX-XXI centuries.

The authors consider various paradigms of understanding the essence and principles of practical implementation of the concept of social responsibility of business from the theories of corporate egoism, corporate altruism, reasonable altruism to the "pyramidal" concept of corporate social responsibility, developed by A. Carroll, and ESG criteria. Historical features of the perception of entrepreneurship in Russia are indicated as a particular aspect. A proposal is made to popularize entrepreneurship through the work of high-quality corporate management aimed at solving social problems.

The article recognizes the relevance of understanding the concept of social responsibility of business beyond economic theory as a universal concept affecting the spheres of economics, law, politics and international cooperation on humanitarian issues. Analyzing the concept of social responsibility of business in the legal aspect, which recognizes the need to balance social responsibility and respect for the interests of entrepreneurial activity, the authors turn to the theory of two orders (space and taxis) by F.A. von Hayek. Our analysis showed that one of the tasks of legal comprehension of the concept of social responsibility of business is the search for a one-to-one correspondence between what is prescribed to the subject of

entrepreneurial activity by virtue of the law, and what the corporation voluntarily accepts as its social obligation.

Keywords

Social Responsibility, Entrepreneur, Voluntary Responsibilities, Legal Requirements, Balance of Interests.

Introduction

Currently, there are heated discussions about the role of business in a society with a free market economy, as a result of which a tendency has emerged to isolate the legal aspect in the concept of social responsibility of business, which was formed by the end of the first third of the XX century. The designated aspect requires deep scientific understanding, which is important both for the further development of the theory of corporate management and for the design of legal forms of social activity of business entities (business community). Currently, the legal literature lacks a sufficient number of works on the specified problem. Objective: study and analytical description of the main variants of the concept of social responsibility of business, on this basis, to accentuate its legal aspect and identify the primary tasks of legal comprehension of this concept.

Methods

During the research, general scientific methods were used, such as dialectics, analysis, synthesis, induction and deduction; private scientific methods: formal-logical (dogmatic), historical-legal.

Results and Discussion

As a kind of system of views, the concept of social responsibility of business has been developed in the context of an in-depth understanding of the experience of the industrial era, marked by both obvious technological advances and an unprecedented polarization of society, growing economic inequality and dissatisfaction with the new order.

Andrew Carnegie, a well-known steel businessman and philanthropist, was the first to draw the attention of the general public to these difficult issues and to introduce the very concept of corporate social responsibility. Founder of one of the world's largest publicly traded companies, U.S. Steel, he became super-wealthy after selling his stake in steel mills, with a fortune of \$225 million, or about \$300 billion today.

According to A. Carnegie, a wealthy person is obligated to treat his “superprofits as a means of trust he is called to manage for the benefit of others... in a manner that, in his opinion, will bring the supreme good to others” (Butler-Bowdon, 2021). To be an example of a modest life, invisible to others, to properly satisfy the needs of those who depend on him, to do more for others than they could do for themselves - this is the credo he wrote about in his essay “The Gospel Wealth”, which was published in 1900, and many years later inspired such our contemporaries as Bill Gates and Warren Buffet (Butler-Bowdon, 2021). “A person, - argued A. Carnegie, - should avoid the behavior of a typical philanthropist who donates money to charitable purposes, and instead actively work to ensure that each of his dollars brings the greatest benefit to society” (Butler-Bowdon, 2021).

At the turn of the XIX-XX centuries, this attitude towards super profits was not exceptional. The Nizhny Novgorod merchant of the 1st guild Nikolai Bugrov reported to Emperor Alexander III that “he built a house at his own expense... for the gratuitous accommodation of widows with minor children. The cost of construction is up to 200 thousand rubles.” The so-called Widow's House, which was provided by Nikolai Bugrov, and later joined by the Blinov brothers and other wealthy merchants from Nizhny Novgorod - we would now call them entrepreneurs - had 160 apartments. The house constantly accommodated a doctor, had its own pharmacy, as well as a house church and a small room with access to the courtyard, where a special cradle for foundlings hung. Such kids were left to live in the Widow's House until their leagl age, and then, along with other grown children, they could get a job either from Bugrov, or found their calling. In any case, the house provided them with everything they needed for the first time. Today, this house operates a hostel for students of a technical university, and in 2014 a monument to Nikolai Bugrov was erected on the square in front of the house (Maslova, 2019).

Being quite widespread, the activity of philanthropists could not remain unnoticed, and therefore unreflected, although they preferred to keep it below the radar. Ultimately, by the 1930s, the very ideas were finally formulated that together formed the basis of the theory of corporate management in the part called the concept of social responsibility of business.

The first monographic study of the scientific problem under consideration was the book "Social responsibility of business" (1953) by the American economist G. Bowen, where this type of responsibility was defined as "the duty of businessmen to make those decisions and follow those directions of activity that are desirable from the point of view of goals and values... of society” (Perekrestov et al., 2011).

This definition is by no means the only one. Different approaches to understanding the essence and principles of practical implementation of the concept of social responsibility of business are still preserved.

Supporters of the theory of corporate selfishness share and somehow develop the point of view of Nobel laureate Milton Friedman (1971), according to which “in a free economy, business has only one social responsibility - to use its resources and take actions aimed at increasing its profits as long as it meets the rules of the game, i.e. participate in open and free competition without deception and fraud” (Bikeeva, 2017). Corporate management should not participate in solving social problems of society since any non-core activity will distract from the production of goods and services, which sooner or later will lead to disastrous consequences for the state and society in general.

In other words, from the standpoint of the theory of corporate selfishness, any company should be considered socially responsible that, within the framework of the rules of the game established by the state, that is, the rules of law governing economic activity, establish a decent level of wages, bear the tax burden in good faith and conduct business practices honestly, as well as fulfills the social obligations stipulated by the law.

The essence of the opposite concept, namely the theory of corporate altruism, is the recognition of the duty of corporations to make a significant voluntary contribution to improving the quality of life of people. Companies are not socially isolated but fundamentally open structures, as they produce goods and services for everyone, and therefore, they need to be active participants in all social projects that contribute to solving current social problems.

Supporters of the theory of reasonable egoism make a compromise by believing that some of the current profits should become a long-term investment in improving the ecology and social environment, increasing human capital, so that later all this will have a positive effect on the conditions for doing business, which cannot develop without considering the real state of affairs in society. With this formulation of the question, the costs associated with the implementation of socially significant programs are no longer considered as a non-core activity, as both business and the whole society are interested in social well-being.

The "pyramidal" concept of corporate social responsibility, developed by A. Carroll also seems interesting. The base of the pyramid, according to A. Carroll, is economic responsibility determined by the production of goods and services, that is, the basic

function of any entrepreneur in the system of a market economy, as a result of the implementation of which the needs of consumers are satisfied, and the entrepreneur makes a profit. The next tier of the pyramid is legal, or legal responsibility, which is to comply with the laws.

Further, a higher level of the pyramid presents ecological responsibility, acting in relation to natural resources in those territories where business is located and/or operates. Since 2014, the Swedish company IKEA has been actively engaged in the purchase of forests in different countries - the USA, Estonia, Latvia, Lithuania and Romania to preserve a unique ecosystem, prevent deforestation for construction and thereby preserve a home for hundreds of species of plants and animals. The company says it strives to conduct business responsibly and believes that more forests need to be restored than are used in production. At the same time, the company guarantees it will support the local woodworking industry, and maintain the free access of residents to the forest area (IKEA bought almost 4.5 thousand hectares of forest in the USA to preserve the ecosystem, 2021).

At the same time, in addition to what people in need of its goods or services can demand from business, as well as current legislation and the environmental situation, corporations also can participate voluntary in the implementation of many social programs aimed at improving and developing the level and quality of life of the local community. According to A. Carroll, this is the highest level of the pyramid, designated as philanthropic responsibility, which involves a voluntary contribution to the social, economic, and environmental spheres of public life.

In the past two decades, a tendency towards the socialization of business has been more and more evident in developed countries. In general, it can be expressed by the English abbreviation ESG, which means that the assessment of the company's impact on the natural (E = ecology) and social (S = social) environment comes to the highest level of corporate governance (G = governance), i.e. it is actually equal in importance to achieve financial goals and ensure the rights of shareholders.

Western companies consider ESG compliance as an essential part of their partner relationships. For example, Unilever partners operate in 190 countries, and at the beginning of 2021 the company announced that each of them would be obliged to pay their employees at least the minimum wage that covers the basic needs of the family and helps to get out of the vicious circle of poverty (Belikov, 2021).

ESG are those criteria that, as expected by financial analysts, will be used for determining the value of the company in the near future (Razumny, 2019).

These and many other similar facts and circumstances convince us of the correctness of the opinion that the concept of corporate social responsibility, which appeared initially as part of economic theory, has long gone beyond the solution of managerial and economic problems and may well claim the status of a “universal theory, the need for which is maturing, or has already become essential” (Nurtdinova, 2015).

In particular, A.F. Nurtdinova makes a noteworthy attempt to highlight the legal aspects of social responsibility of business and suggests, among other things, the development of a definition of possible areas of social activity of business, analysis of the content of this activity and its legal forms (Nurtdinova, 2015).

At the same time A.F. Nurtdinova points to the need to define the concept of "business", considering it as a subject of entrepreneurial activity and/or a set of such entities in a region, country, branch of the economy (business community) (Nurtdinova, 2015).

She writes that “the desire to measure the development of the economy with the ideals of morality and goodness, that is, to use economic achievements not only to further build up economic potential, but also to create more favorable conditions for the development of the human personality, is an incentive for turning to the role that business as a creator of economic benefits can play in society, if we leave aside its economic function” (Nurtdinova, 2015).

A.F. Nurtdinova analyzes a number of sources of labor law, including international legal norms, and ultimately concludes that the ideology of social responsibility is based on a voluntary renunciation of entrepreneurial selfishness, while in behavioral terms, corporate social responsibility is characterized by such activity that corresponds to the principles of respect for the rule of law, including not only compliance with the requirements of laws but also refraining from abuse of their rights and use of gaps and shortcomings of the law solely in their interests; respect for international norms and human rights; focus on moral ideals, urgent social problems. The directions of this activity can be, for example, labor protection and the creation of favorable conditions for the labor activity of employees; preservation of the environment; social protection of the population of the local community; culture and education; health care, physical education and sports (Nurtdinova, 2015).

The author emphasizes that the concept of social responsibility of business “considers the interests of both the entire society (its sustainable development) and the entrepreneurs themselves, as it helps to maintain social peace and prevent social upheavals” (Nurtdinova, 2015).

Following on from the thesis about the relevance of understanding the social responsibility of business as a universal concept, we believe that the solution to this problem should begin with building a trajectory for the development of this concept from economics to law, and then in the sphere of politics, as well as international cooperation on humanitarian issues.

Thus, to consider the concept of social responsibility of business in the legal aspect means to analyze it in terms of an equal measure of freedom and balance of interests as key parameters of law. In this case, two series of requirements for entrepreneurial activity must be considered. Firstly, this is what is established by the legislator and corresponds to the goal of making a profit. Secondly, it is a set of voluntarily assumed obligations, which are usually understood as the mission of the company, disinterested and expressing public interests: from the economic sovereignty of the country to the quality of life of people.

It is the way the voluntary obligations are fulfilled that acquires special significance in Russia due to objective circumstances. As we know, during the Soviet period, stereotypes of a sharply negative attitude towards entrepreneurship, which was under criminal law, prevailed. When this activity was returned to the legal field, the entrepreneurial culture began to revive with the so-called initial accumulation of capital, and the association of Russian entrepreneurship with unprincipled, greedy, deeply dishonest people, often with a criminal background, arose again. A critical negative opinion about entrepreneurs as notorious swindlers and crooks can be changed through the popularization of entrepreneurship, and one of its channels is, of course, such work of high-quality corporate management, the result of which will be the solution to real social problems (for example, elimination of discrimination, increase in wages, other bonuses that improve the quality of life of people).

We believe that the above-mentioned heterogeneous components of social responsibility of business can be viewed through the theory of two orders - space and taxis, substantiated by the Austrian-American economist and political philosopher F.A. von Hayek (Von Hayek, 2006). The procedure, as defined by F.A. von Hayek, is “such a state of affairs when many elements of various types find themselves in such mutual relations that, having become acquainted with any temporal or spatial part of the whole, we will

learn to make correct assumptions about the whole, or, at least, assumptions that may turn out to be correct with a high degree of probability” (Von Hayek, 2006). The order in society can be either arranged or spontaneous, and the properties of these orders differ in many respects. The spontaneous order, as a rule, is studied by economic theory, while the arranged order is the subject of legal science. According to F.A. von Hayek, it was easier for the classical Greek to formulate this idea, as his lexicon included special words for each case: taxis is an arranged, artificial, controlled and, in a sense, compulsory order; cosmos is an order that has arisen, established endogenously, that is, from within, as self-generating and self-organizing. Spontaneous order is the result of the actions of many people, but at the same time it is not created according to someone else's design: "in the web of relationships between many people, order may appear, which is not the result of someone's deliberate efforts" (Von Hayek, 2006). Such orders, as F.A. von Hayek states, are not conspicuous but must be discovered by the power of the intellect.

Thus, spontaneous orders represent a living life that includes all traditionally established systems of self-regulation, which, in turn, are set by the culture of the country, its history, ethnic identity, etc. etc.

Considering the indicated differences, we can say that one of the tasks of legal comprehension of the concept of social responsibility of business is to find a one-to-one correspondence between what is prescribed to a business entity by virtue of the law, and what such an entity takes voluntarily as its social obligation. After all, goodwill is not formed in a vacuum, and the prosperity of the entire society ultimately depends on how balanced and harmonious private and public interests are in real life.

Now we can draw some conclusions.

The concept of social responsibility of business is, first of all, an ideological construct that arose as a result of the evolution of a complex industrial society. Initially, this concept had only an economic content but later a tendency towards its universalization, dissemination in law, politics, and international humanitarian cooperation occurred.

A legal approach to the social responsibility of business, carried out under such key parameters of law as an equal measure of freedom and a balance of interests, reveals two levels of requirements for entrepreneurial activity, i.e. what is established by the legislator, and what is adopted on a voluntary basis for the purpose of all possible promotion to the public wellbeing.

According to our hypothesis, the study of these levels on the basis of the theory of two orders of F.A. von Hayek will lead to the desired one-to-one correspondence between what is prescribed to a business entity by virtue of the law, and what such an entity accepts voluntarily as its social obligation.

Summary

Results: we have formulated the definition of the legal aspect of the concept of social responsibility of business, which consists in analyzing this concept in terms of such key parameters of law as an equal measure of freedom and a balance of interests. We have shown the need to consider, on the one hand, all legislative provisions corresponding to the goal of making a profit, and on the other hand, an ethically determined set of voluntarily assumed obligations that express public interests.

Conclusion

The concept of social responsibility of business is defined as an ideological construct that arose in the evolution of an industrial society and has developed further from economic to legal content, which, in turn, is a manifestation of a trend towards universalization, dissemination in the field of not only law, but also politics, as well as international humanitarian cooperation. A hypothesis has been put forward about a one-to-one correspondence between what is prescribed to the subject of entrepreneurial activity by virtue of the law, and the fact that this subject is willing to accept voluntarily as his social obligation in order to promote the public good in every possible way.

Acknowledgments

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

References

- Butler-Bowdon, T. The Gospel of Wealth. Andrew Carnegie (review).
<https://ru.bookmate.com/books/pkyhyXUD>
- Maslova, T. (2019). *The Widow's house in Nizhny Novgorod: past and present*. Nizhny Novgorod innovations.
<https://novation-nn.ru/vdoviy-dom-v-nizhnem-novgorode>
- Perekrestov, D.G., Povarich, I.P., & Shabashev, V.A. (2011). Corporate social responsibility: theory and practice. M.
<https://www.monographies.ru/ru/book/section?id=4586>

- Bikeeva, M.V. (2017). The theory of corporate social responsibility in the context of European integration. *Economic research and development*, 7, 31–42.
<http://edrj.ru/article/23-08-17>
- IKEA bought almost 4.5 thousand hectares of forest in the USA to preserve the ecosystem. Interfax, 2021. <https://www.interfax.ru/world/748681>
- Belikov, I. (2021). *Three letters important for investors: how to comply with the modern ESG principle in Russia*. VTims.
- Razumny, E. *Money is a green light: why Russian investors are far from social and environmental responsibility*. Vedomosti.
- Nurtdinova, A.F. (2015). Social responsibility of business: legal aspects of the economic concept. *Journal of Russian law*, 1, 30–46.
- Von Hayek, F.A. (2006). *Law, legislation and freedom: a contemporary understanding of liberal principles of justice and politics*. M.: IRISEN, 642.