pressure to improve its business practices. That year, the residents of Plachimada, a village in India, accused the company of sucking the wells dry and polluting the ground water. In 2004, the local government forced Coca-Cola to shut down their plant. The public relations impact around the world was substantial. The company announced that "if people are perceiving that we're using water at their expense, that's not a sustainable operation. . . and for us, having the goodwill in the community is an important thing." In response, the company spent US$10 million establishing a foundation to improve water in India, installed 320 rainwater harvesting systems, and was providing clean drinking water to more than 1000 schools in the country.

Did Coca-Cola over compensate for their business use of water? What is the proper role for a company? Are sustainable business practices part of a business's responsibilities?

SOURCES: Coca-Cola Stories, Accessed 5/30/13, www.thecoca-colacompany.com/citizenship/water_main.html; "World's Most Admired Companies," CNNmoney.com, Accessed 5/30/13, http://money.cnn.com/magazines/fortune/most-admired/2012/full_list; "Coca-Cola Helps Advance Water Sustainability Projects in the Pacific Region," May 12, 2011, Environmental Protection, (www.epoline.com/articles/2011/05/12/coca-cola-advances-water-sustainability-projects-in-pacific-region.aspx); Liu, L.W. 2008, "Water Pressure," Time, June 12, 2008 (www.time.com/time/magazine/article/0,9171,1814261,00.html);.

Social Responsibilities of Strategic Decision Makers

Should strategic decision makers be responsible only to shareholders, or do they have broader responsibilities? The concept of **social responsibility** proposes that a private corporation has responsibilities to society that extend beyond making a profit. Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce but also the communities where the plants are located and the customers with no other source for the discontinued product. Such situations raise questions about the appropriateness of certain missions, objectives, and strategies of business corporations. Managers must be able to deal with these conflicting interests in an ethical manner to formulate a viable strategic plan.

RESPONSIBILITIES OF A BUSINESS FIRM

What are the responsibilities of a business firm and how many of them must be fulfilled? Milton Friedman and Archie Carroll offer two contrasting views of the responsibilities of business firms to society.

Friedman's Traditional View of Business Responsibility

Urging a return to a laissez-faire worldwide economy with minimal government regulation, Milton Friedman argues against the concept of social responsibility as a function of business. A business person who acts "responsibly" by cutting the price of the firm's product to aid the poor, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, according to Friedman, is spending the shareholder's money for a general social interest. Even if the businessperson has shareholder permission or encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, harm the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient—either prices go up to pay for the increased costs or investment in new activities and research is postponed. These results negatively affect—perhaps fatally—the long-term efficiency of a business. Friedman thus referred to the social responsibility of business as a "fundamentally subversive doctrine" and stated that:

> *There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*[1]

Following Friedman's reasoning, the management of Coca-Cola was clearly guilty of misusing corporate assets and negatively affecting shareholder wealth. The millions spent in social services could have been invested in new product development or given back as dividends to the shareholders. Instead of Coca-Cola's management acting on its own, shareholders could have decided which charities to support.

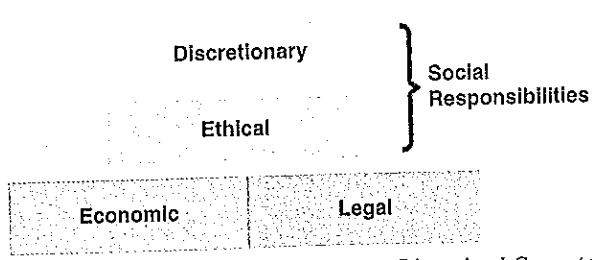
Carroll's Four Responsibilities of Business

Friedman's contention that the primary goal of business is profit maximization is only one side of an ongoing debate regarding corporate social responsibility (CSR). According to William J. Byron, Distinguished Professor of Ethics at Georgetown University and past President of Catholic University of America, profits are merely a means to an end, not an end in itself. Just as a person needs food to survive and grow, so does a business corporation need profits to survive and grow. "Maximizing profits is like maximizing food." Thus, contends Byron, maximization of profits cannot be the primary obligation of business.[2]

As shown in **Figure 3–1**, Archie Carroll proposed that the managers of business organizations have four responsibilities: economic, legal, ethical, and discretionary.[3]

1. **Economic** responsibilities of a business organization's management are to produce goods and services of value to society so that the firm may repay its creditors and increase the wealth of its shareholders.
2. **Legal** responsibilities are defined by governments in laws that management is expected to obey. For example, U.S. business firms are required to hire and promote people based on their credentials rather than to discriminate on non-job-related characteristics such as race, gender, or religion.
3. **Ethical** responsibilities of an organization's management are to follow the generally held beliefs about behavior in a society. For example, society generally expects firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organization's management fails to act according to generally prevailing ethical values.
4. **Discretionary** responsibilities are the purely voluntary obligations a corporation assumes. Examples are philanthropic contributions, training the hard-core unemployed, and providing day-care centers. The difference between ethical and discretionary responsibilities is that few people expect an organization to fulfill discretionary responsibilities, whereas many expect an organization to fulfill ethical ones.[4]

FIGURE 3–1
Responsibilities of Business



SOURCE: Suggested by Archie Carroll in A. B. Carroll, "A Three Dimensional Conceptual Model of Corporate Performance," Academy of Management Review (October 1979), pp. 497–505; A. B. Carroll, "Managing Ethically with Global Stakeholders: A Present and Future Challenge," Academy of Management Executive (May 2004), pp. 114–120; and A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," Business Horizons (July–August 1991), pp. 39–48.

Carroll lists these four responsibilities *in order of priority*. A business firm must first make a profit to satisfy its economic responsibilities. To continue in existence, the firm must follow the laws, thus fulfilling its legal responsibilities. There is evidence that companies found guilty of violating laws have lower profits and sales growth after conviction.[5] On this point, Carroll and Friedman are in agreement. Carroll, however, goes further by arguing that business managers have responsibilities beyond economic and legal ones.

Having satisfied the two basic responsibilities, according to Carroll, a firm should look to fulfilling its social responsibilities. Social responsibility, therefore, includes both ethical and discretionary, but not economic and legal, responsibilities. A firm can fulfill its ethical responsibilities by taking actions that society tends to value but has not yet put into law. When ethical responsibilities are satisfied, a firm can focus on discretionary responsibilities—purely voluntary actions that society has not yet decided to expect from every company. For example, when Cisco Systems decided to dismiss 6000 full-time employees, it provided a novel severance package. Those employees who agreed to work for a local nonprofit organization for a year would receive one-third of their salaries plus benefits and stock options and be the first to be rehired. Nonprofits were delighted to hire such highly qualified people and Cisco was able to maintain its talent pool for when it could hire once again.[6]

As societal values evolve, the discretionary responsibilities of today may become the ethical responsibilities of tomorrow. For example, in 1990, 86% of people in the United States believed that obesity was caused by the individuals themselves, with only 14% blaming either corporate marketing or government guidelines. By 2003, however, only 54% blamed obesity on individuals and 46% put responsibility on corporate marketing and government guidelines. Thus, the offering of healthy, low-calorie food by food processors and restaurants is moving rapidly from being a discretionary to an ethical responsibility.[7] In recent years, school cafeterias across the United States have added fresh vegetables, removed soda machines, and in 2012, many school systems also moved to eliminate the much maligned *pink slime* from their beef product lines.

Carroll suggests that to the extent that business corporations fail to acknowledge discretionary or ethical responsibilities, society, through government, will act, making them legal responsibilities. Government may do this, moreover, without regard to an organization's economic responsibilities. As a result, the organization may have greater difficulty in earning a profit than it would have if it had voluntarily assumed some ethical and discretionary responsibilities.

Both Friedman and Carroll argue their positions based on the impact of socially responsible actions on a firm's profits. Friedman says that socially responsible actions hurt a firm's efficiency. Carroll proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency because it must not only comply with the law, but must prove its compliance with regulators.

Friedman's position on social responsibility appears to be losing traction with business executives. For example, a 2006 survey of business executives across the world by McKinsey & Company revealed that only 16% felt that business should focus solely on providing the highest possible returns to investors while obeying all laws and regulations, contrasted with 84% who stated that business should generate high returns to investors but balance it with contributions to the broader public good.[8] The United National Global Compact was started in 2001 as an initiative for a company to voluntarily commit to aligning their operations with 10 principles covering human rights, the environment, labor and corruption among others. By 2012, over 6,800 companies in 140 countries had signed the compact. Those CEOs have agreed to report on their activities annually.[9]

Empirical research now indicates that socially responsible actions may have a positive effect on a firm's financial performance. Although a number of studies in the past have found no significant relationship,[10] an increasing number are finding a small, but positive relationship.[11]