

Sometimes called the **social entity model** or the **stakeholder model**, this broader view maintains that a corporation has obligations not only to its stockholders but also to other constituencies that affect or are affected by its behavior—that is, to all parties that have a legitimate interest (a “stake”) in what the corporation does or doesn’t do. Years ago, the chairman of Standard Oil of New Jersey expressed the basic idea this way: “The job of management is to maintain an equitable and working balance among the claims of the various directly affected interest groups . . . stockholders, employees, customers, and the public at large.”<sup>24</sup>

If the adherents of the broader view share one belief, it is that corporations have responsibilities beyond simply enhancing their profits because, as a matter of fact, they wield such great social and economic power in our society and with that power must come social responsibility. As professor of business administration Keith Davis put it:

One basic proposition is that *social responsibility arises from social power*. Modern business has immense social power in such areas as minority employment and environmental pollution. If business has the power, then a just relationship demands that business also bear responsibility for its actions in these areas. Social responsibility arises from concern about the consequences of business’s acts as they affect the interests of others. Business decisions do have social consequences. Businessmen cannot make decisions that are solely economic decisions, because they are interrelated with the whole social system. This situation requires that businessmen’s thinking be broadened beyond the company gate to the whole social system. Systems thinking is required.

Social responsibility implies that a business decision maker in the process of serving his own business interests is obliged to take actions that also protect and enhance society’s interests. The net effect is to improve the quality of life in the broadest possible way, however quality of life is defined by society. In this manner, harmony is achieved between business’s actions and the larger social system. The businessman becomes concerned with social as well as economic outputs and with the total effect of his institutional actions on society.<sup>25</sup>

Proponents of the broader view, such as Davis, stress that modern business is intimately integrated with the rest of society. Business is not some self-enclosed world, like a private poker party. Rather, business activities have profound ramifications throughout society, and their influence on our lives is hard to escape. Business writer John Kay makes this point with reference to General Electric: “The company’s activities are so extensive that you necessarily encounter them daily, often without knowing you are doing so. GE’s business is our business even if we do not want it to be.”<sup>26</sup>

As a result, although society permits and expects corporations to pursue their economic interests, they have other responsibilities as well. Thus, for example, it is wrong for corporations to raid the pension funds of their employees, as many have done,<sup>27</sup> or to evade taxes through creative accounting or by re-incorporating in tax havens such as Bermuda,<sup>28</sup> even if doing so is legal and enhances the bottom line. “We reasonably expect that GE should care that its engines are safe,” writes John Kay, “not just that they comply with FAA procedures; that if there is a problem with its medical equipment the company will try to put it right, not cover it up; that GE financial statements are true and fair and not just compliant with accounting standards.”<sup>29</sup>

Melvin Anshen has cast the case for the broader view of corporate responsibility in a historical perspective.<sup>30</sup> He maintains that there is always a kind of “social contract” between business and society. This contract is, of course, only implicit, but

it represents a tacit understanding within society about the proper goals and responsibilities of business. In effect, in Anshen's view, society always structures the guidelines within which business is permitted to operate in order to derive certain benefits from business activity. For instance, in the nineteenth century, society's prime interest was rapid economic growth, which was viewed as the source of all progress, and the engine of economic growth was identified as the drive for profits by unfettered, competitive, private enterprise. That attitude was reflected in the then-existing social contract. Today, however, society has concerns and interests other than rapid economic growth—in particular, a concern for the quality of life and for the preservation of the environment. Accordingly, the social contract is in the process of being modified. In particular, Anshen writes, "it will no longer be acceptable for corporations to manage their affairs solely in terms of the traditional internal costs of doing business, while thrusting external costs on the public."<sup>31</sup>

In recent years we have grown more aware of the possible deleterious side effects of business activity, or what economists call **externalities**: the unintended negative (or in some cases positive) consequences that an economic transaction between two parties can have on some third party. Industrial pollution provides the clearest illustration. Suppose a factory makes widgets and sells them to your firm. A by-product of this economic transaction is the waste that the rains wash from the factory yard into the local river, waste that damages recreational and commercial fishing interests downstream. This damage to third parties is an unintended side effect of the economic transaction between the seller and the buyer of widgets.

Defenders of the new social contract, like Anshen, maintain that externalities should no longer be overlooked. In the jargon of economists, externalities must be "internalized"—that is, the factory should be made to absorb the cost of its pollution, either by disposing of its waste in an environmentally safe (and presumably more expensive) way or by paying for the damage the waste does downstream. On the one hand, basic fairness requires that the factory's waste no longer be dumped onto third parties. On the other hand, from the economic point of view, requiring the factory to internalize the externalities makes sense, for only when it does so will the price of the widgets it sells reflect their true social cost. The real production cost of the widgets includes not only labor, raw materials, machinery, and so on but also the damage done to the fisheries downstream. Unless the price of widgets is raised sufficiently to reimburse the fisheries for their losses or to dispose of the waste in some other way, the buyer of widgets is paying less than their true cost. Part of the cost is being paid by the fishing interests downstream.

Advocates of the broader view go beyond requiring business to internalize its externalities in a narrow economic sense. Keith Davis, for example, maintains that in addition to considering potential profitability, a business must weigh the long-range social costs of its activities as well. Only if the overall benefit to society is positive should business act:

The expectation of the social responsibility model is that a detailed cost/benefit analysis will be made prior to determining whether to proceed with an activity and that social costs will be given significant weight in the decision-making process. Almost any business action will entail some social costs. The basic question is whether the benefits outweigh the costs so that there is a net social benefit. Many questions of judgment arise, and there are no precise mathematical measures in the social field, but rational and wise judgments can be made if the issues are first thoroughly explored.<sup>32</sup>

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#### SUMMARY

Defenders of the broader view maintain that corporations have responsibilities that go beyond making money because of their great social and economic power. Business is governed by an implicit social contract that requires it to operate in ways that benefit society. In particular, corporations must take responsibility for the unintended side effects of their business transactions (externalities) and weigh the full social costs of their activities.

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Advocates of the broader view believe that business must internalize its externalities and consider the social costs of its activities.

**STOCKHOLDERS AND THE CORPORATION**

When asked, most Americans say that a corporation’s top obligation is to its employees; others say it is to the community or the nation, but only 17 percent think stockholders deserve the highest priority.<sup>33</sup> In fact, even a majority of managers reject a profit-only philosophy of corporate management.<sup>34</sup> Advocates of the narrow view, however, believe that those attitudes reflect a misunderstanding of the proper relationship between management and stockholders. Stockholders own the company. They entrust management with their funds, and in return management undertakes to make as much money for them as it can. As a result, according to proponents of the narrow view, management has a fiduciary duty to maximize shareholder wealth, a duty that is inconsistent with any social responsibility other than the relentless pursuit of profit.

The narrow view holds that management’s responsibility to maximize shareholder wealth outweighs any other obligations.

The managers of a corporation do indeed have a **fiduciary responsibility** to look after the interests of shareholders, a duty that is clearly violated by corporate executives who take advantage of their position to enrich themselves at company expense with extravagant bonuses, stock options, and retirement packages or to waste corporate money on jets, apartments, private parties, and various personal services that lack any plausible business rationale. But it doesn’t follow from this, as proponents of the narrow view maintain, that the corporation should be run entirely for the benefit of stockholders, that their interests always take priority over the interests of everyone else. To the contrary, argue critics of the narrow view, management has fiduciary responsibilities to other constituencies as well—for example, to employees, bondholders, and consumers. The duty to make money for shareholders is real, but it doesn’t trump all of a company’s other responsibilities. Indeed, it’s debatable whether most shareholders believe that it does. Many of them may want the company they “own” to act in a morally responsible manner—say, by reducing its carbon footprint or by treating employees with respect—even if that means less profit.

Against that point of view, however, Milton Friedman argued, “The whole justification for permitting the corporate executives to be selected by the shareholders is that the executive is an agent serving the interests of his principal.”<sup>35</sup> This justification disappears, he believed, when executives expend corporate resources in ways that don’t necessarily enhance the bottom line. They are then acting more like public servants than like employees of a private enterprise. But even if one agrees with Friedman that stockholders select corporate managers to act as their agents and advance their interests, this doesn’t prove that those executives are bound to act solely to increase shareholder wealth, ignoring all other moral considerations. Undertaking to look after other people’s interests or promising to try to make money for them creates a genuine obligation, but that obligation is not absolute. It doesn’t eliminate all other moral responsibilities. By analogy, promising to meet someone at a certain time and place for lunch creates an obligation, but that obligation doesn’t override one’s duty to assist someone having a heart attack. And something that it would be immoral for you to do (such as making a dangerous product) doesn’t become right just because you’re acting on behalf of someone else or promised him that you would do it.

Friedman believed that if executives “impose taxes on stockholders and spend the proceeds for ‘social’ purposes, they become ‘civil servants,’ and thus should be selected through a political process.”<sup>36</sup> He considered such a proposal absurd or, at best, socialistic. Yet others contend that corporations are too focused on profits, and they fear the damage to society when firms are willing to sacrifice all other values on the altar of the bottom line. They don’t think it absurd at all that corporations should take a broader view of their social role and responsibilities. They see nothing in the management–stockholder relationship that would morally forbid corporations from doing so.

**SUMMARY**

Advocates of the narrow view stress that management’s fiduciary duty to the owners (stockholders) of a corporation takes priority over any other responsibilities and obligates management to focus on profit maximization alone. Critics challenge this argument. They also point out that the assumption that stockholders own or control the corporation is dubious.

### Who Controls the Corporation?

According to the narrow view of corporate responsibility, stockholders own the corporation and select managers to run it for them. That model may make sense for some small firms or when venture capitalists invest in a start-up company, but it doesn't accurately reflect modern corporate reality. To begin with, most stockholders purchase shares in a company from current stockholders, who acquired their shares the same way. Very few investors put their money directly into a corporation; rather, they buy secondhand shares that were initially issued years before. They pick companies that look profitable or seem likely to grow or whose products or policies appeal to them, or they may simply be following the advice of their broker. And they are generally prepared to resell their shares, perhaps even the same day they bought them, if it is profitable to do so. Stockholders have no legal obligation to the company. They are a far-flung, diverse, and ever-changing group. They come and go, and rarely, if ever, have direct contact with the managers of the company or even know or care who they are.

For those reasons, then, it's implausible to see stockholders in, say, Home Depot or Procter & Gamble as being genuine owners or proprietors of the company. "A share of stock," write two legal experts, "does not confer ownership of the underlying assets owned by the corporation. Instead, it provides the holder with a right to share in the financial returns produced by the corporations' business." A share of stock is a financial instrument, more akin to a bond than to a car or building.<sup>37</sup>

Few economists or business theorists believe that stockholders are really in charge of the companies whose shares they hold or that they select the managers who run them. As long ago as 1932, Adolf Berle and Gardiner Means showed that because stock ownership in large corporations is so dispersed, actual control of the corporation has passed to management.<sup>38</sup> Today, as most business observers acknowledge, management handpicks the board of directors, thus controlling the body that is supposed to police it. "The CEO puts up the candidates; no one runs against them, and management counts the votes," says Nell Minow of Corporate Library, a corporate watchdog website. "We wouldn't deign to call this an election in a third-world country."<sup>39</sup> Even in those rare cases when shareholders put up their own candidates, such proxy fights are expensive and the incumbent management has the corporate coffers at its disposal to fight them.

As a result, the board of directors typically rubber-stamps the policies and recommendations of management. That's why it's not too surprising that the directors of Enron ignored shareholder interests and approved paying out \$750 million in executive compensation—\$140 million of it to its chairman—in a year when the company's entire net income was only \$975 million. The Enron example is extreme, but since the 1990s the share of corporate net income going to top management has doubled; that's money that otherwise would have ended up in shareholders' pockets.<sup>40</sup> And how else to explain the fat payouts to CEOs when their companies do poorly or are acquired by other corporations<sup>41</sup> or the lavish retirement packages that boards bestow on former CEOs? These often include a million-dollar annual pension, an expensive apartment, a car and driver, and free use of the company aircraft.<sup>42</sup> True, in the past couple of decades, institutional investors like pension funds and large mutual funds have endeavored to increase their sway over corporate policies, and in 2011 the Securities and Exchange Commission (SEC) gave shareholders the right to a nonbinding vote on corporate compensation plans once every three years. But it's still exceedingly difficult for shareholders to change policies they don't like, because the voting rules are rigged in management's favor.<sup>43</sup> The upshot is simple, according to Michael Jensen, professor emeritus at Harvard Business School: "The CEO has no boss." That, he says, is "the major thing wrong with large public corporations in the United States."<sup>44</sup>

Stockholders do not really own or control the companies whose shares they hold.



## DEBATING CORPORATE RESPONSIBILITY

We can pursue the debate over corporate responsibility further by examining three arguments in support of the narrow view: the invisible-hand argument, the let-government-do-it argument, and the business-can't-handle-it argument. Advocates of the broader view of corporate responsibility reject all three.

### THE INVISIBLE-HAND ARGUMENT

Adam Smith claimed that when each of us acts in a free-market environment to promote our own economic interests we are led by an invisible hand to promote the general good. Like-minded contemporary thinkers such as Friedman advance the same **invisible-hand argument**. They point out that corporations, in fact, were chartered by states precisely with utility in mind. If businesses are permitted to seek self-interest, their activities will inevitably yield the greatest good for society as a whole. To invite corporations to base their policies and activities on anything other than profit making is to politicize business's unique economic function and to hamper its ability to satisfy our material needs. As Roberto C. Goizueta, former CEO of Coca-Cola, argues, "businesses are created to meet economic needs." When they "try to become all things to all people, they fail. . . . We have one job: to generate a fair return for our owners."<sup>45</sup> Accordingly, corporations should not be invited to fight against prejudice, to combat global warming, to contribute to the local community, or to improve working conditions or enhance the lives of employees, except insofar as these activities increase profits.

Yet this argument allows that corporations may still be held accountable for their actions. To the degree that they fulfill or fail to fulfill their economic role, they can be praised or blamed. And they can rightly be criticized for breaking the law or violating the rules of the game—for example, by shady accounting practices that mislead investors about company assets. But corporations should not be held morally responsible for non-economic matters; to do so would distort the economic mission of business in society and undermine the foundations of the free-enterprise system.

The invisible-hand argument, however, runs up against the fact that modern corporations bear about as much resemblance to Smith's self-sufficient farmers and craftspeople as today's military bears to the Continental militia. Given the sway they have over our economy and society and the enormous impact they have on our lives, our communities, and our environment, today's gigantic corporations are more like public enterprises than private ones. They constitute powerful economic fiefdoms, far removed from the small, competitive producers of classical economics. Perhaps within a restricted area of economic activity, when the parties to the exchange are roughly equal, then each pursuing self-interest can result in the greatest net good. But in the real world of large corporations, the concept of an invisible hand orchestrating the common good often stretches credulity. For example, California deregulated its electricity market to promote competition and give the invisible hand room to operate. But the result was a disaster. Instead of cheaper energy, the state got power blackouts and soaring prices as energy companies adroitly and greedily manipulated the market. Each time the state tried to make the market work better, energy sellers devised new ways to exploit the system. The state government only stanching the crisis by a costly intervention that has basically put it in the power business.<sup>46</sup>

The invisible-hand argument in favor of the narrow view of corporate responsibility is thus open to criticism as theoretically unsound and economically unrealistic.

Moreover, in practice the argument is complicated by the fact that corporations today find themselves in a social and political environment in which they are pressured by public opinion, politicians, the media, and various activist groups to act—or at least be perceived to be acting—as responsible corporate citizens, as socially conscious enterprises that acknowledge other values besides profit and that seek to make a positive contribution to our society. Few if any corporations can afford to be seen as exploiters of foreign labor, as polluters of the environment, or as indifferent to consumer welfare or the prosperity of our communities. Companies today religiously guard their name and their brands against the slander that they care only about profits. And the larger the corporation, the more susceptible it is to the demand that it behave with a developed sense of moral responsibility, and the more it needs to guard its image and to take steps to assure the public that it is striving to make the world a better place.

This explains why for several months in 2010–11 Chevron ran a campaign of dramatic full-page advertisements in the *Wall Street Journal*, *New York Times*, and other newspapers, each ad featuring a slogan, such as, “Oil companies should support the communities they’re part of,” “Oil companies should put their profits to good use,” “It’s time for oil companies to get behind renewable energy,” or “Big Oil should support small business.” Stamped in red after each statement were the words, “We agree.” The company also ran a series of television ads in the same vein. Likewise, Rio-Tinto Alcan, the world’s largest aluminum company, proclaims that it is committed to “maximizing value for all our stakeholders, especially by making a significant contribution . . . to the economic, social and environmental well-being of the communities in which we operate.”<sup>47</sup> And Hewlett-Packard states that “a company has a responsibility beyond making a profit for its investors, including a commitment to enrich the business, lives and communities of its customers, partners and employees.”<sup>48</sup>

Admittedly, some of this is merely public-relations posturing, but it’s also true that business success in today’s world requires companies to respond to society’s demand that they act as morally responsible agents. For purely self-interested reasons, even corporations that take a very narrow view of their responsibilities may have to behave as if they held a broader view. For example, in a world in which 88 percent of young people believe that companies have a responsibility to support social causes and 86 percent of them say that they switch brands based on social issues, a world in which 72 percent of job seekers prefer to work for a company that supports social causes,<sup>49</sup> corporate philanthropy promotes the bottom line. Moreover, almost all studies indicate that socially responsible corporate behavior is positively correlated with financial success and that the most profitable companies treat their consumers, employees, and business partners ethically.<sup>50</sup> Ironically, then, this gives companies a self-interested reason not merely to pretend to have a broad sense of social responsibility but, rather, to become the kind of company that really does want to make a positive mark in the world. Of course, whether we are talking about individuals or about corporations, there’s no guarantee that acting morally will always pay off, and indeed if that is one’s only motivation for doing the right thing, then one can hardly be said to be acting morally. Even so, there’s little reason for either individuals or companies to believe that acting selfishly or sacrificing moral values to profits will pay off for them in the long run.

### THE LET-GOVERNMENT-DO-IT ARGUMENT

According to the narrow view of corporate responsibility, business’s role is purely economic, and corporations should not be considered moral agents. Some adherents of this view, however, such as economist and social critic John Kenneth Galbraith

The invisible-hand argument seems economically unrealistic. In addition, corporations today find it in their interest to acknowledge values other than profit.

(1908–2006), reject the assumption that Smith’s invisible hand will solve all social and economic problems or that market forces will moralize corporate activities. Left to their own self-serving devices, Galbraith and others warn, modern corporations will enrich themselves while impoverishing society. If they can get away with it, they will pollute, exploit workers, deceive customers, and strive to eliminate competition and keep prices high through oligopolistic practices. They will do those things, the argument continues, because as economic institutions they are naturally and quite properly profit motivated.

What is profitable for corporations, however, is not necessarily useful or desirable for society. How is the corporation’s natural and insatiable appetite for profit to be controlled? Through government regulation, answer proponents of the **let-government-do-it argument**. They believe that the strong hand of government, through a system of laws and incentives, can and should bring corporations to heel. “I believe in corporations,” Teddy Roosevelt once proclaimed. “They are indispensable instruments of our modern civilization; but I believe that they should be so supervised and so regulated that they shall act for the interests of the community as a whole.”<sup>51</sup>

“Do not blame corporations and their top executives” for things like layoffs or urge them to acknowledge obligations beyond the bottom line, writes the economist Robert Reich, secretary of labor under President Clinton. “They are behaving exactly as they are organized to behave.” He pooh-poohs moral appeals and rejects the idea that CEOs should seek to balance the interests of shareholders against those of employees and their communities. Rather, Reich says, “if we want corporations to take more responsibility” for the economic well-being of Americans, then government “will have to provide the proper incentives.”<sup>52</sup>

This advice sounds realistic and is intended to be practical, but the let-government-do-it argument rejects the notion of broadening corporate responsibility just as firmly as the invisible-hand argument does. The latter puts the focus on the market. Galbraith’s and Reich’s argument puts it on the *visible* hand of government. The two positions agree, however, in thinking that it is misguided to expect or demand that business firms do anything other than pursue profit.

Critics of the let-government-do-it argument contend that it is a blueprint for big, intrusive government. Moreover, they doubt that government can control any but the most egregious corporate immorality. They fear that many questionable activities will be overlooked, safely hidden within the labyrinth of the corporate structure. Lacking intimate knowledge of the goals and sub-goals of specific corporations, as well as of their daily operations, government simply can’t anticipate a specific corporation’s moral challenges. Rather, it can prescribe behavior only for broad, cross-sectional issues, such as bribery, price fixing, and unfair competition.

Legislation can certainly address egregious corporate wrongdoing, but it cannot provide corporations with much specific guidance about how to act in socially beneficial ways. Consider, for example, PepsiCo’s decision to buy directly from small corn farmers in Mexico (rather than through middle men) and to guarantee, before they plant their crops, the price it will pay them. This program has changed the farmers’ lives (they no longer have to trek to the United States to work odd jobs to make ends meet), increased their incomes, and strengthened their communities.<sup>53</sup> No government legislation could have brought this about.

Finally, is government a credible custodian of morality? If recent experience has taught anything, it is that government officials are not always paragons of virtue. Looked

The let-government-do-it argument rejects broadening corporate responsibility just as much as the invisible-hand argument does.

at simply as another organization, government manifests many of the same structural characteristics that test moral behavior inside the corporation. Furthermore, given the awesome clout of corporate lobbyists, one wonders whether, as moral police, government officials will do anything more than impose the values and interests of their most generous financiers. Can we seriously expect politicians to bite the hand that feeds them?

### THE BUSINESS-CAN'T-HANDLE-IT ARGUMENT

In support of the narrow view of corporate responsibility, some maintain that it is misguided to encourage corporations to address nonbusiness matters. According to the **business-can't-handle-it argument**, corporations are the wrong group to be entrusted with broad responsibility for promoting the well-being of society. They are not up to the job for two reasons: (1) they lack the necessary expertise and (2) in addressing noneconomic matters, they inevitably impose their own materialistic values on the rest of society.

Some argue that business is the wrong group on which to place broad social responsibilities for two reasons.

#### Corporations Lack the Expertise

Those who develop the first point contend that business can't handle the job—that it is the wrong group to rely on to promote the well-being of society—because corporate executives lack the moral and social expertise to make other-than-economic decisions. To assign them noneconomic responsibilities would be to put social welfare in the hands of inept custodians. For example, Robert Reich argues that corporate executives lack the moral authority to “balance profits against the public good” or “undertake any ethical balancing.” They have no “expertise in making such moral calculations.”<sup>54</sup> In his view, corporate leaders lack the moral insight or social know-how that a broader view of corporate responsibility would seem to require of them.

Against that, however, one can argue that we don't normally restrict the moral responsibilities of individuals, professional bodies, or other organizations to matters that fall within the narrow confines of their business or other expertise. We see nothing wrong, for example, with physicians advocating AIDS awareness or trying to promote the use of seat belts in automobiles, or with a teachers' union involving itself in a campaign to combat the use of illegal drugs. And ordinary citizens may sometimes have a duty to educate themselves about, and do what they can to address, social issues that fall outside their usual sphere of knowledge and activity. What, if anything, asks the critic, makes the social role of the corporation unique, so that its responsibilities and those of its employees should be confined solely to profit making?

The argument that corporations aren't up to addressing social issues because they lack the necessary expertise runs up against the fact that, often, it is only business that has the know-how, talent, experience, and organizational resources to tackle certain problems. If society, for example, wants to eradicate malaria in Africa or increase longevity at home, to reduce diesel engine emissions or retard global warming, to improve agricultural productivity while lowering the risks from pesticides, or to see that inner-city youth learn entrepreneurship or that community groups have the business skills necessary for success, then society will need the assistance of business. To take a specific illustration, Citibank supports microfinance programs in Mexico and India intended to give poor rural women the tiny loans they need, say, to buy a sewing machine and start their own business. True, as a Citigroup executive says, “there is not going to be a huge short-term profit” for the company.<sup>55</sup> But who is better able to help these women than a company like Citigroup?

### Corporations Will Impose Their Values on Us

Others argue that corporations are the wrong group to address social issues, that business can't handle the assignment, for a different reason. They fear that if permitted to stray from strictly economic matters, corporate officials will impose their materialistic values on all of society. Broadening corporate responsibility will thus "materialize" society instead of "moralizing" corporate activity. More than fifty years ago, Harvard professor Theodore Levitt expressed this concern:

The danger is that all these things [resulting from having business pursue social goals other than profit making] will turn the corporation into a twentieth-century equivalent of the medieval church. . . . For while the corporation also transforms itself in the process, at bottom its outlook will always remain materialistic. What we have then is the frightening spectacle of a powerful economic functional group whose future and perception are shaped in a tight materialistic context of money and things but which imposes its narrow ideas about a broad spectrum of unrelated noneconomic subjects on the mass of man and society. Even if its outlook were the purest kind of good will, that would not recommend the corporation as an arbiter of our lives.<sup>56</sup>

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**SUMMARY**

Three arguments in favor of the narrow view are the invisible-hand argument, the let-government-do-it argument, and the business-can't-handle-it argument. Finding flaws in each of these arguments, critics maintain there is no solid basis for restricting corporate responsibility to profit making.

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This argument seems to assume that corporations do not already exercise enormous discretionary power over us. But as Keith Davis points out, business already has immense social power. "Society has entrusted to business large amounts of society's resources," says Davis, "and business is expected to manage these resources as a wise trustee for society. In addition to the traditional role of economic entrepreneurship, business now has a new social role of trusteeship. As trustee for society's resources, it serves the interests of all claimants on the organization, rather than only those of owners, or consumers, or labor."<sup>57</sup>

As Paul Camenisch notes, business is already using its privileged position to propagate, consciously or unconsciously, a view of humanity and the good life.<sup>58</sup> Implicit in the barrage of advertisements to which we are subjected daily are assumptions about happiness, success, and human fulfillment. In addition, corporations or industry groups sometimes speak out in unvarnished terms about social and economic issues. For example, ExxonMobil disputes the notion that fossil fuels are the main cause of global warming and lobbies against capping global-warming emissions, while drug companies such as Eli Lilly, Procter & Gamble, and Bristol-Myers Squibb contribute to conservative think tanks that seek to reduce the regulatory powers of the U.S. Food and Drug Administration.

The point here is that business already promotes consumerism and materialistic values. It doesn't hesitate to use its resources to express its views and influence our political system on issues that affect its economic interests. If corporations take a broader view of their responsibilities, are they really likely to have a more materialistic effect on society, as Levitt suggests, than they do now? It's hard to believe they could. Levitt's view implies that there is some threat to society's values when corporations engage in philanthropy or use their economic and political muscle for other than purely self-interested ends. But society's values are not endangered when Sara Lee donates 2 percent of its pretax profits to charitable causes, mostly cultural institutions and organizations serving disadvantaged people,<sup>59</sup> or when General Mills gives away 3 percent of its domestic pretax earnings to community organizations, donates food to people in need, and helps inner-city companies to get up and running.<sup>60</sup> And where is the "materialization of society" if, instead of advertising on a silly situation comedy that reaches a large audience, a corporation spends the same amount underwriting a science program with fewer viewers solely out of a sense of social responsibility?

## INSTITUTIONALIZING ETHICS WITHIN CORPORATIONS

The criticisms of these three arguments in support of the narrow view of corporate responsibility have led many people inside and outside business to adopt the broader view—that the obligations of the modern business corporation extend beyond simply making money for itself. Society grants corporations the right to exist and gives them legal status as separate entities. It does this not to indulge the profit appetites of owners and managers but, as Camenisch says, as a way of securing the necessary “goods and services to sustain and enhance human existence.”<sup>61</sup> In return for its sufferance of corporations, society has the right to expect corporations not to cause harm, to take into account the external effects of their activities, and whenever possible to act for the betterment of society.

The list of corporate responsibilities goes beyond such negative injunctions as “Don’t pollute,” “Don’t misrepresent products,” and “Don’t bribe.” Included also are affirmative duties such as “See that your product or service makes a positive contribution to society,” “Improve the skills of your employees,” “Seek to hire the disabled or other disadvantaged persons,” “Contribute to the betterment of your community,” “Be as green as possible,” and “Enrich working conditions.” The responsibilities of corporations are not necessarily limited to activities that are intrinsically related to their business operations but may reflect social responsibilities that each of us, whether individuals or institutions, has simply by virtue of our being members of society. Precisely how far each of us must go to meet these responsibilities depends largely on our capacity to fulfill them, which, of course, varies from person to person, institution to institution. But given their considerable power and resources, large corporations seem better able to promote the common good than most individuals or small businesses.

How corporations are to promote the common good cannot be answered very specifically; this will depend on the type of firm and its particular circumstances. Proponents of broadening corporate responsibility would agree, though, that the first step is for corporations to expand their moral horizons and make ethical conduct a priority. How to do this? At least four actions seem called for. Corporations should:

1. Acknowledge the importance, even necessity, of conducting business morally. Their commitment to ethical behavior should be unequivocal and highly visible, from top management down.
2. Make a real effort to encourage their members to take moral responsibilities seriously. This commitment would mean ending all forms of retaliation against those who buck the system and rewarding employees for evaluating corporate decisions in their broader social and moral contexts.
3. End their defensiveness in the face of public discussion and criticism. Instead, they should actively solicit the views of stockholders, managers, employees, suppliers, customers, local communities, and even society as a whole. Corporations should invite outside opinions and conduct a candid ethical audit of their organizational policies, priorities, and practices.
4. Recognize the pluralistic nature of the social system of which they are a part. Society consists of diverse, interlinked individuals and groups, all vying to maintain their autonomy and advance their interests. The actions of any one group invariably affect the interests of others. As part of society, corporations affect many groups, and these groups and the individuals they comprise affect corporations. Failing to realize this, corporations can lose sight of the social framework that governs their relationship with the external environment.

Society permits corporations to exist and, in turn, expects them to act in a socially responsible way.

To make ethics a priority, corporations should do four things.

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### SUMMARY

To become more socially responsible, companies need to expand their moral horizons and make ethical conduct a priority. Doing so will require them to acknowledge the critical importance of ethics, to encourage morally responsible conduct by their employees, to recognize the pluralistic nature of our social system, and to be open to public discussion and review.

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