LIBRARY
OF THE
MASSACHUSETTS INSTITUTE
OF TECHNOLOGY
CORPORATE SOCIAL RESPONSIBILITY:
NEW PRODUCT SUCCESS OR FAILURE?*

Gordon F. Bloom

July 1974  720-74
CORPORATE SOCIAL RESPONSIBILITY:
NEW PRODUCT SUCCESS OR FAILURE?*

Gordon F. Bloom

July 1974
CORPORATE SOCIAL RESPONSIBILITY: NEW PRODUCT SUCCESS OR FAILURE?*

Gordon F. Bloom

While in academic circles the pros and cons of corporate social responsibility are still debated on a philosophic basis, in the board rooms of the corporate world the questions most frequently raised are: "What shall we do?" and "How much?" Social responsibility has become more a question of performance than conscience. More and more attention is being given by corporate executives and by writers in the field to the problem of how best to implement social programs within the corporate organization. The troublesome question still remains however: Implementing what? Into what kinds of efforts are the good intentions of management going to be channelized? Into a proliferation of small cosmetic projects which have a high public relations value or in attempting to deal with some of the difficult social problems of our times which have not yet come under legislative compulsion?

In this uncharted area most businessmen feel lost. The possible directions of corporate action seem limitless, the costs enormous, and the risks immeasurable. Where can the businessman turn for guidance? A related field of business endeavor which can provide some helpful guideposts for action is new product development. There is a high degree of resemblance between the process of social innovation and new product development.

Both corporate social responsibility and new product

*This article is based upon field interviews conducted by the writer in the years 1972-4 which were funded in part by a grant from the Ford Foundation. The views expressed, however, are the writer's own.
development have as their goals the satisfaction of human needs. In both cases there is a dearth of information about such needs, the risk of loss is high, and most corporate efforts to achieve goals fail.

In both social and product innovation the choice of direction for corporate action is often the critical decision which can profoundly affect the viability of the corporation.

In both fields there is more corporate talk than action: the frequency with which chief executives extol their companies as being in the forefront of new product development is rivaled only by the proliferation of addresses identifying companies as leaders in social responsibility. Despite such rhetoric, there is a growing recognition that new product development by American industry is spewing out a torrent of "me-too" products with little that is radically new while in the social area the flow of "product" is a trickle and frequently seems to be designed more with an eye on public relations than meeting basic human needs.

One could continue enumerating these analogies. The points of resemblance can be helpful and at the same time they are disquieting; for it seems that corporate action in the area of social responsibility is beginning to follow the same track as it did with new product development. What does this augur for the future of corporate social responsibility? Will corporate social efforts represent a new product success or failure?

Businessmen concerned about implementing corporate social responsibility can gain a better insight into the problems of this
process by viewing it through the perspective of new product development with which they are already familiar. Fifty years ago decisions in the new product area were frequently made on a "seat of the pants" judgment basis with a minimum of research and sophisticated analysis. Today, business may have gone to the opposite extreme. Many critics complain that big business researches new ideas to death. The new product must traverse a well defined track which involves research with respect to needs, compatibility with corporate goals, screening of alternatives, development of a commercial plan, construction of a prototype, testing, and finally commercial introduction.

As with new product decisions, businessmen have learned by bitter experience that decisions with respect to the social area cannot be made without careful research and planning or the consequences to both the corporate image as well as to the bottom line can be catastrophic. In the late Sixties in the heyday of corporate social projects, pressure from Washington on corporations to "do something" was frequently followed by crash programs which resulted in establishment of enterprises in ghetto areas with little attention to the economic and social problems incident to such operations. Today, businessmen realize they cannot solve all the world's ills and that their resources and expertise are limited; they are therefore going through some of the same soul-searching and careful planning which has culminated in today's highly structured process for new product determination. Business is attempting to institutionalize the corporate social responsibility function.
Formalization of the decision-making process with respect to social conduct is most apparent in the large corporation. This should be a matter of some concern to the nation, because in the social area it is the large corporation which must bear the major burden of responsibility for new innovative approaches to the solution of social problems. In the new product area, small companies are often more alert to new opportunities and quicker to bring out new products than large corporations. Thus a large part of the flow of new products into the marketplace can be provided by small business. However, while small business can be equally innovative in the social area, the fact is that its impact is bound to be limited. Furthermore public pressure as well as public expectations in terms of social responsiveness are primarily directed toward the large corporation. It is therefore important in assessing the future direction and momentum of corporate social efforts to understand how decisions are being made with respect to social projects in large corporations.

In the following discussion, we shall examine the process of social innovation within the framework of three of the key phases of new product generation: research, goal-setting, and screening. The caution must be expressed that this format is adopted simply to provide a useful structure for examining some of the problems faced by management in making and implementing decisions in the social area. There should be no implication that rigid adherance to such a format promises to give improved results. As a matter of fact, there is some evidence that excessive emphasis upon
structural formality can inhibit social innovation just as it deters new product development. What must be generated within a company from the top on down through the entire personnel structure is a receptivity to new ideas, a sincere concern for people, and a willingness to experiment and take risks. Unfortunately, this kind of outlook is difficult to generate and even more difficult to maintain in the large corporation.

**Determination of Needs: The Research Process**

Although a company seeking to develop a new product must often make high risk judgments because of the unavailability or inadequacy of information about consumer attitudes with respect to the particular product, nevertheless there is available a huge amount of information of a generalized nature which can at least give the product manager a perspective on needs and attitudes of the public. Furthermore companies which are actively engaged in product development have large staffs with trained personnel to provide expert advice in the field of gathering and interpreting data. Nevertheless despite these facts, a high percentage of all new consumer and industrial products fail to meet company sales and/or profit expectations.

If we take new product development experience in the United States as a benchmark and then compare with it the quantity and quality of information available in the field of social innovation as well as the expertise of the persons who must utilize such information, it is not at all surprising that initial corporate ventures in the social area have produced a
string of disasters. Adequate information is not available, changing trends are difficult to discern and are not documented, corporate social information systems are practically nonexistent, and there is a real shortage of trained personnel who can deal with social problems within the structure of the corporate organization.

The shortcomings of our social data were succinctly described by Joseph A. Califano, former adviser on domestic affairs to the late President Johnson, in testimony before a Senate Labor Subcommittee:

"The disturbing truth is that the basis of recommendations by an American Cabinet officer on whether to begin, eliminate, or expand vast social programs more nearly resembles the intuitive judgment of a benevolent tribal chief in remote Africa than the elaborate sophisticated data with which the Secretary of Defense supports a major new weapons system."/1

The lack of adequate social data poses special problems to corporations in their formation of strategic long range plans. Companies are acutely aware of the need to monitor changes in the marketplace for their products but frequently are unaware of pressures building up in the communities in which their plants are located and which may threaten the very physical existence of those establishments. When the Watts riots erupted, both business and government were caught by surprise. This was not a community that conformed to the popular stereotype of a ghetto. After the riots occurred, a Federal team of about twenty people had to go to Watts just to find out who lived there and what the conditions

were that had caused this eruption of violence. Watts—like many other pockets of social problems—was not on the map of our social consciousness.

If programs of corporate social responsibility are to be meaningful, they must begin with research which seeks to determine how various kinds of social trends and social problems may impact the future progress of the company. Corporations cannot be expected to solve social problems in gross; but they should be interested in finding solutions to those community problems which, if left unsolved, will fester and ultimately threaten the profits of the corporation.

Since adequate social data are lacking in so many communities in our nation, it is not surprising that large corporate institutions with a substantial and continuing stake in the community have undertaken large scale social research studies on their own initiative. Leaders in this effort have been the banks and the public utilities which, by reason of their charters or franchises, must remain in our central cities and cannot, like a manufacturing company, move off to the countryside leaving the problems of our urban centers for someone else to solve. An examination of some of these research efforts will serve to illustrate the advantages as well as some of the shortcomings of this kind of research process.

Bank of America: In 1970 this Bank completed a two-year survey of California—its people, problems and potential. The study was subsequently published in the form of a 96 page booklet.
First National Bank of Minneapolis: A somewhat similar broad regional survey was recently completed by this Bank. The study sought to determine trends in ten critical social indicators affecting the quality of life in the Twin City area.

First National City Bank: A similar study of the problems of New York City has been prepared by members of the Economics Department of the Bank and published in the form of a 235 page volume.

New Jersey Bell Telephone Company: This company has undertaken a project which it calls "A Tale of Two Cities", in which it is seeking to track critical social variables in two cities in New Jersey for 10 years back—variables such as crime rates, educational attainment, unemployment, etc.—and then to make projections of these trends five years into the future.

These research studies are all commendable from the point of view of the information which they may provide; furthermore it is possible that the interest shown by the corporation in the need for such research will enhance the image of the corporation. Nevertheless, all of these studies suffer from a number of shortcomings. The social problems which they seek to measure are so massive in scope that they are likely to be beyond the pale of action by any corporation and probably will require large scale governmental expenditures if any substantial progress is to be made toward their solution. Furthermore, there is a risk involved in such studies in that the public, upon learning that an influential corporation is studying such problems, may expect that the corporation is going to do something about them. Thus expectations
may be raised in the public's mind which cannot in fact be realized.

Finally, there is the fundamental problem that such studies, because they are so broad in scope, are generally not considered an integral part of corporate planning. Although in the case of the Bank of America study management claimed in its Annual Report that "Partially on the basis of these findings, management began to draw lines for identifying and taking action in problem areas", there is a strong suspicion that the listing of priorities initially arrived at by the Bank's Committee on Social Performance Priorities could have been duplicated by anyone reasonably conversant with the daily newspapers. All of these studies are interesting, but there is a real question as to whether they are action-oriented. Usually they are undertaken by an Urban Affairs Department or, as in the case of the First National City Bank study, by an Economics Department where they will be read, analyzed, discussed and filed away without any real impact upon the direction of corporate policy.

A more promising approach involves the conduct of social research as an integral part of corporate long range planning. A good example of this procedural arrangement is provided by the General Electric Company. At G.E. there is no Urban Affairs Officer. Instead, Ian Wilson, who is responsible for tracking social and political trends is part of the Corporate Executive Staff which is the focal point for strategic planning and long term policy making for the corporation. General Electric not only attempts to track important trends, but also selects out the events
and trends which seem to have the highest combined rating of probability and significance, with significance being rated in terms of impact upon company operations. From these data the corporation constructs four alternative scenarios of the future within which corporate policy must be fashioned.

The lack of adequate social data and the legitimate concern by corporations concerning the possibility of being surprised by unforeseen developments in their own communities have led to an emphasis upon research for research's sake. The collection of social data by corporations is commendable but is unlikely substantially to enhance the probability of success of corporate social responsibility programs. If social research is to be effective in terms of assisting implementation of constructive social programs by corporations, it ought to meet the following criteria:

1) Research should be action-oriented. It ought not to be undertaken unless management knows what it will do with the results.

2) The research should be continuing, not "one-shot". The function of the research should be to monitor change and to provide management with a sense of important new developments in the social environment.

3) Research should be considered part of a permanent social information system and adequate personnel and equipment should be assigned to this function.
Finally—and perhaps most important—the data collected by such research should become part of the long range strategic planning process of the corporation. Data which give rise to possible conflicting interpretations with respect to future trends should be the basis for explicit and detailed contingency plans in terms of alternative futures.

Tracking social trends is a difficult process. As an executive at John Hancock Life Insurance Company put it, "Events do not emerge with a clear label saying: 'I am important'". Rather they appear as blips on a radar screen which must be watched and monitored to determine if they will grow or fade away. No amount of research will compensate for lack of careful analysis and scrutiny by top management. Facts must be collected; but more important they must be confronted. The record indicates that despite management's skills in conducting product market research, it has done a poor job of appraising the significance of changing social trends. Despite the extensive social research conducted by American Telephone & Telegraph Company and by Bank of America, both companies completely underestimated the seriousness of the drive for equal rights by women. The failure of their social research systems to impact management policy has proved expensive to both companies.

Today management needs to watch such developments as the 'Lordstown Syndrome', the four-day week, the concept of social leave and similar events and experiments with an eye to determining whether they mark the beginning of important new developments which
must be incorporated in strategic planning for the corporation. Harold Geneen made a central part of his management philosophy: "I want no surprises."\(^2\) Too often management has been taken by surprise with respect to emerging social changes. Proper research adequately evaluated can help to define the pattern of social change as it may affect the future course of the corporation.

**Goal Setting: the Establishment of Priorities**

In the field of marketing it is well accepted corporate doctrine that long range strategic planning should attempt to secure for the business a specific niche in the marketplace. The successful business manager analyzes the market, studies the needs of customers, examines the resources and expertise of the corporation, and then seeks to adopt a strategy such that the corporation will have a well defined conception of its role. This strategy is reflected in the direction of new product planning. Most successful companies have a well-defined idea of the kind of product which they can successfully market. Thus, for example, for a company like Gillette Corporation the key attributes distinguishing the profile of an acceptable new product might be: consumer good; high gross margin; related to health or appearance; adaptability to advertising. Some companies draw up a list of desirable attributes and then rate suggested new products in terms of how well they fit the criteria which have been established for the ideal product.

---

In the field of social planning, management apparently believes it is equally important that the corporation have clearly understood goals and a concept of a "profile" of the kind of social project it can effectively undertake. The rationale is that if the company simply reacts to various crises or responds to varied demands and pressures without advance planning, its power, influence and funds will be dissipated and employees will not understand what the corporation is trying to do. The setting of priorities in the social area, like the determination of strategies in the marketing area, promises to pay off in channelizing the efforts and energies of corporate personnel and allocating the resources and funds of the corporation in the most productive manner.

It is not surprising therefore that corporations today are spending a great deal of time mulling the problem of appropriate priorities in the social area. Committees on Social Responsibility Priorities have proliferated and are being formed at various levels of the corporate hierarchy. Some corporations opt for a committee of the Board; others delegate the goal-setting responsibility to the executive level; still others have utilized committees composed of management representatives as well as rank and file employees.

The precise manner in which decisions with respect to social policy are made within a corporate organization depend
upon the size of the corporation, management style, age of the company, personality of the chief executive and similar factors. Xerox Corporation is an example of a relatively young company whose chief executive abhors committees, where there are few older senior executives who can serve on corporate social responsibility committees, and where critical decisions are made with little formality by a few key executives. By contrast, in Bank of America decision-making follows a formalized routine with review by various committees, preparation of position papers, and emphasis on compliance with procedural requirements. In Western Electric Company, which has over 200 standing operating committees, questions as to the direction of social policy must be reviewed by so many committees that it is difficult to state just where and when a decision is made; what seems to occur is that as projects are passed from committee to committee a consensus relative to policy develops among the key people in the organization. Finally there are companies where the chief executive represents a major stockholding interest in the company and sets the tone of corporate action by his pronouncements and action. Levi Strauss & Co., Quaker Oats Company, and Dayton Hudson Corporation fall into this mold.

Three basic problems seem to recur in the decision-making processes of corporations with respect to corporate goals:
1) How broad should the stated goal be?

In 1970, the Bank of America's Committee on Social Performance Priorities designated four areas for accelerated action: housing, minority rights, environment, and social unrest. After about two years' experience it became evident that these categories were unworkable, particularly the latter which became a catchall for all kinds of programs which could, with some twisting, be forced into this mold. Subsequently a new list was adopted which included: consumer concerns, urban development financing, environment, employee development, and education. Some executives would undoubtedly feel that these goals are still too general to lend real direction and focus to a corporation's social efforts. For example, rather than specifying "education" as a broad general goal, some companies would prefer to be more specific. Thus Xerox Corporation, while interested in education, has restricted its efforts to higher education (in contrast to elementary public school training) and further emphasized three major areas of concern: minority education including grants and assistance for programs in black schools; library programs; and education innovation, such as the cooperative program at Antioch Law School.

2) Should goals be subject to measurement?

Business lives by figures; it is not surprising therefore that many executives believe that the only effective way to get action in the social area is to attach figures to specific programs so that performance can be measured and evaluated. As one executive put it, "In business you don't say: 'Produce as many automobiles
as you can this year". Typically a specific output is planned and managers are judged by their ability to attain or exceed the planned output. Likewise in the social area, examples abound of instances where little or nothing was accomplished until specific numbers were attached to social objectives. It is generally agreed, for example, in the area of increasing the number of minority vendors from whom a company purchases, that if the goal is simply stated in terms of making an effort to "increase minority purchases" the program will not get much attention from the purchasing department. On the other hand, if goals are stated in terms of a given percentage or a stated dollar volume, then the purchasing department is put under pressure and top management has an index by which to judge performance. Honeywell, Inc., Standard Oil of Indiana, and other companies have found that measurable goals are essential to advancement of a minority purchase program.

Numbers lend themselves to many kinds of social goals: the number of minority salesmen; the percentage of women in executive positions; the number of apartments rehabilitated by a company, and so on. But there are other worthwhile goals which are not so amenable to measurement. This is particularly true in the area of education where quality is as important as quantity and therefore undue emphasis upon quantitative measurement may give an erroneous notion of accomplishment. The possibility of quantitative measurement is obviously a desirable attribute for a corporate goal but its absence should not preclude the selection of other desirable objectives as goals for corporate concern.
3) Should goals be closely related to the ongoing operations and expertise of the corporation?

As has already been mentioned, in the new product area most companies try to restrict corporate marketing activities to products and channels with respect to which they believe they have some special strengths or expertise. If a product comes out of the laboratory which does not fit in with the usual operations of the company, they are inclined to license it, undertake a joint venture, or sell the product to some one else, rather than risk corporate resources in a marketing environment which is unfamiliar to them.

Most companies today seem to be approaching the social area with the same point of view. Having been badly burned in the late Sixties when all sorts of social projects were undertaken with great enthusiasm but often negative results, businessmen today seem determined to undertake only those projects to which the company can bring some special expertise with the hope that such a strategy will improve the company's batting average in the social record books.

Although this strategy in general makes good sense, it does pose certain problems:

In the first place, what sometimes seems at first glance to be a natural role for the corporation in social endeavors may subsequently prove to be difficult to implement. For example, when the Sperry and Hutchinson Company was attempting to draw up a list of priorities for social action, it reviewed its areas of expertise and concluded that it could best make an impact through
its function as a buyer; for the Company is a huge buyer of products used to stock its premium stores. A natural avenue for corporate social effort therefore appeared to be the development of minority suppliers. This objective however has proved difficult to implement in practice, because S & H catalogues are printed nationally and all premium stores must carry the same merchandise. Therefore, when the Company orders merchandise it is purchased in huge quantities intended for national distribution. As might be expected, S & H encountered difficulty in finding minority businessmen who could supply such huge national demands on a dependable schedule. Therefore the Company has had to revise its concept of its role in the social area. A similar problem has faced Sears, Roebuck & Co. which buys merchandise for all its stores through its central headquarters procurement office.

In the second place, some business executives have confided to the writer the fear that the closer social concerns are to the day-to-day operations of the business, the greater the risk they pose to the discipline of the corporation which requires that the corporation make a profit in order that it be able to engage in socially useful projects. In selecting social priorities, a corporation has before it a spectrum of risks. At one extreme are projects well divorced from the day-to-day operations of the company. These have a high risk of loss due to lack of know-how, but little impact on the internal profit-making orientation of the company. At the other end of the spectrum are projects which are intimately related to the operations of the company so that
there is little risk of loss due to lack of know-how, but involvement can mean tampering with basic marketing or product strategy. Take, for example, the hypothetical case of a cereal processing company which is examining a range of possibilities for social action. As a wholly unrelated project it might elect to engage in construction of low income housing; as a highly interrelated project it might consider dropping its line of sugar coated cereal on the grounds that it is in fact selling tooth decay to its customers, most of whom are young children. Needless to say, in the present stage of corporate social responsibility, few corporate executives would opt for the second alternative. Businessmen are ready to infuse social concerns into day-to-day business operations if this is necessary to meet existing or pending governmental regulations or if such action seems likely to improve long run profits, but not at the expense of immediate sacrifice of market share.

There are, of course, numerous alternatives available to companies which can utilize their expertise without jeopardizing the profit-making orientation of the company. Many companies, for example, feel particularly competent in training personnel and thus there is a long list of corporations who support educational programs of various kinds both through direct corporate involvement as well as through encouragement to employee participation.

The route of following corporate expertise in the uncharted sea of social efforts makes good business sense; it will undoubtedly lead to a better record of accomplishment with respect
to those projects which are undertaken. From the corporate point of view it is, on the whole, the low risk alternative provided it is not permitted to interfere with management attention to the bottom line. From the point of view of society as a whole, however, it leaves open the question of who will give attention to the most pressing social problems which face the nation? Few corporations have expertise in urban problems or even in the construction or rehabilitation of low income housing, yet consider the progress that could have been made in arresting the creeping decay in our urban centers if every large corporation 5 years ago had committed even modest resources to rehabilitation of low income housing. Will such areas of public concern be red penciled by corporations, much like mortgages or fire insurance in ghetto areas? Are the truly serious problems of our society "off limits" to corporate social responsibility efforts because they are too risky?

John D. Rockefeller, 3rd recently wrote that it was time

"for the business community not only to perform well within its own purview and areas of competence but to go beyond them, to take initiative and to collaborate with government and other sectors of society in full and dedicated participation to help come to grips with the great problems that confront us."/3

Unfortunately, there is little evidence that business has any enthusiasm for this kind of approach. Corporate goals are becoming more restricted and projects are being selected with minimum risk and a good chance of success. As with the evolution of corporate strategy in new product development we seem to be moving in the direction of the "me-too", low risk, high success product.

The Screening Process

In the new product development process, screening committees

meet to evaluate the potential of various new ideas and/or products brought before the committee. To an increasing extent, committees dealing with this phase of product development tend to measure new products relative to a set of formalized criteria. These involve considerations such as growth potential, patentability, profit margin, cyclical stability, marketability, adaptability to existing production facilities, etc.

In the social area, companies are faced with a continuing series of demands and opportunities. Committees or Urban Affairs Officers have to find a convenient way to sort out these possibilities and to make decisions consistent with the overall goals of the corporation. Studies of human cognitive processes have shown that individuals customarily consider relatively few attributes of objects in making evaluations of them. Rules of thumb abound in business decision-making. Therefore, it is not surprising that a limited number of attributes seem to be favored by executives screening corporate social projects. While these have not in most cases been explicitly formalized, nevertheless a review of numerous corporate social undertakings suggests that the following criteria are given prime attention:

1. Relation to company's expertise
2. Ability to evaluate results
3. Time span—three year limit
4. Viewed by community as meaningful
5. High chance of success
6. Minimum risk of bad impact on company's image
7. Caliber of people or organization involved in project
8. Public relations value
9. Minimum disruption to day-to-day operations of company
10. No duplication of efforts of other corporations

It will be noted that while the project ought to be considered meaningful by the community, there is no attempt to concentrate on projects which are given the highest priority by the community. Apparently executives fear that such projects might involve the company in high risk ventures which could harm, rather than enhance, the company's image as a socially responsive entity. Oddly enough, the informal system which has grown up whereby various groups attempt to rate corporations with respect to their performance in the social area has, if anything, encouraged executives to undertake projects with a high public relations value. Committees and staff tend to concentrate attention on projects which can be easily understood, which have a short span of accomplishment, and whose results are clearly visible. The chief executive of a large supermarket chain posed the problem succinctly in these words:

"If I continue to operate these stores in the ghetto my company will lose $100,000 a year; I will be accused of racism and selling bad produce; and my company will be boycotted and picketed because of the belief we should hire more blacks. If I close down the stores and give $100,000 a year to black colleges I will be a hero, my company will get a top social rating, and I will have saved innumerable hours of frustratingly unproductive executive time."

The raters will record and understand the latter action; they will not understand the corporate dedication it takes to pursue the former policy.

The function of the screening process is to reduce risk and to concentrate the activities of the corporation within bounds which conform to an agreed upon strategy. The danger exists that the more sophisticated and thorough the screening process becomes

---

5 From the writer's personal interviews.
the less likely it will be that projects which are truly innovative in nature will emerge from such deliberations. Furthermore, the nature of the screening process, as it is conducted in most companies, almost necessarily puts a damper on innovative projects. In the first place, corporations commonly make use of a committee structure to determine which suggested proposals in the social area should be funded and implemented. Few committees are structured to assume high risks; the usual output of a committee, whatever its purpose, is a compromise and a middle-of-the-road position. In the second place, the recommendations upon which the committee must act are usually first filtered through a staff which often feels insecure in terms of tenure and furthermore is denied the necessary funds and personnel to make an adequate study of proposals which come before it. It is understandable, therefore, that their recommendations are likely to be conservative.

Organization and Risk-Taking

In the field of new product development, there is substantial evidence that the form of organization adopted by a corporation to create and market new products will affect the kind of product which ultimately emerges from the internal processes of the corporation. The increasing divisionalization of industry with decentralized semi-autonomous profit centers for operations purposes has made true product innovation more difficult to achieve in

6 According to recent studies, the divisionalized organization has replaced the functionalized organization as the dominant formal structure among the nation's largest industrial corporations. See Robert W. Ackerman, "How Companies Respond to Social Demands." Harvard Business Review, July-August 1973, p. 90.
American industry. Although this organizational concept has proved to be an effective way of running today's business, it is frequently an unsound basis for running tomorrow's business; for it shortens the time span of the executive making key operational decisions. The division head, who is told to run his activity like his own business and to report monthly on his profit performance is unlikely to use the limited funds at his disposal for development of a new product which may have a high payoff in the distant future but meanwhile will chalk up major losses in his division and adversely affect his bonus. Consequently, if he has to make decisions on what new products to fund, he will opt for the sure thing, even though it may be only a minor improvement of an existing company or competitor's product.

Chief executives are keenly aware of this danger and are now trying to find ways to make innovation more attractive and feasible within the constraints imposed by the decentralized organization of the company. Some companies reserve a headquarters budget for research and development—and even first year marketing expenses—on long range high-risk new products. Other companies have resorted to ad hoc new venture teams or to the taking of minority positions in outside companies which appear to have some chance of scoring major breakthroughs in new technology over a period of years.

The problems which the form of corporate organization have created in the path of new product development have their parallel in the area of social projects. Professor Robert Ackerman
has pointed out some of the difficulties encountered by the chief executive who wishes to influence the social responsiveness of division managers without breaching the separation of corporate and division responsibilities in the divisionalized organization.  

Experience has demonstrated that division managers, plant managers, store managers, and other managers of such semi-autonomous operating units cannot be left the responsibility unguided of what to do in the social area. A large number of companies have reported to the writer that when such managers are given budgets for social causes they frequently return substantial amounts unexpended. There appear to be a number of reasons for this behavioral pattern. In the first place, most managers have been so brainwashed with the need for increasing the bottom line that they really do not believe management when they are told to increase expense. Secondly, most managers are so busy with operational problems that they have little concern, expertise, or interest in exploring the best way to expend allotted budgets in the social area. Managers must be given guidance in carrying out their role in an overall company social program, but obviously this advisory function has to be carried out with tact and care in an organization where the division managers have a high degree of autonomy.

The Need for Innovative Corporate Social Response

One of the reasons frequently cited by the late Eli Goldston for corporate involvement in the social area was that experimentation

---

7 Ibid., p. 90.
by business in meeting social problems would produce a diversity of response and in the long run better solutions to the major social problems of our society than could be expected from government. Unfortunately the current pattern of social action of large corporations suggests that while there may be a diversity of response, major social problems, which are not as yet the subject of governmental regulation in terms of compulsory corporate action, will get little attention from American business. It is understandable, of course, that management should be giving primary attention to such problems as equal employment opportunity and pollution control since governmental standards have already been established in these areas and failure to conform can be costly to a corporation.

But failure to deal with problems such as the decay in our cities and the lack of low income housing can in the long run be equally costly to the corporation even though government has not delineated by legislative fiat the role of business in these areas. If business is really serious about meeting public expectations with respect to its proper role in society, it ought to consider anew the product mix which it is in process of developing in social projects. Perhaps the concerned chief executive should specify that at least 10 per cent (or some percentage) of the company's overall social budget be allocated to high risk urban problems. As Louis B. Lundborg has pointed out:
"There are two ways to go: business can look the other way, and wait for government to dictate all the answers...or it can pitch in and help to find the answers.. Apart from the fact that the private sector, including corporate business, might do a better job on the particulars of the problem, there is another consideration that....is overriding, one that goes to the very heart of what kind of society we are going to have. If today's social problems are solved entirely by government, the rules imposed will be no mere transactional ordinances. They could take us a long step toward a monolithic society."/8

Bloom, Gordon / Corporate social responsibility

Madnick, Stuart / Application and analysis