Friedman's Theory of Social Responsibility for Business in the 21st Century

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Abstract

Milton Friedman's view regarding the social responsibility of business is often quoted without delving into its complete meaning as it has changed from 1970 to today. This article looks at such affecting societal changes as private sector growth and questions whether Friedman's idea still applies and if so, in what ways. It also looks at the public sector's increasingly reliant relationship on the private sector and what this means for a nation's citizens and the future of corporate social responsibility.

Keywords: Friedman, corporatocracy, social responsibility, corporation, free market, neoliberal, public sector

In his book, *Capitalism and Freedom*, Milton Friedman wrote, "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" (Friedman, 1970, p.178). While the first part of this sentence is often cited, it is important to understand Friedman's view on increasing profits in relation to the complete quote.

Friedman's (1970) statement that the private sector's sole social responsibility is to increase its profits is correct up to a certain point. Each sector has its own fundamental purpose and that of the private sector is indeed to increase its profits and in turn assist in stabilizing the economy. Social responsibility is largely the obligation allotted to the public sector and (at times with public sector assistance) the voluntary sector. Because of such differences, sectors making use of each other's procedures may not always yield successful results. However, Friedman's (1970) statement does not comment on a system in which the private sector has gained a large amount of influence over the public and voluntary sectors. This point weakens Friedman's argument considerably.

Friedman's idea that it is a corporation's social responsibility to increase profits is based on the premise that by doing so these corporations balance the economy and stabilize prices for consumers while also creating new employment opportunities for the public in the long term. While Friedman's argument is valid to a point, he stops short of what seems to be apparent: the gain created for these corporations (financially, and from there, socially and politically) outweighs the positive impact they impart on mainstream society. Friedman (1970) argues that by increasing its profits the private sector also creates an economical and ethical balance for private shareholders, consumers, and the public sector.

While this may be the case in some instances, Friedman's (1970) overall theory is somewhat paradoxical. If Friedman is arguing that social responsibility is not a trait meant for the private sector, then to say that increasing profits is socially responsible seems to be a catch 22. Is this socially responsible act an unintended added benefit of increasing profits or is Friedman suggesting that business's benefit to society is enough of a socially responsible act and corporations are already doing their part and need not do anymore? If the latter, then this does not take into account the immense impact the private sector has on our society, nationally and internationally. When the work of corporations is creating a less sustainable environment or is adding to the disparity between the rich and the poor, it is time to accept that the benefits the private sector is reaping far outweigh the benefits their increase in profits creates for the rest of society. This needs to be balanced and this is where the public and voluntary sectors must step in and change their relationships with the private sector in order to help achieve a private sector that works in harmony with society and not against it.

As the relationship between the public and private sectors is increasing, and will likely continue to do so, it is the responsibility of the public sector to regulate the private sector’s policies in order to align them with those of the public sector. This is a necessity brought about precisely due to the increasingly reliant relationship the public sector has with the private. This close relationship between sectors is also a cause for concern with citizens/the public who distrust the power the private sector holds over public sector leaders. It is not difficult to see the reasoning behind such concern when we consider things such as political campaign fundraising. Often, political leaders running for office are heavily funded by private sector magnates who likely expect some reciprocation or form of appreciation for their donations. Needless to say, such benefactors will readily support the candidates they believe are already aligned with their opinion and value systems. To think legislation that supports private sector profits would emerge in response to this backing is not a stretch. The voluntary sector is similarly affected with donors providing financial assistance in order to boost their image or benefit their own organization. Because of this close and at times lopsided relationship, corporate social responsibility is an important public policy issue.

The public sector plays a crucial role in regulating the private sector and its effects and responsibilities towards the public and public policy goals. However, we must also ask what exactly these public policy goals are according to our public sector leaders. If the public sector’s public policy goals align with those of the private sector it would seem that the results we are achieving currently are considered satisfactory to the leaders of both sectors. On the other hand, if we assume that the public policy goals of public sector leadership are different from those of the private sector, that is to say, more focused on public policy which helps achieve a public that is satisfied with and well taken care of by their leaders in all areas of life, then we must also assume that something has gone awry because we do not currently have such a populace in much of the world (DeSilver, 2013). The reasoning for this, to me, seems to be an all-encompassing focus on money. This focus (along with a hunger for the power that comes with it) has caused what started out as a method of increasing people’s financial security and opportunity to be transformed into a series of increasingly large transnational corporations whose only function is to turn a profit. These corporations now hold tremendous power over our public sector leaders and, therefore, over public policy and the welfare of citizens.

This power over the public sector exists because the public sector has also fallen prey to the idea that money is power, because this has become increasingly true, especially due to the free market model Friedman (1970) advocates. As this requirement increases, politicians require more and more funding in order to run for (let alone win) any sort of political office. To think of the limitations this creates when it comes to our options among leaders is a striking prospect. How many leaders, of any sector or political lean, are excluded simply for lack of funding or lack of powerful contacts? Often-times the same private sector leaders who exercise peripheral force over public sector leaders and policy throw their own hat into the political ring. In March 2014, media baron Pierre-Karl Péladeau announced he would run for the Parti Québécois, saying, “There are several entrepreneurs who are proud of my candidacy” (Perreaux & Seguin, 2014). Of course a recent example comes from our neighbours to the south in the form of Donald Trump’s campaign for U.S president (Haddon, 2016). Such osmosis between sectors can be a good or bad thing, depending on the intentions of these leaders.

The Citizens United v. Federal Election Commission of 2010 in the United States sought to create restrictions on the corporate funding for political parties in the United States (Supreme Court, 2010). The decision to throw out such restrictions was made by the American Supreme Court resulting in a heightened sense of distrust amongst citizens for their public and private leaders as well as in the legal system itself, which is also somewhat based on the preferences of the governing political party and therefore the business magnates who sponsored them to begin with. Such an outcome has created the opportunity for corporate leaders to essentially buy their way into political power without receiving as much of the backlash for poor decision making. As such, the public’s perception of many such leaders continues to lean towards negative, and this in itself should have us questioning our public policies and those who make them and have say over them. Because of increasingly globalized and connected international societies, citizens continue to become more aware of such Machiavellian devices and the hierarchy of power. Similar to Fauset’s (Porritt & Fauset, 2007) idea, I would say that at some point and at some level, citizens have to take responsibility for their society by becoming informed and acting in a way that shows and effects the change they wish to see. If we fail to do so and the public sector continues to follow the lead of the private sector when it comes to policy making, we must acknowledge we are moving away from a true version of democracy.

Friedman's (1970) idea of neoliberal governance essentially boils down to the enabling of free markets and reduced government capacity. With such reduction in government capabilities and increase in the power of the private sector, we may say corporations are the new authoritative leaders which have displaced and encroached on traditional government leadership and its responsibilities leaving us with a new system of corporatocracy in which citizens have little say when it comes to leadership. The term *corporatocracy* has emerged in recent years as an explanation for the increasingly reliant relationships between corporations and governments. As Peter Drucker (1993) said, "Power must always be balanced by responsibility; otherwise it becomes tyranny."

The fact that corporations are able to affect the public sector so directly as to assist their preferred party to take hold of government shows that, while many may continue to think of our government as the decision makers, we must also take into account the extent to which the corporate sponsors of political parties play a part in creating this situation. Simultaneously, as much evidence shows, the public sector does carry the burden of having its citizens blame government for the state of the nation.

When such a huge amount of power is in the hands of any organization or individual a certain amount of responsibility and accountability are required and expected of its actions. When we see examples like the corporate bailouts in the United States we are left with the feeling that our government has chosen to assist these corporations to the detriment of its own citizens. It only adds to the already pervasive assumption that public sector leaders are in the pockets of their private sector counterparts. If private sector leaders are taking over as a new form of government or affecting our true government's actions, it only seems logical that they also ante up and become involved when it comes to helping better society and its individuals. And should these private sector organizations produce some benefit for society at large other than just creating a profit for themselves, they may be surprised by the positive outcome and focus on their brand/organization by this very same public. Research has shown customers will make the extra effort to use those organizations or products which they feel also represent their personal values in giving back to the community (Nielsen Survey, 2012).

If we find the paradigm of corporatocracy less than ideal, then we must realize the political power currently held by the private sector and its leaders (whether direct or indirect) has grown far beyond its needs and no longer fulfills Friedman's (1970) qualification that businesses engage in open and free competition without deception or fraud. Friedman's (1970) theory seems not to have taken the idea of monopolistic, multinational conglomerates into account. While such corporations may not have been as ubiquitous in 1970, Friedman does seem to have stated his theory with an appreciation for simplicity. These large organizations have only increased in the last several decades and their impact on public policy has only increased along with their ubiquity.

This unexpected situation essentially boils down to an issue of the distribution of power among sector leaders. While the leadership of the private and voluntary sectors can and does transcend national boundaries, especially because of our increasingly globally connected societies, the public sector does not typically share the same advantage. So while we would assume governments have a widely held national authority, the expansion of the private and voluntary sectors and their resulting financial resources and power tend to encroach on those of the public sector.

Having a hold over public policy and the ability to effect change at national and international levels is the responsibility of public sector leaders which, in democratic societies, have been chosen by the people over which they are to govern. These public sector leaders must free themselves of unnecessary, close ties with the private sector and begin to draft policy that works with citizens for citizens in all areas of life, not around citizens for corporations which only affect the financial aspect.

By increasing profits, Friedman (1970) argues corporations assist in creating a balance in the economy and passing such savings on to consumers. However, by definition, social responsibility must include more than just financial impact on consumers. It must encompass socio-economic security for all citizens, regardless of their status as a consumer.

Whichever way you look at it, current private sector practices do not fit with Friedman's (1970) notion either because Friedman did not create a clause for huge, multinational corporations or because they no longer abide by Friedman's ethical stipulations. The reasoning for this situation in both of these scenarios is the monopolistic expansion of private businesses allowed by public sector policies and tax laws. This international corporate expansion has resulted in many transnational or even, in some cases, national conglomerates stepping on and taking out their independent business level competition (Meyers, 2013). This does not fit with Friedman's (1970) statement that business engage in free and open competition. Though the markets remain free, it would seem they are only open to those who have ample financial resources and human capital to begin with. By eliminating small businesses as is the current situation, we have lost the opportunity to engage in fair and open competition.

Given the tremendous impact the private sector has on society (it is pervasive in all aspects, almost to the point that we as individuals do not even recognize or pay attention to its ubiquity any longer), corporate social responsibility has become an important public policy and advocacy issue. For those communities of individuals immersed in corporatization at a consumer level, the effects of the private sector's business on the economy, the environment, and society are deep rooted and affecting. This is especially true because the effects of the private sector can and do reach across national boundaries, with outsourcing being a large factor in the success of many private sector corporations. Outsourcing jobs or tasks to employees outside the organization's home country creates questions of fair policies and regulations. The same hours and wages offered and expected by labourers in Canada will not be the same as those expected in a country such as Bangladesh. Because such expectations are so much lower in many developing nations, taking advantage of such an opportunity is only logical to a profit-seeking business. The issue begins when these corporations begin to take advantage to the detriment of the labourers. Developing countries are in a constant struggle to retain outsourced work by maintaining low standards for employees (Theroux, 2008).

By sheer reasoning of its size and profound effect on these factors, the private sector should see social responsibility as more than an investment in their own organization, but as a necessary investment in society and its citizens. Some may say in such an internationally connected world citizens themselves should be aware of these goings-on; however, this is almost putting the burden on the "victim" instead of on the "perpetrator."

In June 2012, Starbucks advertised its "Red Rush to Zero" campaign. The company advertised that US $1 would be donated to the Global Fund to fight AIDS every time a check-in was made at a Starbucks location on the social networking site Foursquare, up to $250,000. Though drawing attention to a worthy cause is commendable, the fact that Starbucks's annual sales are reported to be $13.29 billion (Statistics Brain, 2013) would indicate that a $250,000 donation would not need to be tied to customer check-ins and the event was simply used to show customers the heart of the company instead of its calculating, profit-making side.

In May 2014, Proctor & Gamble used a similar marketing tool when it released a television commercial encouraging consumers to purchase P&G products at participating Wal-Mart locations as one product purchased would provide one day of clean drinking water to those in need in developing nations. While it is unfair to discredit the good these socially responsible acts may achieve, when we look at the situation from a financial standpoint we see that the help provided versus the profit made is miniscule, and this is where the public sector must step in to regulate the private sector, perhaps by requiring collaboration with the voluntary sector. However, in order to do this, the public sector must separate somewhat from its increasingly close-knit bond with the private sector and its ideology.

The public sector must focus on all needs of the public, not simply fiscal, though I do not deny its importance, and must realize that the private sector does not have this same focus and to follow private sector policies can only degrade public policy as it relates to the public itself. Public sector leaders must create this separation and put measures in place to ensure private sector power does not come to affect society in a negative way, and further, can actually use the private sector's resources to create a better society.

While some may say such an idea infringes on the rights of corporations to act independently, if people agree with Friedman's (1970) idea that corporations do play a part in society's betterment, we must also accept that the people within these corporations are also citizens of this same society. Friedman suggests corporate employees are allowed to act in a socially responsible manner so long as their actions do not contradict their employer during work hours. But when we look at how much time the average employee spends in the workplace and our increasingly global and interconnected societies, such a separation of work and personal life seems difficult if not impossible. Research has shown that 62% of employees would prefer to work for companies that give back to the community (Nielsen Survey, 2012).

Furthermore, though Friedman (1970) states the private sector's only social responsibility is to increase profits, when we look at the fact that 73% of consumers would recommend socially responsible businesses (Rogers, 2013) we can see that businesses need to be demonstrably socially responsible in various areas in order to increase profits and fulfill their "only" social responsibility. This means that in order to be socially responsible according to Friedman's (1970) definition and increase profits, corporate social responsibility must be made apparent and seen as genuine by the public.

Government has a large part to play in regulating the private sector and though trying to make corporations illegitimate may seem a good idea to show our disagreement with their operational methodology, until we have a new methodology in place, which, unlike our current paradigm of capitalism, does not rely so heavily on these corporations, Porritt's (Porritt & Fauset, 2007) idea that we need corporations is correct when taken along with his stipulation that the public sector alter the way we legitimize these corporations. The more ubiquitous corporate social responsibility becomes, the more it will be expected by consumers and workers as well as leaders in the public, voluntary, and private sectors. Because of this ubiquity we may not always be able to guarantee the intent behind these socially responsible policies and actions, but if these actions benefit society as a whole, in this case I would say the end justifies the means. And as long as all three sectors continue to hold each other responsible we should continue to see such positive changes on a larger scale.

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