

2.2 Three Approaches to Corporate Responsibility

According to the traditional view of the corporation, it exists primarily to make profits. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. These dilemmas include the following: “What obligations do organizations have to ensure that individuals seeking employment or promotion are treated fairly?” “How should conflicts of interest be handled?” and “What kind of advertising strategy should be pursued?” Most of this textbook has been dedicated to these and similar questions.

While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic *and* civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of, and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities:

1. Corporate social responsibility (CSR)
2. The triple bottom line
3. Stakeholder theory

2.3 Corporate Social Responsibility (CSR)

The title **corporate social responsibility** has two meanings. First, it’s a general name for any theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community. Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare.

As a specific theory of the way corporations interact with the surrounding community and larger world, **corporate social responsibility (CSR)** is composed of four obligations:

1. The **economic responsibility** to make money. Required by simple economics, this obligation is the business version of the human survival instinct. Companies that don’t make profits are—in a modern market economy—doomed to perish. Of course there are special cases. Nonprofit organizations make money (from their own activities as well as through donations and grants), but pour it back into their work. Also, public/private hybrids can operate without turning a profit. In some cities, trash collection is handled by this kind of organization, one that keeps the streets clean without (at least theoretically) making anyone rich. For the vast majority of operations, however, there have to be profits. Without them, there’s no business and no business ethics.
2. The **legal responsibility** to adhere to rules and regulations. Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that this obligation must be understood as a proactive duty. That is, laws aren’t boundaries that enterprises skirt and cross over if the penalty is low; instead, responsible organizations accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits. In concrete terms, this is the difference between the driver who stays under the speed limit because he can’t afford a traffic ticket, and one who obeys because society as a whole is served when we all agree to respect the signs and stoplights and limits. Going back to John Travolta racing his Porsche up and down the rural highway, he sensed none of this respect. The same goes for the toxic company W. R. Grace Incorporated as it’s portrayed in the movie: neither one obeys regulations and laws until the fines get so high they’ve got no choice. As against that model of behavior, a CSR vision of business affirms that society’s limits will be scrupulously obeyed, even if the fine is only one dollar.
3. The **ethical responsibility** to do what’s right even when not required by the letter or spirit of the law. This is the theory’s keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails. When someone is racing their Porsche along a country road on a freezing winter’s night and encounters another driver stopped on the roadside with a flat, there’s a social obligation to do something, though not a legal one. The same logic can work in the corporate world. Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste. In Woburn, Massachusetts, W. R. Grace did that, as well as Beatrice Foods. The law governing toxic waste disposal was ambiguous, but even if the companies weren’t legally required to enclose their poisons in double-encased, leak-proof barrels, isn’t that the right thing to do so as to ensure that the contamination will be safely contained? True, it might not be the

corporate social responsibility (CSR)

In general, the conviction that corporations are not only legal entities with responsibilities but also moral entities, and they hold ethical obligations comparable to those of citizens in a society.

corporate social responsibility (CSR)

As a specific theory of business ethics, a package of four obligations the corporation holds as an independent ethical actor in society; the responsibilities are economic, legal, ethical, and philanthropic.

right thing to do in terms of pure profits, but from a perspective that values *everyone's* welfare as being valuable, the measure could be recommendable.

4. The **philanthropic responsibility** to contribute to society's projects even when they're independent of the particular business. A lawyer driving home from work may spot the local children gathered around a makeshift lemonade stand and sense an obligation to buy a drink to contribute to the neighborhood project. Similarly, a law firm may volunteer access to their offices for an afternoon every year so some local schoolchildren may take a field trip to discover what lawyers do all day. An industrial chemical company may take the lead in rehabilitating an empty lot into a park. None of these acts arise as obligations extending from the day-to-day operations of the business involved. They're not like the responsibility a chemical firm has for safe disposal of its waste. Instead, these public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community.

Taken in order from top to bottom, these four obligations are *decreasingly* pressing within the theory of corporate social responsibility. After satisfying the top responsibility, attention turns to the second and so on. At the extremes, the logic behind this ranking works easily. A law firm on the verge of going broke probably doesn't have the responsibility to open up for school visits, at least not if the tours interfere with the accumulation of billable hours and revenue. Obviously, if the firm *does* go broke and out of business, there won't be any school visits in any case, so faced with financial hardship, lawyers are clearly obligated to fulfill their economic obligations before philanthropic ones.

More difficult questions arise when the economic responsibility conflicts with the legal one. For example, to remain profitable, an industrial plant may need to dispose of waste and toxins in barrels that barely meet legally required strengths. Assuming those legal limits are insufficiently strict to guarantee the barrels' seal, the spirit of the law may seem violated. The positive economic aspect of the decision to cut corners is the ability to stay in business. That means local workers won't lose their jobs, the familial stresses of unemployment will be avoided, suppliers will maintain their contracts, and consumers will still be served. The negative, however, is the possibility—and the reality at Woburn—that those toxins will escape their containers and leave a generation of workers' children poisoned.

Knowing what we do now about those Woburn children, there's no real conflict; anything would have been better than letting the toxins escape. If necessary, the company should have accepted bankruptcy before causing the social damage it did. At the time of the decision, however, there may have been less certainty about exactly what the risks and benefits were. Even among individuals promoting a strong sense of corporate responsibility for the surrounding community, there may have been no clear answer to the question about the proper course of action. Regardless, corporate social responsibility means every business holds four kinds of obligations and should respond to them in order: first the economic, then the legal, next the ethical, and finally the philanthropic.

2.4 The Triple Bottom Line

The **triple bottom line** is a form of corporate social responsibility dictating that corporate leaders tabulate bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social realm, and with respect to the environment. There are two keys to this idea. First, the three columns of responsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results.

The notion of sustainability is very specific. At the intersection of ethics and economics, **sustainability** means the long-term maintenance of balance. As elaborated by theorists including John Elkington, here's how the balance is defined and achieved economically, socially, and environmentally:

- **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, large corporations have a responsibility to create business plans allowing stable and prolonged action. That bias in favor of duration should make companies hesitant about investing in things like dot-coms. While it's true that speculative ventures may lead to windfalls, they may also lead to collapse. Silicon Valley, California, for example, is full of small, start-up companies. A few will convert into the next Google, Apple, and Microsoft. What gets left out, however, of the newspaper reports hailing the accomplishments of a Steve Jobs or a Bill Gates are all those other people who never made it—all those who invested family savings in a project that ended up bankrupt. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid calamitous losses.

Moving this reasoning over to the case of W. R. Grace dumping toxins into the ground soil, there's a possible economic-sustainability argument against that kind of action. Corporations trying to get away with polluting the environment or other kinds of objectionable actions may, it's true, increase their bottom line in the short term. Money is saved on disposal costs. Looking

triple bottom line

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fair trade movement

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further out, however, there's a risk that a later discovery of the action could lead to catastrophic *economic* consequences (like personal injury lawyers filing huge lawsuits). This possibility leads immediately to the conclusion that concern for corporate sustainability in financial terms argues against the dumping.

- **Social sustainability** values balance in people's lives and the way we live. A world in which a few *Fortune* 500 executives are hauling down millions a year, while millions of people elsewhere in the world are living on pennies a day can't go on forever. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase. The threat of governmental overthrow from below sounds remote—almost absurd—to Americans who are accustomed to a solid middle class and minimal resentment of the wealthy. In world history, however, such revolutions are quite common. That doesn't mean revolution is coming to our time's developed nations. It may indicate, however, that for a business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible.

The **fair trade movement** fits this ethical imperative to shared opportunity and wealth. Developed and refined as an idea in Europe in the 1960s, organizations promoting fair trade ask businesses—especially large producers in the richest countries—to guarantee that suppliers in impoverished nations receive reasonable payment for their goods and services even when the raw economic laws of supply and demand don't require it. An array of ethical arguments may be arranged to support fair trade, but on the front of sustainability, the lead argument is that peace and order in the world depend on the world's resources being divided up in ways that limit envy, resentment, and anger.

Social sustainability doesn't end with dollars; it also requires *human respect*. All work, the logic of stability dictates, contains dignity, and no workers deserve to be treated like machines or as expendable tools on a production line. In today's capitalism, many see—and the perception is especially strong in Europe—a world in which dignity has been stripped away from a large number of trades and professions. They see minimum wage workers who'll be fired as soon as the next economic downturn arrives. They see bosses hiring from temporary agencies, turning them over fast, not even bothering to learn their names. It's certainly possible that these kinds of attitudes, this contempt visible in so many workplaces where the McJob reigns, can't continue. Just as people won't stand for pennies in wages while their bosses get millions, so too they ultimately will refuse to accept being treated as less dignified than the boss.

Finally, social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people. Fitting this obligation into the case of W. R. Grace in Woburn, it's immediately clear that any corporation spilling toxins that later appear as birth defects in area children isn't going to be able to sustain anything with those living nearby. Any hope for cooperation in the name of mutual benefit will be drowned by justified hatred.

- **Environmental sustainability** begins from the affirmation that natural resources—especially the oil fueling our engines, the clean air we breathe, and the water we drink—are limited. If those things deteriorate significantly, our children won't be able to enjoy the same quality of life most of us experience. Conservation of resources, therefore, becomes tremendously important, as does the development of new sources of energy that may substitute those we're currently using.

Further, the case of an industrial chemical company pouring toxins into the ground that erupt years later with horrific consequences evidences this: not only are resources finite, but our earth is limited in its ability to naturally regenerate clean air and water from the smokestacks and runoff of our industries. There are, clearly, good faith debates that thoughtful people can have about *where* those limits are. For example, have we released greenhouse gases into the air so heavily that the earth's temperature is rising? No one knows for sure, but it's certain that *somewhere* there's a limit; at some point carbon-burning pollution will do to the planet what toxic runoff did in Woburn: make the place unlivable. Sustainability, finally, on this environmental front means actions must be taken to facilitate our natural world's renewal. Recycling or cleaning up contamination that already exists is important here, as is limiting the pollution emitted from factories, cars, and consumer products in the first place. All these are actions that corporations must support, not because they're legally required to do so, but because the preservation of a livable planet is a direct obligation within the triple-bottom-line model of business responsibility.

Together, these three notions of sustainability—economic, social, and environmental—guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community and not just as a money machine.

One deep difference between corporate social responsibility and the triple bottom line is cultural. The first is more American, the second European. Americans, accustomed to economic progress, tend to be more comfortable with, and optimistic about, change. Collectively, Americans want business to

transform the world, and ethical thinking is there (hopefully) to help the transformations maximize improvement across society. Europeans, accustomed to general economic decline with respect to the United States, view change much less favorably. Their inclination is to slow development down, and to keep things the same as far as possible. This outlook is naturally suited to sustainability as a guiding value.

It's important to note that while sustainability as a business goal puts the breaks on the economic world, and is very conservative in the (nonpolitical) sense that it favors the current situation over a changed one, that doesn't mean recommending a pure freeze. Sustainability isn't the same as **Ludditism**, which is a flat resistance to all technological change.

The Luddites were a band of textile workers in Britain in the 1800s who saw (correctly) that mechanized looms would soon rob them not only of their livelihood but also of their way of life. To stop the change, they invaded a few factories and broke everything in sight. Their brute strategy succeeded very briefly and then failed totally. Today, Ludditism is the general opposition to new technologies in any industry on the grounds that they tear the existing social fabric: they force people to change in the workplace and then everywhere, whether they like it or not. There's an element of (perhaps justifiable) fear of the future in both Ludditism and the business ethics of sustainability, but there are differences between the two also. For example, sustainability concerns don't always stand against technological advances. Actually, innovation is favored *as long as* advances are made in the name of maintaining the status quo. For example, advances in wind power generation may allow our society to continue using energy as we do, even as oil reserves dwindle, and with the further benefit of limiting air pollution.

Ludditism

Resistance to all technological development.

2.5 Stakeholder Theory

Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?" "What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?" In a single sentence, stakeholder theory affirms that *those whose lives are touched by a corporation hold a right and obligation to participate in directing it.*

As a simple example, when a factory produces industrial waste, a CSR perspective attaches a responsibility directly to factory owners to dispose of the waste safely. By contrast, a stakeholder theorist begins with those living in the surrounding community who may find their environment poisoned, and begins to talk about business ethics by insisting that they have a right to clean air and water. Therefore, they're stakeholders in the company and their voices must contribute to corporate decisions. It's true that they may own no stock, but they have a moral claim to participate in the decision-making process. This is a very important point. At least in theoretical form, those affected by a company's actions actually become something like shareholders and owners. Because they're touched by a company's actions, they have a right to participate in managing it.

Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small Massachusetts town, the stakeholders include the following:

- Company owners, whether a private individual or shareholders
- Company workers
- Customers and potential customers of the company
- Suppliers and potential suppliers to the company
- Everyone living in the town who may be affected by contamination from workplace operations
- Creditors whose money or loaned goods are mixed into the company's actions
- Government entities involved in regulation and taxation
- Local businesses that cater to company employees (restaurants where workers have lunch, grocery stores where employee families shop, and similar)
- Other companies in the same line of work competing for market share
- Other companies that may find themselves subjected to new and potentially burdensome regulations because of contamination at that one Massachusetts plant

The first five on the list—shareholders, workers, customers, suppliers, and community—may be cited as the five cardinal stakeholders.

The outer limits of stakeholding are blurry. In an abstract sense, it's probably true that everyone in the world counts as a stakeholder of any serious factory insofar as we all breathe the same air and

because the global economy is so tightly linked that decisions taken in a boardroom in a small town on the East Coast can end up costing someone in India her job and the effects keep rippling out from there.

In practical terms, however, a strict stakeholder theory—one insistently bestowing the power to make ethical claims on *anyone* affected by a company's action—would be inoperable. There'd be no end to simply figuring out whose rights needed to be accounted for. Realistically, the stakeholders surrounding a business should be defined as those tangibly affected by the company's action. There ought to be an unbroken line that you can follow from a corporate decision to an individual's life.

Once a discrete set of stakeholders surrounding an enterprise has been located, **stakeholder ethics** may begin. The purpose of the firm, underneath this theory, is to maximize profit on a collective bottom line, with profit defined not as money but as human welfare. The **collective bottom line** is the summed effect of a company's actions on *all* stakeholders. Company managers, that means, are primarily charged not with representing the interests of shareholders (the owners of the company) but with the more social task of coordinating the interests of *all* stakeholders, balancing them in the case of conflict and maximizing the sum of benefits over the medium and long term. Corporate directors, in other words, spend part of the day just as directors always have: explaining to board members and shareholders how it is that the current plans will boost profits. They spend other parts of the day, however, talking with other stakeholders about *their* interests: they ask for input from local environmentalists about how pollution could be limited, they seek advice from consumers about how product safety could be improved and so on. At every turn, stakeholders are treated (to some extent) like shareholders, as people whose interests need to be served and whose voices carry real force.

In many cases transparency is an important value for those promoting stakeholder ethics. The reasoning is simple: if you're going to let every stakeholder actively participate in a corporation's decision making, then those stakeholders need to have a good idea about what's going on. In the case of W. R. Grace, for example, it's important to see that a stakeholder theory would not necessarily and immediately have acted to prohibit the dumping of toxins into the soil. Instead, the theory demands that all those who may be affected know what's being dumped, what the risks are to people and the environment, and what the costs are of taking the steps necessary to dispose of the chemical runoff more permanently and safely.

As already noted, we know now what W. R. Grace should have done under most every ethical theory. At the time, however, stakeholders fully informed of the situation may have been less sure because it wasn't so clear that the runoff would cause so many problems (or any problems at all). Given that, owners may have favored dumping because that increases profits. Next, what about workers in town? It's important to keep in mind that the safe removal of the waste may have lowered company profits and potentially caused some layoffs or delayed wage hikes. As stakeholders, they may have been willing to agree to the dumping too. The same goes for community politicians who perhaps would see increased tax revenue as a positive effect of high corporate profits.

What's certain is that stakeholder theory obligates corporate directors to appeal to all sides and balance everyone's interests and welfare in the name of maximizing benefits across the spectrum of those whose lives are touched by the business.

2.6 Conclusion on the Three Forms of Corporate Social Responsibility

Traditionally, the directors of companies have had an extremely difficult but very narrowly defined responsibility: guide the enterprise toward money. The best companies have been those generating the highest sales, gaining the most customers, and clearing the largest profits. As for ethical questions, they've been arranged around the basic obligation to represent the owners' central interest, which presumably is to profit from their investment. Consequently, the field of business ethics has mainly concerned conflicts and dilemmas erupting inside the company as people try to work together to win in the very competitive economic world. The idea of corporate social responsibility—along with the related ideas of the triple bottom line and stakeholder theory—opens a different kind of business ethics. Morality in the economic world is now about corporate directors sensing and responding to a broad range of obligations, ones extending through the town where the business is located and then out into surrounding communities and through society generally.

In Woburn, Massachusetts, in the early 1980s, this conflict between two ways of running a business played out in the Hollywood depiction of the lawyer played by John Travolta. At the movie's beginning, right and wrong for a business got decided in dollars and without broader sensibility. Travolta's law firm existed to make money and operated by accepting only cases that promised big payouts. That's what brought Travolta to Woburn, the chance to sue deep-pocketed W. R. Grace for poisoning the land with toxic runoff and for destroying the lives of families living near the pools of contamination. Over the course of the movie, however, Travolta becomes attached to Woburn's cause and the social good of fighting for a clean environment. By the end, he's risking his firm's high profits—and,

stakeholder ethics

Stakeholders are individuals and groups who are affected by a company's actions; the theory holds that a corporation's stakeholders have a right and obligation to participate in directing the business.

collective bottom line

Within stakeholder ethics, the summed effect of a company's actions on *all* stakeholders.

according to his law-firm partners, all common sense—to make sure that harmed people living in town get their good lives back, and to ensure that a Woburn-like toxic disaster won't happen again.

In terms of business ethics, it's not difficult to interpret Travolta's transformation from a businessman taking care of the bottom line, to one engaged by a broader vision of social responsibility. Each of the three discussed theories—corporate social responsibility, the triple bottom line, stakeholder theory—can be fit into the movie *A Civil Action*.

In terms of corporate social responsibility, Travolta came to believe that his job as the law firm's leader obligated him to satisfy his economic responsibility to make money for the firm by suing for financial damages while also acting legally. Further, his firm needed to satisfy the ethical responsibility to help others in Woburn get their good lives back. Here, there is a basic duty to help others in need when you have the capability. Finally, there was an element of philanthropy in Travolta's endeavor because his law firm pursued a case that served the greater good even though more profitable work opportunities were available.

In terms of the triple bottom line of economics, society, and the environment, Travolta came to believe that his job as the law firm's leader obligated him to take account of and do well in all three areas. It was no longer enough to win money; his business had a moral responsibility to win for society and to win for the environment also. The long-term goal was to ensure the economic sustainability of his firm, the sustainability of healthy family life in Woburn, and the sustainability of clean earth and air in that part of Massachusetts.

In terms of stakeholder ethics, Travolta came to believe that his job as the law firm's leader obligated him not only to work for the firm's owners (including himself) but also to take direction from those who would be affected by the firm's actions. That meant considering—trying to balance and to add up—the interests of his partners and all those who lived in Woburn.

Finally, because Travolta's story was also a Hollywood story, his transformation on the big screen was presented as the change from an aloof bad guy to a caring good guy. It's not clear, however, in the real world whether a corporate ethics based on social responsibility, the triple bottom line, or all stakeholders is actually recommendable. The debate between the two ways of thinking about business—the traditional, profit-centered view and the broader, socially responsible view—is hard-fought and intensified by good arguments on both sides.

KEY TAKEAWAYS

- Corporations may have obligations that go beyond generating profits and include the larger society.
- Corporate social responsibility as a specific theory affirms that corporations are entities with economic, legal, ethical, and philanthropic obligations.
- Corporations responsible for a triple bottom line seek sustainability in the economic, social, and environmental realms.
- Corporate ethics built on stakeholder theory seek to involve all those affected by the organization in its decision-making process.

REVIEW QUESTIONS

1. For corporate advocates of the specific CSR theory, what are the responsibilities the corporation holds, and how are conflicts between those responsibilities managed?
2. Create a hypothetical situation in which philanthropy would not be required of a corporation by CSR theory.
3. What does *sustainability* mean within each of the three columns of the theory of the triple bottom line?
4. How does the fair trade movement fit together with the triple-bottom-line theory of corporate responsibility?
5. Who are the stakeholders in stakeholder ethics?
6. What does it mean for a corporate director to “balance stakeholder interests”?
7. What basic elements do CSR, the triple bottom line, and stakeholder theory have in common?

3. SHOULD CORPORATIONS HAVE SOCIAL RESPONSIBILITIES? THE ARGUMENTS IN FAVOR

LEARNING OBJECTIVE

1. Define and elaborate the major arguments in favor of corporations having social and environmental responsibilities.

3.1 Why Should Corporations Have Social Responsibilities?

Broadly, there are three kinds of arguments in favor of placing corporations, at least large and fully developed ones, within an ethical context of expansive social and environmental responsibilities:

1. Corporations are morally required to accept those responsibilities.
2. The existence of externalities attaches companies, in operational and economic terms, to those responsibilities.
3. Enlightened self-interest leads to voluntarily embracing those responsibilities.

The Moral Requirement Argument

The moral requirement that business goals go beyond the bottom line to include the people and world we all share is built on the following arguments:

- Corporations are already involved in the broad social world and the ethical dilemmas defining it. For example, factories producing toxic waste are making a statement about the safety and well-being of those living nearby every time they dispose of the toxins. If they follow the cheapest—and least safe—route in order to maximize profits, they *aren't* avoiding the entire question of social responsibility; they're saying with their actions that the well-being of townspeople doesn't matter too much. That's an ethical stance. It may be good or bad, it may be justifiable or not, but it's definitely ethics. Choosing, in other words, not to be involved in surrounding ethical issues *is* an ethical choice. Finally, because companies are inescapably linked to the ethical issues surrounding them, they're involved with some form of corporate social responsibility whether they like it or not.
- Corporations, at least well-established, successful, and powerful ones, can be involved in the effective resolution of broad social problems, and that ability implies an obligation. Whether we're talking about a person or a business, the possession of wealth and power is also a duty to balance that privilege by helping those with fewer resources. Many accept the argument that individuals who are extraordinarily rich have an obligation to give some back by, say, creating an educational foundation or something similar. That's why people say, "To whom much is given, much is expected." Here, what's being argued is that the same obligation applies to companies.
- Corporations rely on much more than their owners and shareholders. They need suppliers who provide materials, employees who labor, a town where the workplace may be located, consumers who buy, air to breathe, water to drink, and almost everything. Because a business relies on all that, the argument goes, it's automatically responsible—to some extent—for the welfare and protection of those things.
- Because businesses cause problems in the larger world, they're obligated to participate in the problems' resolution. What kinds of problems are caused? Taking the example of an industrial chemical factory, toxic waste *is* produced. Even though it may be disposed of carefully, that doesn't erase the fact that barrels of poison are buried somewhere and a threat remains, no matter how small. Similarly, companies that fire workers create social tensions. The dismissal may have been necessary or fully justified, but that doesn't change the fact that problems are produced, and with them comes a responsibility to participate in alleviating the negative effects.

Conclusion. Taken together, these arguments justify the vision of any particular enterprise as much more than an economic wellspring of money. Businesses become partners in a wide world of interconnected problems and shared obligations to deal with them.

The Externality Argument

The second type of argument favoring corporate social responsibility revolves around *externalities*. These attach corporations to social responsibilities not morally but operationally. An **externality** in the economic world is a cost of a good or service that isn't accounted for in the price (when that price is established through basic laws of supply and demand). For example, if a corporation's factory emits significant air pollution, and that results in a high incidence of upper respiratory infections in the nearby town, then a disproportionately high number of teachers and police officers (among others) are going to call into work sick throughout the year. Substitute teachers and replacement officers will need to be hired, and that cost will be borne by everyone in town when they receive a higher tax bill. The corporation owning the pollution-belching factory, that means, gets the full amount of money from the sale of its products but doesn't pay the full cost of producing them since the broader public is shouldering part of the pollution bill. This strikes many as unfair.

Another example might be a company underfunding its pension accounts. The business may eventually shut its doors, deliver final profits to shareholders, and leave retired workers without the monthly checks they'd been counting on. Then the government may have to step in with food stamps, welfare payments, and similar to make up for the shortfall, and in the final tabulation, the general public ends up paying labor costs that should have been borne by shareholders.

Externalities, it should be noted, aren't always negative. For example, the iPhone does a pretty good job of displaying traffic congestion in real time on its map. That ability costs money to develop, which Apple invested, and then they get cash back when an iPhone sells. Apple doesn't receive, however, anything from those drivers who don't purchase an iPhone but still benefit from it: those who get to where they're going a bit faster because everyone who *does* have an iPhone is navigating an alternate route. More, *everyone* benefits from cleaner air when traffic jams are diminished, but again, that part of the benefit, which should channel back to Apple to offset its research and production costs, ends up uncompensated.

Whether an externality is negative or positive—whether a company's bottom line rises or falls with it—a strong argument remains for broad corporate responsibility wherever an externality exists. Because these parts of corporate interaction with the world aren't accounted for in dollars and cents, a broad ethical discussion must be introduced to determine what, if any, obligations or benefits arise.

The Enlightened Self-interest Argument

The third kind of argument in favor of corporations as seats of social responsibility grows from the notion of enlightened self-interest. **Enlightened self-interest** means businesses take on broad responsibilities because, on careful analysis, that public generosity also benefits the company. The benefits run along a number of lines:

- Corporations perceived as socially engaged may be rewarded with more and more satisfied customers. TOMS shoes is an excellent example. For every pair of shoes they sell, they give a pair away to needy children. No one doubts that this is a noble action—one displaying corporate vision as going beyond the bottom line—but it's also quite lucrative. Many people buy from TOMS *because* of the antipoverty donations, and those customers feel good about their footwear knowing that a child somewhere is better off.
- Organizations positively engaged with society or the environment may find it easier to hire top-notch employees. All workers seek job satisfaction, and given that you spend eight hours a day on the job, the ingredients of satisfaction go beyond salary level. Consequently, workers who select from multiple job offers may find themselves attracted to an enterprise that does some good in the world. This point can also be repeated negatively. Some organizations with more checkered reputations may find it difficult to hire good people even at a high salary because workers simply don't want to have their name associated with the operation. A curious example to fit in here is the Central Intelligence Agency. Some people will accept a job there at a salary lower than they'd make in the private realm because it's the CIA, and others won't work there even if it's their best offer in terms of money because it's the CIA.
- Organizations taking the initiative in regulating themselves in the name of social betterment may hold off more stringent requirements that might otherwise be imposed by governmental authorities. For example, a lab fabricating industrial chemicals may wrap their toxic waste in not only the legally required single, leak-proof barrel but a second as well, to positively ensure public safety. That proactive step is not only good for the environment, but it may help the bottom line if it effectively closes off a regulatory commission's discussion about requiring *triple* barrel protections.

Enlightened self-interest starts with the belief that there are many opportunities for corporations to do well (make money) in the world by doing good (being ethically responsible). From there, it's

externality

In the economic world, a cost of a good or service that isn't accounted for in the price.

enlightened self-interest

In the business world, taking on broad responsibilities for the social welfare because, on careful analysis, that public generosity also benefits the company's bottom line.

reasonable to assert that *because* those opportunities exist, corporations have no excuse for not seeking them out, and then profiting from them, while helping everyone else along the way.

One basic question about enlightened self-interest is, “Are corporations making money because they’re doing good deeds, or are they doing good deeds because it makes them money?” In terms of pure consequences, this distinction may not be significant. However, if the reality is that social good is being done *only* because it makes money, then some will object that corporate social responsibility is twisting into a clever trick employed to maximize profits by deceiving consumers about a business’s intention. CSR becomes an example of **cause egoism**—that is, giving the false appearance of being concerned with the welfare of others in order to advance one’s own interests.

cause egoism

Giving the false appearance of being concerned with the welfare of others in order to advance one’s own interests.

KEY TAKEAWAY

- There are three broad arguments in favor of corporate social responsibility: it is morally required, it’s required by externalities, it serves the interest of the corporation.

REVIEW QUESTIONS

1. In your own words, what are a few reasons a corporation may feel directly required to respond to broad social obligations?
2. What is an example of an externality? How could the existence of that externality be transformed into an argument in favor of corporate social responsibility?
3. List three ways a corporate bottom line may be improved by serving the public welfare.

4. SHOULD CORPORATIONS HAVE SOCIAL RESPONSIBILITIES? THE ARGUMENTS AGAINST

LEARNING OBJECTIVES

1. Define and elaborate the major arguments in favor of the corporate purpose as limited to increasing profits.
2. Define and elaborate major arguments against corporations accepting broad social and environmental responsibilities.

4.1 The Only Corporate Responsibility Is to Increase Profits

In 1970, just as the idea of corporate social responsibility was gaining traction and influential advocates in the United States, the economist Milton Friedman published a short essay titled “The Social Responsibility of Business is to Increase its Profits.” Possibly the most provocative single contribution to the history of business ethics, Friedman set out to show that large, publicly owned corporations ought to be about making money, and the ethical obligations imposed by advocates of CSR should be dismissed. His arguments convinced some and not others, but the eloquent and accessible way he made them, combined with the fact that his ideas were published in a mainstream publication—the *New York Times Magazine*—ensured their impact.^[3]

Businesses, as discussed at the chapter’s beginning, come in all shapes and sizes. When the topic is social responsibility, however, attention frequently fixes on very large corporations because they’re so big (and therefore able to do the most good) and powerful (the philosophies driving them tend to set the tone for business life in general). Friedman’s essay concerns these large, publicly held corporations. Here are his arguments.

4.2 The Argument That Businesses *Can’t* Have Social Responsibilities

A business can’t have moral responsibilities any more than a wrench can. Only humans have moral responsibilities because only we have consciousness and intentions: we’re the only things in the world

that can control our actions, that can distinguish between what we want to do and what's right to do. Therefore, only we can have responsibilities in the ethical sense. What, then, is a business? Nothing more than a tool, something we make to further our ends. It may work well or poorly, but no matter what, it doesn't do what *it* wishes, so we can't blame or credit the business, only those individuals who use it for one purpose or another.

In Woburn, Massachusetts, according to this argument, it makes no sense to say that W. R. Grace has some kind of corporate responsibility to keep the environment clean. A company doesn't have any responsibilities. It's like a wrench, a thing out in the world that people use, and that's all. Would you accuse a wrench of being irresponsible if someone uses it to loosen the bolts on some truckers' tires and so causes an accident and disastrous spill of toxins? You'd probably accuse the person who *used* the wrench of acting irresponsibly, but blaming the wrench for something would be madness.

4.3 The Argument That Corporate Executives Are Responsible Only to Shareholders

Corporate executives are employees of the owners of the enterprise. They're contracted and obligated to conduct the business as the owners desire, not in accord with the wishes of some other people out in the world advocating broad social concerns. Executives in this sense are no different from McDonald's burger flippers: they're hired and agree to do a certain thing a certain way. If they don't like it, they're free to quit, but what they can't do is take the job and then flip the hamburgers into the trash because their friends are all texting them about how unhealthy McDonald's food is.

What do corporate owners desire? According to Friedman, the typical answer is the highest return possible on their investment. When you buy shares of the industrial chemical maker W. R. Grace, you check once in a while what the stock price is because price (and the hope that it's going up) is the reason you bought in the first place. It follows, therefore, that executives—who in the end work for you, the owner—are duty bound to help you get that higher share price, and the quickest route to the goal is large profits.

What about the executive who decides to dedicate time and a corporation's resources to social welfare projects (to things like reducing runoff pollution even further than the law requires or hiring released felons as a way of easing their passage back into society)? Friedman is particularly cutting on this point. It's despicable selfishness. There's nothing easier than generosity with other people's money. And that's what, Friedman hints, CSR is *really* about. It's about corporate executives who like the idea of receiving accolades for their generous contributions to society, and they like it even more because the cash doesn't come out of their paycheck; it's subtracted from shareholder returns. There's the seed of an argument here, finally, that not only is corporate social responsibility not recommendable, it's reproachable: in ethical terms, corporate leaders are duty bound to refuse to participate in social responsibility initiatives.

4.4 The Argument That Society Won't Be Served by Corporate Social Responsibility

One serious practical problem with the vision of corporate executives resolving social problems is *it's hard to be sure that their solutions will do good*. Presumably, corporate executives got to be executives by managing businesses profitably. That's certainly a difficult skill, but the fact that it has been mastered doesn't automatically imply other talents. More, given the fact that corporate executives frequently have no special training in social and environmental issues, it's perfectly reasonable to worry that they'll do as much harm as good.

One example of the reversed result comes from *Newsweek*. Executives at the magazine probably thought they were serving the public interest when they dedicated space in their April 28, 1975, issue to the threatening and impending environmental disaster posed by global...cooling. Not a very enticing subject, they probably could've done more for their circulation numbers by running a story (with lots of pictures) about the coming summer's bathing suit styles, but they did the science to stoke broad discussion of our environmental well-being. As for the stoking, they certainly succeeded. Today, many scientists believe that global warming is the real threat and requires corporations to join governments in reducing carbon emissions. They have a hard time getting their message out cleanly, though, when there's someone around bringing up that old *Newsweek* article to discredit the whole discussion.

4.5 The Right Institution for Managing Social Problems Is Government

Social problems shouldn't be resolved by corporations because we already have a large institution set up for that: government. If members of a society really are worried about carbon emissions or the

disposal of toxic waste at chemical plants, then they should express those concerns to elected representatives who will, in turn, perform their function, which is to elaborate laws and regulations guiding the way all of us—inside and outside of business—live together. Government, the point is, should do its job, which is to regulate effectively, and those in the business world should do their job, which is to comply with regulations while operating profitably.

Underneath this division of labor, there's a crucial distinction. Friedman believes that human freedom is based to some significant degree in economic life. Our fundamental rights to our property and to pursue our happiness are inviolable and are expressed in our working activities. The situation is complicated, however, because it's also true that for us to live together in a society, *some* restrictions must be placed on individual action. No community can flourish if everyone is just doing what they want. There's room for quite a bit of discussion here, but in general, Friedman asserts that while government (and other outside institutions) have to be involved in regulation and the imposing of limits, they shouldn't start trying to mold and dictate basic values in the economic realm, which must be understood in principle as a bastion of individual liberty and free choices.

At this juncture, Friedman's essay reaches its sharpest point. The notion of corporate social responsibility, Friedman asserts, is not only misguided; it's dangerous because it threatens to violate individual liberty. Stronger, the violation may ultimately lead to **socialism**, the end of free market allocation of resources because rampant political forces take control in the boardroom.

The movement to socialism that Friedman fears comes in two steps:

1. Environmental activists, social cause leaders, and crusading lawyers will convince at least a handful of preening business executives that working life isn't about individuals expressing their freedom in a wide-open world; it's about serving the general welfare. The notion of corporate social responsibility becomes a mainstream concern and wins wide public support.
2. With the way forced open by activists, the risk is that government will follow: the institution originally set up to regulate business life while guaranteeing the freedom of individuals will fall into the custom of imposing liberty-wrecking rules. Under the weight of these intrusive laws, working men and women will be forced to give up on their own projects and march to the cadence of government-dictated social welfare projects. Hiring decisions, for example, will no longer be about companies finding the best people for their endeavors; instead, they'll be about satisfying social goals defined by politicians and bureaucrats. Friedman cites as an example the hiring of felons. Obviously, it's difficult for people coming out of jail to find good jobs. Just as obviously, it's socially beneficial for jobs to be available to them. The problem comes when governments decide that the social purpose of reinserting convicts is more important than protecting the freedom of companies to hire anyone they choose. When that happens, hiring quotas will be imposed—corporations will be forced to employ certain individuals. This intrusive workplace rule will be followed by others. All of them will need to be enforced by investigating agents and disciplining regulators. As their numbers grow and their powers expand, freedom will be squeezed. Ultimately, freedom may be crushed by, as Friedman puts it, "the iron fist of Government bureaucrats."^[4]

It's difficult to miss the fact that Friedman's worries were colored by the Cold War, by a historical moment that now feels remote in which the world really did hang in the balance between two views of working life: the American view setting individual freedom as the highest value and the Soviet view raising collectivism and the general welfare above all personal economic concerns and liberties.

Still, and even though today's historical reality is quite different from the 1970s, the essence of Friedman's objection to CSR hasn't changed. It's that you and I get to be who we are by going out into the world and making something of ourselves. When our ability to do that gets smothered beneath social responsibility requirements, we may help others (or possibly not), but no matter what, we sacrifice ourselves because we've lost the freedom to go and do what we choose. This loss isn't just an inconvenience or a frustration: it's the hollowing out of our dignity; it's the collapse of our ability to make ourselves and therefore the end of the opportunity to be someone instead of just anyone.

4.6 The Best Way for Corporations to Be Socially Responsible Is to Increase Profits

The final major argument against corporate social responsibility in its various forms is that the best way for most corporations to *be* socially responsible is to contribute to the community by doing what they do best: excelling in economic terms. When corporations are making profits, the money isn't just disappearing or piling up in the pockets of the greedy super rich (though some does go there); most of it gets sent back into the economy and everyone benefits. Jobs are created, and those that already exist get some added security. With employment options opening, workers find more chances to change and move up: more successful corporations mean more freedom for workers.

socialism

In the economic world, the subordination of individual liberty to the general welfare.

Further, corporations don't get to be successful through luck, but by delivering goods and services to consumers at attractive prices. Corporate success, that means, should indicate that consumers are doing well. Their quality of life improves as their consumer products improve, and those products improve best and fastest when corporations are competing against each other as freely as possible.

What about the public welfare in the most general sense, the construction of parks, schools, and similar? Here, too, corporations do the best for everyone by concentrating on their own bottom line. More hiring, sales, and profits all also mean more tax revenue flowing to the government. And since elected governmental entities are those organizations best equipped to do public good, the most a corporation can hope for with respect to general social welfare is to succeed, and thereby generate revenues for experts (or, at least democratically elected officials) to divide up wisely.

The term **marketplace responsibility**, finally, names the economic and social (and political) view emerging from Friedman's arguments. The title doesn't mean ethical responsibility in the marketplace so much as it does the specific conception of ethical responsibility that the open marketplace produces. It has two aspects: first, the notion of corporate social responsibility is misguided and dangerous, and second, the corporate purpose of profit maximization serves the social welfare while cohering with the value of human freedom that should be paramount in business ethics.

marketplace responsibility

The twin views that the notion of corporate social responsibility is misguided and dangerous, and the corporate purpose of profit maximization serves the social welfare while cohering with the value of human freedom that should be paramount in business ethics.

4.7 Conclusion: Corporate Social Responsibility versus Marketplace Responsibility

Advocates of corporate social responsibility believe corporations are obligated to share the burden of resolving society's problems. They maintain that the responsibility stands on pure moral grounds. More, there are operational reasons for the responsibilities: if businesses are going to contaminate the environment or cause distress in people's lives, they should also be actively working to resolve the problems. Finally, there's the strong argument that even if the corporate purpose should be to make profits, social responsibility is an excellent way to achieve the goal.

Advocates of marketplace responsibility—and adversaries of the corporate social responsibility model—argue that by definition corporations can't have moral responsibilities. Further, to the extent ethical obligations control corporate directors, the obligations are to shareholders. More, corporate directors aren't experts at solving social problems, and we already have an institution that presumably does have expertise: government. Finally, there's a strong argument that even if the corporate purpose should include broad social responsibilities, free individuals and corporations in the world making profits is an excellent way to achieve the goal.

KEY TAKEAWAYS

- The first argument against theories of corporate social responsibility is corporations can't have ethical responsibilities.
- The second argument is corporate executives are duty bound to pursue profits.
- The third argument is corporations are ill-equipped to directly serve the public good.
- The fourth argument is social issues should be managed by government, not corporations.
- The fifth argument is marketplace ethics reinforce human freedom and corporate social responsibility threatens society with socialism.
- The sixth argument against theories of corporate social responsibility is the best way for corporations to serve the public welfare is by pursuing profits.

REVIEW QUESTIONS

1. What does it mean to say that, in ethical terms, a corporation is no different from a wrench?
2. What primary responsibility do corporate directors have to shareholders? Why do they have it?
3. Why should social issues be managed by government and not corporations?
4. What is the connection between corporate social responsibility and the threat to freedom posed by socialism? How does socialism limit freedom?
5. What is an example of a company doing good by doing well—that is, making profits—and for that reason improving the general welfare? How can the example be converted into an argument against the theory of the corporation as having social responsibilities?