Social Responsibilities of Business: Evidence and Explanations

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The focus of this paper is on business environment, especially the external conditions and influences that affect a firm's performance. The paper shows that many outside forces such as the market, the environment, and stakeholders are important for company survival, And all of these forces are important in forcing the business to be more socially concerned. The paper reviews 3 important models that try to explain the social responsibility of business: the market capitalism

Introduction

In the recent past, society has expected little from business apart from steady employment and a flow of new products and services. The sole objective of business is to maximize profits while operating within the law. If this is done, firms are believed to carry out their major responsibility.

But today, business environment has been changed in such a way that it forces business to modify the strict profit maximization principle to address more social concerns. The focus of this paper is on the question of the social responsibilities of business. Is there any evidence that today corporations carry out a wider array of social actions? How can we explain the emergence of corporate social responsibility? And this paper focuses on 3 major models that try to explain various factors that force business to put more efforts on social needs. All of these models are belived to be useful in providing more understanding about corporate social responsibilities.

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Evolution of Business Social Responsibility

For many people, a business is acting in a socially responsible fashion if it utilizes resources as efficiently as possible to produce goods and services that society wants at prices consumers are willing to pay. The only objective of doing business is to maximize profits.

This goal, however, has never been sought in business practice without reservations. Throughout our history, business and business people have modified the strict profit maximization principle to address some social concerns.

During the early period of economic development, businesses were very small. Merchants practiced thrift and frugality, which were dominant virtues. But charity was also a coexisting virtue and the owners of these small enterprises did make contributions to schools, temples or churches, and the poor. Although they did this usually as individuals, but still exemplified that people in business do have social concerns. (Sharfman, 1994).

In the nineteenth century, charitable contributions, grew over time as a great fortune in business was made, In most cases, wealthy entrepreneurs who gave part-of their fortune to society did so without any reference to the interests of the companies that were a source of their wealth. One of the most important internationally recognized philanthropists was John D. Rockefeller who endowed in his lifetime the Rockefeller Foundation with more than $ 550 million and to promote the well-being of mankind throughout the world. Andrew Carnegie also gave away $ 350 million to social causes, built 2,811 public libraries, and gave 7, 689 organs to churches (Hellman, 1986). These philanthropic donations, however, were individual actions, not corporate ones. When, for example, Rockefeller donated $ 8.2 million to construct a medical school in Peking, China, it was a gift from him, not from Standard oil company.

However, many forces today have led business itself, especially large corporations, to address more social problems. Vigorous industrial growth have had many negative social impacts. Businesses of new government regulations sought to the urgency. Managers of big businesses who owned only a small part of stock of the companies they managed felt freer to use corporate assets for social purposes.

Today, the range of social programs provided by business has continuously expanded. Corporations now carry out a wide range of social actions. These include programs for education, public health, employee welfare, housing, urban renewal, environmental protection, resource conservation, day-care centers for working parents, and many others.

Peter F. Drucker (1973: 341) suggests two fundamental reasons why the concept of social responsibilities has been expanding. The first is that corporate activities do have impacts on society. We know more today about adverse consequences of some business activities. For example, early in this century carcinogens in industrial effluents were unknown, but today social impacts of corporate activities are so visible to the public that the corporations are forced to be more socially responsive.

Corporate social programs also arise from a second source–intractable social problems in the corporation's environment. "A healthy business and a sick society are hardly compatible" (Drucker, 1973 : 341). Racism, violent crime, epidemics such as AIDS, and failing schools are societal problems a corporation has not caused but may benefit from mitigating them.

Social Responsibility of Business in Practice

The corporate social responsibility idea has developed differently from nation to nation depending on unique histories, cultures and institutions.

In Japan, because of historical circumstance, the idea of corporate social responsibility has developed very early. Prior to 1800, Japan was a divided society ruled by feudal lords, but virtually isolated from contact with Western nations. After 1800 America and European nations aggressively pursued trade with Japan. This forced Emperor Meiji to issue an order which called upon the people to overcome feudal divisions and to make Japan a world power. He called for modernization, to be achieved by borrowing knowledge and technology from the West. The emperor's plan has become a national obsession and a guiding principle for Japan for over 125 years. Its significance for business, and for corporate social responsibility in Japan, is profound.

Following that order, the Japanese government began to play a major role in promoting economic development. The central role of business became to make the country dominant and ensure the preservation of Japanese race in a hostile world (Greenfeld, 2001: 227). After the deflation of the military in 1945, the role of business became even more important. The people, previously loyal to feudal lords, in time transferred their loyalty to companies. In Japan, individuals believe that they make a national contribution by their work in a corporation. Large corporations in turn adopt a paternalistic attitude toward employees (Wokutch, 1992: 47).

Since the time of Meiji, big companies have built housing, roads, and public facilities for workers. The Japanese company accepts responsibility for its community of employees. And today with the maturation of Japan's industrial society, Japanese corporations are adopting more expansive social programs. Table 1 shows that executives in Japan and also in U.S.A. are concerned not only with earnings, dividends and share prices, but also with long-term company's image.

Table 1 Executives in Japan are Less Preoccupied with Earnings, and Share Prices than American Managers.

	U.S. and Japanese ranking of corporate objectives	
	Japan	U.S.
Market share	4.8	2.4
Return on investment	4.1	8.1
Ratio of new products	3.5	0.7
Rationalizing production and Distribution	2.4	1.5
Improving product portfolio	2.3	1.7
Improving company's image	0.7	0.2
Share price increase	0.1	3.8

* 10 = most important, 1= least important

** Based on a survey of 291 Japanese companies and 227 U.S. companies.

Source: J.C. Abegglen and G. Stalk **Kaisha: The Japanese Corporation** (New York : Basic Books, 1985) p.177

In Japan, many social programs are also related to the firm's business activity. For example, the Yakult Honsha Corporation, which employs "Yakult ladies" to deliver its yokert drink door-to-door throughout Japan, has them check on elderly persons who live alone as they do their routes. Another example is Asahi Beer Co. has established clinics in Tokyo for backache sufferers. Liquor store delivery people must climb countless steps of stairs in the city's many high-rise apartment buildings and frequently develop back-aches. The Asahi Tower Clinics are there to help (Lewin et al., 1995).

In the U.S., since the early nineteenth century, a number of forces converged to lead business leaders, especially of the large corporations, to address more social problems. Industrial growth has had many negative social impacts on the American society. Although the labor unions are relatively weak in the U.S., consumer and environmentalist groups tend to be very strong. The U.S. corporations are therefore forced to respond to many social demands of these stakeholders. In the case of Japan, it is these stakeholders force that urges the American business to address more social concerns.

U.S. managers today consider themselves more and more as "trustees", that is, agents whose corporate roles put them in positions of power where they can enhance the welfare of not only stockholders, but others such as customers, employees, and communities. Managers believe they have an obligation to balance the interests of these groups. They are, in effect, coordinators who reconcile the competing claims of multiple stakeholders on their enterprises. For instance, Sears, Roebuck and Company believes that a large corporation is more than an economic institution; it is a social and political one as well. The Sears Annual Report, said (Worthy, 1984: p.173):

> In these days of changing social, economic and political values, it seems worthwhile...to render an account of your management's stewardship, not merely from the viewpoint of financial reports but also along the line of those general broad social responsibilities which cannot be presented mathematically and yet are of prime importance.

Sears has found various ways to support community services. Organized charities were formed. The company is also deeply involved in giving advice to some city governments to help solve a variety of problems, from improving the educational system to public health (Worthy, 1984: p.73).

Another example is General Motors. GM has undertaken many voluntary social programs such as minority subcontracting, workplace safety and pollution abatement. In 1993, GM implemented the WE CARE (Waste

Elimination and Cost Awareness Reward Everyone) program designed to reduce pollution and waste beyond legal requirements. The GM Mobility Program gaves $ 1,000 to disabled persons installing adaptive driving equipment on GM vehicles. And in 1996, the GM Foundation donated $ 54 million to educational, cultural, and arts programs (Lerner et al., 1997)

In European countries, corporate social responsibility has evolved to accommodate their market socialism traditions. In France, and also in Britain, Germany and Italy, social responsibilities usually refer primarily to labor issues, such as wages, working conditions, and employment security. In these countries, conflicts between labor unions and employers are lasting and deep, and reflects in part a socialist tradition in which corporate capitalism has been seen as exploiting workers who therefore need government protection (Schmidt, 1993: 85).

In France, for example, companies must spend 1 percent of total wages on worker education programs, Powerful unions are today pressing a social policy will would extend worker rights throughout the European Union, but this is being resisted by industry which must face competition in the world market with relatively high labor costs and wants to see deregulation (Neilson, 1993: 41).

In European social democracies, governments have taken broad responsibility for alleviating societal problems. Traditionally, these governments have used high taxes to fund far-reaching social programs. As a result, there has not been very much pressure on private enterprises in EU to address a broad range of social problems other than labor problems. The broader range of social responsibility similar to that in the U.S. and Japan has therefore been limited. European companies are more likely to believe that they can meet their obligations by paying taxes and following regulations (Schmidt; 1993: 89).

In less developed countries, the practices of corporate social responsibility vary from country to country depending on their history and stage of development. For example, in many developing nations, because of low income, high inflation and weak financial institutions, the primary social responsibility of business is economic. The main responsibility of most businesses is to provide steady employment and a flow of goods and services needed by society. Because private industries may be weak in such countries, the burden of social responsibility usually falls on a small number of big businesses, public enterprises, and foreign multinationals.

Levi Strauss & Company, for example, organizes its employees into small teams which identify local problems and use company resources to solve them. A team in the Philippines got $ 9,500 from the company to fence a schoolyard at the Mambog Elementary school in Manila, where wandering farm animals disrupted classes.

Saha Group Company and Bangjak Petroleum Company in Thailand have undertaken many social programs, such as subcontracting their businesses to local villagers to support community's businesses in Thai rural areas. Many public enterprises in Thailand have built roads and schools in impoverished areas.

In India, many large corporations also perform many social programs. Because India is a large rural and agricultural nation which suffers from poverty and bad infrastructure, so many corporate programs are concentrated in these areas. For example, Ahmedadad Industry built twelve textile mills to employ rural workers. Associated Cement Companies Ltd. builds and donates cattle sheds, wells, and Manure pits to rural farms. Brooke Bond, Ltd, a tea company, sends a mobile artificial insemination unit to rural areas to help farmers breed more cattle (Mital, 1988: 134).

To sum up, although there is more worldwide movement toward corporate social responsibility, the corporate social responsibility has developed differently from nation to nation depending on the context of history, culture, institutional arrangements.

Explanations of the Corporate Social Responsibility

This section will focus on 3 models that try to explain the movement toward more corporate social responsibility:

1. The market capitalism model
2. The pluralist model
3. The Stakeholders model

The Market Capitalism Model

The market capitalism model has been popular among many conservative economists, such as Milton Friedman, George Gilder, Edward Banfield and Henry Simons etc. The focus of this model is on the primacy of market economic forces in the capitalist system.

Capitalism is a system in which the bulk of economic activity is carried on by private enterprises operating in a competitive market. The efficient operation of this system is based on a number of fundamental assumptions, such as free competition in the market, adequate knowledge or information about the quality and prices of goods and services, and mobility of the factors of production etc. (Goldsmith, 1996: 22-23).

In this model, it is believed that government interference in economic life should be held to a minimum. Government intervention in the market is seen as inappropriate and unnecessary. This is because it will lessen the efficiency of the market system. The market forces are sufficient to channel business efforts to meet society's economic needs. The focus of this model is on economic performance of the business (Friedman, 1970). Noneconomic goals or performances are not legitimate guideposts for judging the contributions of business. Market performance should be the only accepted measure of social performance. It is the function of the government, not the free enterprises, to minister social problems. Business managers, therefore, should define the interests of their companies narrowly, as profitability and greater efficiency in using scarce resources. Business makes its primary contribution to society by providing wealth for society as a result of its profitable operations (Friedman, 1970: 64).

There is validity in parts of this model. Market forces are indeed one of the important restraints on business decisions. They force resource allocation decisions to center on cost reduction and consumer satisfaction. Recently, for example, intense competition in the global and domestic economies has altered the market environment of many companies. Low-cost foreign competitors have forced local corporations to undertake painful restructuring. Government deregulation of some domestic industries has caused greater price competition. The growing power of institutional investors and investment banks has altered corporate leaders to focus more on long-term financial results.

Although the market forces can restrain business decisions, the main problem in this model is that its emphasis only on the market forces is distorted in the light of current realities. Today, the social responsiveness of business is not limited to forces of the market as this model indicates, Today managers, if their enterprises are to succeed, they must respond to forces in the sociopolitical environment as well.

Moreover, the market forces themselves do not work perfectly. There is a market failure problem. Market can fail to work in many ways (Goldsmith, 1996: 38):

1. **Public goods**: Markets do not provide education, infrastructure, and other public goods in ample quantity due to the problem of free riders. Example: Private companies may choose not to train their workers for fear that they will lose any trained workers to competitors.
2. **Externalities**: Markets do not protect people from the actions of others. Example: Industry may pollute rivers which inflicts costs on other people who use water from that river.
3. **Monopoly**: Due to obstacles to free entry, economy of scale, and other factors, markets may be determined by one or a few companies that may try to take advantage of consumers. Example: Airlines charge very high fares to out-of-the-way communities where they face little competition.
4. **Information asymmetry**: Markets cannot work well when consumers are ignorant. Example: Lacking scientific knowledge, consumers can be enticed to buy dangerous medicines.
5. **Social goals**: Markets may not promote social goals, such as providing merit goods. Example: Real estate developers do not build homes for the indigent.
6. **Inequality**: Markets may be inequitable. Example: People with inherited wealth get to live extravagantly without working, while many hardworking people live in poverty.

All of these market failures have negative social impacts on society.

And many of these social impacts are more visible to the public today. So other forces, such as the public, communities, the consumer groups and the government have also tried to force businesses to be more social responsive.

The Pluralist Model

Concentration of economic aesources in a relatively small number of big businesses is a characteristic of our modern societies. In the U.S.A., for example, Berle and Means (1989) reported that the 200 largest nonfinancial corporations in 1984 (less than .07 percent of all nonfinancials) controlled nearly 50 percent of all corporate wealth. South Korean economy was also dominated by a group of conglomerates or a chaebol. In 1992 the largest 78 chaebols controlled 1,056 companies and accounted for 62 percent of GNP. (Chang,1994 : p.31). The largest, Hyundai, had $ 53 billion in sales and accounted for 20 percent of GNP. (Nakarmi, 1993: 47) The Japanese economy is also dominated by a handful of keiretsu or groups of companies centering around large banks. The six largest keiretsu-Mitsubishi, Mitsui, Sumitomo, Fuyo, Dai-Ichi Kangyo, and Sanwa-account for 27 percent of assets, and 25 percent of sales (Miyashita and Russell, 1994: 78). Mitsubishi, the largest, controls 190 core companies and each of these companies is tied to a network of thousands of dependent suppliers. It has been estimated that the big six keiretsu control about 100,000 companies. The main body of firms is tied together by reciprocal stock ownership and shared directors. Its activities are coordinated at monthly presidential councils, where top managers meet to adopt common strategies (Kerbo and Mckinstry 1995: 41).

The above arguments show us the concentration of business power in many countries. But the argument from the pluralist model is that even though business interests are powerful, they must compete in an open society and open markets with other powerful interests and institutions. Even if corporations are filled with assets and controlled by elites with common values and backgrounds, they cannot engage in tyranny because they are hemmed in by many countervailing forces.

A pluralist society is one that has many groups and institutions through which power is diffused. No one group has overwhelming power and each may have a direct or indirect impact on others (Millstein and Katsh, 1981: 24-26). American society may be a good example of a pluralist society. Unlike many European and Asian societies, America never had a long period of feudal rule by monarchy and wealthy aristocrats. From the colonial days onward Americans adopted the doctrine of natural rights, which held that all persons were created equal and entitled to the same opportunities and protections.

American society consists of a large number of population spread over a wide geography and engaged in diverse occupations. It is, therefore, characterized by a great mixture of interests. Ethnic groups press for their aspirations. Economic interests, including labor, banking, manufacturing, agriculture, and consumer groups, are also asserting their pressures.

The American Constitution creates a government that encourages pluralism. Its guarantees the rights and protect the freedom of individuals to form associations and to freely express and pursue their interests. Thus, although business is powerful, it has been challenged by consumer, labor, environmental, and other groups. In addition, the American Constitution also diffuses political power through several branches of federal government and between the federal and state governments. Groups laking influence in one branch or level of government can make their interests felt elsewhere (Millstein and Katsh, 1981: 36).

To sum up, the pluralist model believes that business is deeply integrated into the environment and must respond to many societal forces, both economic and noneconomic, impinging on the business system. It is not isolated from its environment, nor is it dominant. Public support for business will be greatest when the impacts of the business on society are more positive than negative, that is, when people believe that social benefits provided by business are greater than costs imposed.

The validity of this model, therefore, depends the strength of these environmental forces. If these pluralistic forces are strong, they can impose immediate and concrete boundaries on business power. Despite having considerable power, business power will be restricted and challenged by these environmental forces. In brief, the validity of this pluralist model depends on the strength of these pluralist forces:

1. **Governments** at all levels and in all countries do regulate business activity. Governments' regulations can force business to respond more to social concerns.
2. **Social interest groups** such as labor, environmental, civil rights, religious, consumer groups can restrain business through many methods such as product boycotts, and lobbying for more regulations.
3. **Social values** are embedded in civil and criminal law, and in public opinion, literature and the press. They also are internalized by managers in the education process in school, churches and at home. Social values include norms of duty, justice and truth that may direct a manager behavior to be more socially responsive.
4. **Markets and economic stakeholders** impose strong limits. Stockholders, employees, suppliers, communities, and competitors can take a range of actions when corporate decisions jeopardize their interests.

The Stakeholder Model

In the stakeholder model, the business is at the center of a set of mutual relationships with individuals and groups called "stakeholders." The term stakeholder refers to any group with a potential stake or claim in a company. Rosabeth M. Kanter (1989: 127) defines stakeholders as "those on whom an organization depends-the people who can help it achieve its goals or stop it dead in its tracks." They are constituencies that stand to gain or lose by an organization's performance and that can affect its actions in significant ways.

Many stakeholders have a legitimate interest in what companies do. There are resource providers (owners, creditors, workers and suppliers) and resource users (clients and customers). There are insiders (top and middle management, unskilled and skilled operators, and unskilled and skilled support staff) and outsiders (partners, competitors and the government) (Mintzberg ; 1983: 67).

Stakeholders can be divided into two categories based on their relative importance. Primary stakeholders are those that are essential to the survival of the firm. These include owners, customers, employees, communities, and the government and may include others such as suppliers and creditors. Secondary stakeholders include other groups or individuals not essential to the survival of the firm, but which are affected by its operations. Secondary stakeholders might include interest groups, such as environmentalists, trade associations, the media, and competitors (Clarkson, 1995: 106-107).

In this mode, companies are not just a property; they are a coalition of interests. Managing a company is a political activity of building support among these constituencies. Talcott Parsons, a late sociologist, (1956: 63) once observed that because organizations use resources that can have other applications, the appropriateness of their activities and the usefulness of their output are constantly being reassessed. If companies offend too many important stakeholders, they lose legitimacy and can face crisis. So it is not easy to separate business's interests from what other stakeholders want. To survive, business has to respond to these competing stakeholders' demand:

Customers: One axiom of business is that successful companies keep close to their customers. These stakeholders exchange money for goods and services and are utmost important for company's worth. Should customers drop their support, the company will suffer and the product may die.

An example is Johnson & Johnson, which went to great lengths to reassure the users of Tylenol that the product was safe after several consumers were poisoned by tampered pills in 1982. Johnson & Johnson was under no legal obligation, but the company immediately withdrew the product and developed fullproof packaging to keep its customers in the fold. The strategy worked, and Tylenol sales were higher than ever (Buchholz et al., 1989: 277-95).

Workers: Employees and their unions are also central stakeholders. They exchange labor for wages, good working conditions, job security, and other benefits. Employees' claim for their share of company resources often brings them into conflict with owners and managers. But goodwill from workers is always important for the survival of company. Support from the workers allowed, for instance, Chrysler Corporation cut wages and helped it survive its crisis in the early 1980, (Buchholz, 1989: 19).

Creditors: Another critical group of stakeholders is creditors who lend cash to the company. Creditors could not care less about the fate of the firm as long as enough of its assets can be resold to repay them. Creditors must be kept allied with the company, or lack of credit will force it to cease operations.

Banks in Germany, for instance, maintain significant equity positions in their client companies. The tight, and long-standing relationship among bankers and businesspeople is a reason why business in Germany is more patient to the fluctuation in stock prices compared to the United States. German managers do not have to react to every more up and down in stock prices and have more latitude to take a long-term view (Jacobs, 1991: 61).

Local Communities and Government: The town or city in which the company operates is a set of important stakeholders. The local community wants the company to be a good neighbor. That is the company should not allow the local community to become unsanitary or unsafe. It also means that the company should have some postive actions like donating funds for the public and humanitarian activities.

The last crucial group of stakeholders is government agencies. Government agencies are unique because they can act both independently or on behalf of other stakeholders to impose laws and regulations on business practices. So good relations with the government become crucial.

To sum up, the stakeholder model is a descriptive model of how corporations are related to their various stakeholders. The stakeholder model rejects the traditional view of the corporation which emphasizes only profit making. Managing a company is a political activity of building support among various stakeholders.

This model is also different from the pluralist model. The latter diagrams important forces, or power flows, between the corporation and its environment. The focus of the pluralist model is broader. It displays a wide range of environmental factors including, but not limited to, stakeholders.

Conclusion

The degrees of social responsibility of business vary among nations. In societies where the environmental forces are strong and well-developed, businesses have to be more responsive to their social demands. But in societies where these environmental forces are weak, businesses may concern narrowly with making profit. This paper specifies 3 models that explain the degree of business social responsibility. The market capitalism model specifies the market forces as the most important influence on business. The pluralist model shows how corporations are exposed not only to the market forces but also to multiple forces that can dramatically affect their operation. From this perspective corporations must put energy to respond to the needs of these environmental forces. The stakeholders model depicts a world in which corporations are at the center of multiple stakeholders' interests. A good manager must be able to monitor and interact to increase well-being of all these stakeholders.

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