

Models of Social Responsibility and Considering the Stakeholder

by Sophia



WHAT'S COVERED

What is social responsibility? If you ask several different people, you'll probably get several different answers. This tutorial covers socially responsible business practices, especially considering stakeholders. Our discussion breaks down as follows:

1. Social Responsibility and Stakeholders

1a. Two Models

1b. Advantages/Disadvantages of Social Responsibility

2. Ethics vs. Social Responsibility

1. Social Responsibility and Stakeholders

Up until the 1930s, businesses were free to do virtually anything they wanted. They could make whatever claims they chose, put anything on a billboard, or put anything they wanted into the products that they sold to consumers.



DID YOU KNOW

"Caveat Emptor" was the phrase of the day during this time period, which is a Latin phrase meaning "let the buyer beware."

Around the time of the Great Depression, there were a plethora of economic problems. The president at the time, Franklin Delano Roosevelt, began a program of improving social conditions that has continued up until today.

Social responsibility is defined as the responsibility to act in a way that benefits society at large. In other words, it involves thinking not just of yourself, but of society as a whole. Companies must consider their impact on society because they play a big role in our everyday lives. They have to consider the consequences of their decisions--the potential benefit or detriment of those decisions to society as a whole.



TERM TO KNOW

Social Responsibility

The responsibility to act in a way to benefit society at large.

1a. Two Models

There are two basic models of social responsibility:

Models of Social Responsibility	
Economic model	Socioeconomic model
In this model, a company's primary responsibility is to its shareholders, and thus its main goal should be to maximize profits. This model assumes that society benefits when companies make profits. When companies make profits, they're able to produce more product, which improves the lives of individuals. They're also able to hire more people and pay them more, which provides jobs and allows employees to have a better standard of living.	In this model, businesses have a responsibility to the stakeholders and society. The focus is not just on the profits, or the people "inside"; they need to consider the stakeholders as well.

Stakeholders are the people and parties directly affected by an organization. They can be any of the following:

- Customers, who deserve and want safe products. They don't want products that are going to injure them in some way.
- Employees, who want a safe, stable work environment.
- Investors, who want safe investments. They want to know that the money they invest is going to be well cared for and put to work, not squandered.
- Communities and the environment, because we all want clean air, clean water, and clean land.



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1b. Advantages/Disadvantages of Social Responsibility

Let's take a look at some advantages and disadvantages of being socially responsible:

Social Responsibility	
Advantages	Disadvantages
Can't ignore social issues: Being socially responsible is really a part of business because it can increase profits, customers are more loyal, and people will want to invest in the business.	Responsibility to shareholders: A manager's primary job and responsibility are to the shareholders or the owners of the business. Therefore, anything that a manager does that distracts from that job takes away from the primary reason he or she is there.

Have the resources to cause change: Businesses have resources that they can use to help solve some of these social issues--technically, financially, and managerially.	Use resources for profit: Resources made by a business belong to the business, and they should be used to create profit, jobs, <i>more</i> resources and products for the community at large, and to increase employee morale and well-being.
Creation of stable environment: By businesses helping, it creates a more stable environment for the rest of us.	Social problems from society, not business: Businesses feel like this is not something that they should have to solve if they haven't caused the problems in society.
Decreases need for government intervention: If businesses are socially responsible to their stakeholders, this will decrease the need for government intervention with the business community and our everyday lives.	Government accountable, not business: If government officials are falling down on the job, then they should be the ones held accountable, not necessarily the business.

As you can see, social responsibility isn't just a catch phrase. It's a lot of hard work, and the arguments for and against a company being socially responsible--depending on how you personally define it--are valid on both sides.

2. Ethics vs. Social Responsibility

Let's compare ethics to social responsibility because, clearly, there is some overlap between the two. To be ethical and to be socially responsible are very close to each other.

Ethics focuses on behaviors and actions--those individual things, similar to the concept of microeconomics.

Social responsibility involves a big-picture view. It's how those ethical decisions as behaviors and actions affect the world at large--more like macroeconomics.

How do you balance the needs of the business with the needs of the other stakeholders that you can affect on an everyday basis?

IN CONTEXT

Consider the example of a cigarette manufacturer. Is it ethical to make a product that you know is going to hurt somebody?

On the one hand, you're making a product that people want; you're fulfilling a need in the market. You're paying your workers and providing jobs.

But is it socially responsible to distribute cigarettes and make an income on something that you know is going to harm someone?

First of all, it shortens people's lives. It violates their right to life. It's also in direct opposition to the

clean water, air, and land aspect. Every time someone smokes a cigarette, they're essentially their own mini power plant, producing pollution that affects the rest of us.

So, is it ethical or unethical? Is it socially responsible or not? As you can see, trying to pry the two apart can be rather difficult, and you can make arguments for both sides of ethical behavior and social responsibility.



SUMMARY

Today, we learned **social responsibility and stakeholders**, considering the impact upon those stakeholders involved in your business. We also discussed the **advantages/disadvantages of social responsibility**. Lastly, we compared **ethics vs. social responsibility**, two concepts that are closely related but ultimately very different.

Good luck!

Source: adapted from sophia instructor james howard



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