"Summary of article by George A. Steiner and John F. Steiner: Corporate Social Responsibility" in Frontier Issues in Economic Thought, Volume 6: A Survey of Sustainable Development. Island Press: Washington DC, 2001. pp. 283-285

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

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While the concept and the practice of corporate social responsibility varies widely from nation to nation, and from firm to firm, overall it is expanding to respond to stakeholders previously ignored and situations previously unknown. Modern business theory has its roots in classical economic theory. That theory has not evolved to keep pace with an implicit social contract in which business must respond to changing realities, needs and expectations.

The case against expansive social responsibility

Milton Friedman has been one of the strongest supporters of the classical view, stating that "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine."[1] Friedman's argument begins with the assumption that only the owners (who, in the case of a corporation, are most often shareholders) have a right to determine the firm's goals. It is illegitimate for firms to undertake social actions that either reduce profits for the owners or raise prices for the consumers. Friedman also fears that social action by firms turns them into political as well as economic agents; the fusion of the two kinds of power represents a danger to democracy. Friedman expects that the market mechanism, freed as much as possible from government or civil society interference, will keep economic power fragmented, but can serve as an adequate counterweight to other sources of political power.

Others share Friedman's belief that corporate managers are not the right people to solve social problems. Representatives of the political left believe that such problems should be left to government. Members of the political right would leave all problems in individual hands. Promoters of civil society, such as Peter Drucker, look to the third sector. Yet Drucker also notes that "A healthy business and a sick society are hardly compatible."[2] This observation is behind the slowly growing belief among top executives that social responsibility is, in fact, in the self-interest of corporations.

A broader view of corporate social responsibility

Modern views on the corporation in the United States – articulated both in academia and in the corporate community – find a number of reasons to accept more social responsibility. One such reason is that corporations have an ever greater impact on society, as their technological and economic power grows. This observation is supported by the definition of an expanded group of stakeholders who are likely to be affected by corporate actions. Going beyond stockholders, these include customers, employees, governments and the communities where the firm does business. These groups are increasingly aware of corporate impacts, as, for example, advancing science reveals the presence and the effects of carcinogens in industrial effluents; or better statistics make it harder to ignore racial discrimination in hiring. As these trends change the expectations of the stakeholders, firms must adapt or lose legitimacy.

Corporate owners and managers have seen plenty of cases during the last two centuries in which corporate refusal to address growing social issues has provoked government action. The lesson seems to be sinking in that self-regulations is less painful than new laws. Corporate leaders also recognize that, in the long run, "violent cities, deteriorating schools, pollution, poverty, and other problems are the ingredients of economic stagnation, not corporate welfare." (116) All the same, the trend to social responsibility would be hard to maintain if the more responsible companies were clearly at an economic disadvantage.

Between 50 and 100 scholarly studies have compared the performance of corporations with a high reputation for social responsibility to those who have no such claims. Overall, the results suggest that social responsibility confers neither a great reward nor a great cost. However, results of the individual studies vary widely, partly due to the difficulty of defining social responsibility, or even reputation. There is also a possibility that the results are skewed by the fact that the more profitable companies are those that can best afford to act responsibly.

Of what does responsibility consist?

"Business must be considered predominantly an economic institution with a strong profit motive. Business should not be expected or required to meet noneconomic objectives in a major way without financial incentives…. Social responsibility may complement, but cannot replace, the profit motive." (126) With this said, corporations do not have the right to externalize their costs onto others; they should minimize externalities and pay to compensate for those they cannot eliminate.

Public policy may be seen as a guide to how legitimacy is conferred – or withheld – in a particular national context. Going beyond formal regulations, the stakeholder perspective that is being developed in scholarly writings suggests that compliance, alone, is not enough; the benefits as well as the burdens of corporate operations should be distributed fairly among the various stakeholders.

The issues that are especially relevant to any particular firm will depend on firm characteristics such as its size, products, manufacturing processes, marketing techniques, and places of operation. "Thus, a multinational chemical manufacturer has a much different impact on society than a small, local insurance company and its social responsibilities are both different and greater." (126) The perception and acceptance of responsibilities will also vary according to local problems, culture, and expectations.

As an example, the behavior of Japanese firms reflect historical and cultural as well as economic realities. The Emperor Meiji's decision, in the mid-nineteenth century, to modernize Japan, stemmed from a feeling of national humiliation at the hands of industrialized foreign nations. The national purpose that stemmed from Japan's emergence from isolation was jointly carried out by government and business. Business was seen to have a clear goal: "to make the country dominant and ensure preservation of the Japanese race in a hostile world." (122) This rational good was combined with a Confucian tradition that spells out duties in terms of direct relationships. Thus it has seemed normal for Japanese businesses to take responsibility for their employees by building housing, roads and other public facilities for them. History and culture give less support to the claims of other stakeholders, such as consumers and the environment; however there is a slowly growing movement to broaden corporate responsibility in Japan.

In Europe, by contrast, there has been no such identity of purpose between government and business; and labor unions, too, have tended to assume a conflict between their interests and their employers'. Government regulations have focused on labor issues such as wages, working conditions and employment security. "In France, for example, companies must spend 1 percent of total wages on worker education programs. The French parliament also required in 1977 that large companies draw up an annual social report for the government, focused mainly on employee relations." Other social issues in Europe are left to governments, which levy higher taxes than the U.S. in order to fund far-reaching social programs. As compared to the U.S., "European companies are more likely to believe that they have met their obligations by paying taxes and following regulations." (122-3)

India is an example of a less developed country whose history and culture emphasizes strong corporate social responsibility based on Mahatma Gandhi's doctrine of trusteeship. In other less developed countries it seems evident to many that the primary duty of business is to promote economic growth. Foreign multinationals, with greater resources and experience of greater expectations in other places, are more likely to take on social responsibilities. "However, there is a worldwide movement, now confined mainly to industrialized nations but spreading, to encourage voluntary responsibility." (125)

Notes

1. Milton Friedman, (1962): 133
2. Peter F. Drucker (1973): 110