

Corporate Social Responsibility
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Course: *MGT 360*
Title: *Management and Organizational Behavior (3 units)*

“Virtue is excellence, something uncommonly great and beautiful, which rises far above what is vulgar and ordinary.”

---*Adam Smith (1723–1790)*

“In a truly great company, profits and cash flow become like blood and water to a healthy body. They are absolutely essential for life but they are not the very point of life.”

---*Jim Collins (1958–)*

MANAGEMENT: CORPORATE SOCIAL RESPONSIBILITY

The following is excerpted and adapted from Chapter 3 of the following text:

Montana, P., and Charnov, B., et al. (2015) *Management, (5th ed.)*, Barron’s.

KEY TERMS

Social responsiveness: the extent to which an organization is responsive to its perceived social obligations, generally a measure of business effectiveness and efficiency in pursuing actions that meet those social obligations.

Social Obligation Approach: an approach to social responsiveness that assumes that the main goals of a business are economic success, not the meeting of social obligations, and, therefore, business should merely meet the minimal social obligations imposed by current legislation.

Social Responsibility Approach: an approach to social responsiveness that assumes that the goals of business are not merely economic but also social and that business should devote economic resources to the accomplishment of social goals.

Social Responsiveness Approach: an approach to social responsiveness that assumes that business not only has economic and social goals but must also anticipate future social problems and act now to respond to those future problems.

Social audit: the dynamic process by which an organization evaluates its level of social responsibility.

SUMMARY

The last several decades have seen an increasing concern with the social obligations of business, occasioned by the growing ecology and consumer movements, which focus on the relationship between business and society. Assertions that business should devote some of its economic resources to actions that benefit society have not always been kindly received. Business writers have differed not only about the appropriate level of corporate social action but also about whether a company has legitimate reasons for devoting any resources to social actions. This debate continues and has been crystallized in the writings and thoughts of two major writers, Dr. Keith Davis (1918-2002) of Arizona State University, and Dr. Milton Friedman (1931-2006), a Nobel Prize winner in Economics.

ARGUMENTS *FOR* SOCIAL RESPONSIBILITY FOR BUSINESS

Keith Davis advocates social responsibility in business. He argues that social responsibility goes hand in hand with social power, and since business is the most powerful force in contemporary life, it has the obligation to assume corresponding social responsibility. Society, in turn, having given power to business, can call business to account for the use of that power. Davis further asserts that business must be open to social representatives and expert analysis of social problems; society should pay attention to and value business' efforts in the area of social responsibility. Davis acknowledges that business efforts at social responsibility will be costly but maintains that such costs could legitimately be passed on to consumers in the form of higher prices. In a most revolutionary manner, he goes on to assert that business, if it possesses the necessary expertise, has the obligation even to help solve social problems in which it is not directly involved. This obligation is for the general social good, for when society improves, business will benefit. In general, Davis views a business entity as a person. Can society expect any less of a business than it expects of an individual? The arguments of Davis and his followers for social responsibility of business are theoretical and practical in nature.

Theoretical Arguments for Social Responsibility

1. It is theoretically in the best interest of business to improve the communities in which it is located and in which it does business. Improvement in community environments will ultimately benefit business. And, as business expands into an increasingly global arena, the whole world becomes its "community."
2. Social responsibility programs help prevent small problems from becoming large. Ultimately this will be of benefit to society and business.
3. Being socially responsible is the ethical or "right" thing to do.
4. Demonstrating a responsiveness to social issues will help preclude government intervention in business.
5. The most widely held value system, the Judea-Christian tradition, strongly encourages acts of charity and social concern.

Practical Arguments for Social Responsibility

1. Actions that demonstrate social responsiveness, if actualized within a model of sustainable economics, may actually be profitable to the company. For example, new machines that control pollution may be more efficient and cost-effective.
2. Being socially responsible improves the public relations image of the company as a good citizen.
3. If we do not do it ourselves, either public opinion or the government will require us to do so.
4. It may be good for the stockholders since such actions will earn public approval, lead to the company being viewed by professional financial analysts as less open to social criticism, and produce a higher stock price.

ARGUMENTS *AGAINST* SOCIAL RESPONSIBILITY FOR BUSINESS

The argument against social responsibility for business has been articulated most widely by the Nobel Prize-winning economist Milton Friedman. He asserts that the task of business is to maximize stockholder (owner) profit by the wise use of scarce organizational resources, as long as the activities of the business are within the letter of the law. Indeed, Friedman and his followers assert that business, through the actions of trade associations representing industrial groups (lobbying), can lawfully seek to influence laws affecting business operations. Many have accused Friedman and the advocates of his position of lacking both compassion for those in economic distress and a concern for social justice. This, however, is not the case. Friedman and his followers base the assertion that business should not assume direct social responsibility on, again, both practical and theoretical grounds.

Theoretical Arguments Against Social Responsibility

1. This is the major function of the government and the not-for-profit sector; to link business with government will create too powerful a force in society and will ultimately compromise government's role in regulating business.
2. Business needs to measure performance, and social action programs often cannot measure success rates. There is often an inherent conflict between the way business works and the way social programs work.
3. The function of business is profit maximization, and to require that resources be devoted to social action programs violates this business goal since it reduces profits.
4. There is no reason to suppose that business leaders have the ability to determine what is in the social interest. Social scientists and government administrators often

cannot agree among themselves about social interest goals. Why assume that business leaders can do a better job of defining the social interest?

Practical Arguments Against Social Responsibility

1. Managers have a fiduciary (trust) responsibility to stockholders to maximize equity value, and using business funds to accomplish social goals may be a violation of that responsibility, hence illegal.
2. The cost of social programs would be a burden to business and have to be passed along to consumers in the form of higher prices.
3. The public may want government and the not-for-profit sector to have social programs, but there is little support for business to have these programs.
4. There is no reason to suppose that business leaders have the specialized skills necessary to achieve social interest goals.

Friedman and his many followers argue that it is sufficient for business to seek maximum profit within the rules of society. They maintain that a company that successfully makes a profit benefits society by creating new jobs and paying high wages that improve the lives of its workers. Business can also improve the working conditions of its employees and will be contributing to public welfare by paying corporate income taxes. By allowing companies to concentrate their resources on actual business activities, not social responsibility, those resources are used most efficiently and effectively, and companies are able to successfully compete in the world marketplace. To divert corporate resources to social obligations, it is argued, would be to ensure inefficiency and perhaps to fatally handicap American business.

YOU SHOULD REMEMBER

In each of these views regarding the desired degree of social responsiveness, there is agreement that business should perform all socially responsive actions required by law. The major difference is to be found in the levels of socially responsive actions that go beyond the legal requirements, and the difference in opinions regarding "going above and beyond the call of duty" has given rise to several different approaches to social responsibility.

Milton Friedman has advanced the view that the only valid function of business is to maximize profits and equity value for stockholders. Business is not obligated to be socially responsive other than to conform to legally required actions. Business will help improve society by making profits and paying better wages to its workers. Keith Davis maintains that since business has power in society, it should exercise its power to improve society and therefore has an obligation to show social responsiveness.

Both Friedman and Davis maintain that business should follow the law and perform acts of social responsiveness that are required.