

# **SOCIAL RESPONSIBILITY**

Gilli, Juan José

Universidad de Buenos Aires

Facultad de Ciencias Económicas

Av. Córdoba 2122 Ciudad Autónoma de Buenos Aires - Argentina

## **INTRODUCTION**

Social responsibility in itself or enterprise or corporate social responsibility, as it is called, appears as a main topic in many publications, forums and university subjects. In a parallel way, large big enterprises have included this item in their agendas; diverse NGO's try to promote them, there arise social responsibility indexes, and the matter even appears in the sight of the regulators.

The enterprises' social responsibility topic is not new, what is new is the demand that the enterprise take charge of the social problems. No doubt that the globalization phenomenon has placed the large enterprises above the economic power of many nations and that as compensation it seems logical that they be assigned responsibilities and that their actions be regulated.

As to what has been expressed there appear initiatives such as the United Nations General Secretary's one at the 1999 Davos forum, where he exhorts to unite the markets' power with the universal values as a way of extending the globalization benefits; that is where the Global Pact will originate, which promotes the enterprises' public commitment to the nine principles on human rights, labor and environment. Another example is the European

Community's Green Book, which in 2002, promotes enterprise responsibility in its internal and also external dimension.

To the above-mentioned, one must add the increasing disbelief regarding the state's capacity to solve the social problems. This situation is specially highlighted in certain regions, for example Latin America, where public funds are invested electorally instead of promoting human development; poverty becomes the political resource. These attitudes according to Valiente Noailles<sup>1</sup> promote *in fact a subhuman form and a condemnation to permanent exclusion*.

The situation described outlines a series of queries regarding the reach of social responsibility and of how it should be administrated within the enterprise environment. The present work seeks to ponder on matters such as:

When does the concept of social responsibility arise? How has it evolved through time? What does social responsibility mean according to different authors and ways of thought? Which is the enterprise's social responsibility? To what measure is it licit and suitable for the enterprise to take on the responsibility of social dysfunctions? Should the enterprise social responsibility be regulated? Is social responsibility a philanthropy matter or a marketing one? Does social responsibility make sense, without ethical management?

## **CONCEPT EVOLUTION**

The discussion about enterprises' social responsibility has been associated to the development of the enterprise, starting off from the industrial revolution, but it is since 1960 when the matter is presented in the current terms. The oldest records center the discussion on the relationship between private ethics and public ones, that is to say, in what measure the proprietor or the entrepreneur is subject to individual ethics, but when it acts within the environment of their enterprise, it is under the obligation to put aside those values in function of the rules that govern business.

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<sup>1</sup> Valiente Noailles E. "Una forma de subhumanidad" article published in "La Nación" newspaper 9th October 2005.

Another important matter was the entrepreneur's responsibility towards his personnel. At the beginning of the last century, Henry Ford perceived the necessity to raise the level of his employees' life style: he said that he paid better salaries than his competitors, so that his employees could buy the cars that they themselves manufactured; in other words he carried out an active role to create a favorable business environment.

Finally, within the traditional focus, philanthropy was also considered as a social responsibility synonym, it represented the contributions to cultural activities related with the arts, museums, music and also to educational and religious institutions and others of community character.

In fact the traditional focus was not in charge of the enterprise's social responsibility, but of the entrepreneurs' social responsibility as a consequence of their power and wealth. It was just after the end of the Second World War that greater relevance was assigned to the enterprise's social contribution, but without modifying the axis of the matter: it was expected that the enterprise - and especially the large enterprises - contribute towards works of interest for the community.

The inflection point takes place in the 1960's when, as a consequence of society's concern for social matters, the enterprise's social responsibility concept expands. Indeed it is a decade where important social changes were experienced that reflected on the enterprises, for example on topics as minorities' civil rights, women's equality of opportunities, environmental protection and consumers' rights.

The discussion is centered in what the enterprise should do to solve the social problems. Peter Drucker<sup>2</sup> says:

*"This new concept of social responsibility no longer wonders which are the limitations of the enterprise, or what this should do for the personnel subject to its immediate authority. It demands that the enterprise assumes the responsibility for the social problems... and that it become guardian of the conscience of society and in an essential factor for the solution of its problems."*

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<sup>2</sup> Druker, Peter. "La Gerencia". Ed. El Ateneo – Buenos Aires 2000 p. 216

The appearance of this demand did not originate as a hostile feeling towards the enterprise; on the contrary, the success of the administration management impelled entrepreneurs and administrators as a new class of leaders and this ascent generated the expectation that they should confront the responsibility for the main social problems. The new leadership should fill the vacuum of the old leadership groups - aristocracy and clergy - and also the government's incapacity to solve society's problems.

A typical example of this demand is reflected in the *stakeholders* theory developed in Stanford University, where the term was coined that would denominate directly the related groups of interest with the enterprise; the theory has some similarity to Barnard – Simon's balance theory which identifies the different groups of participants that contribute to the organization in exchange for a compensation: the organization will be viable in the measure that the contributions that it receives are bigger or equal to the compensations that it should grant.

But the *stakeholders* theory goes further on, when questioning the exclusive obligation of the executives towards the shareholders and proposes a new role with extended responsibility toward the other interest groups, that is to say the employees, the clients, the suppliers and the local community in which the enterprise is insert. The theory was criticized, at the time, based on the foundation that the directive had only received a trusteeship from the shareholders and not from the other interest groups.

Even when the *stakeholders* theory has not replaced the directive's traditional role, its basic concepts are used to analyze ethics and social responsibility matters and today, almost half a century later, a reevaluation can be noticed - or a discovery - of the theory, especially in the academic environments as reflection of the scandals of large enterprises and of the magnitude of their consequences.

## THE SOCIAL RESPONSIBILITY DEBATE

Milton Friedman<sup>3</sup> starts off the polemic with a brief article published in 1970 titled "The social responsibility of the businesses is to increase their utilities". According to him, only the individuals have social responsibility that they should attend to with their own time and with their own resources. The primary responsibility of who directs a business is toward his employers and consequently he will have to increase the utilities, always within the law, in free competition and without fraud.

He affirms that, the directive's responsibility consists on managing the enterprise according to its owners' wishes, maintaining the basic society rules, written or consuetudinary. Thus for example, if an executive decides not to increase the prices to contribute to the social objective of preventing inflation at the cost of the enterprise's utilities, he would be spending the shareholders' money; in consequence he would be fixing a tax and disposing the application of his produce.

Beyond these concepts, Friedman<sup>4</sup> is very hard when affirming that those who say, *that the businesses have to do "not only" with the utilities but also with promoting desirable social objectives; which have a "social awareness" and take their responsibility seriously of giving employment, eliminate discrimination, avoid contamination, or whatever the present day reformers' motto is, ... they are unconscious marionettes of the intellectual forces that have been mining the bases of a licit society during the last decades.* He refers to his book, *Capitalism and Freedom* where he affirms that it is a doctrine contrary to a free society.

Friedman's thought underlies utilitarianism as an ethical theory. According to it, the search of the own interest serves to a social purpose, in the measure that it promotes greater wealth production: it is the basic reason for which capitalism functions. According to Drucker, the argument is that the enterprise is an economic institution and it should abide to its economic

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<sup>3</sup> Friedman, Milton "La responsabilidad social de los negocios es aumentar sus utilidades", included in Bower J. "Oficio y arte de la gerencia". Ed. Norma, Bogotá, 1995

<sup>4</sup> Drucker, P. Op Mentioned p. 196

function, is well formulated; we run the risk that social responsibility mines the economic acting and, indirectly, harm the whole society.

Undoubtedly Friedman's raw version is moderated when we wonder what it means to make profit in a free competition market. It means that the clients have found our products or services in conditions of quality and price, to choose them and that the enterprise with profits earned, besides paying dividends to the shareholders, pays their inputs - goods and work -, it pays their taxes and applies the remainder to new investments that will represent new posts. What better contribution can be requested to the enterprise than to produce quality goods and to create new posts?

From an economic point of view, Arrow also accepts that the maximization benefit is really efficient for society, but it highlights some limitations to this thought. The first one is the supposition that the competitive forces are sufficiently vigorous to exclude the existence of monopolies and oligopolies; the second is that, although an economy based on earnings maximization, produces high revenues averages, the distribution of these is unequal, what is considered as undesirable.

In a radically exposed position to that of Friedman's, many authors sustain that the enterprise has obligations beyond the production of goods and services; they should collaborate in the urgent solution of social problems, many of which they have contributed to create. Thus Buchholz and Rosenthal<sup>5</sup> express themselves, when referring to enterprise social responsibility.

*The concept also means that the corporations are related to society by means of something more than only the transactions within the market and serve to a richer range of values than the traditional economic values that prevail in the market... The concept of social responsibility is, fundamentally, an ethical concept. It implies to modify ideas about the human well-being, and it highlights the interest in the social dimensions of the business activity which are related with the improvement of life quality.*

Here one can clearly appreciate that it is a normative concept that abridges in the well-known deontology theory, strongly marked by Kant's thought according to which a behavior is

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<sup>5</sup> Buchholz, R. and Rosenthal, S. "Responsabilidad social y ética en los negocios" in Frederick, R. "La ética en los negocios" Ed. Oxford. Mexico, 2001. p 367.

ethical motivated by good intentions. We can act this way because we have free will; only human beings are able to observe the laws which they themselves choose.

Kant proposes an ethics of duty and not of consequences. It is based on the respect to the person that should be treated as an end in itself and not as a means; it could be interpreted that any mercantile practice that puts money on the same level as people is immoral but, Bowie<sup>6</sup> clarifies that:

*In the first place, it should be pointed out that the principle of respect to people, as I will call it, does not prohibit business transactions. Nobody is used only as a means in a voluntary economic exchange, in which both parties benefit. What this formulation of the categorical imperative does, is to impose certain restrictions to the nature of the economic transactions.*

Said in other words, the instigators of the enterprise social responsibility seem to start off from the premise that capitalism without limitations fails in its intent of being useful to the general interest. They accept the private enterprise, but they see as a problem that the earnings go exclusively to the shareholders; the largest social benefit will only advance if the corporations recognize their obligations towards society.

The market, like all human creation, is imperfect. It impels competition but it also leaves a lot of "losers": unemployed, elderly, children... Adam Smith supposed that the complementary social task of the market was in charge of the "winners" themselves, by virtue of religious rooted obligation. Then the benefactor state gradually substituted the individual responsibility and as a counterpart, market regulation advanced.

Finally the state, due to its own inefficacy, went on abandoning its social action and, in many cases, also the execution of basic functions as justice and security, while the enterprises continue growing and devouring one another, and the laws that served in another scale are not useful to govern the game of the giants. At this point it is where the deontological vision of social responsibility becomes more attractive than the utilitaristic vision.

This state of things explains today's topic of enterprise responsibility in the academic environments, but also in entrepreneurs that have found a new face for the old philanthropy; in

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<sup>6</sup> Bowie, N. "Un enfoque kantiano hacia la ética en los negocios" in Frederick, R. "La ética en los negocios" Ed. Oxford, Mexico, 2001, p. 5

experts that specialize in improving the enterprise image to obtain more gain and in officials of international organizations that proclaim its benefits.

For example: David Rockefeller, leader of one of the most powerful economic emporiums in the world, surprised more than one assistant in a conference held at the New York Economic Club, when emphasizing that the entrepreneurs should assume that their responsibilities go beyond the simple effective, honest and profitable handling of a business and to revive the social sense of the responsibility to compensate the competitiveness pressure which can reach up to simply cruel limits.

## **SOCIAL RESPONSIBILITY IN THE SIGHT OF THE REGULATORS**

Today there are abundant books and articles full of tremendous stories about entrepreneur frauds and scandals originated by incompetence and greed. This makes the idea of the social responsibility advance, it mobilizes the public opinion in that sense, it questions the traditional role of the enterprise in society and, really, it stimulates the creation of regulations.

It is no longer only the voluntary adhesion to a Global Pact as we mentioned in the introduction or of the outlines of the European Community's Green Book; there appear profusions of organisms and qualification systems, as well as new guarantee seals that tranquilize the investors' conscience.

In this way we found out that an Entrepreneur Social Responsibility Ministry exists in England, as a way of assuring that the enterprise activities also produce economic, social and environmental benefits. The new ministry has generated multiple programs to promote transparency and it even intends to qualify the entrepreneurs in this new way of thinking of the private enterprise.

In France, the new competition imposes to sell immaculate stocks and for that the ethical funds assure the investors in their advertising, that they only invest in stocks and bonds in

enterprises in which the human being is the supreme value. What do the fund administrators do to assure that objective? The advertisement itself explains that each stock is analyzed by an ethics committee.

In Latin America the public demand also grows so that the enterprises are involved in the poverty problem. As to that, innovative experiences impelled by international organizations are arising, thus a well known Brazilian institute promotes conscientious consumption; it has an index based on information provided by the enterprises and seeks to help the consumers to choose enterprises and products.

In our country there has been a wide diffusion of subscription for 220 local Global Pact enterprises, promoted by United Nations and that commits them to self evaluate their behavior according to standards that tend to internationalize themselves. Doubtlessly, a creative answer facing the social pressure which tries to improve the image of the entrepreneur leadership.

In Argentina the debate on entrepreneur social responsibility has begun and in coincidence to last year, the Chamber of Deputies approved a social balance régime for the public sector with the obligation of informing on working conditions and regarding human rights and it is open road for similar initiatives within the private environment. In a country with a long history of regulations and controls there are more than enough of those who will explore the gap that exists for a regulation on this matter.

This brief analysis makes us think about new queries: Can you regulate the social responsibility of the enterprises? Is the road, to fix an obligation and the regulatory agencies? Do options exist to explore without falling into regulation emphasis? Will not the social balance have the same vulnerability as the convenience balance? Will the self-regulation alternative go closing down, little by little, with regulations? These questions necessarily reopen the debate of positions that we pointed out in the previous title.

## THE ADMINISTRATION OF SOCIAL RESPONSIBILITIES

It is evident that the demand of social responsibility is not such a simple matter as suggested by most of what is written and said on this matter but, neither can it be ignored. Drucker<sup>7</sup> says on this matter:

*... the impossibility of avoiding social responsibility is evident. It is not only the matter that the public demands it. Or only that society needs it. It happens that in modern society the administrators constitute the only leadership group. If the administrators of our main institutions, and mainly the enterprises, do not assume the responsibility of common welfare, nobody will be able nor will want to do it. In spite of the statements of the political theories, the government is no longer capable of acting as sovereign and guardian of common welfare, in an organization's pluralistic society.*

Drucker, although he coincides with Friedman in the sense that the enterprise should abide to its economic function, he uses a concept that approaches the *accountability* meaning, while Friedman is centered in *responsibility*. That is to say that his proposal goes beyond the responsibility of fulfilling his mission, since he understands that he should account for his activity, and does not act within a vacuum.

Starting off from this idea he concludes that it is necessary to administer social responsibilities - in an enterprise, in a hospital or in a university - and for that he establishes a difference between social influences, consequence of the activity of the organization, and the social problems. Regarding the first ones he clearly fixes the obligation of the enterprise but regarding second ones, he says that they cannot always be solved satisfactorily and that they constitute an ambiguous area, for the administrators' performance.

For the enterprise to give goods and services, it needs to employ people and resources and to work within an environment. The responsibility for the administration due to the influence of said activities is certain; it is a matter that concerns him since in the best of cases they waste or badly use resources and therefore do not add anything to the product value or to client's

<sup>7</sup> Drucker, Peter. Op. mentioned p. 222r

satisfaction. But, other cases like personnel abuse, lack of transparency in the relationship with suppliers, deceitful advertising, bad product quality or environmental contamination, are critical and they seriously damage the enterprise.

Sooner or later these consequences will constitute an attack on society, and will impose a high price to those who have not worked in a responsible way to prevent and to solve these kind of influences. Here it is clear, the considerations due to all the *stakeholders*.

The administrators are responsible for the effects of their decisions and of their consequences; the administration of said influences supposes: first to identify them and then to treat them, suppressing the activity that generates them; in the event of not being able to suppress the activity, one should work to eliminate their non desirable effects and, when these alternatives disarrange us in front of the competition, agreements or official regulations should be looked for, that allow to solve the problem.

As to social problems Drucker says<sup>8</sup>, that they are dysfunctions more than influences of the organization and of their activities, but he specifies that:

*In a sick society enterprises, universities and healthy hospitals cannot exist. The existence of a healthy society agrees with the interest characteristic of the administration, even if the cause of the social illness has nothing to do with the activities of the enterprise.*

The social problems are society dysfunctions, which many times have not been state assisted, but for the enterprise administration they represent challenges that cannot always be solved satisfactorily, since the enterprise is not an isolated agent, it requires a framework relationship between it, government and society so that the combined effort spreads out towards common welfare. It is difficult to imagine a responsible enterprise without an ethical framework adapted in the other institutions.

Drucker affirms that the administrator's main responsibility will be the execution of the organization specific mission and that it constitutes the first necessity and society's main interest. The good administrative theory indicates that to complete this mission it must try to develop and to conserve its human capital, to maintain a long term supplier-client relationship,

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<sup>8</sup> Drucker, Peter. Op. mentioned, p 225.

based on trust, to foment the cooperation with other enterprises for the development of projects they have in common, in that way it will generate value for society.

But when we enter in the area of social problems, the administrator must recognize his limits: in the first place, not to assume tasks for which he is not competent as it irresponsible to raise expectations that he cannot fulfill and, in second place, to assume the resolution of social problems implies to claim authority; therefore he must analyze if when solving concrete social problems (health, education, etc.) he will not use his power to impose his own values and to advance on matters which belong to society.

The author concludes that a developed society needs institutions endowed with efficient administrations and – by being developed - most of the social problems are approached through specific institutions. *The most serious social irresponsibility is to harm the acting capacity of these institutions approaching tasks that exceed their jurisdiction or usurping authority on behalf of social responsibility.*<sup>9</sup>

## **ETHICS, NOT ONLY SOCIAL RESPONSIBILITY**

Under this title, Spain's "El País" published Adela Cortina's<sup>10</sup> opinion, a recognized specialist on ethics topics. The article points out the wide diffusion of the entrepreneur's social topic of responsibility and the different domestic and international initiatives tending to impel it, it also analyzes the creation of specific departments within the enterprises and ethical indexes.

Cortina wonders if the topic does not run the risk of dying from success; next she proposes to us to face the reality where there underlies the great query: is social responsibility only a *marketing* matter or a deep conviction?

Diverse examples credit the doubt. The president of the Global Pact requested the adhered enterprises, information about their progresses in the social responsibility practices,

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<sup>9</sup> Drucker, Peter. Op. mentioned p. 240

<sup>10</sup> Cortina, Adela. "Ética en la empresa, no sólo responsabilidad social" Article published in "El País" on 20<sup>th</sup> August 2005.

was the reminder necessary or maybe, for many entrepreneurs, did the matter finish with the photograph signing the pact?. Going beyond the photograph, certain enterprises can have a specific department where to devise performances that the competitors have not thought of, to advance in the best known *rankings* and to advertise its bet for ethical practices.

Social responsibility sells and generates good reputation and, precisely for that reason it can be manipulated and remain only in appearance. It would be necessary to evaluate, for example, if the amounts that are dedicated to the indigent population's help, are not smaller than those spent to broadcast the action or if, when some amount of the sales is dedicated to a welfare objective, it is only a transference of accounts, where the consumer is the true donor and the enterprise ends up increasing its sales.

The matter, for Cortina consists on elucidating what social responsibility is, and she notices that Friedman's conception has moved from the *shareholders* to the *stakeholders*; she concludes that Friedman's formula has not been abandoned, but immersed in a new more intelligent one: the wise enterprise senses that, if it keeps in mind the interests of those affected in the design of its strategies, it will also increase the shareholders' benefits

For that reason, social responsibility no longer consist on mere philanthropy, but in that the decisions have take into account the interests of all those affected by them; in a certain way it is the idea of social influence that Drucker mentioned. Cortina proposes that *social responsibility must be assumed as a management tool, and as a wise measure and a justice demand.*

To put into practice this proposal, the matter should be part of the every day decisions; good reputation is won with good practices, not with social *marketing* that can cohabit with unjust wages, bad product quality, uncertain employment, polluting processes and even violation of basic rights. To face the challenge is to discover that inside the activity itself, one can work for the construction of social capital and trustful and cooperation nets.

Good practices should be part of the hard core of the enterprise, rooted in ethics. *Éthos* has to do with the people's character and with the organizations' culture; with the habits that are

acquired day by day and with the conviction with which all decisions are made. That is where one appreciates, according to Cortina, wisdom and justice.

According to Octave G linier<sup>11</sup>, the enterprises should make an effort to improve their ethical patterns as well as the efficiency ones. But, while efficiency is a consequence of the free market, ethics requires the deliberate and systematic human intervention. In conclusion, the entrepreneurs that ignore the ethical responsibility, risk their personal and enterprise credibility.

To be ethical exceeds to be legal; when the enterprises emphasize the prevention of illegal behaviors, increasing surveillance and control they only develop a strategy that tends to compliance. . For the formation of the * thos* an integrity strategy is required, that convinces the organization members to adjust their behavior to a series of values. The internalization of those values, - to a certain extent - makes external control redundant.

It is possible to create a social responsibility law, and the government's experts will try to do so, assisting the unions and civil organizations demands, that consider the voluntary initiatives insufficient, while the enterprises, insist that the minimum are already legislated and that regulation would only annul the innovative character of the enterprise. The dispute continues but for Cortina one thing is clear: *that with legislation or without it, character and justice constitute the enterprise's ethics humus which makes sense that the resolved social responsibility not to be allowed to be reduced to cosmetics and bureaucracy.*<sup>12</sup>

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<sup>11</sup> G linier, Octave. " tica de los negocios", Espasa-Calpe. Madrid 199

<sup>12</sup> Cortina, Adela. Op. mentioned.

## CONCLUSION

In the introduction we outlined a series of queries that have been answered in the foregoing points, as a summing up we will highlight following concepts:

- Discussion about social responsibility has been bound to the very development of the enterprise; traditionally associated to the concepts of the entrepreneur's ethics, good treatment to the personnel and, mainly, with philanthropy. As from 1960 the current terms are outlined: the enterprise is required to assume the responsibility for the social problems and that it contributes to its solution.
- Regarding this last point there is not a unique position. The polemic is between those who think - from a utilitarianism position - that it is the enterprise's responsibility to obtain earnings and who - from a deontological focus - should go further on, that is to say to be in charge of the social problems. Clearly, they are two positions regarding the enterprise and of the market operation.
- When the enterprise's traditional role and the market behavior is questioned, - and multiple examples justify it - the social responsibility's topic appears in the regulators' sight. Multiple global and domestic initiatives arise: from voluntary adhesion to entrepreneur pacts and the creation of social responsibility departments in the enterprises even "ethical" indexes and legal regulation projects.
- From the self-regulation position, Drucker places the responsibility in the administrators' heads. But, differentiates the social influences, that is to say the consequences of the enterprise's activity in the environment, of the social problems. The administrators are completely responsible for the effects of their

decisions but, to take on responsibility for the social problems, supposes entering an ambiguous area, where they must recognize their limits: it is irresponsible to take on tasks which exceed their competence or to advance on matters which belong to society itself.

- Facing the profusion of domestic and international initiatives, tending to impulse entrepreneur social responsibility, Adela Cortina – a specialist in ethics – asks herself if it is really a deep conviction or a *marketing* matter. She affirms that good reputation can only be acquired by means of good practices and these can only be rooted in an entrepreneur *éthos* which will be seen when the every day decisions, take into account all those affected by them. That is the true social responsibility which must not be reduced to cosmetics and bureaucracy.