CHAPTER V
RATIONALE OF CORPORATE SOCIAL RESPONSIBILITY

The main objective of this chapter is to establish social responsibility as a natural and compatible facet of business. To serve the purpose, it seeks to contradict the views of the dissenters of social philosophy which may be crystallised into two arguments viz.,

1. Social responsibility is a transitory threat and/or a mere passing fad of a few businessmen.

2. Social responsibility is an antithesis of profit behaviour of business. It is a fundamentally subversive doctrine.

Corporate social responsibility has been a topic of so much interest to almost all types of people in developing nations that the literature in the field has burgeoned by the varied interpretations made by Social scientists, behaviourists, public administrators, economists, lawyers, journalists besides of course, the management practitioners and academia. These prolific writings have created cross currents - some broadening the concept and some contracting it; some elevating it to the level of divine discipline while some piercing it as a foolish dogma; some supporting it as the right ideology of emerging social economy whereas some opposing it as an anti-capitalistic philosophy - and thus made management theory jungle difficult to disentangle.
Managers, who have believed in and sincerely attempted to implement social responsibility are called 'hypocrites' while those who discredited it and attacked it are called 'economic isolationists'. To resolve the conflict and thereby clarify doubts and dispel fears in the minds of those willing to accept social responsibility, two reconciling hypotheses are introduced and elaborated.

Hypothesis -I:

"Social responsibility has been evolving in response to the mood, aspirations and expectations of people through different stages of social development, since the dawn of industrial civilisation."

As the humankind marched through the 'ruthless brute power' societies to 'exploitative money power' societies to 'enlightened knowledge power' societies, social consciousness in business has gradually increased and today it has emerged as a dominant socioeconomic organ of social economy capable of employing the 'creative and whole man' and fulfilling the socioeconomic goals of the society. There is a plethora of historical evidence provided by a host of industrialists, management practitioners and writers all over the world, from time to time

pointing out to this evolutionary growth of social consciousness in the management coupled with scientific management of materials and machines. Chart-V.1 illustrates this viewpoint. John D. Rockfeller III observes: "I have come to believe in recent years that we are in the midst of a revolution in our society second in importance only to the first American revolution two hundred years ago. It is humanistic revolution, a gradual revolution, and it is the dynamics of this revolution that demands a new social awareness on the part of all of us, including American business". To explain the evolutionary growth of social philosophy the six models of social responsibility viz.,

1) Investment model (Responsibility to Business)
2) Household model (Responsibility to Workers)
3) Vendor model (Responsibility to Consumers)
4) Austere model (Responsibility to Shareholders)
5) Civic model (Responsibility to Community) and
6) Artistic model (Responsibility to preserve arts and creativity).

suggested by Clarence C. Walton to which Steiner has

### Chart V.1.  
**Evolutionary Growth of Social Consciousness**

<table>
<thead>
<tr>
<th>Philosophical Attitude</th>
<th>Management Approach</th>
<th>Organisational Theory</th>
<th>Organisation Structure</th>
<th>Management Style</th>
<th>Theory of Labour Welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savagery - The other fellow is my enemy and is to be destroyed</td>
<td>Intuitive</td>
<td>The Directive Theory</td>
<td>Pure Line</td>
<td>Autocratic</td>
<td>Religious</td>
</tr>
<tr>
<td>Slavery - The other fellow is to be conquered and put at my service</td>
<td>Scientific (with Functional Specialisation Theory)</td>
<td>Line Dep'tal</td>
<td></td>
<td>Exploitative</td>
<td>Religious &amp; Police</td>
</tr>
<tr>
<td>Servitude - The other fellow is to serve me for a consideration and ask no more</td>
<td>Bureaucratic (with Checks and Balances Theory)</td>
<td>Line &amp; Staff</td>
<td></td>
<td>Benevolent</td>
<td>Placating</td>
</tr>
<tr>
<td>Welfare - The other fellow should be helped up when down, without too much concern for what got him down</td>
<td>Administrative (with Formalistic Theory)</td>
<td>Committee</td>
<td></td>
<td>Democratic</td>
<td>Public Relations</td>
</tr>
<tr>
<td>Paternalism - The other fellow should be cared for and I will decide to what extent</td>
<td>Human resources</td>
<td>Participation Theory</td>
<td>Committee</td>
<td>Democratic</td>
<td>Public Relations</td>
</tr>
<tr>
<td>Participation - The other fellow has something to contribute to my efforts and can help me</td>
<td>Systems and Contingency Theory</td>
<td>Project/Matrix Theory</td>
<td></td>
<td>Democratic</td>
<td>Executive Functional</td>
</tr>
<tr>
<td>Trusteeship - That for which I am responsible is not mine, I am developing and administering it for the benefit of others</td>
<td></td>
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</tr>
<tr>
<td>Statesmanship - The other fellow is capable of being for more than he is and is my responsibility to help him develop to his fullest potential</td>
<td></td>
<td></td>
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**Sources:**  
added his 'Eclectic model', which incorporates one or more of the six models are adopted.

Eclectic Model (before 1770):

During the pre-industrial revolution period 'Economic life in general was to be subordinated to spiritual and cultural pursuits and in detail it was to be governed by laws of justice and equity'. The guilds of the Age performed not only economic and professional but also religious and political functions. In the medivial courts and councils, the guilds wielded considerable power and were often instrumental in the making of laws recognised by the kings. Perhaps in no other period in the history of Europe were the social, economic, religious and moral ideas of the people so co-ordinated and integrated as in this.

1. Economical  
   a) Restriction of admission into the trade by means of a systematic apprenticeship
   b) Determination of hours and conditions of labour
   c) Regulation of wages
   d) Control of workmanship and quality of materials

e) Defending trade against encroachments of merchant guilds or outside competitions by protecting their markets.

2. Social
   a) Providing fraternal and social activities for members.
   b) Settlement of disputes among members.

3. Political: Guilds wielded considerable power in medieval courts and councils and were often instrumental in the making of laws recognised by the kings.

4. Religious: Guilds ensured and made easy for their members, the performance of their religious duties, celebrated together the feasts and solemnities in honour of their patron saints, and had masses said for the souls of the departed members of the guild.

Investment Model (1770 onwards):

The industrial revolution, laissez-faire economics, individualism and naturalism saw the development of business without being responsive to the needs of the society. With the social darwinism in the ascendancy, the period 1880 to 1900, characterised by an absence of effective countervailing power on the part of either organised labour or government witnessed the nadir of the belief in the social responsibilities of businessmen. The unquenchable thirst for profit maximisation
with the staunch belief in the principle: "Business of business is business", which reflects the spirit of the law of jungle—dog eat the dog and the devil take the hindmost, led to the extreme and abominable exploitation of society in particular the workers. The following lines present the vivid picture of the execrable conditions of labour at that period.

"At the beginning of the last century in England, men engaged in industry had to work from twelve to sixteen hours daily with only half an hour break for dinner and a respite receiving an average wage of 1½ shillings per week. Women and children worked also for at least twelve hours at still lower wages. Absence of recreation and education together with filthy living conditions made immorality rampant, while the unfenced and unprotected machines were the cause of many accidents. Though women and children had also been engaged in agricultural work or in other economic systems what made their position particularly hard at the rise of modern industrialism was that, 'for the first time, women and children were employed on a large scale in work which separated them from the homes during entire working day'. Bad as the condition of women was, the worst


was reserved for children especially pauper apprentices, who from the age of eight or nine were recruited for labour in the mines of South Staffordshire, Lancashire and the West Riding under the most appalling conditions.\textsuperscript{10}

In other parts of Europe things were not much better in this regard as in France, 'where in rush seasons, children worked night as well day, being kept awake by the lash'.\textsuperscript{11} Walter Rathenau (1867-1922), the German executive, Statesman and Philosopher who thought more deeply than any other westerner of his time about the social responsibility of business, proposed replacing the word profit with responsibility.\textsuperscript{12}

By saying so, he sowed the seeds for the human relations movement that were to germinate and flourish during 1930s.

**Household Model (1900 onwards):**

Robert Owen (1771-1858) "whose ideal of life put Social Responsibility above the service of the self" proved that by assumption of social responsibility a business can pay. He exhorted to his fellow employers that they should

\begin{itemize}
\item \textsuperscript{11} Cronin, J.K., \textit{Op. Cit.}, p.19.
\end{itemize}
pay as much attention, if not more, to the 'animate machines' (workers) as they paid to the 'inanimate machines'. Owen at New Lanark and Boulton and Watt at Soho considered employee's physical well-being and proved that 'personnel management pays'. A large number of industrialists however remained blind to the example of a Boulton and deaf to the entreaties of an Owen and continued to be callous to the social consequences of amateur meddling with other peoples' lives. Their contention that business was business and a business deal was a business deal, showed that they could not appreciate the modern discoveries of the biological and social services in the realm of human emotions, motives and behaviour.

F.W. Taylor (1856-1915), the father of scientific management expressed concern for human aspects of enterprise in his principles: 'Harmony not discord, co-operation, not individualism, Development of each man to his greatest efficiency and prosperity, and mental revolution on the part of both employers and the employees.' According to H.L. Gantt, 'The business system must accept its social responsibility


and devote itself primarily to service or the community will ultimately make the attempt to take it over in order to operate it in its own interest". He argued that 'industrial democracy alone can afford a basis of industrial peace'.

Henri Fayol enunciated the fourteen principles of administration in which he included, inter alia,
(1) subordination of individual interest to general interest,
(2) order and (3) Equity. Henry Dennison of the USA in 1911 instituted a profit-sharing scheme and a management sharing plan in his business by bringing in two hundred principal employees into partnership with the management as voting shareholders with a share in electing the directors of the company. As early as in 1920, he started an unemployment insurance scheme for his employees and set up a big programme of developing management personnel. He was of the firm view that business should serve the employees and the community at large in the same manner as it serves the stockholders who were the traditional, favoured and privileged beneficiaries of the business.

16 Gantt, H.L., Organising for Work, (Harcourt, Brace and Howe, 1919), p.27.
Seehom Rowntree discussed the social responsibility which the employer bears towards his employees by virtue of his power and wealth in 'The Human Needs of Labour' (1918). He took steps to introduce participative management and greatly advocated progressive measures such as employment benefits, counselling, educational programmes, recreational and housing facilities, creation of separate industrial psychology departments in business organisations. His approach was never paternalistic. Moreover, he believed that the payment of high wages and provision of good employment conditions was not possible in business, unless it was efficiently organised and managed. "Some of the experiments, which he initiated (for better relations between managers and workers) and applied with outstanding practical success, still read like 'moonbeams from the lunacy' to the more conservative elements among business managers", observes Urwick.19

Vendor Model (1900 onwards):

Traditionally, the maxim 'Caveat emptor' 'let the buyer beware', was considered to be an acceptable one. But, the two periods of consumer unrest in early 1900's and the 1930's led to its replacement by the new maxim

'Caveat venditor', let the seller beware. The unrest of early 1900's came after several decades in which consumer's real incomes increased substantially as prices fell. This trend was reversed when new gold discoveries and refining methods led to an upturn in prices, beginning in 1897. These price-increases left fixed-income groups hard pressed and resentful of the power of the booming trusts and the growing union movement. In the early 1930's, declining consumer prices caused the public's adjustment to declining incomes but in 1935 prices began to move upward again. In protest against increase in meat prices, housewives in Detroit began meat buying strike which spread to several other cities and later led to a series of consumer conferences on the high cost of living. 20

The pressure from the consumer groups and the rise of government regulation led to consumer-orientation of business. The new marketing philosophy enunciated, "Customer is the foundation of business and keeps it in existence. What the business thinks, it produces is not of first importance especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers value, is decisive - it

determines what a business is, what it produces, and whether it will prosper. The marketing approach was first introduced into Europe in the twenties by an English retail chain, Marks & Spencer. Despite Marks & Spencer's success—in less than fifteen years, from 1920 to 1935, the firm became Europe's largest, fastest-growing, and most profitable retailer—few followed it until well after World War II. Since then the marketing revolution has swept the entire world. Consumerism took new turn and gained more strength during 1960s when Ralph Nader crusaded the consumer movement. E.B. Weiss and others who have examined the consumer movement of the 1960's have attributed consumer unrest to rising public standards of business conduct and social responsibility brought about by increasing education and sophistication.

Austere Model (1930 onwards):

With the growth of giant corporation, managers got great freedom in setting goals because the widely scattered and less strong share holders can impose only 'a limited

performance control'. To use Berle's phrase the stockholder has become a 'passive receptive', and functionless. On the matter of corporate control, Edward S. Mason wrote:

"What Mr. Berle and most of the rest of us are afraid of is that this powerful corporate machine which so successfully grinds out the goods we want, seems to be running without any discernible controls. The young lad mastering the technique of his bicycle may legitimately shout with pride, 'Look, Ma! no hands!', but is this the appropriate motto for a corporate society".24

The second problem was raised by corporate size. Competition failed to be the strict disciplinarian, and as a result, the goals of management have changed. Management got far more interested in the corporation as an institution and its continued existence than in immediate, or even in long-run profits.

The 1897-1903 Merger movement resulted in the development of huge corporate pyramids in America, and managers used them to centralise their control and maximise their utility. The stock market crash in 1929 caused the collapse of the business empires of managers and brought into light management misdeeds namely, violation of sound

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intercorporate relationships, the draining of profitable subsidiaries of cash or credit, an "almost maniacal urge to show earnings, no matter from what source", and defiance of conservative financing and accounting practices. Principles of valuation were bent to maximise current income, and public accountants were coerced into accepting valuation theories and violated their 'Plainest duties to the public'. Holding company managements were arrogant, they shielded their transactions with secrecy, and they were quick to demand that the government stay out of business whenever federal control was suggested. The shareholder had no information about the operation of the companies and suffered the loss of his investments. The demand for reform became irresistible by 1932, and new deal under Franklin D. Roosevelt supplied it.25 This had led to the growth of Accounting as a profession and to the emergence of Financial management during 1950's. The Doctrine of Trusteeship was propagated vigorously and sound financial management practices came into vogue with Accountants forming into associations. In the later years shareholders' Associations were organised. With the support of government the shareholder 'who degenerated from a controlling proprietor to a mere dividend recipient' regained some of

the powers he had lost. Democracy requires a restrained and disciplined behaviour towards the others. To retain power, managers had no other choice than becoming responsible to shareholders and started pursuing the goal of value maximisation.

Civic & Artistic (1940 onwards):

The management function of community relations has grown to its greatest importance and sophistication because of the radical change in the public expectations of business since World War I. Early community relations efforts by business were largely built on 'generally paternalistic or even philosophic recognition that industry had some responsibility to do good works.'

In the aftermath of industrialisation community was confronted with the problem of living in appalling conditions. The Hammonds best summarised the situation in England in the following terms:

"Thus England asked for profits and received profits. Everything turned to profit. The towns had their profitable dirt, their profitable smoke, their profitable slums, their profitable disorder, their profitable

ignorance, their profitable despair. The curse of Midas was on this society - on its corporate life, on its common mind, on the decisive and impatient step it had taken from the peasant to the industrial age. For the new town was not a home where man could find beauty, happiness, leisure, learning, religion, the influences the civilized outlook and habit, but a bare and desolate place, without colour, air, or laughter where man, women, and child worked, ate and slept. This was to be the lot of the mass of mankind, this is the sullen rhythm of their lives. The new factories and the new furnaces were, like the pyramids, telling of man's enslavement, rather than of his power, casting their long shadow over the society that took such pride in them. \(^{27}\)

After World War II came the great strike wave and the rude awakening for many business leaders, large and small, enlightened or otherwise, that community populations had little love or respect for them. This was a period of social reform in which industry was increasingly pointed to as the breeder of social ills. As the unions became stronger and their political power greater, a subtle but profound change of viewpoint came about - namely, that industry must be forced to pay a bill for damages rendered. This led to the development of workmen's compensation, unemployment compensation and social security.

Since 1935, when the Internal Revenue Code permitted corporations to deduct up to five percent of pretax income for charitable contributions, business leaders have been willing to see tax dollars go into good civic work—but all this was a kind of largeness for the poor.28

A further expansion in the scope of community relations was evidenced in the later years. Some stockholders have brought suits against their companies, contending the contributions are in no way related to the running of the business. The courts, however, have consistently ruled for the firms, holding that such donations do indeed serve the interest of the company even though they provide no direct benefits. They held that giving financial support was not only a right but a duty, because by helping society, the company was actually helping itself.

The Committee for Economic Development settled the issue by substantiating the need for involvement in community development, when it said, "Indeed, the corporate interest broadly defined by management can support involvement in helping to solve virtually any social problem, because people who have a good environment, education and opportunity make better employees, customers and neighbours for business than those who are poor, ignorant, and oppressed."29

Toward Comprehensive Responsibility (1960 onwards):

From the foregoing description, it is evident that business corporations had lost all its dimensions excepting the economic one as a consequence of the industrial revolution. But, with the progress in civilisation business acquired one dimension after another and became dominantly a sociological institution capable of correcting the disequilibrium between the 'socio-cultural-religious' and 'economic-technical-political' forces, caused by industrial revolution. However, social responsibility has assumed the shape of a strong movement only during 1960s when there had been a resurgence of egalitarian forces with an unprecedented vigour. It was at this time that the public has come to realise that the social performance of business corporations lagged much behind the expectations. Ascertaining the fact, Sawyer writes: "The rate of evolution and development of the social systems and controls required for a successful industrial society has lagged far behind the industrial progress causing great suffering and trauma. This has reached the point that society has now finally begun to give attention to specific society and environmental stresses caused by corporation and organisational actions".30

Describing the rapidity with which the value changes, that has brought about a dramatic change in the scope of

responsibility, Alvin Toffler observes: "Value turnover is now faster than ever before in history. While in the past a man growing up in a society could expect that its public value system would remain largely unchanged in his lifetime, no such assumption is warranted today, except perhaps in the most isolated of pretechnological communities. We are witnessing the crack up of consensus".\(^\text{31}\)

The following statements and views of renowned writers and survey findings of researches reflect the evergrowing and pervasive feelings in U.S.A., with regard to the role of business in improving the quality of life in the society.

Wayback in 1953, Bowen in his study of 'Social Responsibilities of Businessman' found a new turn in the expectations of public. He concluded: ".. it is becoming increasingly obvious that a freedom of choice and delegation of power such as businessmen exercise would hardly be permitted to continue without some assumption of social responsibility".\(^\text{32}\) Admiral Ben Moreell, Chairman of the Board, Jones and Laughlin Steel Corporation asserted this view with a word of caution:

"I am convinced that unless we accept social responsibilities the vacuum created by our unwillingness will be filled by those who would take us down the road to complete statism and inevitable moral and social collapse". 33

A public opinion survey in 1972 indicated that, "Since the mid-1960s Americans have been turning sour on America on its dreams, its premises, its leaders. Every major poll of public opinion has shown that. Now in increasing numbers Americans are focusing their new European style cynicism on the profits, prices, and policies of the country's largest corporations and on the working of the entire economy." 34

According to the findings of opinion Research Corporation in 1974, "Seven out of ten Americans believe that business has an obligation to help society, even if it means making less profit. Even among stock-holders' households public attitude holds that corporate social responsibility should take precedence over maximisation of profits". 35 Louis Harris and Associates' survey in 1977


34 'America's Growing Anti-business Mood', Business Week, June 17, 1972, p. 100.

indicated that "the portion of the public expressing, confidence in business corporations has fallen sharply from 55 per cent in 1966 to 18 per cent in 1975. Although contemporary Americans still wish to enjoy some high minimal standard of living they also want corporations to provide satisfying and meaningful work careers, to protect the fragile ecological system to refrain from discriminatory practices, to ensure product value and safety, and a host of other new demands, reflecting a post-industrial society's concern for improving social welfare. Business has had considerable difficulty in making this adjustment, as evidenced by the public's generally unfavourable attitudes toward business corporations".36

By 1965, the enlightened executives of business, realised the significance and demonstrated their willingness to accept social responsibility as part of their business function. This is clear from the writings, of Thomas A. Pettit:

"Social Responsibility of management is not merely a public relations gesture to protect the firm's profit position. There is a sincere desire on the part of responsible executives to win respect of the general public by utilising their power for the common

good. The corporation is regarded as a multipurpose social institution. The pursuit of profit is secondary in importance to the public interest". 37

In 1971, the Committee for Economic development observed the change in attitudes of managers with the increasing professionalisation and social awareness. "The modern professional manager also regards himself, not as an owner disposing of personal property as seems fit, but as a trustee balancing the interests of many diverse participants and constituents in the enterprise whose interests sometimes conflict with those of others. The chief executive of a large corporation has the problem of reconciling the demands of employees for more wages and improved benefit plans, customers for lower prices, government for more taxes, stockholders for higher dividends and greater capital appreciation - all within the frame work that will be constructive and acceptable to the society". 38

In 1977, through his study Ostuland came to the conclusion:

"It is evident that in America, the burning issues of corporate social responsibility that existed two to five years ago have now been suitably resolved at least as to philosophical content whereby extreme positions have been abandoned by all responsible spokesmen and movement towards consensus has usurped the areas of fiery debate. Questions of implementation of a highly specific sort may still exist within areas of Corporate social responsibility but such issues may be more of how-to-do-it sort and less philosophical and potentially threatening to executives." 39

Realisation:

The above analysis makes it evident that the concept of social responsibility is more than a window dressing slogan. It is a new philosophy that has reformed the relationship between business and society. Nicholas N. Eberstadt succinctly states this idea in the following words:

"An industrial revolution less than two hundred years old has allowed business to circumvent checks on power and requirements of social responsibility. Today's corporate responsibility movement is an historical swing to recreate the social contract of power with responsibility, and

as such ... the most important reform of our time."

Substantiating this viewpoint Keith Davis says:

"Social responsibility has become the hallmark of mature, global civilizations. It is necessary for an interdependent world. Values have changed to require it."

Hypothesis II:

"Social responsibility is in complete harmony with the economic objectives of the corporation."

Business management for us, living in the eighties, has a far different meaning and direction that it had for writers and practitioners who pioneered it in the early period of industrialization. There is a rapid enlargement in the philosophy, authority and responsibility of business management. The progress from trial and error management through scientific management, through human relations management to today's societal management is indeed a fascinating one. It is a long march in a very short span of time. However, when compared with what it has achieved,


what it is expected to achieve is still more formidable and testing one. It has to usurp responsibility for ushering in a new society—a society of prosperity, peace, harmony, and happiness. As such, business management cannot be content with the traditional values and goals and limited framework of operation. It requires completely a new orientation, new philosophy, and new principles to guide its decisions and actions. In its attempt to deviate from the traditional, but clear-cut economic goals towards the modern but amorphous social goals, it finds itself placed in a dilemma. Are the social goals it intends to pursue compatible with economic ones or are they diametrically opposite? As a representative of profit school of thought, Handy confirms: 'The purpose of business is profit. Profit must be the goal, the justification for corporate existence and not viewed as a result'. Adam the spokesman of social school seriously warns: 'In fact, if the primary or over-riding purpose of business is to make a profit, then the free enterprise system should and will be self-destructive'. However, Drucker, the management wizard provides a realistic and

42 Handy, John, 'The Successful Executive', Dun's April 1972 P E 42 D.
and reconciling approach. He says: "To manage a business is to balance a variety of needs and goals. This requires judgement. The search for the one objective is essentially a search for magic formula that will make judgement unnecessary.... the very nature of business enterprise requires multiple objectives.... that directly and vitally affect the survival and prosperity of the business". Drucker suggests the following eight key areas in which objectives are to be set: market standing; innovation; productivity; physical and financial resources; profitability; manager performance and development; worker performance and attitude; and public responsibility.

Not realising the pluralistic nature of business, early economists developed maximisation theories of goals and executives pursued them with vigour. From the ongoing controversy and search for goal, one would be able to visualise two major approaches to business with their sub-divisions as is presented in chart V.2.

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An attempt is made here to present an outline of these theories of firm with a view to expose their weaknesses, when pursued individually.

**Profit Maximisation Goal:**

To an old fashioned economic liberal, the fact that management has latitude to sacrifice profit to take care of its 'social responsibilities' indicates a degree of imperfection in competition that blunts the sharp edge
of the economy's efficiency. To him 'maximizing profits is the chief social responsibility of management in a competitive economy'.

This classical doctrine evolved during the 18th century holds good to owner-manager's trading or simple transforming unit confined to small markets. It is based on the important assumption that markets are perfect which leads to over simplification of the picture: "No transportation costs, no information lags, no barriers for entry or exit, laissez-faire government and with numerous buyers and numerous sellers present in the market, the impersonal market forces determine 'normal price' durable for short and long term." The owner-manager, it is further assumed, acts rationally, because he has full knowledge of information about the production function, minimum cost-mix and market behaviour, can predict the future outcome of his decision, and is in possession of criteria necessary to evaluate the soundness of his decision.

Arguments against:

1) A system based on private ownership and profit maximisation might be efficient but it leads to a serious inequality of income and wealth among different groups.

2) According to Karl Marx, a system of private ownership and profit maximisation simply will not work, that is, it will inevitably breakdown.

3) Profit maximisation tends to exploit scarce resources, encourage ferocious competition, deny labourers their due, deprive consumers of their sovereignty and deceive governmental system.

4) Profit maximisation cannot help in deciding between two courses of action, which offer benefits but differ with respect to timing. It is a vague concept. An important question that arises is whether it is long-run or short-run profit that is to be maximised.

5) It ignores the quality of the expected benefits.

6) Profit maximisation ignores the risk constraints, letting management undertake all profitable investments regardless of the associated risk which they might bring to the firm.

7) Management would ignore the risks associated with the financing of investment. Excessive borrowing induces stockholders to sell away shares and lowering share prices.

8) It tends to emphasise the short-run, sometimes at the expense of the long run welfare of the firm.
9) Profit is only one ingredient of the total picture. It is a necessary condition but not rationale of business.

Arguments for:

1) It is an ethical rather than an economic objection. Society will be better off with efficient productive system. Given the highest output, society can and does shift the distribution of income and hence output among different groups through taxes and other forms of policies.

2) The criticism is more ideological than real. It has worked and produced better living standards than other systems.

3) In a developed economy all these fears are baseless. Government regulation is a threat to 'free market economy' and businessmen never invite it.

4) A firm either in the stage of infancy or facing bankruptcy should gear up all energies to maximise profits to establish itself.

'Profit maximisation' is the survival strategy of the entrepreneur. Since what is good to individual, is good to society and what is worthy in the short term is worthy in the long-run under the perfect model, the 'policy
of profit maximisation' is considered to be a 'policy of welfare maximisation' of the society. The shortcomings are not in the 'working of the mechanism' but in the basic assumptions. Perfect competition does not exist, never has existed and never can exist. Hence, the 'pure profit maximisation' goal has theoretical flavour and has no practical validity.

Management Utility Maximisation Goal:

This theory invalidates the profit maximisation theorem by establishing management as a powerful group in decision making. From private mercantile entity of medieval period, business transformed into industrial corporate entity. The industrial revolution that took place during early 18th century caused the rise of corporations and conglomerations that gave birth to a new elite of management forming the 'technostructure' and brought about a change in the outlook. Samuelson\(^{46}\), succinctly describes this as: "The old time captain of industry, for all his creativeness and ability to calculate the risks necessary to build up a great enterprise, often had something of the buccaneer in his make up and the public-be-

damned' attitude. In company after company, the original founder has been replaced by a new type of executive... a graduate of Harvard Business School... probably... acquired special training and management skills... more adept in public relations and in the handling of people... necessarily more the 'bureaucrat', often interested as much, in preserving the status quo as in taking risk."

Confirming the discretion managers have in decision making, Crew\textsuperscript{47} writes: 'To the extent that pressure from the capital market and competition in the product market is imperfect the manager, therefore, has discretion to pursue goals other than profits.'

K. Rothschild,\textsuperscript{48} suggested that the primary motive of manager is to perpetuate the enterprise. This is more prevalent among managers of oligopolistic concerns. He puts it as a desire to 'secure profits'. A firm favouring security, says he, will always reinvest the bulk of its profits. M. Reder\textsuperscript{49} argues that a manager may have two...


objectives - (i) to maximise profits, and (ii) to maintain financial control of the firm. In these circumstances, he may not maximise profits in order to achieve the second objective. Joel Dean\(^5^0\) opines that business in its attempt to maintain technical solvency would prefer to forego profit opportunities. 'The fear of bankruptcy and the even more widespread fear to temporary financial embarrassment are probably more powerful drives than the desire for the absolute maximum in profits'.\(^5^1\) Williamson,\(^5^2\) in his 'Managerial Discretion Theory' related salary, security, status, power, prestige, social service etc., variables to managerial motivation. Hicks\(^5^3\) and Scitovsky\(^5^4\) argue that managers prefer leisure to profits. As profit maximisation is possible only through debt financing, managers' desire to limit the debt financing to be free from worry, can act as a major constraint.

Arguments against:

1) J.W. Elliot\(^5^5\) concluded that firms managed by the

\[\text{Dean, Joel, Op.cit., p.32.}\]
owners held fewer liquid assets. This suggests a greater propensity to take risks.

2) W.G. Lewellen found, top managers of large firms have most of their wealth tied to firms' fortunes, hence they behave more like owners.

**Arguments for:**

1) Managers are not diversified, so setbacks effect them more seriously. Accordingly, managers of widely held firms tend to play it safe rather than aggressively seek to maximise prices of their firms' stocks.

2) Managements' financial interest in the modern corporation is typically small, and only one of many motives that keep executives going; other motives which are just as important, often run counter to the corporate financial interests and thus distinguish management clearly from stockholders in whose eyes the company is essentially financial as opposed to a social organisation.

This theory delimits the scope of profit maximisation goal. However, manager is not completely free to determine goals of enterprise on his own. As such the school, serves

to explain the behaviour of one 'major force' in the enterprise but fails to portray the working of business enterprise in its totality.

**Sales Maximisation Goal:**

Baumol\(^58\) emphasised the alternative - 'sales maximisation', with a minimum guaranteed profit level. This profit constraint implies that managers are not entirely free from shareholders' influence, though ownership is separated from control. Managers pursue the objective of sales-maximisation, since they have come to believe that this will enhance their salaries, power and standing, both within their own company and the business community as a whole. Baumol contended that 'executive salaries appear to be far more closely correlated with sale of operations of the firm than with its profitability'. Patton\(^59\) tested the correlation between executive pay and sales and endorsed this point of view. Roberts\(^60\) concluded that executive had apparently a stronger correlation with sales than with profits. Chiu, Ebbing and McGuire reached a similar conclusion. They argue that the 'causation runs from sales

\(^59\) *Loc. cit.*
\(^60\) *Loc. cit.*
to incomes... the board of directors of an enterprise... determines executive compensation... by current or past sales or by realised changes in sales.

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Arguments against:

1) Focus on 'Consumer loyalty' makes managers fall short of the expectations of other groups of coalition in enterprise.

2) In order to capture market, unfair practices may be employed, leading to predatory competition and wastage of resources.

3) In an effort to maintain or increase the market share the firm tends to make over-utilisation of resources leading to a fall in efficiency and escalation of costs which erode profit margins.

4) In times of recession, or in times of fast changing tastes of consumer, adjustments, particularly backward will be difficult because organizational system cannot be as flexible as it is expected to be.

5) Profits will be low and self-financing opportunities become minimised. Hence financing becomes costly.

61 Ibid., p.149.
Arguments for:

1) Consumer and his satisfaction become the focal point as creation of new markets and expansion of existing markets is necessary.

2) It increases competitive spirit, fosters non-price competition and search for 'quality'.

3) Emphasis on innovation in all areas of business will be major feature of management. New techniques, new processes, new methods and new products and services flow in and a new society in which 'quality of life' will be high, will usher in.

4) Emphasis on marketing science and practice ensure good relations of firm with consumer and society. Constructive and creative measures like consumer education, rural marketing, extensive and intensive distribution, good packaging etc., enhance the status of the firm.

5) Consumer Councils will be encouraged and their guidance will be sought in making policies for production of goods and services.

6) Sound relations with suppliers and dealers is a prerequisite of this strategy. As such, trade flourishes and society secures economic prosperity.
The school tries to give customer orientation to the business and thereby assure growth and stability. However, in a dynamic environment, sales maximisation can be tried but cannot be achieved. To mobilise funds for expansion, heavy debt component cannot be introduced and reliance on shareholders' equity becomes inevitable. For this purpose dividend declarations and capital gain promises become necessary. Thus, sales maximisation and value maximisation run counter to each other.

Wealth Maximisation Goal:

Financial theorists favour the wealth maximisation objective as the best alternative for profit maximisation. It embodies the return trade-off of the market and acts as a guide in allocating funds within and among business firms. Emphasising its importance, Solomon writes: "The gross present worth of a course of action is equal to the capitalized value of the flow of future expected benefits, discounted (or capitalised to) at a rate which reflects their certainty or uncertainty. Wealth or net present worth is the difference between gross present worth and the amount of capital investment required to achieve the benefits being discussed. Any financial action which creates wealth or

which had a net present worth above zero is desirable one and should be undertaken. Any financial action which does not meet this test should be rejected. If two or more desirable courses of action are mutually exclusive (i.e., if only one can be undertaken), then the decision should be to do that which creates most wealth or shows the greatest amount of net present worth; in short, the operating objective for financial management is to maximise wealth or net present worth."

Arguments against:

1) Good return on investment becomes an important criteria to satisfy shareholders' expectations. Hence, other investments important from the point of view of other groups may be neglected.

2) It is assumed that shareholders will be active, responsible and rational. But, the scattered shareholders display a minimum of these characteristics.

3) A slump in economy depresses stock prices over which management has no control.

4) Daily fluctuations in stock prices sometimes draw too much attention from management and distract them to the detriment of the firm's profit plan.
While it is a useful goal, shareholders' wealth maximisation is something more to strive for than to achieve.

**Arguments for:**

1) It serves as a focal point for all the considerations in operating the firm and it is an easily observed measure.

2) When the goal is in force, objectives of management and stockholders are compatible.

3) This objective fosters the concept of perpetual life of the firm because market price behaviour reflects the future benefits of stockholders.

4) It helps to build a sound financial structure, make efficient resource allocations and diversity enterprise operations to the benefit of other constituent groups—consumers, employees and the society.

The value maximisation school highlights the shareholders' interest and in pursuit of satisfying shareholders, management may rely less on debt financing to minimise risk and try to shun responsibility for doing more than minimum good to other constituent groups. However, it is a pragmatic goal designed with long term needs taken into consideration,
and if properly balanced with other interests will yield good results.

**Satisficing Behaviour Goal:**

This theory expounds that problem solving in the enterprise - a coalition of managers, workers, shareholders, creditors and customers - is a political process. The objective must be seen as emerging from a process of internal bargaining between the individuals and groups comprising the firm, that will naturally have conflicting interests. The outcome is likely to be a continuously, shifting objective consisting of multiplicity of imperfectly articulated and integrated goals which probably does not make sense to think in terms of maximising.

The following are the important assumptions of the theory:

1) Managers take policy decisions but their freedom is limited by the internal groups of the enterprise.

2) The information available is limited and always expensive to obtain. Sound decision making is therefore, a remote possibility.

3) The behavioural theorists argue that internal organisation is not 'mechanistic' and hence the behaviour
of the firm is not independent of it. Leibenstein\textsuperscript{63} coined a phrase 'x-efficiency' to describe internal efficiency of the organisation which is the resultant of the functioning of people within the organisation.

4) The multiple goals representing the conflicting interests of the coalition group cause search for optimisation and 'sub-optimisation'. However, the firm does not make continuous and mute adjustments in its decision variables, in order to ensure that it is continuously in an overall optimum position.\textsuperscript{64}

The following factors lead to the satisficing behaviour of the groups in an enterprise.\textsuperscript{65}

- stable aspiration levels
- side payments
- organisation slack and x-inefficiency
- slow learning and uncertainty avoidance

Management has to optimise the multiple goals - production, inventory, sales and profit. It is not difficult for, the goals are functions of aspiration levels, which change rather slowly. The top management or entrepreneur


purchase conformity to the goals set, by giving managers impressive titles, decent offices, more authority and by giving workers more money, holidays, leisure etc., and by increasing dividends to shareholders. When payments are more than expected, complacency develops and x-inefficiency creeps in. Policing measures help reduce x-inefficiency but tend to increase costs. This continuous slack leads to adaptive behaviour. Further the goal conflicts are resolved sequentially but not simultaneously. Slow reacting and learning process with a tendency to avoid uncertainty encourage conformity.

Herbert A. Simon\textsuperscript{66} lent support to satisficing behaviour by making a scathing attack on the classical profit maximising approach on the grounds that man has bounded rationality and that he lacked information and yardsticks necessary to make maximising decision.

Arguments against:

1) Satisficing firms tend to have vaguely stated corporate goals which emphasise the status quo and do not really serve as a focal point for all decisions.

2) 'Satisficing' leads to complacency, forbids competition, subdues the aggressive character of managers.

3) Under favourable conditions, if other firms maximise profits satisficing firms lose their competitive strength.

Arguments for:

1) The myth of maximising is exploded and decision process in the true perspective is presented.

2) Under monopolistic market conditions, satisfying is inevitable for survival.

3) In times when awareness of the various groups is on the increase it is fair and also imperative to meet their demands; otherwise, the firms will earn distrust, apathy and criticism.

This is the realistic model for enterprises operating in a dynamic environment under imperfect market conditions. The philosophy paves way for careful choices, optimal utilisation of resources and guarantees reasonable returns to all constituent groups of business. The philosophy is applied to business in its narrow socio-economic environment. A further extension so as to place it in broader socio-economic setting is required to enhance the validity of the theory.
to progressive, nation-oriented, and people-centered business organisations.

**Social Values Goal:**

This is the early form of the 'Social responsibility school', the emergence of which is mainly due to the decline in credibility, respectability, and viability of business in the minds of public. The school advocates that business has to be ethical and rational in exercising the authority granted to it by the society, because enterprise is a trust. All life is a trust and all power carries with it obligations. It has to consider whether every business policy and business action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony. The philosophy thus underlines, harmony with societal values; high standards of honesty and equity; high objectivity and rationality and sound judgement for human betterment.

**Arguments for:**

1) Modern enterprises have developed regard to 'trusteeship philosophy'. 'Today manager serves as trustee

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not only for the owners but for the workers and indeed for our entire society. Corporations have developed a sensitive awareness of the irresponsibility for maintaining an equitable balance among the claims of stockholders, employees, customers and the public at large. 68

2) To say that corporation need not respect the basic values is to say that men who manage corporation may suspend the code they live by during business hours... and reinstate them at their discretion. This double standard has been overlooked in the past and camouflaged with the smoke screen of profits. Profits are the measure of the company's success but in no way give it licence to commit moral murder. 69

3) Ethical doctrine would accelerate the growth of business management as a profession. It facilitates the transnational expansion of business in the most acceptable manner.

4) The 'profit motive' led businessmen to carry exploitation to the extreme and the image of business was


tarnished completely. Business and managers have been the objects of public condemnation and hatred long since. The social values approach creates an atmosphere of synthesis, mutual trust and confidence among all constituents of business undertaking and a pride of place in society.

Arguments against:

1) Henry Ford II, Chairman of the Board of the Ford Motor Company argues: 'Once business is business' meant dog-eat-dog, the devil take the hindmost, the law of the jungle. Today, we need the phrase 'business is business' just to remind us that business is not first and foremost a social institution, a charitable agency, a cultural gathering, community service, a public spirited citizen. It is an action organisation geared to produce economic results in competition with other business.70

2) According to Litterer, Corporate conscience is irrelevant to the corporate purpose. Conscience is not something you introduce as a piece of organisational decor, performing simply a decorative function. If it is allowed to influence the mechanism of economic decision-making, conscience automatically assumes a central role. Nothing

could be worse. The stronger the conscience, the harder it will be to make a business like decision and get the economic job done.  

3) Ethical concepts connote altruism and philanthropy. They tend to be vague. Development of universal standards is difficult. Further, conformity to a code of conduct crushes human spirit and retards executive development, as it emphasises rigidity of action than creative expression of dissent.

4) Enthused by the public recognition and applause enterprise managers may carry the service motto to an extent where it will endanger the economic vitality of the business.

Business is an economic organisation but operates in a social environment. So a synthesis need be established between business interest and social interest. There is general consensus that the 'economic man' is dead, if indeed he ever did exist. Business deals with a whole man in a whole social structure and all aspects of this situation are inter-related. Avoidance of human consideration in business


73 Ibid., p. 848.
or economics may ultimately make a businessman a 'Shylock'. The growth of human civilization may not allow such a thing to happen. The concept of social responsibility tries to avoid 'Shylockism' from business affairs. It would be quite in tune with the times if businessmen believe that wages should be fair rather than competitive; profits should be reasonable rather than exorbitant, and prices should be non-inflationary.\(^4\)

**Social Responsibility Goal:**

Unlike the former school, the development of this school finds its origins not in the hostility toward manipulation and corruption of business managers but confidence in their constructive leadership.

According to this school, society is one of the major participants in the business and as a member of coalition of the groups it has a right to demand its due share. The claim is substantiated by an argument that embodies risk-return principle.

Society provides basic infrastructure for the establishment, protection, operation, and development of business. Further, in case of heavy losses businessmen lean upon society which has to bear the ultimate risk by completing the

deficit arising out of depletion of the insolvent's resources, money and property. Also society creates an advantageous situation to business by way of preferential treatment to make money. Therefore, the concept of profit that reserves all surplus to a particular class of people appears to be unjust. It is the greatest fallacy of our times. The surplus is to be called 'social surplus' and allocated to all participants equitably. Society is the legitimate stakeholder and profit-recipient of business.75

Arguments for:

1) When one uses the phrase 'Social responsibility' of the corporation, one is not indulging in the rhetoric or thinking of noblesse oblige or assuming that some subversive doctrine is being smuggled into the society, but simply accepting a cardinal socio-psychological fact about human attachments.76

2) There is a point beyond which diffusion of stock ownership must enfeeble the corporation by depriving it of virile interest in management upon the part of some one man or group of men to whom its success is a matter of personal

and virtual interest. And conversely, at the same point, the public interest becomes involved when the public can no longer locate some tangible personality within the ownership which it may hold responsible for the corporation's conduct.77

3) In the long run the profits of business will be higher, if it is socially responsible. For example, if a business in a ghetto does not hire members of the local minority groups it will lose business and suffer pilferage, it may even be burnt down. Therefore, it makes more sense to be socially responsible even if it costs more in the short run.

4) The notion that maximisation of private returns on investment is the true measure of efficiency has long since been abandoned even by economists who are by no means socialists. Economists now talk in terms of maximisation of social returns which will maximise gains to the nation ... it is not our intention that business and industry should not make profit or prosper ... what is required from the business world is leadership which enlightened its own and the public interest.78

5) Socially responsible firms attract shareholders who cherish democratic values, build strong consumer loyalty, provide scope for the utilisation of employees' talents in the reconstruction of society and finally create a sense of pride for itself and for the related groups. 79

6) Socially responsible firms fare better in the public opinion polls and stand fair chance of being rated as among the 'best firms' and receiving 'business leadership' awards from public organisations. 80

Arguments against:

1) 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. 81

2) Corporate manager must be responsible to the stockholders only. If the link between owners and managers is ever dissolved, management will lose the legal basis for its existence. 82

3) If one enterprise spends money on social responsibility and its competitors do not, this increases the costs of the socially responsible firm and thus, its prices, and it will lose business.

4) Social responsibility will sabotage the market mechanism and systematically distort the allocation of resources... if, as is widely thought, the essence of corporate statesmanship is to seek less than maximum profit, post-war experience is eloquent evidence that such statesmanship leads to serious malfunctioning of the economy as a whole. 83

Social responsibility is not a mere philosophy, but a difficult goal which business management has accepted to attain in response to the demands of the society for improved standard of living. When judged in the narrow economic market framework, the acceptance of this goal appears to be a subversive act. But in the broadened socio-economic market framework, the fulfilment of the social demands, certainly lead to maximisation of the value of the enterprise.

Reconciliation

Richard Sells argues that, "the root of the conflict over social responsibilities lies in the irreconcilability of two equally untenable theories of the corporation" namely, the 'traditional corporation' which intends to maximise profits, and the metrocoporation' which assumes limitless social obligations. He puts forward the "well-tempered corporation" a compromise between these two extremes, which regards profits as primary but also considers its social obligations in the decision-making process". 84

However, the editors of 'Fortune' find it difficult to reconcile: "It is impossible to attach a definite meaning to the expression 'profits are secondary' or even to 'profits are primary but co-ordinate with other functions'. If profits are secondary, then they can always be sacrificed for the sake of fulfilling obligations that are primary; but since profits are an indispensable condition of the corporation's existence, this is tantamount to saying that the corporation can sacrifice its existence and at the same

time fulfill its obligations to the community. Again to say that profits are a primary function, coordinate with other functions, amounts to saying that these other functions are also primary and hence of equal importance. So what does the corporation do in the event of conflict?"

It is true that the 'social values' philosophy sets limits to the freedom of action of managers, by providing a value framework to operate within. But it should not be forgotten that genuine freedom is freedom under the law. It chastises the means of profit making and gives respectability to business. It secures public support, government cooperation, consumer loyalty, employee commitment and share-holders' confidence to the enterprise management. So it cannot be dispensed with. The social responsibility goal seeks the involvement of enterprise in all-round prosperity of society depending upon the degree of their availability of finances, human and physical resources with the enterprise. It is rather a fair weather concept. It demands enterprise to grow into capable organisation to accept the broad challenge of becoming an agent of social change for better. As the philosophy is based on economic prosperity, it will be fallacious to say that it is an anathema to economic philosophy.
Solomon and Pringle underscore the synthesis argument in the following lines: "In discharging its responsibilities it is argued by many that a modern day firm serves many constituencies with management acting as trustee not only for the owners, but for all other connected with the enterprise including employees, customers, suppliers, creditors, the government and the general public. Management must concern itself with social responsibility, ethics, quality, safety and a constellation of factors that are difficult to quantify. A firm can pursue all these objectives and still use profit maximisation and its counterpart, value, maximisation as a criteria, for making efficient economic choices". 85

CONCLUSION:

The systematic examination of the validity of the two hypotheses - one related to the philosophical rationale and other connected with the economic rationale of corporate social responsibility, by exploring the views of various writers and practitioners leads to the conclusion that: "When one uses the phrase 'social responsibility' of the corporations, one is not indulging in rhetoric (though many

corporate officials are, or thinking of noblesse oblige (which fewer corporate officials do), or assuming that some subversive doctrine is being smuggled into the society (as some laissez-faire economists suggest), but simply accepting a cardinal socio-psychological fact about human attachments. Unless one assumes that loyalty and identification are simply monetary transactions, or that employment is simply a limited relation of service-for-payment then the corporation is a social world, with social obligations to its members, as well as, an economising instrument competitively providing goods at least to an economic world of consumers. 86

'Profit is not the explanation, cause or rationale of business behavior and business decisions, but the test of their validity'. 87 'Without reasonable assurance of profits the businessman could not long continue as a businessman. But there is more to his responsibility than profits. Perhaps it can be summarised by saying that he has an obligation to keep alive and healthy the goose which lays the golden eggs'. 88 'The larger a company becomes, 

the greater are these responsibilities, but all companies can assume some share of them at no cost and often at a short run as well as a long run profit. The assumption of social responsibility is more of an attitude, of the way a manager approaches his decision making. It is a philosophy that looks at the social interest of business over the long run as compared with the old, narrow, unrestrained short-run self interest. The new view can accommodate substantial actions in the social interest without eroding the profit motive. Indeed, a stronger profit motive can result from a greater assumption of social responsibilities.  