3.1 Social Responsibilities of Strategic Decision Makers

Should strategic decision makers be responsible only to shareholders, or do they have broader responsibilities? The concept of **social responsibility** proposes that a private corporation has responsibilities to society that extend beyond making a profit. Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce but also the communities where the plants are located and the customers with no other source for the discontinued product. Such situations raise questions of the appropriateness of certain missions, objectives, and strategies of business corporations. Managers must be able to deal with these conflicting interests in an ethical manner to formulate a viable strategic plan.

:SPONSIBILITIES OF A BUSINESS FIRM

What are the responsibilities of a business firm and how many of them must be fulfilled? Milton Friedman and Archie Carroll offer two contrasting views of the responsibilities of business firms to society.

Friedman's Traditional View of Business Responsibility

Urging a return to a laissez-faire worldwide economy with a minimum of government regulation, Milton Friedman argues against the concept of social responsibility. A business person who acts "responsibly" by cutting the price of the firm's product to prevent inflation, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, according to Friedman, is spending the shareholder's money for a general social interest. Even if the businessperson has shareholder permission or encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, harm the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient—either prices go up to pay for the increased costs or investment in new activities and research is postponed. These results negatively affect—perhaps fatally—the long-term efficiency of a business. Friedman thus referred to the social responsibility of business as a "fundamentally subversive doctrine" and stated that:

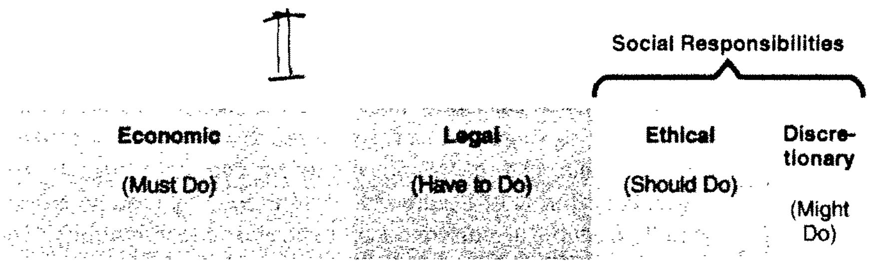
> *There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*[2]

Following Friedman's reasoning, the management of General Mills was clearly guilty of misusing corporate assets and negatively affecting shareholder wealth. The millions spent in social services could have been invested in new product development or given back as dividends to the shareholders. Instead of General Mills' management acting on its own, shareholders could have decided which charities to support.

Carroll's Four Responsibilities of Business

Friedman's contention that the primary goal of business is profit maximization is only one side of an ongoing debate regarding corporate social responsibility (CSR). According to William J. Byron, Distinguished Professor of Ethics at Georgetown University and past-President of Catholic University of America, profits are merely a means to an end, not an end in itself. Just as a person needs food to survive and grow, so does a business corporation need profits to survive and grow. "Maximizing profits is like maximizing food." Thus, contends Byron, maximization of profits cannot be the primary obligation of business.[3]

FIGURE 3-1
Responsibilities of Business



SOURCE: *Adapted from A. B. Carroll, "A Three Dimensional Conceptual Model of Corporate Performance,"* Academy of Management Review *(October 1979), p. 499. Reprinted with permission.*

As shown in **Figure 3–1,** Archie Carroll proposes that the managers of business organizations have four responsibilities: economic, legal, ethical, and discretionary.[4]

1. **Economic** responsibilities of a business organization's management are to produce goods and services of value to society so that the firm may repay its creditors and shareholders.
2. **Legal** responsibilities are defined by governments in laws that management is expected to obey. For example, U.S. business firms are required to hire and promote people based on their credentials rather than to discriminate on non-job-related characteristics such as race, gender, or religion.
3. **Ethical** responsibilities of an organization's management are to follow the generally held beliefs about behavior in a society. For example, society generally expects firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organization's management fails to act according to generally prevailing ethical values.
4. **Discretionary** responsibilities are the purely voluntary obligations a corporation assumes. Examples are philanthropic contributions, training the hard-core unemployed, and providing day-care centers. The difference between ethical and discretionary responsibilities is that few people expect an organization to fulfill discretionary responsibilities, whereas many expect an organization to fulfill ethical ones.[5]

Carroll lists these four responsibilities *in order of priority.* A business firm must first make a profit to satisfy its economic responsibilities. To continue in existence, the firm must follow the laws, thus fulfilling its legal responsibilities. There is evidence that companies found guilty of violating laws have lower profits and sales growth after conviction.[6] To this point Carroll and Friedman are in agreement. Carroll, however, goes further by arguing that business managers have responsibilities beyond economic and legal ones.

Having satisfied the two basic responsibilities, according to Carroll, a firm should look to fulfilling its social responsibilities. Social responsibility, therefore, includes both ethical and discretionary, but not economic and legal, responsibilities. A firm can fulfill its ethical responsibilities by taking actions that society tends to value but has not yet put into law. When ethical responsibilities are satisfied, a firm can focus on discretionary responsibilities—purely voluntary actions that society has not yet decided are important. For example, when Cisco Systems decided to dismiss 6,000 full-time employees, it provided a novel severance package. Those employees who agreed to work for a local nonprofit organization for a year would receive one-third of their salaries plus benefits and stock options and be the first to be rehired. Nonprofits were delighted to hire such highly qualified people and Cisco was able to maintain its talent pool for when it could hire once again.[7]

As societal values evolve, the discretionary responsibilities of today may become the ethical responsibilities of tomorrow. For example, in 1990, 86% of people in the U.S. believed that obesity was caused by the individuals themselves, with only 14% blaming either corporate marketing or government guidelines. By 2003, however, only 54% blamed obesity on individuals and 46% put responsibility on corporate marketing and government guidelines. Thus, the offering of healthy, low-calorie food by food processors and restaurants is moving rapidly from being a discretionary to an ethical responsibility.[8] One example of this change in values is the film documentary *Super Size Me*, which criticizes the health benefits of eating McDonald's deep-fried fast food. (McDonald's responded by offering more healthy food items.)

Carroll suggests that to the extent that business corporations fail to acknowledge discretionary or ethical responsibilities, society, through government, will act, making them legal responsibilities. Government may do this, moreover, without regard to an organization's economic responsibilities. As a result, the organization may have greater difficulty in earning a profit than it would have if it had voluntarily assumed some ethical and discretionary responsibilities.

Both Friedman and Carroll argue their positions based on the impact of socially responsible actions on a firm's profits. Friedman says that socially responsible actions hurt a firm's efficiency. Carroll proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency.

Friedman's position on social responsibility appears to be losing traction with business executives. For example, a 2006 survey of business executives across the world by McKinsey & Company revealed that only 16% felt that business should focus solely on providing the highest possible returns to investors while obeying all laws and regulations, contrasted with 84% who stated that business should generate high returns to investors but balance it with contributions to the broader public good.[9] A 2007 survey of global executives by the Economist Intelligence Unit found that the percentage of companies giving either high or very high priority to corporate social responsibility had risen from less than 40% in 2004 to over 50% in 2007 and was expected to increase to almost 70% by 2010.[10]

Empirical research now indicates that socially responsible actions may have a positive effect on a firm's financial performance. Although a number of studies in the past have found no significant relationship,[11] an increasing number are finding a small, but positive relationship.[12] A recent in-depth analysis by Margolis and Walsh of 127 studies found that "there is a positive association and very little evidence of a negative association between a company's social performance and its financial performance."[13] Another meta-analysis of 52 studies on social responsibility and performance reached this same conclusion.[14]

According to Porter and Kramer, "social and economic goals are not inherently conflicting, but integrally connected."[15] Being known as a socially responsible firm may provide a company with *social capital*, the goodwill of key stakeholders, that can be used for competitive advantage.[16] Target, for example, tries to attract socially concerned younger consumers by offering brands from companies that can boost ethical track records and community involvement.[17] In a 2004 study conducted by the strategic marketing firm Cone, Inc., eight in ten Americans said that corporate support of social causes helps earn their loyalty. This was a 21% increase since 1997.[18]

Being socially responsible does provide a firm a more positive overall reputation.[19] A survey of more than 700 global companies by the Conference Board reported that 60% of the managers state that citizenship activities had led to (1) goodwill that opened doors in local communities and (2) an enhanced reputation with consumers.[20] Another survey of 140 U.S. firms revealed that being more socially responsible regarding environmental sustainability resulted not only in competitive advantages but also in cost savings.[21] For example, companies that take the lead in being environmentally friendly, such as by using recycled materials, preempt attacks from environmental groups and enhance their corporate image. Programs to

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reduce pollution, for example, can actually reduce waste and maximize resource productivity. One study that examined 70 ecological initiatives taken by 43 companies found the average payback period to be 18 months.[22] Other examples of benefits received from being socially responsible are:[23]

- Their environmental concerns may enable them to charge premium prices and gain brand loyalty (for example, Ben & Jerry's Ice Cream).
- Their trustworthiness may help them generate enduring relationships with suppliers and distributors without requiring them to spend a lot of time and money policing contracts.
- They can attract outstanding employees who prefer working for a responsible firm (for example, Procter & Gamble and Starbucks).
- They are more likely to be welcomed into a foreign country (for example, Levi Strauss).
- They can utilize the goodwill of public officials for support in difficult times.
- They are more likely to attract capital infusions from investors who view reputable companies as desirable long-term investments. For example, mutual funds investing only in socially responsible companies more than doubled in size from 1995 to 2007 and outperformed the S&P 500 list of stocks.[24]

SUSTAINABILITY: MORE THAN ENVIRONMENTAL?

As a term, sustainability may include more than just ecological concerns and the natural environment. Crane and Matten point out that the concept of sustainability can be broadened to include economic and social as well as environmental concerns. They argue that it is sometimes impossible to address the sustainability of the natural environment without considering the social and economic aspects of relevant communities and their activities. For example, even though environmentalists may oppose road-building programs because of their effect on wildlife and conservation efforts, others point to the benefits to local communities of less traffic congestion and more jobs.[25] Dow Jones & Company, a leading provider of global business news and information, developed a sustainability index that considers not only environmental, but also economic and social factors. See the **Environmental Sustainability Issue** feature to learn the criteria Dow Jones uses in its index.

The broader concept of sustainability has much in common with Carroll's list of business responsibilities presented earlier. In order for a business corporation to be sustainable, that is, to be successful over a long period of time, it must satisfy all of its economic, legal, ethical, and discretionary responsibilities. Sustainability thus involves many issues, concerns, and tradeoffs—leading us to an examination of corporate stakeholders.

CORPORATE STAKEHOLDERS

The concept that business must be socially responsible sounds appealing until we ask, "Responsible to whom?" A corporation's task environment includes a large number of groups with interest in a business organization's activities. These groups are referred to as **stakeholders** because they affect or are affected by the achievement of the firm's objectives.[26] Should a corporation be responsible only to some of these groups, or does business have an equal responsibility to all of them?

A survey of the U.S. general public by Harris Poll revealed that 95% of the respondents felt that U.S. corporations owe something to their workers and the communities in which they operate and that they should sometimes sacrifice some profit for the sake of making things better for their workers and communities. People were concerned that business executives seemed to