

## Aims

- Consider the responsibilities of business
- Discuss the ethics of various business practices

## Lead-in



\*Latin expression meaning 'let the buyer beware'

- Which of the views expressed in the illustration do you agree with?

## Reading: Profits and social responsibility

Four of the views expressed in the illustration on the previous page are referred to in the following text. Which are they?

Pure free market theorists argue that the function of a business is to make profits. Milton Friedman, for example, argued that any corporate action inspired by 'social responsibility', rather than the attempt to maximize profits, is 'unbusinesslike'. In an article called 'The social responsibility of business is to increase its profits,' he argued that people who say that business has 'responsibilities for providing employment, eliminating discrimination, avoiding pollution', and so on, are 'undermining the basis of a free society'. For Friedman, 'only people can have responsibilities', and not corporations:

In a free enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible, while of course conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.

Therefore, 'to say that the corporate executive has a "social responsibility" in his capacity as businessman' is to say that 'he is to act in some way that is not in the interest of his employers'. Because if an executive makes 'social' expenditures he is:

spending someone else's money ... Insofar as his actions in accord with his 'social responsibility' reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

Furthermore, such actions are 'undemocratic' as they involve corporations taking on responsibilities that should be the government's: taxation and expenditure, and solving social problems. If the elected government is not taking certain actions, it is because the voters did not want it to do so. Any such action 'harms the foundations of a free society' and reveals an unfortunate 'suicidal impulse' in businessmen.

Friedman does not seem to consider the possibility that stockholders might prefer to receive lower dividends but live in a society with less pollution or less unemployment and fewer social problems.

An alternative view to the 'stockholder model' exemplified by Friedman's article is the *stakeholder* model. According to this approach, business managers have responsibilities to all the groups of people with a stake in or an interest in or a claim on the firm. These will include employees, suppliers, customers and the local community, as well as the stockholders. Proponents of the stakeholder approach argue that all these groups should be represented on a company's board of directors.

## Comprehension

- 1 According to Friedman, why should business executives only seek to maximize profits?
- 2 Who are the employers of corporate executives?
- 3 In what negative way do 'socially responsible' actions affect stockholders, customers, and employees?
- 4 According to Friedman, in what way are 'socially responsible' actions by businesses 'undemocratic'?
- 5 According to the text, what other desires might stockholders have, apart from making as much money as possible?
- 6 What is a 'stakeholder'?

## Vocabulary

### 1 Find words in the text that mean the following:

- 1 treating some people in a worse way than you treat other people
- 2 making something weaker
- 3 an economic system in which anyone can raise capital, form a business, and offer goods or services
- 4 complying with or following (rules, etc.)
- 5 expressed, given a material form
- 6 according to generally accepted beliefs based on morals
- 7 a usual way of behaving
- 8 to the degree or extent that
- 9 causes damage to
- 10 supporters, people who argue in favour of something

### 2 Match up the verbs and nouns below to make word combinations from the text.

avoid	business
conduct	discrimination
conform to	employment
eliminate	expenditures
increase	money
make	pollution
maximize	profits
provide	rules
undermine	the basis (of a free society)

## Discussion

How far do you agree:

- that doing anything other than maximizing profits is unbusinesslike?
- that stockholders or shareholders generally wish to make as much money as possible? (Notice the 'generally'.)
- that corporate social expenditure simply means spending someone else's money?

- that solving social problems is uniquely the job of the democratically elected government?
- that a company's other stakeholders are much less important than the stockholders?

If you don't agree, why not? How can you oppose these arguments?

## Listening 1: Socially responsible investment ▶ 2.17

Listen to Anna-Kim Hyun-Seung, who you heard in Unit 14, talking about socially responsible investment, and answer the questions.

- 1 Which expression about business does Anna-Kim attribute to Milton Friedman? What does it mean?
- 2 What assumption is Friedman's argument based on?
- 3 According to what Anna-Kim says, what do you think 'socially responsible investment' means?
- 4 How significant does Anna-Kim say socially responsible investment is?



Anna-Kim Hyun-Seung

## Listening 2: Different stakeholder groups ▶ 2.18

Listen to Anna-Kim.

- 1 Fill in the gaps.

I think it is very important to respond to different stakeholder groups, because obviously companies tend to be more <sup>1</sup> \_\_\_\_\_ to the <sup>2</sup> \_\_\_\_\_ rather than other stakeholders, but I think when a company really considers different stakeholder groups seriously, including their <sup>3</sup> \_\_\_\_\_, including their own <sup>4</sup> \_\_\_\_\_, then they are likely to have more genuine corporate social responsibility <sup>5</sup> \_\_\_\_\_ and <sup>6</sup> \_\_\_\_\_. For example, there are companies which are probably doing very good things for the community, for the external society, so that they can really improve their <sup>7</sup> \_\_\_\_\_ with their external stakeholders, but for example, if they are not very nice to their own employees, if there is something going wrong within their <sup>8</sup> \_\_\_\_\_ management, with regard to <sup>9</sup> \_\_\_\_\_, low-cost <sup>10</sup> \_\_\_\_\_, working hours, then probably they don't really have a good response from their own employees, who are their own internal stakeholders, so I think it is very important to listen to all different stakeholders, internal and external, to develop a holistic approach to corporate social responsibility.

- 2 What does Anna-Kim say genuine corporate social responsibility involves?
- 3 Why is it not sufficient for a company to do things for the community?

## Discussion

Although he dismissed the notion of social responsibility, Milton Friedman still argued that a business must conform to the basic rules of society. Do you think the following activities, several of which are not illegal, conform to the basic rules of society?

- 1 Bribing corrupt foreign officials in order to win foreign orders, on the grounds that where bribery is a way of life, you have no alternative if you want to win a contract
- 2 Industrial espionage: spying on competitors' research and development departments with concealed cameras and microphones, bribing their employees, etc., rather than doing your own expensive R&D
- 3 Selling supposedly durable goods with 'built-in obsolescence', i.e. which you know will not last more than a few years
- 4 Spending money on lobbying, i.e. trying to persuade politicians to pass laws favourable to your particular industry
- 5 Telling only half the truth in advertisements, or exaggerating a great deal, or keeping quiet about the bad aspects of a product
- 6 'Whistle blowing', i.e. revealing confidential information to the police or to a newspaper, e.g. that a company is breaking health and safety regulations and therefore putting people's lives in danger



## Role play: Problems at a clothes manufacturer

The CEO of an outdoor and sports clothing manufacturer in an advanced industrial country calls an emergency meeting to discuss two problems. Firstly, sales have started to fall in an economic downturn, the company's inventory is growing, and the production level is clearly too high. A decision has to be made about whether to lay off some staff. Secondly, a researcher has reported that one of the chemicals the company uses in its products is harmful to the environment. Your teacher will give you a role to prepare.



## Writing

Write a short report (100–150 words) summarizing the decisions taken at the meeting.