

# CORPORATE SOCIAL RESPONSIBILITY IN AUTO INDUSTRY: AN IRANIAN PERSPECTIVE

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## ABSTRACT

Corporate Social Responsibility (CSR) is a concept which suggests organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations. CSR is closely linked with the principles of Sustainable Development, which argues that enterprises should make decisions not only based on financial factors such as profits or dividends, but also based on the immediate and long-term social and environmental consequences of their activities. In the absence of evidence of the research in the area of CSR in auto industry domain in Iran, the current paper may be a starting-point for a debate and possible strategies to implement CSR concept in this area. Also, CSR indicators for assessing companies' of the industry based on their commitment toward their social responsibilities are proposed in this research. These indicators can also be adapted with appropriate modifications to meet the needs and conditions of similar companies in other countries or companies in other industries.

**Keywords:** Corporate social responsibility, CSR, Auto industry

## INTRODUCTION

Within the last decade corporate social responsibility (CSR) has been gaining momentum across the business community and it is seen to be increasingly high on boardroom agendas. It is no news that today's business organizations are expected to exhibit ethical behavior and moral management. However, over the past half century the bar has been steadily raised. Now, not only are firms expected to be virtuous, but also they are being called to practice "social responsibility" or "corporate citizenship" (Carroll, 2000), accepting some accountability for societal welfare.

Existing universal figures all point to this fact that today's automobile industry is considered the third largest after food and construction industries when considering the capital ratio and investment, not to mention it as the biggest industry from the technological point of view (IB Chamber, 2002). Although the chief goal of auto manufacturing companies is to manufacture more cars in order to gain more income, it is important to consider that they be committed to their social responsibilities. Unfortunately, too frequently marketers still focus solely on their products and markets while neglecting the social impact of their activities (Flores, 2001).

Perhaps this is because the concept of corporate social responsibility (CSR) Corporate social responsibility is a fuzzy one with unclear boundaries and debatable legitimacy. The purpose of this paper is to clarify the CSR concept in auto industry by offering an historical perspective on CSR, reviewing the different viewpoints on the role of business in Iranian society.

The legitimacy of CSR relates to a set of fundamental and crucial questions: Why do corporations exist? Should enterprises also be concerned with their social performance as well as economic results? If so, what does it mean to be “socially responsible”? To whom do businesses owe “responsibilities”? What kinds of activities and programs should CSR include? How can we measure social performance and thereby know when companies have fulfilled their societal obligations? This paper will offer suggestions for answering these questions in the context of auto industry based on a synthesis and analysis of the literature, with a focus on auto industry. Of course we must have in mind that empirical research is needed for definitive answers to these questions.

## **AUTO MANUFACTURING IN IRAN**

The first car imported into Iran was a Ford that Mozaffaredin Shah, the king of Qajar, had purchased from Belgium. This car which puffed much smoke was renowned as “smoky chariot”. Following urbanization process since 1920, the importing trend of cars increased. Most automobiles of that time were brought from the USA and England. The first car manufactured in Iran was called “Paykan”. It was produced in "Iran National Industrial Corporation" licensed by British Talbot Company and offered to market in 1967. Later on, Iran National Company, on a gradual basis, assumed the manufacture of other vehicles like pick up, minibus and passenger bus. In the same year, two models of American “Rambler” cars locally called "Aria" and “Shahin” were produced by Pars Khodro, however, one year later, in 1968, a model of French Citroen named “Dyane” was offered by SAIPA Company to the national market.

In 1972, Pars Khodro transformed into "Iran General Motors" and started manufacturing two models of Chevrolet (Opel) 2500 cc and 2800 cc as well as three other cars licensed by American General Motors, namely; “Buick”, “Cadillac” and “Chevrolet Nova”. The production of these cars continued until 1981. In SAIPA Company the production of “Citroen Dyane” stopped in 1980, however, the manufacturing of “Renault 5” that had already been launched in 1975 went ahead. Later the production of innovative cars such as “Pride”, “Peugeot 405 and 206”, “Nissan Patrol” and “Mazda 323” started and some has continued till today.

## **GROWTH IN IRAN AUTO MARKET**

According to French automaker Peugeot, Iran has one car for every 21 inhabitants. Turkey has one for every 12. Western European countries and Japan have nearly one car for every two people. That indicates tremendous market

growth potential, and in part explains substantial foreign car manufacturer interest in the Iranian market. (AME Info, 2004)

According to Fortune Magazine (Ellis, 2006): This nation of 70 million people [Iran] has much at stake. Its auto industry has boomed in recent years to become one of the biggest sectors outside of oil, employing 150,000 and accounting for about 4% of GDP. With nearly one million vehicles produced last year, as many as in Australia or Thailand, Iran boasts the largest car industry in the Middle East and Central Asia. "We're not talking small numbers here," says industry analyst Jonathan Poskitt of J.D. Power Automotive Forecasting. "There is a huge aspirational population under 40 in Iran, with money, and they want the same stuff as everyone else."

### **CORPORATE SOCIAL RESPONSIBILITY: CONCEPT AND HISTORY**

Corporate social responsibility is the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society at large independently of direct gains of the company. (Kok, van der Wiele, McKenna & Brown, 2001)

CSR has been variously defined as:

An organization's obligation to maximize its positive impact and minimize its negative effects in being a contributing member to society, with concern for society's long-run needs and wants. CSR means being a good steward of society's economic and human resources (Journal of Consumer Marketing, 2001).

The obligations of the firm to its *stakeholders* - people and groups who can affect or a who are affected by corporate policies and practices. These obligations go beyond legal requirements and the company's duties to its shareholders. Fulfilment of these obligations is intended to minimize any harm and maximize the long-run beneficial impact of the firm on society (Bloom and Gundlach, 2001, p. 142).

The intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable, and leads in the direction of positive contributions to human betterment, variously as the latter may be defined (Andrews, quoted in Hartman, 1998, p. 243).

Businesses do not operate in a vacuum since their activities generate positive and negative ripple effects throughout the ecosystem in which they are embedded (Frederick, 1995). Therefore they are responsible for the effects their activities have on society. Epstein (1999) describes corporations as "ubiquitous and dominant forces that affect our entire social system in diverse and complex ways." At the local level CSR messages espouse activities that are designed to improve the neighborhoods in which employees work and live. At the nation-state level organizations use statements describing their attempts to advance

important national interests of particular countries, especially during times of great urgency or need. Finally, at the worldwide level firms present their concerns about and efforts to enhance the quality of life of citizens using the opportunities inherent in their product offerings. (Hill, 2004)

Carroll (1979) and other researchers believe that we should judge corporations not just on their economic success, but also on non-economic criteria. Carroll (1979) proposed a popular four-part definition of CSR, suggesting that corporations have four responsibilities or “four faces” (Carroll, 2000) to fulfil to be good corporate citizens: economic, legal, ethical and philanthropic. The eighteenth-century Scottish philosopher Adam Smith, in *The Wealth of Nations*, provided us with a framework for modern business and its relationship to society. Smith proposed that capitalism, by encouraging the pursuit of gain and efficiency, works to create greater wealth than any other economic system, and maximizes liberty by allowing individuals freedom of choice in employment, purchases, and investments, thereby benefiting the common good. Endeavoring to beat one's rivals, and toiling to produce better work to earn the next promotion, if done ethically, will result in high personal development and therefore excellent use of one's time and talents and the firm's treasury (Johnson, 1990).

*Economic responsibility.* Economic responsibility, then, is to be profitable for principals by delivering a good quality product at a fair price is due to customers. Novak (1996) more fully delineated a set of seven economic responsibilities. These are to:

- (1) satisfy customers with goods and services of real value;
- (2) earn a fair return on the funds entrusted to the corporation by its investors;
- (3) create new wealth, which can accrue to non-profit institutions which own shares of publicly-held companies and help lift the poor out of poverty as their wages rise;
- (4) create new jobs;
- (5) defeat envy though generating upward mobility and giving people the sense that their economic conditions can improve;
- (6) promote innovation; and
- (7) diversify the economic interests of citizens so as to prevent the tyranny of the majority.

*Legal responsibilities.* Legal duties entail complying with the law and shortcomings of laws playing by the rules of the game. Laws regulating business conduct are passed because society does not always trust business to do what is right. However, laws have certain shortcomings to ensure responsible behaviour: they are of limited scope (they cannot cover every possible contingency); merely provide a floor or moral minimum for business conduct; are reactive, telling us what ought not to be done, rather than proactive, telling us what ought to be done; and might be followed involuntarily out of fear of punishment rather than voluntarily out of internal moral conviction.

*Ethical responsibilities.* Ethical duties overcome the limitations of legal duties. They entail being moral, doing what is right, just, and fair; respecting peoples' moral rights; and avoiding harm or social injury as well as preventing harm caused by others (Smith and Quelch, 1993). Ethical responsibilities derive their source of authority from religious convictions, moral traditions, humane principles, and human rights commitments (Novak, 1996). Today, virtually all members of the business system agree, at least in theory (although, unfortunately, often not in practice) with this set of "social responsibilities".

*Altruistic responsibilities.* Carroll's discretionary or philanthropic Controversy over the responsibility - "giving back" time and money in the forms of voluntary service, voluntary association and voluntary giving - is where most of the controversy over the legitimacy of CSR lies. Over the past half century, business increasingly has been judged not just by its economic and its moral performance, but also by its social contributions. Henry Ford II identified this when he spoke at the Harvard Business School as far back as 1969: "The terms of the contract between industry and society are changing ...Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions" (Chewning et al., 1990, p. 207).

The prevalent business model addressing corporate ethical behaviour is that of the stakeholder concept that was first introduced in the 1960s, a period of great social change in America (Preble, 2005). According to stakeholder theory, the corporation has responsibility to any group or individual who can or is affected by the corporation's obligations (Mitchell et al., 1997). Ideas concerning the ethical behaviour of corporations and its responsibility toward various stakeholders have their roots in the early decades of the twentieth century and reflect the institutional environment in which the present modern corporation developed.

The decade of the 1920s has been selected as the early periods of CSR development and focus for this discussion because it represents what appears to be one of the first eras of modern corporate social responsibility (CSR which we consider for these days corporations). First of all, according to historian Chandler (1962, 1977) the modern corporate enterprise was fully developed by 1917. Secondly, business (Krooss, 1970, p. 3) ". . . finally emerged at the height of prestige in the 1920s when the businessman became the authority on matters economic, political, and even aesthetic." Finally, the corporate manager of the 1920s seemed to have developed, for the first time, a concept of social responsibility from a corporate rather than an individual perspective. This was a period in American history that saw a decline in the individual ethic needed for westward expansion and the rise of the social ethic needed for industrial harmony (Scott, 1959). This discussion will center on the increased awareness of social responsibility by managers of large publicly-held corporations because they were faced with a greater challenge of legitimizing their positions in society than their entrepreneurial predecessors because of their more dispersed activities and ownership (Epstein, 1972).

## **APPLICABILITY AND DESIGN OF CSR IN THE IRANIAN ENVIRONMENT**

Figure one shows a model drawn based on the four-part definition of CSR introduced by Carroll (1979, 2000). The model is then specifically considered for the auto companies in an Iranian context and the indicators within each part of CSR are suggested in tables 1 to 4. As it can be seen in table 1, economic responsibilities are broken into 7 parts based on Novak classification (1996). Each part is then illustrated in the form of related measures. Table 2 describes the legal responsibilities of Iranian auto companies through a number of measures including “number of illegal actions reported”, “environmental standards of autos manufactured”, “fuel consumption rate of autos manufactured”, “safety standards of autos manufactured”, and “in time payment of tax”. Table 3 focuses on ethical responsibilities. And finally table 4 which introduces altruistic responsibilities consist of various measures mainly involving company's support for academic, research, and voluntary giving projects.

It is important to notice that although the main goal of auto manufacturing companies in Iran is profitability, they are socially and ethically asked to work within a standard limit. That is, because they are not working in a vacuum, these enterprises should also be concerned with their social performance as well as economic results. In this paper, we have defined the meaning of being socially responsible in auto industries in terms of various indicators. Besides, the stakeholders of auto industries are seen as people and government.

## **CONCLUSION**

The development of corporate social responsibility is inextricably involved in the historical, socio-economic, political, and organizational features of the society and time period under consideration. These are the institutional forces that seem to shape the concepts of what exactly that responsibility should be. Whatever condition exist, however, companies and organizations must consider their social responsibilities and act in accordance with the society welfare. Because of the scarcity of resources and issues involving environmental sustainability, auto manufacturing companies have a great role in CSR issues. This paper reviewed the auto manufacturing growth in an Iranian context, and with a review on CSR literature, proposed the CSR indicators for Iranian auto industry. The introduced indicators are then shared among experts both in the area of CSR and auto industry and the final indicators are suggested upon a Delphi method process. These indicators can also be adapted with appropriate modifications to meet the needs and conditions of similar companies in other countries or companies in other industries.

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**Table 1: CSR Indicators in Iranian Auto Industry: Economic Responsibilities**

| <b>Objective</b>                      | <b>Measure</b>  |
|---------------------------------------|---|
| Satisfying Customers                  | Customer satisfaction rate<br>Customer complains about the auto prices<br>Customer tendency rate toward buying a similar foreign car because of the higher value perceived        |
| Fair rate of return                   | Return on investment (ROI)<br>Stakeholders satisfaction rate  |
| Poverty eradication                   | Annual payment for poverty eradication purposes<br>Percent of the companies share in publicly-held companies  |
| Creating new jobs                     | Number of employment provided<br>Growth rate in offering new jobs   |
| Diversify citizens economic interests | Customers satisfaction rate for buying an auto from the company<br>Customers' belief in the improvement in their life style through buying an auto from the company               |
| Generating upward mobility            | Offer models for all groups of interests<br>Offer various selling methods for various groups of people with different financial and social levels                                 |
| Promoting innovation                  | Number of new auto models developed annually in the company<br>Number of improvements in manufacturing methods<br>Number of innovative suggestions offered by company's personnel |

**Table 2: CSR Indicators in Iranian Auto Industry: Legal Responsibilities**

| <b>Objective</b>                   | <b>Measure</b>   |
|------------------------------------|--|
| Moral minimum for business conduct | Number of illegal actions reported<br>Environmental standards of autos manufactured<br>Fuel consumption rate of autos manufactured<br>Safety standards of autos manufactured<br>In time payment of tax |

**Table 3: CSR Indicators in Iranian Auto Industry: Ethical Responsibilities**

| <b>Objective</b>                    | <b>Measure</b>  |
|-------------------------------------|---|
| Being moral                         | Number of immoral activities reported   |
| Doing what is right, just, and fair | Number of un-just activities reported   |
| Respecting peoples' moral rights    | Number of autos designed against peoples' moral rights<br>Number of advertisements against peoples' moral rights              |
| Avoiding harm or social injury      | Number of social injuries reported<br>Amount of social injury/harm in Rials (Iranian Official Currency) caused by the company |
| Preventing harm caused by others    | Number of activities in order to prevent harm caused by others  |

**Table 4: CSR Indicators in Iranian Auto Industry: Altruistic Responsibilities**

| <b>Objective</b>  | <b>Measure</b>  |
|---|---|
| Giving back time in the forms of voluntary service, voluntary association and voluntary giving  | Number of internship opportunities provided by the company<br>Number of voluntary association of company and its managers in various social activities                    |
| Giving back money in the forms of voluntary service, voluntary association and voluntary giving | Amount of budget donated to voluntary service, voluntary association and voluntary giving<br>Annual support for research projects<br>Annual support for academic projects |

Figure 1: CSR Model [Based on Carroll (1979, 2000)]

