**Profit or People: The Moral Responsibility of Businesses**

***By Zenab Mushtaq***

**Responsible Business: Theory and Practise**

**University of Birmingham**

**Executive Summary**

Businesses are now recognised to play a larger role in society; however, is that responsibility for profit or for people? By arguing the numerous roles and purposes of businesses this paper explored the philosophical debate on shareholder primacy and stakeholder value and found that whilst profit creation is a necessary requirement for business success, the need for profit maximisation can often lead to an unhealthy obsession that misaligns business objectives. The social aspect of this essay argued that previous business ideologies and values held by economist Milton Friedman were outdated and that in a constantly changing environment, business roles have changed as well. Business examples, such as Procter & Gamble, were highlighted as organisations that prioritised stakeholder value over shareholder primacy in times of economic and global crises, demonstrating the need for business roles and priorities to align with society, to keep up and to adapt to changing market and economic conditions. Furthermore, the role and influence that businesses have on society and politics are too great for them to ignore social responsibility, and through the use of social responsibility frameworks such as the UN Global Goal Matrix, businesses can make the shift to prioritising people alongside profit.

**Introduction**

Businesses exist to create value through profit and growth. This heavily loaded statement has been at the centre of countless historical debates, inspiring the development of numerous theories and concepts, from the likes of American economist Milton Friedman to philosopher Edward Freeman. But is this the case, should business' purpose be about more than the realisation of profit and growth? Organisations need to think more profoundly and identify a value that combines the wants and needs of businesses and society. They are, after all, inextricably linked. Society needs businesses to thrive, and businesses need society to survive.

There are numerous global issues businesses could address alongside their quest for profit and growth. The Sustainable Development Goals (SDG) are seventeen goals made up by the United Nations and can be used as a framework for businesses on how to be socially responsible (United Nations, 2022). The SDGs target a variety of issues around the globe and require businesses, governments, and society to be interconnected, globally. The following essay will debate whether the purpose of businesses is to maximise shareholder wealth or whether other constituencies' interests should be considered. This will be accomplished by exploring the arguments raised in shareholder and stakeholder value theories, addressing the philosophical debate of whether a business can be held morally accountable, and identifying the role and influence of businesses in society using theoretical reasoning and key concepts.

**Shareholder Primacy v Stakeholder Value**

The notion that the sole purpose of business is to maximise shareholder wealth is a dominant normative mandate, originating primarily in US and UK corporations (Jones and Felps, 2013). The domination of shareholder wealth maximisation was articulated from the ideas of American economist Milton Friedman and became a widely attributed theory used in business practice that has since been hard to disconnect from (Friedman, 1970). The shareholder primacy theory emphasizes that organisations’ fiduciary duty is to maximise profits for the sole benefit of shareholders (Lazonick, 2014). Shareholder value advocates argue that prioritisations of shareholder wealth benefits society as it improves economic performance (Lazonick and O’Sullivan, 2000). According to Jensen greater economic welfare from shareholder wealth maximization led to greater social welfare (Jensen, 2002).

However, this could be challenged as shareholder primacy negatively impacts relationships with stakeholder groups such as employees and suppliers because the pursuit of cost-cutting measures such as lower labour costs results in relocating jobs (Jones and Felps, 2013), which not only impacts social wellbeing but also overall economic performance (Andolfatto and Gomme, 1998). Furthermore, arguments of economic ‘booms’ caused by shareholder value can also be challenged as the wall street crash is a notable example of how heavily focusing on shareholder wealth causes an economic crisis. The overpriced and overproduction of shares driven by the greed of businesses caused an inevitable crash of the stock market, which left many people bankrupt and redundant and left society and the economy, in a state of 'great depression’ for many years (Thomas and Morgan-Witts,2014).

Conversely, Edward Freeman (1984) proposed quite the antithetical idea to Friedman’s ideology in his argument of the stakeholder value theory. The stakeholder value theory emphasises the importance of businesses maintaining strong, interconnected relationships with customers, suppliers, and the local community, and illustrates the concept that stakeholders should benefit from business decisions just as much as shareholders do to create long-term value (Freeman, 1984). Stakeholders are essential to organisation pertinence, and the involvement of stakeholders in business decisions can encourage business growth.

**CSR**

The traditional purpose of business has always been to maximise profit because this is what guaranteed growth and this stigma has been articulated many times by world-renowned economists like Friedman (1970), which makes changing this mentality difficult. Howard Bowen, the developer of Corporate Social Responsibility (CSR), recognised that the desire for power would always triumph over the want to be socially responsible (Bowen, 2013). The moral view of CSR exemplifies that businesses have a duty of care to stakeholders before acting on shareholder obligations (Hancock, 2004). Profit and growth can happen alongside social responsibility, as social issues can be seen as a strategic consideration (Donaldson and Preston, 1995) and many times a business's interest in illustrating social responsibility has been the cause for profit and growth (Kuna-Marszałek and Kłysik-Uryszek,2020). However, CSR has been criticised. Friedman strongly argued that the notion of CSR was still about profit maximization, it was just disguised as social responsibility and used the increased reputation gained from the showcase of ‘acting responsibly’ to maximize wealth (Friedman,1970), illustrating that these are not ethical reasons to ‘act socially responsible’, but are an incentive with hidden agendas that value-wash CSR.

However, AB Caroll (1991) depicted a version of CSR that proposed a combination of Bowen’s approach to social responsibility with Friedman’s ideology of shareholder value. In Caroll's depictions of CSR, CSR is significant to business objectives, however, is reliant on profit and growth. The CSR pyramid illustrates that profit (economic responsibility) is the fundamental requirement businesses must meet to achieve other forms of responsibility e.g., legal and ethical responsibility. Without profit and growth being a priority of organisations, businesses cannot achieve CSR, therefore businesses should be “as profitable as possible” (Carroll, 1991, p. 40).

**Business Moral Responsibility**

According to Friedman (1970), only humans can be held morally accountable (Friedman,1970). Morality always refers to being rational and businesses, along with humans are examples of entities that frequently experience a rational decision-making process (Gert and Gert 2020). Under UK legislation, organisations are considered to have legal identities as they have the legal capacity to enter contracts, sue or be sued, and thus businesses can be held morally accountable for any wrongdoing (Schane,1986). But focusing on shareholder value is not considered an act of misconduct. The primary intended goal of a business under UK company law is shareholder primacy, the focus should fall on shareholder interest over stakeholder value, as shareholders are the organisation’s main actor (Collison et al, 2011).

Despite contrary beliefs, value creation through profit does not make a business respectable. Companies such as Coca-Cola and Nestle have been sued over cases of plastic pollution as societal expectations anticipate more from businesses as time progresses and shifts in attitudes give new meaning to a business’s role in society (McCormick, 2020). The moral decision-making process encourages businesses not to think pragmatically but instead emotionally with more than just profits at stake (De Cremer et al, 2011).

**Business Role and Influence**

The role of businesses has changed, and this can be due to changes in economic conditions (e.g., volatility) that no longer benefit from corporations maximising shareholder wealth as these objectives cannot be sustained and prevalent capitalist concepts are now outdated in terms of what they provide for society (Jones and Felps, 2013). Previous economic crises have also changed the role of businesses from the great recession to the Covid-19 global pandemic. Society needs businesses to help sustain the development of communities and continue to innovate to keep up with new global challenges. During the Covid-19 pandemic, corporations were met with immense challenges that required instant innovative operational changes. An example of this is, P&G rapidly increasing the production of hand sanitiser to meet society's demands (Winston, 2020). The remarkable influence and power that businesses have in society necessitate responsible approaches, and it is essential that in times of crisis they think of people before they think of profit.

The influence businesses have can also be extended to politics. This can be demonstrated in US and UK organisations donating to political parties and supporting campaigns to influence and steer the political environment affecting business policies (Bond,2004). Therefore, the same power could be used to influence politics in favour of society. The SDGs are wicked problems that require changes in individual, social and business behaviour to progress, and change steered by businesses is very influential. A famous case of this is Ben and Jerry’s boycott of Israel. The controversy caused by Ben and Jerry’s boycott of selling goods in Israel educated people on the conflict happening in ‘Occupied Palestinian Territory’ and pushes progress toward SDG 16 (peace, justice, and strong institutions) as it puts the spotlight on government activities and opens it up to criticism globally (Mooney, Fletcher, and Evans, 2021). Their boycott of Israel caused outrage from shareholders and indubitably impacted sales, but through the prioritisation of stakeholder interest and its firm belief in its value, it has demonstrated that businesses can create value through the realisation of social responsibility and can have a greater impact on society when it comprehends its greater role (Mooney, Fletcher and Evans, 2021).

**Social Responsibility Frameworks**

Many theories and concepts have been created to help businesses understand their greater purpose in society. John Elkington developed the triple bottom line theory (TBL), which consists of three p’s, People, Planet and Profit. TBL is a business framework that helps businesses measure their impact in these three areas. It emphasises the importance of social and environmental impact, as well as profits, as each should be seen as equally important to the other. (Elkington, 2004). However, in Elkington's (2018) recall of TBL, he criticised the framework by suggesting TBL was just another way businesses could greenwash their impact and still focus on profit maximisation (Elkington,2018). Alongside this TBL as an accounting tool was not as efficient due to its lack of providing consistent, accurate measurements as measuring environmental impact is not as easy as measuring financial impact (Sridhar and Jones, 2013).

Businesses may not prioritise sustainable development because it is not as well documented as profit as a performance measure. This, however, should not be a sufficient reason for businesses to prioritise profit over social responsibility. The SDGs still recognise economic growth as an important goal to achieve (SDG 8) but also prioritise it with sixteen other targets. The UN Sustainable Development Goals provide an evidence-based framework for creating measurable targets, moving businesses toward positive change, and assisting organisations in rethinking their purpose. The global goals relationship matrix exemplifies how the SDGs can be used to create positive social change (Thomson and Bates, 2022). Profit and growth are important, but they are incomplete measures of success. The global goal matrix develops a measure of success that can track the progression of sustainable development and applies to any individual organisation. Businesses now have the resources to focus on more than just profit and growth; the decision to change their priorities for the greater good is now theirs.

**Conclusion**

Value creation is important, it just depends on what sort of value businesses want to create; value that benefits shareholders or value that can alter the course of society and aid in the achievement of the UN SDGs. This essay has demonstrated that businesses can be morally responsible. The Friedman v Freeman debate is key in acknowledging that not all businesses will share the same perspective on what businesses should prioritise, this can be due to changes in time and economic context. Shareholder maximisation does benefit society and is fundamental to CSR, but only to a certain extent, and businesses must not heavily focus on maximising wealth but aligning it along with society and its impact on the environment or they risk doing more damage than good, as envisioned by John Elkington in his theory of the Triple Bottom Line.

In a world where social responsibility is necessary, considerations beyond shareholder profit maximisation must be considered. As time and society progress, new frameworks, and measures that are effective for evaluating businesses' social impact can be developed if businesses genuinely collaborate with society to do so. As evidenced by the examples above, businesses are becoming more willing to create value through other means besides profit and growth and this is soon becoming the new social norm. New adaptations of previous business models are allowing businesses to gain a pragmatic, clear-sighted way of approaching CSR, that aligns profit and people in a way that benefits both corporations and society. Businesses should exist for more than just value creation for their owners, and with changes in social and business attitudes, some of them already do.

**References**

Andolfatto, D. and Gomme, P., 1998. Unemployment and economic welfare. *Economic Review-Federal Reserve Bank of Cleveland*, *34*, pp.25-33. [Accessed 27 Oct. 2022].

Bond, M., 2004. Social influences on corporate political donations in Britain 1. *The British journal of sociology*, *55*(1), pp.55-77. [Accessed 23 Oct. 2022].

Bowen, H.R., 2013. *Social responsibilities of the businessman*. University of Iowa Press. [Accessed 10 Nov. 2022].

Carroll, A.B., 1991. The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business horizons*, *34*(4), pp.39-48. [Accessed 11 Nov. 2022]

Collison, D., Cross, S., Ferguson, J., Power, D. and Stevenson, L., 2011. Shareholder primacy in UK corporate law: an exploration of the rationale and evidence. [Accessed 11 Nov. 2022]

De Cremer, D., Van Dick, R., Tenbrunsel, A., Pillutla, M. and Murnighan, J.K., 2011. Understanding ethical behaviour and decision making in management: A behavioural business ethics approach. *British Journal of Management*, *22*, pp.S1-S4. [Accessed 29 Oct. 2022].

Donaldson, T. and Preston, L.E., 1995. The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of management Review*, *20*(1), pp.65-91. [Accessed 15 Nov. 2022]

Elkington, J., 2004. Enter the triple bottom line in Henriques, A. and Richardson, J. (Eds); The Triple Bottom Line: Does It All Add up. *Earth scan, UK*. Pp. 1-16. [Accessed 31 Oct. 2022]

Elkington, J., 2018. 25 years ago I coined the phrase “triple bottom line.” Here’s why it’s time to rethink it. *Harvard business review*, *25*, pp.2-5. [Accessed 10 Nov. 2022].

Freeman, R.E. (1984). *Strategic Management : A Stakeholder Approach*. Cambridge: Cambridge University Press. [Accessed 25 Oct. 2022].

Friedman, M., 1970. The social responsibility of a business is to increase its profits. *The New York Times* [online] 13 Sep. Available at: <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html> [Accessed 14 Nov. 2022].

Gert, B. and Gert, J. (2020). The Definition of Morality. *The Stanford Encyclopedia of Philosophy*. [online] Available at: <https://plato.stanford.edu/archives/fall2020/entries/morality-definition/> [Accessed 19 Oct. 2022].

Hancock, J. ed., 2004. *Investing in corporate social responsibility: a guide to best practice, business planning & the UK's leading companies*. Kogan Page Publishers. Pp. 7-9. [Accessed 22 Oct. 2022.]

Jensen, M.C., 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business ethics quarterly*, pp.235-256. [Accessed 7 Nov. 2022].

Jones, T.M. and Felps, W., 2013. Shareholder wealth maximization and social welfare: A utilitarian [Accessed 14 Oct. 2022].

Kuna-Marszalek, A. and Klysik-Uryszek, A. eds., 2020. *CSR and Socially Responsible Investing Strategies in Transitioning and Emerging Economies*. IGI Global. pp. 66–73.[ Accessed 22 Oct. 2022].

Lazonick, W., 2014. Profits without prosperity. *Harvard Business Review*, *92*(9), pp.46-55. [Accessed 13 Nov.2022].

Lazonick, W. and O'sullivan, M., 2000. Maximizing shareholder value: a new ideology for corporate governance. *Economy and society*, *29*(1), pp.13-35. [Accessed 10 Nov. 2022].

McCormick, E. (2020). Coke and Pepsi sued for creating a plastic pollution ‘nuisance’. *The Guardian*. [online] 27 Feb. Available at: <https://www.theguardian.com/environment/2020/feb/27/california-plastic-pollution-lawsuit-coke-pepsi> [Accessed 9 Nov. 2022].

Mooney, A., Fletcher, L. and Evans, J. (2021). Investor Divisions over Israel Risk Conflict for Companies. *Financial Times*. [online] 30 Aug. Available at: <https://www.ft.com/content/1aa4d120-2a85-48f0-9829-2692447731b0> [Accessed 10 Nov. 2022].

Schane, S.A., 1986. Corporation is a person: The language of a legal fiction. *Tul. L. Rev.*, *61*, p.563. [Accessed 27 Oct. 2022].

Sridhar, K. and Jones, G., 2013. The three fundamental criticisms of the Triple Bottom Line approach: An empirical study to link sustainability reports in companies based in the Asia-Pacific region and TBL shortcomings. *Asian Journal of Business Ethics*, *2*(1), pp.91-111. [Accessed 10 Nov. 2022].

Thomas, G. and Morgan-Witts, M., 2014. *The Day the Bubble Burst: A Social History of the Wall Street Crash of 1929*. Open Road Media. [Accessed 28 Oct. 2022].

Thomson, I. and Bates, D., 2022. *Urgent Business: Five Myths Business Needs to Overcome to Save Itself and the Planet*. Policy Press. [Accessed 10 Nov. 2022].

United Nations (2022). *The 17 Sustainable Development Goals*. [online] United Nations. Available at: <https://sdgs.un.org/goals> [Accessed 3 Nov. 2022].

Winston, A. (2020). *How Did Business’s Role in Society Change in 2020?* [online] Harvard Business Review. Available at: <https://hbr.org/2020/12/how-did-businesss-role-in-society-change-in-2020> [Accessed 15 Nov. 2022].

**Appendices**

Appendix One: Assignment Remit

A screenshot of a computer

Description automatically generated

A screenshot of a computer

Description automatically generated