Course Learning Outcomes for Unit III

Upon completion of this unit, students should be able to:

1. Compare and contrast different strategic models.
   1.1 Compare and contrast Friedman's traditional view with Carroll's contemporary view of social responsibility.

Reading Assignment

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Read pages 1-10 of the following article:

Certain parts of the nation suffer crippling winter ice storms. These windless storms create gardens of eerie crystal-like sculptures, that is, until the weight of the ice begins to cause limbs to snap and tear away. In the stillness, one can hear the loud explosive cracks as overburdened limbs are, one by one, ripped away and crash to the ground. Some say these winter ice storms are nature’s way of pruning. Nature, like government, is often indiscriminate and heavy handed in the way it achieves its objectives.

Consider the careful gardener or forester. Early spring is pruning time, when excess growth is cut away to ensure the tree itself remains healthy for the long term. Rarely do these trees suffer the same fate of those roughly shorn by nature’s winter ice storm bludgeons. Trees, when left by themselves, will grow indiscriminately until something stops the growth. Their growth is for the sake of growth. They grow as large as they can until something, like a weather event, cuts them back or down. Conversely, the gardening pruning process is designed to enable the tree to withstand the shock of nature’s own weather pruning remedies by giving it the ability to grow as strong as possible.

A corporation’s growth is very similar to the growth of trees. What are the goals of a corporation’s CEO? The main goal is to make a profit, but also to increase the value of the firm. Without profits, a company will quickly go out of business. A sole focus on increasing profits overlooks the dangers of indiscriminate growth, which, like the trees not properly pruned, can cause expensive stoppages to the continued growth in ways not initially perceived. “Here today but gone tomorrow,” is not a fitting mantra for any corporate mission or value statement. All corporations strive to achieve viability in both the short and long term.

Corporate social responsibility (CSR) proposes that a corporation has responsibilities to society that extend beyond making profit (Wheelen, Hunger, Hoffman, & Bamford, 2015). CSR is a way in which companies can create value, increase brand equity, and achieve profitability in both the short and long term. CSR is about smart value accumulation as well as risk management. CSR is a management concept used for building a positive image of the company via public relations, along with developing a corporate culture of care for employees, local communities, and causes. Companies are very cautious about which programs and causes they support with their donations.

A few companies that follow CSR strategies are Microsoft, Google, Walt Disney, BMW, Apple, Mercedes Benz, Volkswagen, Sony, Colgate/Palmolive and Lego (Campbell, 2010). Given the climate of corporate responsibility, it is now easier to find companies that have a CSR policy than not. Some companies, like Amazon.com, have programs that give back to designated charities by their customers. Amazon.com also developed the Green Amazon.com, later called Amazon.com Green, for the purpose of developing an environmental program, but designed on the business practice of cutting operational expenses and increasing profits. Dr. Pete Trzop developed the program at the Campbellsville, Kentucky fulfillment center to achieve a concept of stronger corporate value and profit, while affecting the CSR policies of the company specifically relating to the environment.

On the other hand, bad business behaviors just bring on more regulation and less market freedom. The Sarbanes-Oxley act was not put in place because businesses wanted the protections for shareholders and whistleblowers. Government enacted this sweeping law to protect shareholders and investors because of the bad behavior of a few large corporations (e.g., Enron, Tyco, and QUALCOMM). Sarbanes-Oxley is an example of government engaged in management with a blunt instrument. Had these companies followed CSR, creating value overseen by governing boards fulfilling their fiduciary responsibilities, government would have never considered this layer of expensive regulation.
When a company places its strategic focus on short-term profits, this tips the balance away from balance sheets towards profit and loss statements. This has a destabilizing effect on business, taking away from its virtuous course of prudence and moderation in its treatment of its stakeholders. Companies need to do more than pursue short-term profits if they want to grow in value (Young, 2010). Companies need to meet a balance between achieving enough short-term profit to stay open for business, and long-term viability.

Corporate social responsibility essentially means doing the right thing. The term doing the right thing is obviously very subjective and determined in the eye of the beholder. In 2010, BP’s failure to adhere to the environmental deep-water drilling requirements in the Gulf of Mexico caused BP to overlook certain essential drilling safety procedures. By not doing the right thing, BP created a $20 billion charge against its balance sheet. Had the company concerned itself with the effects of is subcontractors, it could have continued drilling and pumping oil in the Gulf of Mexico as well as continuing on as a much more valuable company. Instead, the company looked only to the present, ignored the risks, and took its chances at the expense of the public. BP’s brand equity, balance sheet, and long-term potential for future earnings have significantly diminished simply because BP did not govern the organization using the tenets of corporate social responsibility. Part of BP’s reaction to environmental disaster contributed to government regulations and lawsuits. CSR policies may have allowed for better handling of such issues.

CSR tells leaders how to run a business, it is not a charity, and it is not a costly distraction from core business functions. However, CSR is a real expense to a company. CSR is a management concept, balancing short- and long-term risks, and providing accountability to both stakeholders and shareholders. Many companies, such as Home Depot and Lowes, use donations and charity to support building projects since they are building supply stores. Home Depot’s corporate responsibility aligns with its core business functions. The company can give out “grants” which are real dollars to the receivers, but less expensive to the corporation. Corporations can get credit for higher donations at a lower real cost to their balance sheets.

We refer to the strategic economic logic behind CSR as responding to externalities. If a firm produces a public “good”, like jobs or better health, then social welfare increases. If a firm produces a public “bad”, such as pollution or unemployment, social welfare decreases. When social welfare increases, the result for that company is higher brand equity and higher capital values. Producing “goods” results in higher brand equity that avoids the liability costs associated with the “bads” (Young, 2010).

This behavior often is true altruism, or selfless sacrifice of shareholder profits, but it sometimes is a thoughtful protection of long-term shareholder value or a combination of other reasons. This behavior is enlightened self-interest or, as Thomas Reed, the 19th century Scottish philosopher, puts it, “…self-interest considered upon the whole.” Like individuals, leaders of a company can leverage their resources to improve society while balancing the main focus of business: profit.

The four ways in which CSR manages stakeholder relationships include: 1) forestalling liability for negligence; 2) minimizing the likelihood of new intrusive government regulation; 3) enhancing brand equity; and 4) minimizing risk of loss to intangible assets that affect the discount rate used to determine the net present value for future income (Young, 2010).

CSR often is a sound strategy in risk management. Sustainable growth and profitability only occurs when CSR management of stakeholder relationships is in place. Corporate boards of directors demand this behavior under their “duty to exercise due care” (Young, 2010). CSR policies work in harmony with the main goal of a company: survival with profits.

What is the purpose of profits? Are executives not hired to maximize profits? Organizations hire executives to build value. Corporations seek profits to build capital value for owners. These profits are not a sole means to an end. Again, CSR is about smart value accumulation. Self-regulation is CSR at its best.

In summary, CSR is not a public service cost tolerated to make the company seem like a good corporate citizen during good economic times, only to be jettisoned during economic downturns. Rather, CSR is good, sound management producing positive goods, like employment and better health for its communities. CSR is about doing the right thing to increase value for long-term growth for its shareholders and stakeholders. To focus only on short-term profits invites added government regulation and intrusion, unnecessarily adding costs while rendering affected companies less competitive. CSR avoids unnecessary government intrusion by promoting self-regulation. Self-regulation promotes transparency, accountability, demonstrating the board of
director’s “duty to exercise due care”. Careful planning and balancing must be achieved to have a quality CSR culture at a company.

References


**Suggested Reading**

These articles provide further information regarding corporate social responsibility and economist Milton Friedman.

*In order to access the following resource(s), click the link(s) below:*


