

The Case for and Against Business Assumption of Social Responsibilities¹

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There are many sound reasons both for and against business's assumption of social responsibilities. Because of the increasing amount of rhetoric which exists on this subject, it is appropriate to examine these reasons thoughtfully when making choices in this area.

Since many persons today are actively discussing the social responsibilities of business, it seems appropriate to examine the reasons offered both for and against these responsibilities. Milton Friedman, who follows the classical economic doctrine of a free market, argues against the idea of social responsibility. He contends 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" (2, p. 133). But, of course, economists can differ in their views, and as someone has said, they usually do. Paul A. Samuelson, another distinguished economist, argues that "a large corporation these days not only may engage in social responsibility, it had damn well better try to do so" (7, p. 24). Which view is the more realistic one? Which is likely to produce the more viable society in the future? Let us examine the arguments from both sides. What is the case for business assumption of social responsibilities? And what is the case against business assumption of social responsibilities?

The concept of social responsibility is not an easily defined one. For purposes of this discussion it refers to the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm. It is the firm's obligation to evaluate in its decision-making

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This article was accepted for publication by the previous Editor, William G. Scott

¹ Portions of this article were originally presented to the Conference on Contemporary Challenges to American Business-Society Relationships, University of California, Los Angeles, August 4, 1971

process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks (1, p. 85). It means that social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do. A profit maximizing firm under the rules of classical economics would do as much. Social responsibility goes one step further. It is a firm's acceptance of a social obligation beyond the requirements of the law.

ARGUMENTS FOR SOCIAL RESPONSIBILITY

Long-run Self-interest

Of the many arguments favoring social responsibility, one of the most prevalent is that of the long-run self-interest of business. This concept rationalizes that society expects business to accomplish a variety of social goods, and it must accomplish these goods if it expects to profit in the long-run. The firm which is most sensitive to its community needs will as a result have a better community in which to conduct its business. Labor recruiting will be easier, and labor will be of a higher quality. Turnover and absenteeism will be reduced. As a result of social improvements, crime will decrease with the consequence that less money will be spent to protect property, and less taxes will have to be paid to support police forces. The arguments can be extended in all directions showing that a better society produces a better environment for business.

This argument is actually a sophisticated concept of long-run profit maximization. It seems a contradiction to suggest that spending money for social programs will actually result in more profit for the business, but this is the normal result of the better community and better society which these programs bring. Truly low-cost production in the long run depends on the accomplishment of these social goods; therefore, the firm which does not contribute to them will be inviting lower profits sometime in the future.

Public Image

Closely associated with long-run self-interest is the idea of public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, and other benefits. This type of behavior is traditional with business, so it is easy to extend this public-image concept to the accomplishment of various types of social goods. According to this line of reasoning, social goals are now a top priority with members of the public, so the firm which wishes to capture a favorable public image will have to show that it also supports these social goals.

Viability of Business

Closely allied with public image is the desire to maintain the long-run ability of business as an institution. The idea of public image refers to

benefits for the individual firm, while the idea of viability applies to the whole business system. It is reasoned that the institution of business exists only because it performs valuable services for society. Society gave business its charter to exist, and that charter could be amended or revoked at any time that business fails to live up to society's expectations. Therefore, if business wishes to retain its present social role and social power, it must respond to society's needs and give society what it wants. This has been stated as the Iron Law of Responsibility, which is that "in the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (1, p. 95). Though the long run may require decades, or even centuries in some instances, history seems to confirm that society ultimately acts to reduce the power of those who have not used it responsibly.

The Iron Law of Responsibility suggests that to the extent businessmen do not accept social-responsibility obligations as they arise, other groups eventually will step in to assume those responsibilities and the power that goes with them. This prediction of diluted social power for business is not a normative statement of what should happen. Rather, it is an analytical prediction of what will tend to happen whenever businessmen do not keep their social responsibilities approximately equal with their social power. The social power which businessmen have today would hardly be continued unless they assume more social responsibility for their actions. This means that the classical economic doctrine of no responsibility except to obey the law loses some of its glamour, because if this policy is continued it will surely cause a substantial loss of business power.

Avoidance of Government Regulation

A related concept is that business engages in socially responsible behavior to avoid regulation by government. Regulation is costly to business and restricts its flexibility of decision making. From the businessman's point of view it is desirable to retain freedom in decision making so that he can maintain the initiative in meeting market and social factors. This view is also consistent with existing political philosophy, which attempts to keep power as decentralized as possible in a democratic system. Further, this view is consistent with organizational theory, which holds that decision making should be kept as near as possible to the point where an operating problem occurs. For these reasons, if the businessman by his own socially responsible behavior can prevent the government from introducing new restrictions, it can be argued that he probably is accomplishing a public good, as well as his own private good.

Sociocultural Norms

Another argument for social responsibility is that of sociocultural norms. The businessman operates under a set of cultural constraints in the same way that any other person in society does. Research shows that these cul-

tural norms are powerful determinants of behavior. They are as real as technical, legal, and market constraints. Consequently, as society's norms change, the businessman's behavior will change. If society moves toward norms of social responsibility as it is now doing, then the businessman is subtly and inevitably guided by these same norms. Though his decisions are not fully determined by these norms, his decisions are influenced toward a socially defined behavior which reflects some sense of social responsibility. In other words, profits are sought and achieved within a particular set of social norms.

Stated in terms of utility theory, the manager has a utility function in which he desires more than economic satisfactions. It is in the nature of most men to be guided by many stars rather than just one. Hopefully one of these stars will be the well-being of other people and of society in general. In this manner the manager is guided to pursue profit in ways which are socially responsible.

One version of this theory, called lexicographic utility theory, holds that each person's utility function exists in some order of priority in the manner of Maslow's need hierarchy (5, pp. 71-76). Each businessman's multiple goals are ranked and some sort of target of satisfactory accomplishment is set for each one. Then, as each goal is achieved, the businessman shifts to the next goal. For example, a businessman may have a primary goal of a certain percentage of profit and a secondary goal of low pollution. As long as he is making his profit target, his decisions will be guided by the alternative which gives the lowest pollution. Or, stated in another way, when several alternative actions will give acceptable results, his final decision is triggered by his next-priority objectives. In this way the businessman appears to be acting in a socially responsible way even though his first priority is profit.

One additional way of interpreting these multiple goals is to assume that the businessman has targets for all of them, and he addresses himself to a particular goal only if he has failed to achieve his target for it. Thus, if he is achieving his profit goal but not the public image and social responsibility which he desires, his decision making will be guided by these unmet goals. In this manner social responsibility becomes a part of his decision making along with profit.

Stockholder Interest

Another argument for social responsibility is that it is in the interest of the stockholder for business to engage in certain kinds of responsible behavior. Of course, this argument applies to such concepts as public image and avoidance of government regulation, but economist Henry C. Wallich also shows that it applies in a strict economic sense to stockholder interests (8). Using sophisticated analytical procedures, he shows how diversification of ownership portfolios radically alters the interest of the stockholder. Corporate activities which would not be worthwhile to a

stockholder in a single firm definitely become worthwhile to a diversified stockholder. He shows that types of responsive behavior which bring returns to the corporate sector as a whole actually operate to the benefit of the holder of a diversified portfolio, therefore, a firm's failure to be responsible deprives stockholders of returns they might otherwise enjoy. An example of this kind of responsible behavior is training hard-core employees; even if an employee moves to another company, the benefit of his training is not lost to the diversified investor. Businessmen tend to support this point of view; in one survey of business involvement in urban problems, 60 percent of business executives reported that they thought their urban activities would "open up new opportunities for profit" (6, p. 80).

Let Business Try

One argument for business social responsibility is in a sense backhanded. This argument is that many other institutions have failed in handling social problems, so why not turn to business. Many people are frustrated with the failures of other institutions, and in their frustration they are turning to business. Viewpoints are along the following lines:

"Give business a try. Maybe they can come up with some new ideas."

"Let business have a role. They couldn't do any worse!"

"Who else is left? We've tried all the others!"

Many of these comments are exaggerated and not very flattering to business. They are made more out of desperation than reason. Many of the people who make them have exorbitant expectations of perfection in human institutions, so in their eyes business probably will fail as the other institutions have. On the other hand, the issue which they raise remains a nagging question: Have we performed poorly with some social problems precisely because we have not used business's capabilities for solving them?

Business Has the Resources

A related argument is that business has valuable resources which could be applied to social problems, so society should use them. In some cases this argument is based on the mistaken assumption that business has all the money, so all that society has to do is tap the till of business and then its social problems will fade away. In most cases, however, there is the reasoned assumption that business has a substantial pool of management talent, functional expertise, and capital resources. Probably it is without peer among institutions in all three of these resources. For example, institutions that work in social areas seem to be especially deficient in management talent, and business is known worldwide for its investment in this resource; so perhaps the two types of institutions could be mated in a way that would bring beneficial results.

As a further point, business is known for its innovative ability. Perhaps some of this could be applied to social problems where innovation is sorely

needed. In addition, business values focus on productive increase of resources, while many other institutions give more emphasis to conserving and distributing existing resources. For certain social problems productive use of limited resources is grossly needed. Perhaps business's productivity orientation can make a contribution.

Problems Can Become Profits

Another argument is that if business's innovative ability can be turned to social problems, many problems could be handled profitably according to traditional business concepts. It is recognized that not all problems can be handled in this way, but the fact that some can be should encourage business to become more active in social areas. For example, operators of phosphate strip mines in Florida have found that after mining they can convert the land to homesites on lakes, resulting in better land than it was originally—all with a profit. Chemical companies have found that they can reclaim some wastes at a profit, and many other types of firms are examining similar profit possibilities.

Prevention Is Better than Curing

One final point is that prevention is better than curing. If business delays dealing with social problems now, it may find itself constantly occupied with putting out social fires so that it has no time to accomplish its primary goal of producing goods and services. Since these social problems must be dealt with at some time, it is actually more economical to deal with them now before they grow into major conflagrations and consume most of management's time.

Some of the points that have been mentioned have a more rigorous theoretical framework than others, and several of them overlap; but taken as a whole they are a powerful argument for business assumption of social responsibility. On the other hand, there also are some strong arguments against business assumption of social responsibility. Let us next examine these.

ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

Profit Maximization

The most prevalent argument against business assumption of social responsibility is the classical economic doctrine of profit maximization. According to this point of view, business's function is an economic one, and economic values are the sole criteria used to measure success. The manager is the agent of the stockholders, and all of his decisions are controlled by his desire to maximize profits for them.

As explained by Milton Friedman, the chief proponent of this point of view:

"In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Insofar as his actions in accord with his 'social responsibility' reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money" (3, pp. 13-14)

According to this line of reasoning, if the executive does not use resources for social responsibility, he is in effect imposing taxes and then deciding how the taxes shall be spent. This approach "involves the acceptance to the Socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses" (3, p. 14). For this reason Friedman has said in his book *Capitalism and Freedom* (2) that social responsibility is fundamentally a subversive doctrine in a free society.

Costs of Social Involvement

Another argument relates to the costs of social involvement. As presently constituted, many social goals do not pay their own way in an economic sense; therefore, someone must pay for them. Business has very substantial economic resources, but it must husband them wisely because these resources will quickly dwindle into economic impotence unless they are self-renewing. Although business can invest small amounts of its resources in social obligations, as it has done in the past, it cannot really commit major economic resources unless these resources will be renewed during the term of the commitment.

As a matter of fact, if business is pushed into social obligations, these additional costs will drive out marginal firms in various industries. This has happened already with marginal metal foundries which could not meet the high cost of new pollution equipment. They have closed their doors permanently. Chemical firms and others have had similar problems.

Lack of Social Skills

An additional reason against assuming social responsibility goals is that many businessmen may lack the perceptions and skills to do the job. It is said that their outlook is primarily economic, and their skills are the same. They really do not feel "at home" in social matters. If we are going to depend on someone to work with social problems, why choose a group which is so poorly qualified? Do we really want economic and technical people meddling in social affairs? Will they broaden their outlook and will their skills transfer? Can business really do the job? Is it better equipped than government and other institutions? As explained by one analyst, "The spectacle of otherwise sophisticated people going on bended knee to companies and pleading with them to have the kind of conscience and moral

sensibilities only rarely found in individuals is nothing less than laughable" (4, p. 81).

A more extreme interpretation of this view is held by leftists and others. They believe that businessmen are crass and ignoble people who grasp for every dollar they can and who single-mindedly engage in the pursuit of profit. They would not hesitate to take advantage of their neighbors wherever a dollar is concerned. Obviously, men like this are not to be trusted with programs which primarily show concern for one's neighbors. They are philosophically and emotionally unfit for the job

Dilution of Business's Primary Purpose

Another argument is that involvement in social goals might dilute business's emphasis on economic productivity, divide the interests of its leaders, and weaken business in the marketplace, with the result that it would accomplish poorly both its economic and its social roles. This means that society would get less productivity and that the economic role of the business institution would become confused in society. Perhaps other institutions would step in to try to fill the economic gaps left by business, with the result that too many cooks would spoil the economic broth by achieving less and less productivity. Similarly, social goals would also be inadequately achieved, leaving society the poorer both socially and economically

A related issue from business's point of view is that failure in either economic or social areas would reduce business's public image. As seen by some businessmen, it might be better not to risk the chance of a lowered public image. They feel they have enough to do in meeting the economic expectations of society. There is, additionally, an uneasy feeling that many of the problems people would assign to business are not really solvable, which would make business the scapegoat in this social exchange.

Weakened International Balance of Payments

Arguments against business assumption or social responsibility often omit the international balance of payments, but this appears to be a real issue. If social programs add to business costs, then these costs must be recovered, and generally they will be added to the price of the product. Similarly, if social activities dilute business's capacity for high productivity, then this lower efficiency is likely to lead to higher product costs. If these firms compete in international markets with other firms which do not have these social costs added to their product, then firms from the United States will be at a competitive disadvantage. They will have less sales internationally, leading to a weakened international balance of payments for the United States. Since the international balance of payments is already in a poor condition, this may further weaken it and lead to undesirable international monetary problems. In addition, less sales mean fewer jobs for our workers.

For example, Arizona produces more than half the copper in the United States. If the people of Arizona require the mines and smelters to use expensive pollution-control equipment, which would increase copper costs two or three cents a pound, then buyers may turn elsewhere for cheaper copper. Since copper is a standardized metal internationally, they might turn to African mines rather than United States mines. The result would be declining copper employment in the United States and a less favorable balance of trade because of copper imports. Furthermore, from the point of view of national defense this would make the United States more deficient in meeting its copper needs, perhaps endangering the security of the nation in time of war.

Business Has Enough Power

Another argument is that business already has enough social power, so we should not take any steps which would give it more power. According to this line of reasoning, business is one of the two or three most powerful institutions in society at the present time. Business influence is felt throughout society. It is felt in education, in government, in the home, and in the marketplace. The process of combining social activities with the established economic activities of business would give business an excessive concentration of power. This concentration of power would threaten the pluralistic division of powers which we now have among institutions, and probably would reduce the viability of our free society. This is too great a risk to take as long as there are other institutions available which might solve our social problems. In short, society does not want business to be the giant social institution which towers over all other private institutions. Business already has all the power society can wisely allow it to have.

A more extreme version of this view is held particularly by leftists. They believe that private business is an institution which is absolutely valueless. It follows that society certainly does not wish to give more power to an institution which is already considered undesirable.

Lack of Accountability

Another point of view is that businessmen have no line of accountability to the people; therefore, it would be unwise to give businessmen responsibility for areas where they are not accountable. Accountability should always go with responsibility, and it is poor social control to allow any other kind of arrangement. Until society can develop mechanisms which would establish direct lines of social accountability from business to the public, business must stand clear of social activities and pursue only its goal of profit. The social needs of the people certainly should not depend on the occasional helping hand of businessmen. In their well-meaning naivete in deciding what is good for society, businessmen might become benevolent, paternalistic rulers.

Lack of Broad Support

One final point is that business social involvement, like the Vietnam war, may lack a broad base of support among all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment and society will be ripped asunder just as it was in the Vietnam war. Although many persons desire business to become more socially involved, others oppose the idea. There is lack of agreement among the general public, among intellectuals, in government, and even among businessmen themselves. Various reasons have been mentioned earlier for this opposition. It is both rational and emotional, but it is real. Regardless of the reasons, the fact that there is divided support for business social involvement means that it will operate in a somewhat hostile environment which could cause it to fail in its social mission and also cause disastrous side-effects.

CONCLUSION

Business already has assumed a certain minimum role of social responsibility. The question is: Shall business assume a much more significant role, or shall it not? The preceding discussion shows that there are sound, rational reasons for both points of view. The public must decide which course of action to take based on the values or weights it assigns to each of these arguments. Does the public more strongly value profit maximization and keeping business out of social issues, or does it wish to place responsibility where power lies and call upon business's plentiful resources to deal with the social environment?

The evidence is that during the last few years the question of social responsibility for business has already been decided in the United States and most other economically developed nations. And it appears that less developed nations will gradually fall in line as a result of social pressures and United Nations efforts for a clean environment. Society wants business as well as all other major institutions to assume significant social responsibility. Social responsibility has become the hallmark of a mature, global civilization. It is necessary for an interdependent one world. Values have changed to require it.

Assuming that the direction of business social responsibility is decided, then business institutions must move vigorously toward integrating social values into their decision-making machinery. The business which vacillates or chooses not to enter the arena of social responsibility may find that it gradually will sink into customer and public disfavor.

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