

Corporate Social Responsibility and Firm's Objectives- A Synthesis

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Abstract

Corporate Social Responsibility (CSR) has been attracting attention recently by the corporate world worldwide. The corporations discharge their CSR through social development in various ways in varying degree. However the practice of CSR has also attracted controversy and criticism. There are two opposing arguments namely (i) the corporations profit in manifold ways by spending on CSR projects; and (ii) CSR is criticized and opposed in that it makes the corporations deviate from their primary economic roles in doing business. This debate and criticism revolve around the basic objective of the firm. Modern scholars have proposed many different objectives for firms which again are also abound with raging controversy and criticism. This paper attempts to identify the primary objective of a firm from the primary objective of an economy and synthesizes the hitherto different objectives with CSR to get a holistic view. This will not only put the controversy regarding the objectives of the firm to rest but also has interesting implications for the recent corporate social responsibility of business, environmental concerns, and questions the need for a separate theory of public firm as well!

1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) has been attracting attention recently by the corporate world worldwide. The corporations discharge their CSR through social development in various ways in varying degree. However the practice of CSR has also attracted controversy and criticism. There are two opposing arguments: firstly, the corporations profit in manifold ways by spending on CSR projects. Secondly, CSR is criticized and opposed in that it makes the corporations deviate from their primary economic roles in doing business. This debate and criticism revolve around the basic objectives of the firm. Modern scholars have proposed many different objectives for firms which again are also abound with raging controversy and criticism. This paper attempts to identify the primary objective of a firm from the primary objective of an economy and synthesizes the hitherto different objectives with CSR to get a holistic view. This will not only put the controversy regarding the objectives of the firm but also has interesting implications for the recent corporate social responsibility of business, environmental concerns, and questions the need for a separate theory of public firm as well!

2 Objectives of Firms

The welfare of the mankind depends on the performance of the economy that in turn depends on the performance of the firms that in turn is the result of their strategies dependent on their objectives. The available economic literature teaches us a number of objectives for the firms. Many studies have found different other objectives from their empirical studies. Most of these objectives seem to be inconsistent or contradicting with others. The scholars are divided even on the number of objectives firms pursue. Many believe that firms pursue only a single objective while others believe that firms pursue multiple objectives. This paper attempts to synthesize the objectives of the firms, whether private or public, and thus settles the number of objectives and the contradictions among the objectives giving a guideline for the welfare of the mankind.

Various scholars have identified and disputed over the internal objectives (micro objectives) of a firm such as profit maximization, sales maximization, revenue maximization, market maximization, growth maximization, wealth maximization, survival of the firm, penetration or entry into the market, satisficing, minimization of loss or damage, maximization of growth rate of sales, maximization of balanced growth, maximization of managerial utility, high liquidity, stability in the short-run (Trivedi, 2002, pp-81-87).

The firm remains a black-box since (i) views differ on the origin of the firms; (ii) a clear functional definition of firm is not available in the literature specifying its purpose, contents and how it functions; and (iii) its objectives. Knowledge of the origin of firms, functional definition of the firm and the objective of the economy throw light to clear the fog of seemingly contradicting objectives of the firm.

3 Origin of the Firm

Coase traces back the origin of the firms to cost-reductions in allocating a given resource (Cohen, 1979, p-583). To Alchain and Demsetz (1972) the firm came into existence as a result of team-work in production whereas to Knight the firm come into being as a desire to lessen the amount of uncertainty and to shift the incidence of uncertainty (Cohen, 1979, p-581). However Williamson (1981) argued, “(the) transaction-cost economizing... is the only hypothesis that is able to provide a discriminating rationale for the succession of organizational innovations that have occurred over the past 150 years out of which the modern corporation has emerged (p-1564). However to Chendroyaperumal (2006) firms originated to minimize the time-cost, i.e., to do more with less time input, using the basic method of ‘division-of-labour’.

4 Functional Definition of Firm

A firm has been defined as an economic unit or production system or collective effort of a group of people or a set of contractual relationships etc. However a definition of the firm describing the causal functions was not available in the literature till Chendroyaperumal (2006) gave basic and skeletal causal definition of a firm as below: “A firm can be defined basically as a system wherein people associate themselves to invest their capital on the inputs (owned) by the people to be converted into outputs by the people for the people to be sold in the market at a price to earn revenue to recover costs and make a normal profit ethically and socially responsibly” (Ibid.).

From the above functional model of a firm it can be seen that the contents are” people, capital, investment, inputs, output, market, price, revenue, costs and profit. People are also one of the inputs in any production system and hence people are covered under ‘inputs.’ The causal relationships across these ‘contents’ are shown in figure-1 using Half-Arrow Modelling Technique.¹ This causal model of a firm gives a holistic view of a firm which hitherto has not been possible since economists have been found using primarily two dimensional graph to explain the causal relationships and incorporation of many variables in a two dimensional graph is not possible.

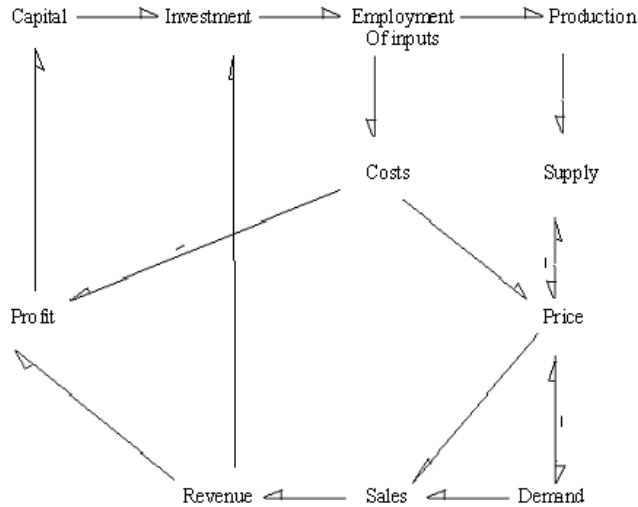


Figure-1: Basic Causal or Functional Model of a Firm

5 Corporate Social Responsibility and Objective of the Firm: A Synthesis

Economy is a very large-scale production system wherein a firm, an element of the economy set, is also a production system. Thus economy can be compared to the human body wherein a firm is a cell. Thus the objectives or the use of a firm is dictated by the objectives of the economy, the body, though the firms are of different kinds like the cells in a human body. Textbooks teach us that the primary goal of any economy is to maximize the material wealth of nations (Adam Smith), production and distribution of wealth (John Stuart Mill), to maximize material wealth and material welfare (Alfred Marshall), satisfaction of the human needs with the scarce means (Lionel Robbins). Whereas to Kautilya's it is, Arthashastra, the acquisition and maintenance of Earth The subsistence of mankind and the sustenance of the Earth containing the mankind (Shamasastri, 1967, p-469).

It is of interest to note that according to the Western economists the objective of an economy is only to deal with the material wealth, material welfare, and satisfaction of human needs and the objective does not include the environmental concerns. However Indian thought, Arthashastra, did explicitly recognize the importance of sustenance of the Earth containing the mankind and treated as an objective. Therefore the primary objective of a firm, a part of the

economy, is to ensure the subsistence of mankind and sustenance of the Earth containing the mankind. This objective not only is consistent with that of the Western scholars but also incorporates environmental concerns that have received attention only recently. Therefore the primary objective, the purpose or use for which, firms exist is to ensure the subsistence of mankind and sustenance of the Earth containing the mankind.

To use a simile a firm is like a passenger transport bus and thus its primary purpose or objective is to transport people from one place to another. However to achieve this primary purpose the bus should have the internal functioning in perfect order by taking care of the tire pressure, engine, hydraulic systems, etc. just because the attention is focused on caring for the engine, tyre pressure, etc it can not be said that they are the primary objectives. These are only secondary objectives and the primary objective is to transport people. Similarly to achieve the primary objective of a firm, i.e. to ensure the subsistence of the mankind and sustenance of the earth containing the mankind, the firm should have the internal functioning in order. For instance, in Fig-1, the profit should at least be broken-even for the firm to survive, hence a profit objective and survival objective. The profit can be maximized, with the given costs, only by maximizing the sales or sales revenue, hence sales revenue maximization objective. Profit is the result of not only sales but also because of efficient production, optimum inventory hence production goal and inventory goal. Moreover the shareholders would be interested in dividends and hence a profit goal to attract capital. Thus the various objectives propounded by the western economists are only the secondary objectives of a firm having different internal variables in focus. This is similar to the various scholars focusing the importance of the effect of the nine sub-systems in the human body. The essentiality of these variables remain undisputed but it cannot be said that the objective of the human body is to optimize the output of these sub-systems. The objective of a human body remains, as is obvious, to be survival and reproduction to serve the personal needs through serving the needs of the society (mankind) as a system using division-of-labour as the method. Similarly all the functions represented by variables are important and hence are to be treated as 'objectives' but secondary in nature. These objectives are derived from the primary objective that is to serve the mankind to survive and sustain the earth containing the mankind at the same time. This objective gives rise to the objective of 'survival.'

6 Conclusion and Implications

Thus a functional definition of a firm in terms of causal relationships gives a synthesized holistic view of a firm which shows the various objectives proposed by various scholars in proper perspective removing the apparent contradictions. The primary objective of the firm, dictated by the objective of the economy, is to serve for the subsistence of the mankind and sustenance of the earth containing the mankind at the same time.

This paper has few interesting implications: (i) this goes to explain the recently discovered importance of corporate social responsibility of business and environmental protection. The importance focused on the 'social responsibility of businesses in the recent times ironically seems to suggest that firms should have social responsibility 'also'. All the firms (or business) have only one responsibility in common in that a corporate is not only supposed to produce products / services but also help in all possible ways to ensure the subsistence of mankind of the whole world! Therefore social responsibility is not a deviation from their basic economic role but it is also the primary duty! This also clarifies that firms take birth and exist only to serve the society (the mankind) and not the reverse! (ii) Scholars have been trying to frame separate theories for private firms and public firms. A firm as a production

system is a firm irrespective of who manages it or the objectives just like a human being is only a human being whether it is called a General Manager in a private firm or a public firm! Firms vary in activities, structure and size, but they all have the same contents, same functions (causal relationships) and objective! Therefore there is no need for a separate theory of public firms!

Notes

- 1 Two of the symbols of the Half-Arrow Modeling Technique need to be understood for understanding the causal model of the firm. They are given below: $x \longrightarrow y$ means “x causes y directly and positively.” $x \longleftarrow y$ means “x causes y directly inversely.”

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