

# THE ROLE OF BUSINESS IN SOCIETY

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## Резюме

Статията разглежда основните въпроси, свързани с мястото и ролята на организациите по отношение на тяхната социална отговорност към обществото днес. Отделя се също внимание на тяхната нагласа към корпоративните служители, определени групи от хора или обществото като цяло.

## Abstract

The article reviews the main issues relating to the place and role of organizations in terms of their social responsibility to society today. Attention is also placed on their social attitude towards corporate employees, particular groups of people, or society as a whole.

**Key words:** *business, society, social responsibility, support*

## 1. INTRODUCTION<sup>27</sup>

The concept of the social role of business was placed in focus in the 50s of the twentieth century [1]. This was partly due to the development of cooperation between business and the governments of the industrial countries during the Second World War and later, in the years of the "Cold War". During this period, the Committee for Economic Development was established, which included the most prominent representatives of the business world. The main purpose of the Committee was to advise the governments on economic and commercial issues. Its importance, however, proved to be essential, because in this way it helped extend the participation of the business world in addressing issues of social and governmental policy.

It was also in the 50s of the twentieth century when the first thorough work on the subject [3] appeared, written by Howard Bowen. In the book, he discussed the concept of social responsibility that can be applied in business. Awareness of broader social objectives in the process of

business decision-making can bring social and economic benefits to society.

The debate about the role of business in society was sparked by the events during the 1960s and 1970s. Jacoby [4] argues that a serious opposition emerges in the public opinion against the business world. In different spheres of society a live interest arises in problems such as civil rights, the wars, women's equality, industrial pollution of the environment and the condition of our living surroundings as a whole, as well as the laws on consumer rights protection introduced by J.F. Kennedy in 1962. During the 1970s and 1980s of the XX century, in the centre of attention are the problems related to disarmament, nuclear power utilization, saving peoples in the Third World from starvation.

## II. LEGAL AND SOCIAL RESPONSIBILITY OF THE ORGANIZATION

Social expectations towards business have changed over the years, and these changes have in turn entailed changes of the opinion of society about the role of business. Most important in the process of social evaluation is that distinction is made between legal and social responsibility of organizations. Legal responsibility refers to observance of state laws and of applicable statutory regulations relating to a specific business that define what the organization is allowed or not allowed to do. The organization acting in compliance with all statutory requirements conducts its business in a legally responsible manner, but this does not necessarily mean it is socially responsible as well. *Social responsibility, as opposed to legal responsibility, implies a certain level of voluntary response to the social problems of the society.*

### *Arguments in favour of and against social responsibility*

Disputes about the role of business in society have given rise to numerous arguments in favour of and against its social responsibility [2].

#### *A) Arguments supporting social responsibility*

*1. Long-term growth perspectives favourable for the business.* The social activities of a company that improve the living standard of the local community or eliminate the need for state

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regulation could be also in its own interest and contribute to the company's stability in society. Moreover, sizeable social allowances can, in the long term, stimulate development and profit growth, as consumers, suppliers, and the local community, create a more attractive image of the organization.

2. *Changing needs and expectations of buyers.* Business-related social expectations are constantly changing. To narrow the gap between new expectations and the actual response of companies, their involvement in solving social issues becomes an important and necessary task.

3. *Availability of resources for rendering assistance in solving social issues.* Essentially, business has at its disposal human and financial resources and is expected to make part of these available for use for social purposes.

4. *The moral obligation to behave socially responsible.* A company is a member of society and therefore must abide by ethic norms that control its conduct. In other words, the company, like each individual member of the public, must act in a socially responsible manner and contribute to strengthening the moral principles of society. Furthermore, regulations are not always sufficient to provide a solution for every case, and the organization must behave in a responsible manner to maintain public order and establish better relations between its members.

**B) Arguments against social responsibility**

1. *Violation of the principle of profit maximization.* The part of the resources allocated for social needs influences the achievement of profit maximization. The company does its best to act a socially responsible one, but first and foremost it focuses on achieving its economic interests, leaving social issues to public institutions and agencies to deal with.

2. *Expenses for social security contributions.* These funds are regulated by the government authorities but ultimately reflect on consumers in the form of higher prices.

3. *Lack of operational transparency to the public.* Most often company managers fail to realize that they are to a certain extent accountable to the public, to some of its circles. The market economic system has a good control over the economic indicators of the company's standing and performance in the market but poorly controls its social responsibility to the public as a whole or to particular social groups. Here of utmost importance is the role of society and its organizations in establishing moral principles and obligations and involving public authorities and businesses in certain social activities that they

otherwise find irrelevant and disregard, without assuming any responsibility to the public.

4. *Insufficient knowledge or skills to solve social issues.* Any company's staff is generally well prepared to work in the field of economics, marketing and technology. However, they lack experience that would allow them to contribute to finding solutions to social issues concerning the staff members themselves as well as the society as a whole. In this regard, the improvement of the level of social responsibility requires the society to produce experts who, when appointed at the respective governmental positions or in charitable organizations, will be able to work for problem solving in the social sphere.

**III. GOOD PRACTICES OF SOCIAL RESPONSIBILITY**

Studies carried out by foreign authors on the standpoint company managements take about corporate social responsibility reveal a positive trend towards enhanced responsibility. Managers having participated in the research believe that the pressure for increasing the social responsibility of business is real, is of substantial importance, and will continue its upward trend. Other studies indicate that representatives of company managements are involved in the work of various NGOs and their bodies that deal with the issue of social responsibility to society.

Among the most substantial obstacles in developing programs related to social responsibility are the demands raised by employees (managers and workers) of the company for an increase of their income (salaries). The ambition for a rapid increase in profits and income forces the company management to walk away from allocating part of company resources for programs focused on the social responsibility to society.

*1) Educational level improvement programs*

To support people's motivation to pursue improvement of their education, the companies may distribute subsidies for further training and re-qualification in various educational institutions. In such way additional subsidies are granted to training organizations whose primary function is to provide quality education to their students.

*2) Subsidy programs for hospitals and cultural institutions*

Within the framework of this program, the organization signs bilateral agreements with hospitals for carrying out complete medical examinations of employees and additional examinations as needed. Where such possibility exists, the company allocates funds to support

cultural development, i.e. for subsidizing the work of artists, organizing exhibitions, etc.

### 3) *Social services program*

In the economically developed countries (IBM – USA) the companies help non-governmental organizations and support their retired employees [5]. What is more, the company management provides fully for all their living expenses. This is a good practice which for the time being may be applied only to a certain extent.

### 4) *University support program*

The purpose of this program is to provide (permanent) support for the higher education by purchasing (providing) advanced technological equipment, granting yearly scholarships to excelling students and scholars, providing financial support to university lecturers to enhance their qualifications at leading institutes and organizations. Hiring tutors to conduct refresher courses and specializations. Introducing advantage criteria for the employment of young university graduates. Sending children with disabilities to study at specialized university centres.

### 5) *Funds supporting regional organizations*

The companies may implement programs to support organizations that provide services to their employees. A company may establish a fund to help enhance the use of services provided by these organizations and some material resources of the company. Such fund can be used in good support to education (nurseries and kindergartens, vocational schools and universities).

### 6) *Fund to help the training of disabled people*

The purpose of the fund is to provide financial support to groups of disabled people to help with their training which takes place in training centers. It can offer also material assistance, such as purchasing of computers, to help introduce IT technologies in education.

## **IV. ETHICS AND CONTEMPORARY MANAGEMENT**

The main challenges facing social responsibility are the personal qualities of the members of the organisation and their perception of right and wrong. Individuals who believe that “the organisation has to maximize profits in compliance with the legal regulations” consider profitability, effectiveness and strict observance of the laws to be of primary importance and place insufficient value to the altruism. They believe that an organisation is well managed and socially responsible as long as its activities follow certain values. To be able to make the right choice of behaviour an individual should be first acquainted with the notion of ethics. Ethics is built on certain

principles based on the concept of right and wrong behaviour.

Ethics in business does not relate merely to the idea of socially responsible behaviour. It encompasses a wider range of behavioural decisions for both managers and employees.

The managers of an organisation must exercise dynamic decision making while respecting the necessary balance between the business interests of the organisation and the behavioural limits, deemed unacceptable by the society [7].

The ethical business problems relate to the conflict [8] or to a lesser degree to the probability of such a conflict, between the financial performance of the organisation, revenues, expenses and profit and the social responsibility performance, expressed through the obligation of the organisation towards its members and society.

A modern approach to increase social responsibility performance is to train the organisation’s managers and other responsible employees how to handle ethical issues which they encounter in their daily work. Ethics could be also taught at universities thus creating an initial understanding of its related issues.

Organisations are undertaking various measures and decisions, such as specialized training sessions, to form the ethical norms of behaviour of their managers and employees.

The ethical norms of an organization represent a system of shared values and ethical rules, which should be observed by each employee. Their purpose is to describe the goals of the organization, to create a healthy ethical environment and to determine the ethical guidelines for decision making. The management of IBM states that the company expects from each employee in every situation to act in accordance with the business standards.

Business ethics are of utmost importance in international relations as well. It is obvious, that while acting in their own interests, multi-national companies must also consider their role as intermediaries for the exchange of economic and social development. As such companies tend to have a lasting impact on parties they engage with during their business activities, the ethical issues should become an important element of the overall planning of their organization.

The ethical standards are different in the different countries. The ethics do not have a “maximum limit”. Multinational companies would typically have a sophisticated organization of the business and production activities and, in most cases, a high level of ethical behaviour and control. The focus of organizations on ethics is expected to

increase with the growth of the economic wealth of its employees and the society.

## V. GENERAL RECOMMENDATIONS (CONCLUDING REMARKS)

At present, an opinion is being formed and adopted in our country (and the countries of the former socialist camp) that organizations should allocate part of their financial resources and efforts to support local communities in which they operate, and the society as a whole. As pointed out by Lee Preston in [2], "An organization cannot operate responsibly for a long time while being in conflict with its environment."

In order to be successful, the organization must be able to adapt and respond to problems arising in the social environment so as to make this environment more favorable to the organization. Expenditure on social responsibility is justified also by the fact that it contributes to improving various segments of society, as well as improving the public's attitude toward the company.

This has to be associated with higher consumer loyalty to product manufacturers and hence lead to general improvement of the condition of society.

The presented good practices do not apply to the social behavior of large organizations. All other small businesses and organizations such as schools, universities and hospitals, are socially responsible.

It should be noted, however, that the main purpose of an industrial enterprise is to secure wages for the employees who earn their living by working in it, and only afterwards to attend to the problems of society. If it is not able to conduct business at a profit, the question of social responsibility remains primarily in the academic sense.

Nevertheless, an organization should conduct its affairs so as to be consistent with public expectations. In other words, the social responsibility of a company means more than just philanthropy. Naturally, the organization acts responsibly and in accordance with the concerns and hopes of the general public.

In conclusion, the following paraphrase of a statement in book [6] can be expressed: "The company management is obliged to use all their talents to achieve maximum profit and growth. But the enlightened self-interest of the company requires it to fulfill every reasonable expectation towards it by the community and the various public circles concerned. Open recognition of priorities and socially responsible behavior of the company ensure the achievement of important secondary targets. Profitability and expansion go

hand in hand with fair treatment of employees, of consumers at all levels, and of the local community."

## VI. CONCLUSIONS

1. There are two main points of view on social responsibility. According to the first one – an organisation is socially responsible as long as it maximizes its shareholders' profits while strictly observing the legal framework of the country. According to the second point of view – while the management of the organisation must adequately react to the economic situation in the country, they should also observe and be responsible for the humanitarian and social effect of the organisations' business on the employees, consumers and social communities. Both points of view agree that the organisation should have a positive effect on society.

2. The legal responsibility, unlike the social one, requires adherence to specific laws and regulations, which prescribe the activities that the organisation may or may not perform. The social responsibility, on the other side, is to a certain degree a voluntarily reaction to specific social events.

3. There are a number of Pro's and Con's to social responsibility.

4. Certain organisations have developed and are executing social responsibility programmes.

5. Managers are using a number of programmes and methods, as well as role models for ethical behaviour to improve the ethical standards in their organisations.

6. Organisations can take a number of steps to stimulate ethical behaviour of their employees.

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