# FACULTY OF JURIDICAL SCIENCES

# Lecture-7

# SOCIAL RESPONSIBILITY OF BUSINESS

Social responsibility means that businesses, in addition to maximizing shareholder value, must act in a manner that benefits society. Social responsibility has become increasingly important to investors and consumers who seek investments that are not just profitable but also contribute to the welfare of society and the environment. However, critics argue that the basic nature of business does not consider society as a stakeholder.

- Social responsibility means that businesses, in addition to maximizing shareholder value, should act in a manner that benefits society.
- Socially responsible companies should adopt policies that promote the well-being of society and the environment while lessening negative impacts on them.
- Companies can act responsibly in many ways, such as promoting volunteering, making changes that benefit the environment, and engaging in charitable giving.
- Consumers are more actively looking to buy goods and services from socially responsible companies, hence impacting their profitability.
- Critics assert that being socially responsible is the opposite of why businesses exist.

Social responsibility means that individuals and companies must act in the best interests of their environment and society as a whole. As it applies to business, social responsibility is known as corporate social responsibility (CSR) and is becoming a more prominent area of focus within businesses due to shifting social norms.

The crux of this theory is to enact policies that promote an ethical balance between the dual mandates of striving for profitability and benefiting society as a whole. These policies can be either one of commission (philanthropy: donations of money, time, or resources) or omission (e.g., "go green" initiatives like reducing greenhouse gases or abiding by EPA regulations to limit pollution).

The International Organization for Standardization (ISO) emphasizes that a business's ability to maintain a balance between pursuing economic performance and adhering to societal and environmental issues is a critical factor in operating efficiently and effectively.

Social responsibility takes on different meanings within industries and companies. For example, Starbucks Corp. and Ben & Jerry's Homemade Holdings Inc. have blended social responsibility into the core of their operations.

Both companies purchase Fair Trade Certified ingredients to manufacture their products and actively support sustainable farming in the regions where they source ingredients. Big-box retailer Target Corp. (TGT), also well known for its social responsibility programs, has donated money to communities in which the stores operate, including education grants.

“Socially responsible” means varies from organization to organization. Firms are often guided by a concept known as the triple bottom line, which dictates that a business should be committed to measuring its social and environmental impact, along with its profits. The adage “profit, people, planet” is often used to summarize the driving force behind the triple bottom line.

## TYPES OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility.

### 1. Environmental Responsibility

**Environmental responsibility** refers to the belief that organizations should behave in as environmentally friendly a way as possible. It's one of the most common forms of corporate social responsibility. Some companies use the term "environmental stewardship" to refer to such initiatives.

Companies that seek to embrace environmental responsibility can do so in several ways:

- Reducing pollution, greenhouse gas emissions, the use of single-use plastics, water consumption, and general waste
- Increasing reliance on renewable energy, sustainable resources, and recycled or partially recycled materials
- Offsetting negative environmental impact; for example, by planting trees, funding research, and donating to related causes

### 2. Ethical Responsibility

**Ethical responsibility** is concerned with ensuring an organization is operating in a fair and ethical manner. Organizations that embrace ethical responsibility aim to achieve fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers.

Firms can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the state or federal government doesn't constitute a "livable wage." Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labor.

### 3. Philanthropic Responsibility

**Philanthropic responsibility** refers to a business's aim to actively make the world and society a better place.

In addition to acting as ethically and environmentally friendly as possible, organizations driven by philanthropic responsibility often dedicate a portion of their earnings. While many firms donate to charities and nonprofits that align with their guiding missions, others donate to worthy causes that don't directly relate to their business. Others go so far as to create their own charitable trust or organization to give back.

4. **Economic Responsibility**

**Economic responsibility** is the practice of a firm backing all of its financial decisions in its commitment to do well in the areas listed above. The end goal is not to simply maximize profits, but positively impact the environment, people, and society.

**Profit Maximization**

The Wealth of Nations written by Adam Smith in 1776 developed the philosophy of private property. Historically, the “Rulers” of a country encouraged and financed its subjects to travel abroad and bring wealth for the mother country. They were rewarded with high “Titles” and “Estates”. The Industrial Revolution brought a division in the society. The owners of “Tools of Production” were classified as Capitalists and the other economically dependent as a “working class”. The goal of Capitalistic society was to maximize wealth. As such the “Purpose of Business” became profit maximization. Every business tries to make profits for itself and its shareholders. The shareholders are like the foundation stones of the company. If their well being is not taken care of, then the company seizes to exist. They are the real owners of the company and not the society. In 1970, economist Dr. Milton Friedman argued that “the sole purpose of a business is to generate profits for its shareholders.” So it can be concluded that the Profit Maximization is justified for the risk the investor takes.

**Social Responsibility**

A company earns huge profits for itself and its shareholders; it also has a social responsibility to contribute to the society in which it exists. It is the society which bestows the rights to do business. A company may try to become a good citizen by “giving” to the society, what it can afford, out of the profit that it makes. Dr. Theodore Leavitt in his article says, “Today’s profits must be merely adequate, not maximum. Business exists to serve the public”. Dr. C.K.Prahlad says, “A business 2008 Proceedings of the Academy of Business Economics P2 organization can try to produce and market products at such a reasonable price so as to raise the standard of living of masses, nearly three billion people. If a business concentrates upon the poor as much as it does on the rich, it can help raise the living standards of the poor and the society, a great deal”.