

## **Social Responsibility and the Role of Business**

Although it will never be truly resolved, the argument as to the responsibilities and purpose of business and its role in social responsibility brings forth interesting debate. Wherever one stands on the issue, continuous review of the points of both sides of the issue will help shape current and future leaders and companies.

### Friedman: The Social Responsibility of Business is to Increase its Profits

Milton Friedman argues that the only social responsibility a business has is to itself – primarily to its profits, and thus, its shareholders. The corporate executive in charge of a corporation works for the corporation and ultimately for the owners of the corporation – the shareholders. This person is responsible for carrying out the directives that the shareholders deem important to the corporation reaching its goals – mainly making a profit. Friedman feels that as long as the corporate executive carries out these desires in a way that follows the laws and ethical customs of society, this person has fulfilled his or her duty for society.

Friedman contends that it is the responsibility of individuals, the government, or various groups that are voluntarily formed to take care of the needs of society. Corporate executives are charged with earning and spending corporate money. They represent the company and make decisions for the betterment of the company. They know what it takes to create and sell the company's product or service. If an executive chooses an agenda of social responsibility that is in direct conflict with the company's agenda of profitability, in Friedman's opinion, this is a divergence from the company's goals and should cause the executive to be fired. Friedman does not believe a company executive with specific expertise in their industry has the expertise to determine what social causes the company can have a positive impact on. Additionally, Friedman believes that even if executives, and shareholders for that matter, did commit to aiding

in a social cause, they would be unable to determine what action they could take that would have a positive impact.

### Kolstad: Why Firms Should Not Always Maximize Profits

Ivar Kolstad argues that simply maximizing profits is not an ethical, nor rational, business goal. Unlike Friedman, he states that even though corporate executives enter into a contractual employment arrangement with the company (and ultimately the shareholders) this does not mean they are freed of all other responsibilities. He argues that it may be in the shareholders' best interests to use part of the firm's profits for socially responsible causes. He states that government alone may be unwilling or even unable to attend to certain social causes and business may have the expertise to effectively make a positive impact. Friedman's argument voiced concern that businesses who incurred additional costs by being socially responsible would be put out of business; however, Kolstad argues that this has not been shown to be the case. Socially responsible firms still remain in the market possibly due to having a good reputation or because the consumer pays a premium price for their products. Kolstad feels that the position of profit maximization implies that firms have a "special duty" toward their owners – one that takes precedence over other stakeholders. Yet, there is argument as to whether this is actually proper. Many shareholders invest in companies simply to realize gains. Their interest in the company is not in the day-to-day management, but in its ability to increase its stock price. Their relationship with the firm cannot be classified as loyal, nor are they instrumental in the day-to-day decision making. Kolstad also cites the "mutual benefit tradition" which promotes cooperation and distributing the rewards of cooperation among all stakeholders. Overall, his arguments support corporate social responsibility (CSR) as an ethical approach to running a company. Although Kolstad believes that in order to be ethical, companies must be socially responsible, he also

acknowledges that corporate social responsibility does not necessarily lead to higher profits and it is difficult to measure its impact. He believes companies must determine their areas of social responsibility and allocate their resources to these areas without expecting increased profits because of their actions. Kolstad cites many instances where it is apparent that CSR benefits companies – this lends to the strength of his argument. Yet, it may be easy for those who side with Friedman to dismiss his stance as lacking a clear and definite “why.” In the end, his summary may be viewed as CSR being important simply because it is the right thing to do.

#### Primeaux & Stieber: Profit Maximization: The Ethical Mandate of Business

Primeaux and Stieber believe that business ethics creates an array of emotions among the members of society. Ethics is difficult to define and understand, yet the media, and possibly society in general, tend to pounce upon companies who take actions deemed unethical. In order for the public to view companies as inherently ethical, the authors feel business must define its role in society and make sure ethics is a strong component of how they do business. Friedman strongly believed that the responsibility of business was to produce its product or service and provide it to society. However, rather than simply defining the role of business as “to provide the goods and services the consumer wants,” these authors feel that companies should do that within the “ethical mores of society.” The ethical perspective of the company should take precedence over the ethical perspective of each employee. While each person comes to the company with their own sets of ideals, values, and beliefs, they must consciously choose to follow the established culture of the company when they work there. The authors believe companies strive for profit maximization, yet they define it differently than Friedman did. By allocating resources efficiently, companies can produce the optimum level of products or services, or, in economic terms, produce where marginal revenue equals marginal cost. This

causes them to produce the amount of products or services that are needed by society which, in turn, benefits both the company and society. Companies can be socially responsible by producing at optimum levels. There is strength to this argument in the sense that it illustrates how all of society can benefit. It does not simply state that companies should use their profits to contribute to various social causes. It instead shows the financial and social benefits of producing what society wants in an efficient manner.

### Barnard: The Nature of Executive Responsibility

Barnard focuses on the aspects of leadership, specifically, the aspects of leadership that determine the “quality of action” and levels of responsibility that are inherent in leaders. He defines morals as a “private code of conduct...” which guides people in their actions. Leaders are given responsibility to guide the actions of others. They use their morals to do this. This may result in different courses of action depending on the situation and may cause conflict between the various codes that each person has. More dominant internal codes tend to be expressed publicly and can have much impact on the behavior of others. Over time, companies tend to develop their own code, which is shaped by the codes of its leaders as well as customs and society’s viewpoint. Those involved with the organization will, more than likely, shape their behavior, actions, and beliefs based on this code. It may affect their personal codes of conduct in great ways or in few depending on their level of commitment to the organization. Because of the effect of leadership on companies, employees, and society, Barnard stresses the importance of high morality in executive positions. Executives have high levels of responsibility and help shape the morals of others. If they are not of high moral character, this will be reflected in many other ways. Executives, by their actions, shape the personality of the organization. Friedman never spoke of the morals of company executives. He felt their sole responsibility was to ensure

the company produced its products and service. Barnard dug deeper to show the large societal impact the morals of company executives have. Although Barnard did discuss the levels of responsibility executives have, he did not highlight the importance of their expertise in their field. Yes, many would agree that high morals are imperative for good leadership, yet opponents would argue that expertise must be held just as high.

#### Drucker: The Purpose and Objectives of a Business & Social Impacts and Social Problems

Where Friedman states that the purpose of a business is to make a profit, Drucker asserts that profit is merely a means with which the business fulfills its true purpose: “to create a customer.” If companies focus on the needs of their customer and market their products to the customer this way, they will thrive. Business must also focus on innovation – finding better ways to make their products which result in cost savings or lower prices, developing new products that meet society’s needs, or finding new ways to use existing products. Clearly defining the mission and purpose of the business, determining what the business will be and what it should be, and determining who the customer is, where they are, and what they need is the first step. In order to succeed, this information must be translated into company objectives which cover the key areas of a business: Marketing, Innovation, Human Resources, Financial Resources, Physical Resources, Productivity, Social Responsibility, and Profit Requirements.

Drucker goes on to discuss the impacts a business can have on society and its social responsibility. He separates these impacts into what a company does *to* society and what it does *for* society. Friedman never focused on these social impacts except to say a business should stay within the requirements of the law. Drucker takes this much further. He feels that since companies exist within society, they must be aware of their impacts and have a responsibility to mitigate them. Additionally, he feels that general social problems that can be innovatively

changed into business opportunities will create positive results for society and the company. However, certain social problems may not ever be business opportunities. Drucker still feels companies must address these issues. If companies are profitable and healthy, yet society is ill, these ills will eventually make their way to the companies. Friedman argued that social problems are not the problems of companies; yet, Drucker strongly states that these problems will not go away on their own and eventually will become problems that plague companies. Drucker's rationale is well-written and well-supported. Each argument represents a solid business perspective, yet may not reflect the views of all stakeholders, specifically shareholders.

#### Porter and Kramer: Strategy and Society - The Link Between Competitive Advantage and Corporate Social Responsibility

Porter and Kramer believe that corporations do have a responsibility to society; yet, they have been handling this responsibility completely wrong. Because society has taken greater notice of corporate actions and expresses their approval or disapproval of these actions, corporations have no choice but to make social responsibility a priority. A company behaving in a manner that society feels is improper will be "punished" by society with boycotts of their product and bad word-of-mouth. This will ultimately affect the company's profits and be detrimental to the shareholders. Yet, Porter and Kramer assert that corporations must develop a Social Responsibility Strategy to determine how to best use their efforts. Like Friedman, these authors believe companies do not have the expertise to determine how they can solve overall general societal problems. Additionally, the business and financial benefits received by contributing to general causes cannot be easily measured. The authors also agree with Friedman on the fact that current views of social responsibility put business and society on two opposite ends of the spectrum. Yet, companies who fail to consider the social impact of their products will suffer financially. Porter and Kramer believe that companies must quit looking at social

responsibility as a liability or something they are forced to partake in. Instead, companies must focus on the interdependence of business and society. This argument is a good compromise between Friedman's position and a position agreeing with a high level of CSR. It shows how the benefits of CSR can be balanced for all involved.

#### Pope Benedict: Chapters 3 & 4 of Caritas in Veritate

This religious perspective sheds light on the impact of original sin. A consequence of original sin is an inclination toward evil. The Pope discusses how this evil has appeared in economic, social and political systems due to the belief that some people hold – that we are solely in-charge of our self, our life, and our society. He highlights truth as a gift that everyone has received. Truth is responsible for building community and ultimately trust. Where Friedman stated that businesses are responsible for providing their product to the consumer, receiving payment for that product, and making a profit, Pope Benedict believes society cannot function well by simply focusing on these transactions. In order to have a well-functioning society, economic activity must be “directed toward the pursuit of the common good” and must have the involvement of government as well. Strongly in opposition to Friedman's argument is the Pope's key point, “...*every economic decision has a moral consequence.*” This said, it is difficult to defend Friedman's position. If companies simply strive to make profits, they may not weigh the consequences of their actions in achieving these profits. The Pope continues his discussion by turning to an explanation of people's rights and duties. He stressed the importance of duties above rights – duties are more outward looking and collectively, people can empower those with less, even across the globe. The improvement of quality of life and discovery and use of hidden talents within society will help all of society prosper. With heavy emphasis on the importance of a religious perspective on social responsibility, the Pope's work does a good job of introducing

another aspect for companies to consider. However and unfortunately, this religious perspective may be criticized as having limited use in day-to-day business operations by highly vocal and opinionated groups.

#### Dyck & Schroeder: Management, Theology and Moral Points of View

In this paper, the authors discuss Max Weber's longtime views on materialism and individualism and how they affect management. The authors argue that the time has come to begin looking at management from a less materialistic and less individualist viewpoint. A number of years ago, based on the Protestant ethic, individualism was stressed as important. People as individuals were responsible for shaping their own lives and for the success they achieved. Additionally, the accumulation of material wealth was an indicator of success. Over the years, these viewpoints have changed, especially from a management perspective. Weber identified management styles that are based on the emphasis on materialism and individualism. Conventional Management has high emphasis on both materialism and individualism while Radical Management has low emphasis on both. The authors contend that a move toward more Radical Management would be beneficial for managers, companies, and society. Friedman's approach to earning profits represents a more Conventional Management style. In stating that firms must earn profits without regard to social issues, this represents a very materialistic and individualistic way of operating a business. The authors point out that companies do not neatly fit in the conventional or radical categories. There may be times when a conventional firm acts in a way more typical of a radical firm, and vice versa. Overall, they do believe that a more radical management approach produces higher moral viewpoints and practices. Although this argument does make a case for the importance of moving away from materialism and individualism, it is difficult to believe that more conventional managers lack solid morals.



### Dyck & Weber: Conventional vs. Radical Moral Agents

Dyck and Weber take the prior paper's work one step further. They strive to determine if the qualities and actions of conventional managers differ greatly from those of radical managers. They sought to test their hypotheses that, 1) "*Materialism and individualism are independent constructs,*" 2) "*Conventional managers will express attitudes consistent with specialization, centralization, formalization and standardization to a greater degree than radical managers,*" 3) "*Radical managers will express attitudes consistent with sensitization, dignification, participation and experimentation to a greater degree than conventional managers*", 4) "*Radical managers will espouse the personal virtues of peacefulness, gentleness, patience and joyfulness more than conventional managers,*" and 5) "*Radical managers will place greater emphasis on personal spiritual virtues than will conventional managers.*" The lists of attitudes presented in hypotheses three and four had been identified by Max Weber in earlier works as typical of their respective type of manager. Overall support was found for the first four hypotheses and hypothesis five was somewhat supported. Breaking managers into these two categories and stressing the importance of moving toward radical management is in direct conflict with Friedman's more conventional management approach. The research results were significant, yet the sample population may not be representative of the general population so, although a valuable study, the results may not be easily applied to society in general.

### Olson: We Need Wilderness & The Spiritual Aspects of Wilderness

Sigurd Olson speaks of his many experiences in the wilderness and the effect it has had on him and others. In Olson's opinion, wilderness is where people can get away from the rush of day-to-day life to reflect, rejuvenate, and relax. And when people return to their busy lives, their thoughts of the calm and intrigue of the wilderness help them deal with the challenges they

experience. With the modernization of the world came a massive reduction in the amount of untouched wilderness. Although groups have always supported the preservation of wilderness, this has sometimes been shadowed by those focused on economic development. Olson believes that in wilderness is the human spirit. Despite the current busy-ness of everyday life and the desire by most people to live this lifestyle, deep down most people truly just want to find some space – wide open, quiet, and peaceful space. Olson looks around at our actions and deeds and sees that we are truly not much removed from our uncivilized past. It is a part of us that will always be there seeking to be fulfilled. Olson’s approach represents a stark contrast to Friedman’s view of business purpose – maximizing profits. If a business is only motivated to increase profits, it may do so at the expense of other social needs. In Olson’s eyes, the complete picture needs to be viewed – the developed “steel” society and the undeveloped wilderness. In order to be most effective in advancing society, people must recharge by spending time in the wilderness. Olson’s argument speaks to the busy, stressed-out person in all of us. Often people speak of “getting away from it all” and this is achievable to some, yet not to others. Continued emphasis on the benefits of the wilderness will help more people achieve contentment in their lives.

### Dickens: A Christmas Carol

For decades, this novel and subsequent movie adaptations have placed this story in our minds as a reminder of the importance of treating others well, helping those in need, and making the most of our lives. When mean, old Mr. Scrooge is visited by three spirits, he is reminded of the good and bad in his past and prompted to look at how he is living his life. In the end, he realizes that the way he chose to live his life was wrong. He placed importance on material things, focused on making money despite its cost, did nothing to help those around him, and

retreated from society. Friedman's emphasis on achieving profits does not mean a company removes itself from society; however, it firmly states that a company does not have a responsibility to society aside from providing it with its products or services. Although a turnaround as quick as Mr. Scrooge's is unlikely in reality, the point is clear – focusing on what you can do for others and living life to its fullest will help individuals, companies, and society in general reap greater rewards.

### My View

Friedman's argument brings up some valid points; however, I truly believe there is more to a company than simply striving for profitability. There are many people who could benefit from or be harmed by a company's products and services. It is irresponsible for companies to shut out the needs of society when companies are actually a part of society. If society does not function well, this will have a negative impact on the company – on its profits. When companies are started, it is usually through the desires, drive, and hard work by one or a few individuals. As companies grow, they rely on more people to achieve success. Employees, customers, vendors, and community groups all have a hand in the success or failure of a company. Once the company grows to the point of needing additional capital, they choose to sell shares of stock to the public. Before this point, the few individuals who started the company owned all of the stock and made the decisions. It is only at this point that "outside" shareholders become important in building the company. Even before companies were owned by numerous shareholders, there were a number of "stakeholders" who shaped the company. Friedman believes that the executives of a company are charged with meeting the company's goals and objectives and with this I agree. Executives with their own agenda that is not parallel with that of the company will eventually be removed by the shareholders. Yet, the agenda of CSR should not start with the

company executive. It should be part of the company culture and led by the shareholders. In essence, the benefits of CSR extend far beyond profitability. They define the whole existence of the company and are reflected in its success. It is unreasonable for Friedman to focus on profitability alone and view as unimportant business's role in bettering society beyond providing its products. It is irrational to believe that the shareholders are simply driven by profit. I will agree that this is the main driving factor of those who purchase shares of stock. Yet, I believe most people realize there are a variety of means by which to gain profits. Companies should strive to be efficient in their operating procedures by producing at optimum levels, controlling costs, and marketing effectively. If done correctly, the firm will be able to sustain profitability. Yet, if it ignores the impact it is having on or can have on society, this profitability will be limited. I contend that operating efficiently only provides profit up to a point. In order to achieve profit above that limit, companies must work to improve the society around them. If they mitigate any negative impacts they are having on society and provide resources to improve conditions in society, they will find opportunity for additional growth and profitability.

In the articles we reviewed, I agree wholeheartedly with the assertion Peter Drucker makes. Businesses must first get their house in order. He identifies the main purpose of a business as "to create a customer." In order to create customers, businesses must develop solid plans and then operate efficiently. Well thought out and executed business plans will lead to the creation of many customers. This will, in turn, generate profits which allow the business to carry out its work. Companies can identify many social problems and turn them into a business benefit – this is a win for all. Yet, social problems that do not have a direct, identifiable benefit on a company's profits, if not addressed, can trouble companies indefinitely. The health of society directly impacts the health of a company as that company is part of society as a whole.

Although Drucker states that companies should address social problems even if there is no identifiable business benefit, I believe companies can make a positive impact on society by first following the advice of Porter and Kramer. If companies set their CSR agenda based on the areas they can have the best impact and areas where they can better measure monetary gains, they will feel justified in their practices. Explanations to shareholders will be easier and better accepted. Benefits will be apparent to all involved. While Friedman will argue that this approach is just profit maximization disguised as social responsibility, I argue that it still has a positive impact on society and that the business generates goodwill and profitability. To me, it sounds like all parties win in this situation. If companies seek out the areas where they can have the biggest impact, then they are using their resources efficiently and effectively.

### Management as a Profession

Just as there is continuous debate about the social responsibility of business, there is debate over formalizing the occupation called “management.” Although an insightful proposition, I believe it would be difficult to uphold management as a profession with standardized education and training. A “one-size-fits-all” management training program may not sufficiently train managers across various industries. Instead, focusing on certifications and advanced education within each industry may better equip managers for effective leadership. This belief and my belief that companies must be socially responsible are inter-related. Managers who pursue advanced education in their fields learn how to be most effective in producing their products or service. This is the first key to social responsibility. As companies manage effectively, they provide the products and services that society needs at the levels in which they are needed. Achieving certifications in their chosen field also addresses ethics. Ethical behavior will be required and emphasized with this type of training. As in this class,

much of the focus of ethical training is on the treatment of others. By choosing their specialized training voluntarily and feeling accountable to their peers, managers are more likely to uphold the ethical standards set forth by the certification and training programs.

### My Managerial Style

Using my beliefs on corporate social responsibility and management as a profession, I feel confident that I can be an effective manager. Organization, efficiency, planning, and goal setting are all important attributes to me, yet so are compassion, caring, and loyalty. A review of my results on the “Survey of Personal Ethical Perspectives” places me slightly more in the category of radical manager, yet I see areas where my beliefs lie more on the conventional side. My belief in the inherent good in people as well as the efficiency in which I do my work should be a good balance for me as a manager. Although I feel that the personal virtues of peacefulness, patience, and joyfulness are a part of who I am, I find myself straying from them when the stressors of life build up inside me. Upholding my beliefs will help me be true to myself as a person and help me move toward a radical management style not only in my thoughts but in my actions. I strongly believe companies must use their resources to benefit more than just the shareholders. Successful companies create wealth and resources. If their excess is shared, all of society will reap the rewards. Prosperity will continuously find its way to those companies that act ethically and exhibit goodwill toward society.

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