Corporate social responsiveness in the new millenium

By Dr. Ma. Andrea L. Santiago
Associate Professor, Business Management Department

The concept of social responsibility has evolved over the years. Companies no longer concern themselves simply with ethical issues; they are now concerned about ecocentric management as well. No longer is social responsibility the sole concern of government; it is now a tripartite responsibility that involves the government, business and the citizenry. Indeed, how a corporation responds to social concerns has changed from a reactive stance to a proactive stance. While corporations used to deny liabilities and operate at the minimum level to comply with government regulations on social responsibility, now corporations are able to anticipate challenges and do more than what is required of them (Clarkson cited in Bateman and Snell, 1999).

Traditional View

It has always been the contention that the “business of business is business”. This means that businesses are in existence for the profit motives of its shareholders. Theorists like Friedman believe that the responsibility of business is to produce goods and services that are not contrary to public policy and to conduct business in an open and competitive manner that is free from fraud. It is reasoned that any additional expense a company incurs is an additional burden that would inevitably be passed on to the consumers through the pricing mechanism. The increased price is argued to be unjust to the consumer.

Businessmen who hold the traditional view maintain that it is the responsibility of government to take care of society from the taxes being paid to them by the corporations. In this kind of situation they desire that governments do not meddle with them as they would not meddle with government affairs.

The traditional view would appear appropriate during the 1960’s to 1970’s, even much earlier. Population growth was at manageable levels and pollution was tolerated in the name of progress and convenience. In view of the changing times however, this outlook may be considered “obsolete.” Despite this, there are still quite a number of businessmen today, as evidenced by the continuous debates on the scope of social responsibility, who believe that any cost attributed to corporate social responsiveness is contrary to sound business practice.

Modern View

The modern theorists view social responsibility costs as investments rather than expenses. Bateman and Snell (1999) believe that investing in socially responsive acts is actually for the best interest of the corporation. Additional costs incurred to contribute to society may result in higher prices and perhaps lower sales volume in the short term; but this may be later compensated by the additional business they are able to generate from discerning and committed customers. Moreover, socially oriented programs may improve employee productivity that will eventually improve a corporation’s profitability (Post, Lawrence, and Weber, 1999).

The changing view on corporate social responsibility can also be attributed to the changing view of business. Previously, businesses were working under the concept of a closed system. Later on, management realized that businesses work within an open system. This means business decisions of corporations have impact on various stakeholders and consequently cannot be isolated from economic and social consequences (Post et al., 1999).

Carroll (1996) pointed out that there are four parts of social responsibility, as illustrated in Figure 1-1. According to this model, the basic responsibility of business is to produce goods and services that are not contrary to public policy; and are priced reasonably accepted by the public and the shareholders. The legal aspect refers to compliance with local, national, and whenever applicable, international laws. The ethical aspect refers to the manner in which owners and managers conduct their business, as dictated by society, while the final as-

*See RESPONSIVENESS next page*
RESPONSIVENESS ...
from previous page

pect which is discretionary, refers to any act or deed beyond that that is required by law or society.

In practical terms, the economic aspect of social responsibility calls for businesses to produce quality goods that meet consumer expectations. Products should be priced fairly so that the company is able to generate enough profits to ensure its existence.

The legal aspect calls for complying with labor laws and environmental protection laws. It is said that earlier experience with government regulating agencies resulted in legal battles as corporations adamantly denied their culpability (Bateman and Snell, 1999). However the shifting view, that social responsiveness is strategically relevant, has resulted in more corporations being cooperative and compliant with government regulations. In the area of pollution, for instance, corporations became inclined to minimize pollutants by decreasing emission levels.

The ethical aspect is dictated by corporate philosophy. It may be culture specific. Thus, what is ethical in one country may not necessarily be ethical in another. Nonetheless, the essence of this part of social responsibility is that businesses should conduct their business in a "just and fair" manner even if there are no regulations that warrant it. For instance, products should be free from defects and society expects that products with inconsistent product attributes be withdrawn from the market. A socially responsive company does this.

Finally under the discretionary aspect of social responsibility, there is charity and philanthropy. The usual form of charity is to give donations to government or non-profit organizations. Most donations are in the form of cash (described as loose change), as well as in equipment, dubbed as obsolete. These "arms-length transactions" are supported by the legal/tax system via acceptable business deductions.

Later on, corporate strategists realized that social responsiveness is not only good public relations, it is also a good marketing strategy. Corporations then began to sponsor community activities, advertising their efforts on billboards, and generating a lot of press releases. Consequently it was observed that the biggest donors were those that were likewise highly visible (Bateman and Snell, 1999).

Subsequently, larger corporations established corporate foundations to manage the social responsive acts for all of the subsidiaries under their wing. These foundations normally adapted a community where they could make a financial impact. Organized foundations were also able to give not only financial support but their time as well. Projects then were geared towards addressing social problems rather than solving symptoms of these problems. More involvement and commitment was garnered, thus veering away from the concept of "charity" to "strategic partnerships" with communities.

Millenium View
Social responsiveness in this new era necessarily changes. With advanced communication, cheaper transportation, and converging tastes and preferences, the world is "shrinking." Stakeholders are no longer nation bound. Manufacturing facilities are located in cost-effec-
tive countries and the consumers can be reached at real-time anywhere around the world. Given this scenario, businessmen of today have no alternative but to broaden their view on corporate responsibility. This is illustrated in figure 1-2.

The most pressing and imminent concern of nations is the ecological imbalance. Due to current business practices, the natural environment has been adversely affected. The renewable and non-renewable resources have been consumed at disproportionate rates and the air and waters have been contaminated. Consequently, social responsiveness in this century goes beyond superficial environmental improvements (Eden, 1996). It calls not only for pollution reduction but pollution prevention. Moreover, products must be designed so that pollution is prevented, wastage is eliminated, and those products that have lost its usefulness, can be disposed of appropriately. The buzzwords of the turn-of-the-century are cradle-to-death, design for environment (DfE), and life-cycle assessment (LCA).

The life cycle assessment concept calls for the analysis and evaluation of the input-process-output conditions in production with respect to the resources and energy used per product during the product's life (Piszewski, Fletcher, & Mendelson, 1999). The design for environment is closely tied up with this concept. By looking through the entire process, manufacturers are encouraged to design their products such that there is minimum requirement for resources and there is elimination of wastage. This may mean changing some inputs to environmentally acceptable substitutes, utilizing by-products or derivatives, installing pollution prevention mechanisms, redesigning products so that production is simpler and consequently utilizes less energy in its production, and ensuring that even the packaging is not harmful to the environment.

Finally, the cradle-to-grave concept, calls for manufacturers to consider even the extraction of raw materials used in production all the way to the disposal of the product when it has exhausted its useful life. Consequently, products must be designed in such a way that it may be recycled or that its disposal is not harmful to the environment (Bateman and Snell, 1999). This is exemplified by German car manufacturers, who dispose of unserviceable vehicles in compliance with their local Take-Back law of 1990.

Clearly, the new business imperative calls among others, for zero emissions and the elimination of wastes. Pauli (1995) believes these may be the standards of the millennium and a prerequisite to market entry. Pauli continues that if waste cannot be eliminated, then the strategy should be for businesses to gear production so that all forms of waste serve as inputs or raw materials for other businesses. This is called the cradle-to-cradle concept. By adapting this, it is possible that subsequently, businesses that benefit from each other’s waste will be situated close to each other for a totally integrated system. Figure 1-2 presents the principles of waste management with strategies listed in the order of priority that supports this view.

Balance Sheet or Income Statement?

Given the new demands on corporations, it may be argued that social responsiveness has become even more expensive. Traditional organizations are hesitant to invest in environmental management systems as it is contrary to the principle of maximizing shareholder wealth. Management in these organizations claim that

See RESPONSIVENESS next page
RESPONSIVENESS ... from previous page

the additional expenses brought about by the direct and indirect expenses, particularly of environmental management systems, may result in their inability to compete on the basis of price for undifferentiated products. Moreover, such companies believe they may be at the losing end to opportunists who take advantage of the situation by reaping benefits during the interim period when other companies are trying to recoup investment costs in environmental programs (Eden, 1996; Motomura, 1995).

The environmentalists believe that in the long run, companies are better off investing today on an environmental management system. Adams (1998) believes that investing in environmental management systems can actually be considered an area of competitive advantage, and businesses that invest early in this can gain “first-mover” advantages. This is supported by Motomura (1995), who explains that if the trend is towards environmentalism, then companies that postpone investment are in a worse-off position in the long run due to the long gestation periods of ecology investments. It is this that will make them lose their competitive edge. Motomura opines that if all companies within the industry do invest in ecology, then additional costs on each company will be neutralized. Moreover, Adams (1998) sees reduced demand only if the costs are passed on to the consumers.

But more importantly, environmentalists liken the issue of environmental investment to quality investment (Pauli, 1995; Welford, 1996). Previously, it was thought that quality processes would be expensive. As it were, improved quality meant lower expenses as the manpower was more committed and thus eliminated unnecessary mistakes. Similarly, with the design for environment concept, cheaper raw materials can be used. Additionally designing easy to manufacture products with minimal wastage as well as utilizing lesser resources would result in the decrease in operating expenses reflected in the total cost of the product (Adams, 1998; Pauli; 1995; Porter & Ven Der Linde, 1996). Porter (1996) cites as an example, the 3M company that reportedly saved a total of US$1.0 billion since 1975 as a result of ecology investment.

Moving one step further, innovative environmental solutions can be a source of income (Bateman & Snell, 1999; Carley & Spapens, 1998). It has been suggested that such innovations can be patented and sold to others. In this regard, the “first-movers” again gain a competitive edge.

Finally, today’s consumers are more informed and more ecologically-oriented. They can discern propaganda from true commitment. Since businesses are becoming more consumer-oriented, the other force of consumers to push for environmental friendly products should be

Figure 1.2 - Corporate Social Responsiveness in the New Millennium
<table>
<thead>
<tr>
<th>Highest priority</th>
<th>Complete elimination of wastes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elimination</td>
<td>Prevention of waste production should be considered feasibility and design at the initial stage and may determine if the project should proceed</td>
</tr>
<tr>
<td>Prevention feasibility and design</td>
<td>The avoidance, reduction or elimination of waste, generally within the confines of the production, through changes in industrial processes or procedures</td>
</tr>
<tr>
<td>Waste minimization/ Source reduction</td>
<td>The use, reuse and recycling of waste for original or some other purpose such as input material, recovery or energy production</td>
</tr>
<tr>
<td>Recycling materials</td>
<td>The destruction, detoxification, neutralization, etc. of waste into less harmful substances</td>
</tr>
<tr>
<td>Treatment</td>
<td>The discharge of waste to air, water or land in properly controlled or safe ways such that compliance is achieved; secure land disposal may involve volume reduction, encapsulation, leachate containment and monitoring techniques</td>
</tr>
</tbody>
</table>

Figure 1-3. Principles of Waste Management


Businesses must accept the moral responsibility and take the active role whether or not governmental regulations exist. Businesses have the resources, technology, intelligence, and hopefully the will, to help solve the environmental problems they have helped to create. The traditional view that protects business profits is outdated in the light of the stark reality. The United Nations assessment of the Earth’s ecosystems in the Special Edition of the Time Magazine (April-May 2000) paints a very grim outlook. Freshwater, the most vital resource, is at critical levels, agricultural lands have been severely degraded, rainforests are disappearing. All these combined and much more has raised the concern whether our descendants will have enough to survive on. Consequently resisting, delaying, and denying investments in corporate social acts are obsolete notions. It has been rendered obsolete because of the glaring fact that the planet is being consumed faster than the resources can be replenished.

Businesses must accept the moral responsibility and take the active role whether or not governmental regulations exist. Businesses have the resources, technology, intelligence, and hopefully the will, to help solve the environmental problems they have helped to create. The traditional view that protects business profits is outdated in the light of the stark reality. The United Nations assessment of the Earth’s ecosystems in the Special Edition of the Time Magazine (April-May 2000) paints a very grim outlook. Freshwater, the most vital resource, is at critical levels, agricultural lands have been severely degraded, rainforests are disappearing. All these combined and much more has raised the concern whether our descendants will have enough to survive on. Consequently resisting, delaying, and denying investments in corporate social acts are obsolete notions. It has been rendered obsolete because of the glaring fact that the planet is being consumed faster than the resources can be replenished.

Sustainable Environmental Philosophy

The sustainable environmental philosophy that hopefully gets ingrained in the heart of businessmen is that protecting the environment and assisting to help solve the inequity problems, are true and necessary business investments. The world is shrinking as population growth is unabated and resources are depleting. And in a situation where both rich and poor, developed and underdeveloped nations breathe the same air and drink the same water, one nation’s move affects the others.

The traditional view that protects business profits is outdated in the light of the stark reality. The United Nations assessment of the Earth’s ecosystems in the Special Edition of the Time Magazine (April-May 2000) paints a very grim outlook. Freshwater, the most vital resource, is at critical levels, agricultural lands have been severely degraded, rainforests are disappearing. All these combined and much more has raised the concern whether our descendants will have enough to survive on. Consequently resisting, delaying, and denying investments in corporate social acts are obsolete notions. It has been rendered obsolete because of the glaring fact that the planet is being consumed faster than the resources can be replenished.

Businesses must accept the moral responsibility and take the active role whether or not governmental regulations exist. Businesses have the resources, technology, intelligence, and hopefully
RESPONSIVENESS ... from previous page

soon, the motivation to conjure creative solutions. They also have the global reach and power to influence consumers and governments (Bateman and Snell, 1999; Gray, 1996).Undoubtedly, businesses should partner among themselves and with both the government and the citizenry towards a cleaner, greener environment. Only then can businesses claim they are truly socially responsive corporations.

References


