



## CHAPTER 5

# CORPORATIONS

### INTRODUCTION

**SIXTY YEARS AGO THE VICE PRESIDENT OF FORD** Motor Company described the modern business corporation as the dominant institution of American society. Today, few observers would disagree. As one of them puts it, “The modern corporation is *the* central institution of contemporary society.”<sup>1</sup> As an aggregate, corporations wield awesome economic clout, and the 500 largest U.S. companies constitute at least three-quarters of the American economy. But the dominant role of corporations in our society extends well beyond that. Not only do corporations produce almost all the goods and services we buy, but also they and their ethos permeate everything from politics and communications to athletics and religion. And their influence is growing relentlessly around the world.

By any measure, the biggest corporations are colossi that dominate the earth. Many of them employ tens of thousands of people, and the largest have hundreds of thousands in their ranks. PepsiCo, for example, has about 278,000 employees worldwide, General Electric approximately 305,000, and IBM 435,000—not to mention the 2.1 million people who work for Walmart, the world’s largest private-sector employer. And their revenues are dazzling. For example, Dell Computer takes in more than \$57 billion a year, Procter & Gamble \$84 billion, IBM \$104 billion, AT&T \$127 billion, and Ford \$134 billion. Recently, Royal Dutch Shell topped the list with an annual revenue of \$481.7 billion. ExxonMobil came in third at \$449.9 billion but earned \$44.9 billion in profit—just \$300 million short of the world record, which it had set a couple of years before. By comparison, Austria’s GDP is approximately \$359 billion, Chile’s \$341 billion, and

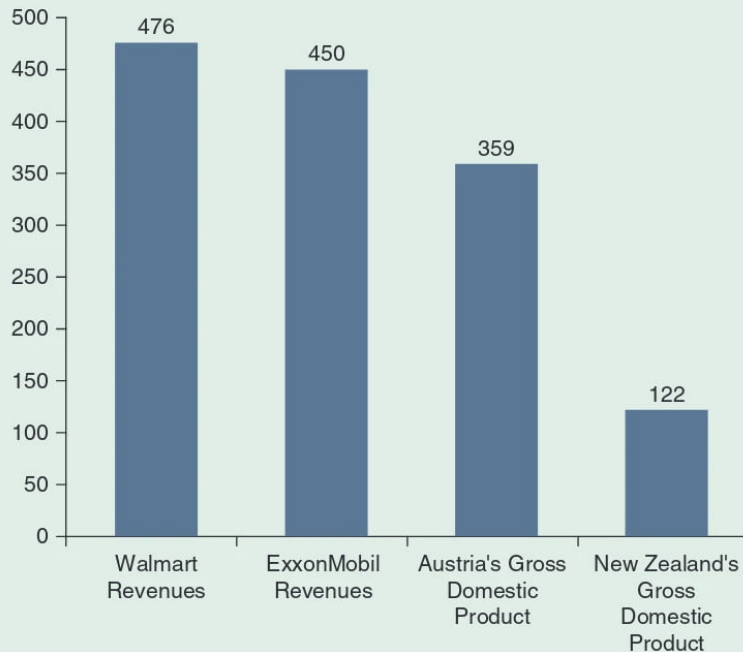
New Zealand’s \$122 billion. The state of California, which has far and away the largest annual revenue of any U.S. state, makes less than half of what General Motors does. Kansas takes in only about \$4.5 billion, and Vermont about a fifth of that.

And many corporations are growing larger and wealthier every year. For example, Time Inc. merged with Warner Communications to form Time Warner. Seven years later Time Warner combined with Turner Broadcasting. Then in January 2001, in a move that shook up Wall Street, Time Warner and America Online merged. At a stroke, the new company they created, initially called AOL Time Warner, then simply Time Warner, was valued at \$350 billion. What does \$350 billion mean? At the time it was equivalent to the GDP of Saudi Arabia and greater than the combined GDPs of Hungary, the Czech Republic, Bulgaria, Serbia, Bolivia, and Kenya. It was also more than the industrial output of the United Kingdom or the manufacturing output of China.

But nothing stays the same forever. In 2013 Time Warner shed Time, Inc., its magazine division. Following its divestiture of AOL, Time Warner Cable, the Warner Music Group, and the Time Warner Book Group, this move completed the company’s devolution from a corporate colossus to a pure television and movie production company. Still, Time Warner is no mom-and-pop operation; it remains the 105th largest company in the United States.

Like any other modern corporation, in principle Time Warner is a three-part organization, made up of (1) **stockholders**, who provide the capital, own the corporation, and enjoy liability

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Comparison of the two top American corporations' revenues with the gross domestic product of two nations. Values are in billions of dollars.

limited to the amount of their investments; (2) managers, who run the business operations; and (3) employees, who produce the goods and services. However, many corporate giants such as ExxonMobil or Citigroup are, to quote business analyst Anthony J. Parisi, less like a single company and more like “a fabulously wealthy investment club with a limited portfolio.” Such companies invest in subsidiaries, whose heads “oversee their territories like provincial governors, sovereigns in their own lands but with an authority stemming from the power center. . . . The management committee exacts its tribute (the affiliate’s profits from current operations) and issues doles (the money needed to sustain and expand those operations).”<sup>2</sup> In the best-run organizations the management system is highly structured and impersonal.

It provides the corporation’s overall framework, the formal chain of command, which ensures that the company’s profit objectives are pursued.

The emergence of corporate behemoths like Chevron or Bank of America is one of the more intriguing chapters in the evolution of capitalism. Certainly neither John Locke nor Adam Smith ever imagined the huge capitalist enterprises that emerged in the nineteenth century—in their day hardly any private firms had more than a handful of employees—and that today dominate America’s and, indeed, the world’s economic, political, and social life. This book isn’t the place to analyze why a people committed to an individualistic social philosophy and a free-competition market economy allowed vast oligopolistic economic entities to develop. Rather, the concern here is with the problem of applying moral standards to corporate organizations and with understanding their social responsibilities.

### LEARNING OBJECTIVES

More specifically, after reviewing the history of the corporation, this chapter examines the following topics:

1. The debate over whether corporations are moral agents and can be meaningfully said to have moral responsibilities
2. The controversy between the narrow view and the broader view of corporate responsibility
3. Three key arguments in this debate: the invisible-hand argument, the let-government-do-it argument, and the business-can’t-handle-it argument
4. The importance of institutionalizing ethics within corporations and how this may be done

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## THE LIMITED-LIABILITY COMPANY

If you ask a lawyer for a definition of **corporation**, you will probably hear something like the following: A corporation is a thing that can endure beyond the natural lives of its members and that has incorporators who may sue and be sued as a unit and who are able to consign part of their property to the corporation for ventures of limited liability. **Limited liability** is a key feature of the modern corporation. The members of the

In addition to the limited liability of their members, corporations differ from partnerships in two ways.

corporation—unlike the members of a partnership or the proprietors of a business—are financially liable for the debts of the organization only up to the extent of their investments.

Limited-liability companies—corporations—differ from partnerships and other forms of business association in two other ways as well. *First*, a corporation is not formed simply by an agreement entered into among its first members. An organization becomes incorporated by being publicly registered or in some other way having its existence officially acknowledged by the law. *Second*, unlike a partner, who is automatically entitled to his or her share of the profits of a partnership as soon as they are ascertained, the shareholder in a corporation is entitled to a dividend from the company's profits only when it has been "declared." Under U.S. law, dividends are usually declared by the directors of a corporation.

When we think of corporations, we naturally think of giants such as General Motors, ExxonMobil, Microsoft, or Walmart, which exert enormous influence over our economy and society. But the local independently owned convenience store may be a corporation, and historically the concept of a corporation has been broad enough to encompass churches, trade guilds, and local governments. Corporations may be either *for-profit* or *nonprofit* organizations. Princeton University, for example, is a nonprofit corporation. By contrast, Safeway, Lockheed Martin, McDonald's, and many other familiar companies aim to make money for shareholders. Corporations may be privately owned or owned (wholly or in part) by the government. Almost all U.S. corporations are privately owned; but Renault of France, for example, was once a publicly owned, for-profit corporation. A small group of investors may own all the outstanding shares of a privately owned, profit-making corporation (a **privately held company**). Mars, Bechtel, Chrysler, and Enterprise Rent-A-Car are examples. Or stock may be traded among the general public (a **publicly held company**). All companies whose stocks are listed on the New York and other stock exchanges are publicly held corporations.

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**SUMMARY**

Corporations are legal entities, with legal rights and responsibilities similar but not identical to those enjoyed by individuals. Business corporations are limited-liability companies—that is, their owners or stockholders are liable for corporate debts only up to the extent of their investments.

In 1911 Nicholas Murray Butler, president of Columbia University, declared that "the limited liability corporation is the single greatest discovery of modern times. . . . Even steam and electricity are far less important . . . and . . . would be reduced to comparative impotence without it."<sup>3</sup> Many business theorists and historians still agree with that assessment. But several stages mark the evolution of the corporation. The corporate form itself developed during the early Middle Ages, and the first corporations were towns, universities, and ecclesiastical orders. They were chartered by government and regulated by public statute. As corporate bodies, they existed independently of the particular individuals who constituted their membership at any given time. By the fifteenth century, the courts of England had evolved the principle of limited liability—thus setting limits, for example, on how much an alderman of the Liverpool Corporation might be required to pay if the city went bankrupt. During the medieval period, however, the law did not grant corporate status to purely profit-making associations. In those days, something besides economic self-interest had to be seen as uniting the members of the corporation: religion, a trade, shared political responsibilities.

This state of affairs changed during the Elizabethan era, as the incorporation of business enterprises began. European entrepreneurs were busy organizing trading voyages to the East and to North America. The East India Company, which epitomizes the great trading companies of this period, was formed in 1600, when Queen Elizabeth I granted to a group of merchants the right to be "one body corporate" and bestowed on it a trading monopoly to the East Indies. In the following decades, numerous other incorporated

firms were granted trading monopolies and colonial charters. Much of North America's settlement, in fact, was initially underwritten as a business venture.

Although the earliest corporations typically held special trading rights from the government, their members did not pool capital. Rather, they individually financed voyages using the corporate name and absorbed the loss individually if a vessel sank or was robbed by pirates. But as ships became larger and more expensive, no single buyer could afford to purchase and outfit one, and the loss of a ship would have been ruinous to any one individual. The solution was to pool capital and share liability. Thus emerged the prototype of today's corporations.<sup>4</sup>

The first instance of the corporate organization of a manufacturing enterprise in the United States occurred in 1813, but only after the Civil War did the movement toward the corporate organization of business gain steam.<sup>5</sup> The loosening of government restrictions on corporate chartering procedures in the nineteenth century marks this final stage of corporate evolution. Until the mid-1800s, prospective corporations had to apply for charters—in England to the Crown, and in the United States to state government. Charters were custom-crafted; each one was an individual act of legislation. Charters were often burdened with precise terms or limited to specific business objectives, all in the name of promoting the public good. (For example, a corporation might be chartered for the sole purpose of shipping freight between two cities, or a charter might designate where the new corporation could begin and end its proposed railroad line.) Critics of the incorporation system charged that it fostered favoritism, corruption, and unfair monopolies. Gradually, the old system of incorporation was replaced by the system we know today, in which corporate status is granted essentially to any organization that fills out the forms and pays the fees.

Lurking behind this change were two important theoretical shifts. *First*, underlying the old system was the mercantilist idea that a corporation's activities should advance some specific public purpose. But Adam Smith and, following him, Alexander Hamilton, the first U.S. secretary of the treasury, challenged the desirability of a direct tie between business enterprise and public policy. They believed that businesspeople should be encouraged to explore their own avenues of enterprise and that the "invisible hand" of the market would direct their activities in a socially beneficial direction more effectively than any public official could.

*Second*, when nineteenth-century reformers argued for changes in incorporation procedures, they talked not only about government favoritism and the advantages of a laissez-faire approach but also about the principle of a corporation's right to exist.<sup>6</sup> Any petitioning body with the minimal qualifications, they asserted, has the right to receive a corporate charter. By contrast, the early Crown-chartered corporations were clearly creations of the state, in accordance with the legal-political doctrine that corporate status was a privilege bestowed by the government as it saw fit. The reformers, however, argued that incorporation is a by-product of the people's right of association, not a gift from the state.

Even though the right of association supports relaxed incorporation procedures, the state must still incorporate companies and guarantee their legal status. Corporations must be recognized by the law as a single agent in order to enjoy their rights and privileges. To a large extent, then, the corporation remains, as Chief Justice John Marshall put it in 1819, "an artificial being, invisible, intangible, and existing only in the contemplation of the law."<sup>7</sup>

Corporations are clearly legal agents. They can enter into contracts, own property, and sue and be sued. But are they also moral agents? Corporations have definite legal responsibilities, but what, if any, social and moral responsibilities do they have?

In the nineteenth century, government loosened restrictions on corporate charters.

Two ideas were behind this change

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#### SUMMARY

What we know as the modern business corporation has evolved over several centuries, and incorporation is no longer the special privilege it once was.

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## CORPORATE MORAL AGENCY

In 2010, the Supreme Court dropped a political bombshell. In reviewing a case that most observers thought would revolve on the technicalities of campaign finance law, the Court, in a broad and unexpected ruling in *Citizens United v. Federal Election Commission*, struck down those provisions of the McCain-Feingold Act that had prohibited corporations from making “electioneering communications” before a presidential primary or a general election. In a split 5-to-4 decision, it held that corporations have a basic First Amendment right to participate in the political process and that the government may not prevent them from spending money to support the candidates they favor. Writing for the majority, Justice Anthony M. Kennedy argued that the Constitution prohibits “restrictions distinguishing among different speakers, allowing speech by some but not others.” Although McCain-Feingold had allowed corporations to set up political action committees to advocate for their causes, this exception was not enough, Kennedy wrote, because it still “does not allow corporations to speak.”

In a long and vigorous dissent, Justice John Paul Stevens criticized the decision for the damage it would do to our democracy and for “the conceit that corporations must be treated identically to natural persons in the political sphere.” But *Citizens United* was not entirely without precedent. Over the years the Court has granted corporations certain First Amendment protections and extended them other constitutional rights as well—for example, to due process (Fourteenth Amendment), against unreasonable searches and seizures (Fourth Amendment), to a jury trial (Seventh Amendment), to freedom from double jeopardy (Fifth Amendment), and to compensation for government takings (Fifth Amendment). Still, in holding that the First Amendment gives corporations basically the same political rights as individual citizens, the Court further blurred the distinction between real persons and artificial or legal persons. However, in doing so, it has provided a basis for claiming that if corporations enjoy the same moral and political rights as citizens, then they bear the same responsibilities that individual human beings do. In other words, if corporations have the same rights that moral agents have, then, like individuals, they can and should be held morally responsible for their actions.

The problem, of course, is that they are not human beings. Or, to quote Lord Thurlow, an eighteenth-century lawyer, how can you “expect a corporation to have a conscience, when it has no soul to be damned and no body to be kicked?”<sup>8</sup> But although corporations are not people, they are collective entities that in some sense really exist, and they have an identity above and beyond the people whom they comprise at any given time. And the law recognizes them as “persons.” Do they have moral obligations just as individual human beings do? Can they be held morally responsible, not just legally liable, for the things they do? The answer to these questions hangs on another question, namely: Does it make sense to view corporations as moral agents—that is, as entities capable of making moral decisions? If so, then corporations can be held morally responsible for their actions. They—and not just the individual human beings who make them up—can be seen as having moral obligations and as being blameworthy for failing to meet those obligations. They can, accordingly, be praised or blamed, even punished, for the decisions they make and the actions and policies they undertake.

The task of determining whether corporations can make moral decisions is anything but simple. Immediately, we must ponder whether it makes sense to say that any entity other than an individual person can make decisions in the first place, moral or otherwise.

Cases like *Citizens United* have blurred the distinction between individuals and corporations.

If corporations are moral agents, then they can be seen as having obligations and as being morally responsible for their actions, just as individuals are.

### CAN CORPORATIONS MAKE MORAL DECISIONS?

**Corporate internal decision (CID) structures** amount to established procedures for accomplishing specific goals. For example, consider ExxonMobil's system, as depicted by Anthony J. Parisi:

All through the Exxon system, checks and balances are built in. Each fall, the presidents of the 13 affiliates take their plan for the coming year and beyond to New York for review at a meeting with the management committee and the staff vice presidents. The goal is to get a perfect corporate fit. Some imaginary examples: The committee might decide that Exxon is becoming too concentrated in Australia and recommend that Esso Eastern move more slowly on that continent. Or it might conclude that if the affiliates were to build all the refineries they are proposing, they would create more capacity than the company could profitably use. One of the affiliates would be asked to hold off, even though, from its particular point of view, a new refinery was needed to serve its market.<sup>9</sup>

The implication here is that any decisions coming out of ExxonMobil's annual sessions are formed and shaped to effect corporate goals, "to get a perfect corporate fit." Metaphorically, all data pass through the filter of established corporate procedures, objectives, and decision-making guidelines. The remaining distillation constitutes the decision. Certainly, the participants actively engage in decision making. But in addition to individual persons, the other major component of corporate decision making consists of the framework in which policies and activities are determined.

The CID structure lays out lines of authority and stipulates under what conditions personal actions become official corporate actions. Some philosophers have compared the corporation to a machine or have argued that because of its structure it is bound to pursue its profit goals single-mindedly. As a result, they claim, it is a mistake to see a corporation as being morally responsible or to expect it to display such moral characteristics as honesty, considerateness, and sympathy. Only the individuals within a corporation can act morally or immorally; only they can be held responsible for what it does.

Others have argued in support of **corporate moral agency**. The CID structure, like an individual person, collects data about the impact of its actions. It monitors work conditions, employee efficiency and productivity, and environmental impacts. Professors Kenneth E. Goodpaster and John B. Matthews argue that as a result, there is no reason a corporation cannot show the same kind of rationality and respect for persons that individual human beings can. By analogy, they contend, it makes just as much sense to speak of corporate moral responsibility as it does to speak of individual moral responsibility.<sup>10</sup> Thomas Donaldson agrees. He argues that a corporation can be a moral agent if moral reasons enter into its decision making and if its decision-making process controls not only the company's actions but also its structure of policies and rules.<sup>11</sup>

Philosopher Peter French arrives at the same conclusion in a slightly different way.<sup>12</sup> The CID structure, says French, in effect absorbs the intentions and acts of individual persons into a "corporate decision." Perhaps no corporate official intended the course or objective charted by the CID structure, but, French contends, the corporation did. And he believes that these corporate intentions are enough to make corporate acts "intentional" and thus make corporations "morally responsible." Professor of philosophy Manuel Velasquez demurs. An act is intentional, says Velasquez, only if the entity that formed the intention brings about the act through its bodily movements. But it is only the people who make up the corporation who carry out the acts attributed to it. Velasquez concludes that only corporate members, not the corporation itself, can be held morally responsible.<sup>13</sup>

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#### SUMMARY

The question of corporate moral agency is whether a corporation is the kind of entity that can make moral decisions and bear moral responsibility for its actions. Philosophers disagree about whether CID structures make it reasonable to see corporations as morally responsible agents.

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### Corporate Punishment

The debate over corporate moral agency bears on the question of **corporate punishment**. Whether or not corporations are moral actors, the law can fine them, monitor and regulate their activities, and require the people who run them to do one thing or another. But one can talk in a literal sense about “punishing” corporations only if they are entities or “persons” capable of making moral decisions. And even if they are, not all the usual goals and methods of punishment make sense when applied to corporations. If corporations are moral agents, then the law can deter them with the threat of punishment, and it can force them to make restitution. Punishment can, perhaps, even rehabilitate a corporation, viewed as a moral agent. Retribution, as a goal of punishment, however, seems to have little application to corporations. And obviously corporations cannot be jailed for breaking the law. Even imposing fines on them can be problematic. Financial penalties stiff enough to have an impact can easily injure innocent parties, for example, if they lead to layoffs, plant closures, or higher prices for consumers.

For this reason, economics professor Edwin T. Burton opposes prosecuting corporations. “A company can’t commit a crime,” he says. Referring to the criminal charges brought against SAC Capital, which in 2013 was fined \$1.2 billion for insider trading, he says, “They should only go after the people doing the things wrong. There are innocent bystanders, a lot of them, who get hurt [by prosecuting the company].” The Justice Department’s Preet Bharara disagrees, arguing that there are lots of different ways to punish wrongdoing and deter criminal behavior. Sometimes you charge individuals and send them to jail, and “sometimes you try to make the world understand that an entire institution deserves to be held blameworthy.” Law professor Lawrence M. Friedman concurs. He points to the “expressive value” of punishing corporations. Treating what the corporation did as a criminal matter, he says, “makes an important statement about the seriousness of the wrongness.”<sup>14</sup>

### VANISHING INDIVIDUAL RESPONSIBILITY

Some might argue that regardless of whether corporations as artificial entities can properly be held morally responsible, the nature and structure of a modern corporate organization allows nearly everyone in it to share moral accountability for what it does. In practice, however, this **diffusion of responsibility** can mean that no particular person or persons are held morally responsible. For example, does responsibility for an injury caused by a defective product fall on the shoulders of the worker who last handled the product, the foreman overseeing the running of the assembly line, the factory supervisor, the quality control team, the engineers who designed and tested the equipment, the regional managers who decided to produce the item, or the company’s CEO, whose office is in another city? Indeed, each of these individuals may have been only following established procedures and decision-making guidelines. Inside a corporation it may often be difficult, even impossible, to assign responsibility for a particular outcome to any single individual because so many different people, acting within a given CID framework, contributed to it in small ways.

This masking of moral accountability may not seem so surprising. After all, in situations that don’t involve corporations, praising and blaming can also be problematic. But it raises the troubling possibility that the size and impersonal bureaucratic structure of the corporation may so envelop its members that it becomes vacuous to speak of individual moral agency. This, in turn, raises the specter of actions without actors in any moral

Assigning individual responsibility for corporate outcomes is difficult.

sense—of defective products, broken laws, or flouted contracts, without any morally responsible parties.

There are two ways to escape this uncomfortable conclusion. *One* is to attribute moral agency to corporations just as we do to individual persons. *The other*, not necessarily incompatible with the first, is to realize that these days too many people are willing, even eager, to duck personal responsibility—“it’s not my job,” “there’s nothing I can do about it,” “I was just following procedure”—by submerging it in the CID structures of the modern corporation. Perhaps until CID structures are reconstituted to deal explicitly with noneconomic matters, we can expect more of the same evasion of personal responsibility.

The issue of corporate moral agency undoubtedly will continue to exercise scholars. Meanwhile, the inescapable fact is that corporations are increasingly being accorded the status of biological persons, with all the rights and responsibilities implied by that status. Before it was gobbled up by another corporation, Continental Oil Company expressed in an in-house booklet the public perception and its implications as follows:

No one can deny that in the public’s mind a corporation can break the law and be guilty of unethical and amoral conduct. Events . . . such as corporate violation of federal laws and failure of full disclosure [have] confirmed that both our government and our citizenry expect *corporations* to act lawfully, ethically, and responsibly.

Perhaps it is then appropriate in today’s context to think of Conoco as a living corporation; a sentient being whose conduct and personality are the collective effort and responsibility of its employees, officers, directors, and shareholders.<sup>15</sup>

Today many companies and many of the people inside them accept without hesitation the idea that corporations are moral agents with genuinely moral, not just legal, responsibilities.

This point was illustrated when Colonial Pipeline of Atlanta published full-page advertisements in several newspapers headlined “We Apologize.” The company used the ads to take responsibility for having spilled oil into the Reedy River of South Carolina three years before. True, the ads were part of a plea agreement with the U.S. Justice Department for having violated the Clean Water Act (the company also agreed to pay a \$7 million fine). Yet the company’s words had ethical overtones. As Laura Nash of Harvard Divinity School comments, they put “moral emotion into what is essentially a legal statement” because “the word ‘apologize’ . . . admits a sense of shame and humility.”<sup>16</sup> Shame and humility were evident, too, when a few years later the world saw photographs of Charles Prince, the chief executive of Citigroup, and Douglas Petersen, Citibank Japan CEO, bowing their heads at a press conference in Tokyo in a public act of remorse for Citigroup’s illegal actions in Japan.

If, then, it makes sense to talk about the social and moral responsibilities of corporations, either in a literal sense or as a shorthand way of referring to the obligations of the individuals that make up the corporation, what are these responsibilities?

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## RIVAL VIEWS OF CORPORATE RESPONSIBILITY

In 1963 Tennessee Iron & Steel, a subsidiary of United States Steel, was by far the largest employer, purchaser, and taxpayer in Birmingham, Alabama. In the same city at the same time, racial tensions exploded in the bombing of an African-American church, killing four black children. The ugly incident led some to blame U.S. Steel for not doing

This raises the possibility of actions for which no one is responsible. There are two ways to escape this conclusion.

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### SUMMARY

Individual responsibility can tend to vanish inside large, impersonal corporations. One response is to attribute moral agency to the corporation itself.

Another is to refuse to let individuals duck their personal responsibility.

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Assuming it makes sense to talk of the moral responsibilities of corporations, what are they?

more to improve race relations, but Roger Blough, chairman of U.S. Steel, defended his company:

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**SUMMARY**

Despite continuing controversy over the concept of corporate moral agency, the courts, the general public, and many companies find the notion of corporate responsibility useful and intelligible—either in a literal sense or as shorthand for the moral obligations of individuals in the corporation.

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I do not either believe that it would be a wise thing for United States Steel to be other than a good citizen in a community, or to attempt to have its ideas of what is right for the community enforced upon the community by some sort of economic means. . . .

When we as individuals are citizens in a community we can exercise what small influence we may have as citizens, but for a corporation to attempt to exert any kind of economic compulsion to achieve a particular end in the racial area seems to me quite beyond what a corporation can do.<sup>17</sup>

Not long afterward, Sol M. Linowitz, chairman of the board of Xerox Corporation, declared in an address to the National Industrial Conference Board: “To realize its full promise in the world of tomorrow, American business and industry—or, at least, the vast portion of it—will have to make social goals as central to its decisions as economic goals; and leadership in our corporations will increasingly recognize this responsibility and accept it.”<sup>18</sup> Thus, the issue of business’s corporate responsibility was joined. Just what responsibilities does a corporation have? Is its responsibility to be construed narrowly as merely profit making? Or more broadly to include refraining from harming society and even contributing actively and directly to the public good?

**THE NARROW VIEW: PROFIT MAXIMIZATION**

As it happened, the year preceding the Birmingham incident had seen the publication of *Capitalism and Freedom*, in which economist Milton Friedman (1912–2006) forcefully advocated the **narrow view of corporate responsibility**, that business has no social responsibilities other than to maximize profits:

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**SUMMARY**

The debate over corporate responsibility is whether it should be construed narrowly to cover only profit maximization or more broadly to include acting morally, refraining from socially undesirable behavior, and contributing actively and directly to the public good.

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The view has been gaining widespread acceptance that corporate officials . . . have a social responsibility that goes beyond serving the interest of their stockholders. . . . This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. . . . Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.<sup>19</sup>

Although from Friedman’s perspective the only responsibility of business is to make money for its owners, obviously a business may not do literally anything whatsoever to increase its profits. Gangsters pursue profit maximization when they ruthlessly rub out their rivals, but such activity falls outside what Friedman referred to as “the rules of the game.” Harvard professor Theodore Levitt echoed this point when he wrote, “In the end business has only two responsibilities—to obey the elementary canons of face-to-face civility (honesty, good faith, and so on) and to seek material gain.”<sup>20</sup>

What, then, are the rules of the game? Obviously, elementary morality rules out deception, force, and fraud, and the rules of the game are intended to promote open and free competition. The system of rules in which business is to pursue profit is, in Friedman’s view, one that is conducive to the laissez-faire operation of Adam Smith’s “invisible hand” (discussed in Chapter 4). Friedman, a conservative economist, believed that if the market is allowed to operate with only the minimal restrictions necessary to

prevent fraud and force, society will maximize its overall economic well-being. Pursuit of profit, he insisted, is what makes our system go. Anything that dampens this incentive or inhibits its operation will weaken the ability of the “invisible hand” to deliver the economic goods. As one recent writer puts it, “Corporations that simply do everything they can to boost profits will end up increasing social welfare.”<sup>21</sup>

Because the function of a business organization is to make money, the owners of corporations employ executives to accomplish that goal, thereby obligating these managers always to act in the interests of the owners. According to Friedman, to say that executives have *social* responsibilities beyond the pursuit of profit means that they must sometimes subordinate owner interests to some social objective, such as controlling pollution or fighting inflation. They are then spending stockholder money for general social interests—in effect, taxing the owners and spending those taxes on social causes. But taxation is a function of government, not private enterprise; executives are not public employees but employees of private enterprise. The doctrine that corporations have social responsibilities beyond profit making thus transforms executives into civil servants and business corporations into government agencies, thereby diverting business from its proper function in the social system.

Friedman was critical of those who would impose on business any duty other than that of making money, and he was particularly harsh with business leaders who take a broader view of their social responsibilities: They may believe that they are defending the free-enterprise system when they give speeches proclaiming that profit isn't the only goal of business or affirming that business has a social conscience and takes seriously its responsibility to provide employment, refrain from polluting, eliminate discrimination, and so on. But these business leaders are shortsighted; they are helping to undermine capitalism by implicitly reinforcing the view that the pursuit of profit is wicked and must be regulated by external forces.<sup>22</sup>

Friedman acknowledged that corporate activities are often described as an exercise of “social responsibility” when, in fact, they are intended simply to advance the company's self-interest. For example, it might be in the long-term self-interest of a corporation that is a major employer in a small town to spend money to enhance the local community by helping to improve its schools, parks, roads, or social services, thereby attracting good employees to the area, reducing the company's wage bill, or improving worker morale and productivity. By portraying its actions as dictated by a sense of social responsibility, the corporation can generate goodwill as a by-product of expenditures that are entirely justified by self-interest. Friedman had no problem with a company pursuing its self-interest by these means, but he rued the fact that “the attitudes of the public make it in the self-interest [of corporations] to cloak their actions in this way.”<sup>23</sup> Friedman's bottom line was that the bottom line is all that counts, and he firmly rejected any notion of corporate *social* responsibility that would hinder a corporation's profit maximization.

### THE BROADER VIEW: CORPORATE SOCIAL RESPONSIBILITY

The rival position to that of Friedman and Levitt is simply that business has obligations in addition to pursuing profits. The phrase “in addition to” is important. Advocates of the **broader view of corporate responsibility** do not believe there is anything wrong with corporate profit. They maintain, rather, that corporations have other responsibilities as well—to consumers, to employees, to suppliers and contractors, to the surrounding community, and to society at large. They see the modern corporation as a social institution that should consider the interests of all the groups it has an impact on.

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#### SUMMARY

Proponents of the narrow view, such as Milton Friedman, contend that diverting corporations from the pursuit of profit makes our economic system less efficient. Business's only social responsibility is to make money within the rules of the game. Private enterprise should not take on social goals or public responsibilities; these should be left to government.

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Critics of the narrow view believe that businesses have other obligations besides making a profit.