Should Firms Go “Beyond Profits”? Milton Friedman versus Broad CSR

MARK S. SCHWARTZ AND DAVID SAIIA

ABSTRACT

When attempting to articulate the nature and scope of corporate social responsibility (CSR), a variety of opinions emerge. The primary CSR issue appears to be: Should firms go “beyond profits”? In order to address this normative question, this article will explore the theoretical underpinnings of CSR and its practical application. Part one of the paper begins by discussing common CSR definitions. Part two outlines the CSR debate in terms of the “narrow view” of CSR (as represented by Milton Friedman) versus the “broad view” (i.e., beyond profits). Part three applies both the narrow and broad approaches to CSR in analyzing two classic business and society cases: (1) the Ford Pinto; and (2) Merck’s river blindness pill. The article concludes with a proposed synthesis of the CSR approaches discussed.

Mark S. Schwartz is an Associate Professor, Law, Governance & Ethics, School of Administrative Studies, Faculty of Liberal Arts and Professional Studies, York University, Toronto, Ontario, Canada. E-mail: schwartz@yorku.ca. David Saiia is an Associate Professor, Strategic Management & Sustainability, Palumbo-Donahue School of Business, Duquesne University, Pittsburgh, PA. E-mail: saiia@duq.edu.

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INTRODUCTION

Most people today, whether they are students, managers, or employees, have heard something about the notion of corporate social responsibility (CSR), whether in the business community, the media, or even within popular culture. For example, the most popular movie of all time, Avatar, focuses on the purpose of the corporation and its obligations toward society with respect to the displacement of indigenous people in order to extract valuable resources. A search in 2011 on Google revealed over 12 million hits for the term “corporate social responsibility.” However, despite the ubiquity of the CSR term, what CSR means and whether it has relevance in the business world elicits varied responses. There are a multitude of different definitions for CSR and, not surprisingly, a corresponding range regarding the appropriate scope and nature of a firm’s social responsibilities.2

The appropriate definition and scope of CSR becomes much more problematic when real business case examples are considered. For example, when Google abided by Chinese law by filtering the content found through its google.cn search engine (e.g., “Tiananmen Square”), was Google acting in a socially responsible manner?3 When UBS Bank decided to spend shareholders’ money to voluntarily cut its carbon emissions to address global warming when there is no legal obligation to do so, was this socially responsible, or socially irresponsible?4 Should a beer firm like Heineken provide expensive human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) medication to its African employees and their dependents, when it is not expected to be of overall direct or even indirect financial benefit to the firm?5 Are there some firms, such as tobacco giant Philip Morris, that should not even be selling a product that is regarded as both addictive and dangerous (i.e., when used as intended it can be deadly)?6 Is it socially responsible for a publicly traded ice cream manufacturer such as Ben and Jerry’s (known for its explicit social mission) to refuse an offer by Unilever to buy its stock at a 25 percent premium by insisting that Unilever continue its practice of donating 7.5 percent of pretax profits to charity?7 Should a public company be commended or can it be criticized for donating funds to assist victims following a natural disaster?8
To address such practical questions and to provide a theoretical framework for resolving them, this article will discuss principles that offer guidance about the nature and scope of CSR. To do so, part one of this article will provide and discuss several definitions of CSR. Part two will outline the CSR debate in terms of the “narrow—neoclassical economic view” (as represented by Milton Friedman) versus a “broad view” (i.e., beyond profits) of CSR. Part three will apply both the narrow and broad approaches in analyzing two classic business and society cases: (1) the Ford Pinto; and (2) the Merck river blindness pill. Based on an analysis of the two cases, the article concludes with a proposed synthesis of the narrow and broad views of CSR to help business and society academics as well as managers better navigate through the often incongruous landscape of CSR.

While much has already been written on the CSR debate, and in particular with respect to Milton Friedman’s position, this article attempts to address a glaring gap in the CSR literature: the lack of application of Friedman’s theoretical position as well as the broad version of CSR to actual business cases. It is argued that only by applying both positions to actual business cases and observing the practical outcome of such an application can one best determine a personal position on the CSR theoretical debate.

**PART ONE: CSR DEFINITIONS**

An appropriate place to start to work through the discussion and debate over CSR is to arrive at an acceptable definition. Unfortunately, most agree that there is no single established definition for CSR. Moreover, it is also commonly accepted that CSR should simply be viewed as a social construction, particularly when one looks at definitions from around the world. For example, the International Standards Organization has indicated that: “What constitutes ‘social responsibility’... is difficult to define... there is no single authoritative definition of the term ‘corporate/organizational social responsibility’...” Others go further by suggesting that: “... ‘corporate social responsibility’ is inherently vague and ambiguous, both in theory and in practice.” What then are some of the definitions of CSR that have been proposed? Here is a sampling of CSR definitions to consider:
The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society that extend beyond these obligations;\textsuperscript{13} Social responsibility is the obligation of decision makers to take actions that protect and improve the welfare of society as a whole along with their own interests;\textsuperscript{14} and The social responsibility of business encompasses the economic, legal, ethical, and discretionary [i.e., philanthropic] expectations that society has of organizations at a given point in time.\textsuperscript{15}

Due to the wide range of CSR definitions in existence, a search for commonality can be potentially instructive. After examining various definitions, Buchholtz suggests that there are five key elements found in most definitions of CSR\textsuperscript{16}:

1. Corporations have responsibilities that go beyond the production of goods and services at a profit.
2. These responsibilities involve helping to solve important social problems, especially those they have helped create.
3. Corporations have a broader constituency than stockholders alone.
4. Corporations have impacts that go beyond simple marketplace transactions.
5. Corporations serve a wider range of human values than can be captured by a sole focus on economic values.

In other words, virtually all attempts to define the social responsibility of the corporation include the notion that corporations have obligations toward society beyond their economic or fiduciary responsibilities to shareholders. Others, however, argue that this position distorts the purpose of the corporation and free-market capitalism. For example, consider the following CSR definitions that have been proposed that suggest a more narrow interpretation of CSR:

- In the end, business has only two responsibilities—to obey the elementary canons of every day face-to-face civility (honesty, good faith, and so on) and to seek material gain.\textsuperscript{17}
- The fiduciary duty to [the] firm's owners is the bedrock of capitalism, and capitalism will wither without it.18

The Economist magazine in a special report on CSR relies on such definitions to argue that broader CSR takes organizations outside their proper role and essentially represents a waste of shareholders' money. Consider the following statement from the report: “If efforts to do good become a distraction from the core business they may actually be downright irresponsible. After all, a socially conscious but bankrupt business is no good to anyone.”19 While the Economist recognizes the growth of the broader CSR movement, it also states its concern: “The followers in the CSR industry are many . . . their real motive is public relations and the telltale sign is that the person responsible for CSR sits in the corporate communications department.”20

Thus, the definitions of CSR appear to fall under two general schools of thought, those who argue that business is only obligated to make profits within the boundaries of minimal legal and ethical compliance and those who argue that there are broader responsibilities.21

PART TWO: THE THEORETICAL DEBATE

A more complete understanding of the seemingly binary positions on the CSR debate over whether firms should go “beyond the bottom line” must be achieved to advance our analysis. For those teaching and studying CSR, as well as for business leaders, the question of whether business firms should “go beyond profits” is a significant one. For example, it has been suggested that the CSR position established by business students and future managers early on may be a determining factor in their most important business decisions made throughout their careers.22 While there are many different ways for the debate over CSR to be set up, the following article will address the debate question as “Friedman” versus “Broad CSR.” The reason for setting up the debate in this manner is that almost all academics agree that the narrow version of CSR is best represented by the Nobel Prize-winning economist Milton Friedman,23 in contrast to those academic theorists, managers, and their firms who take a broader approach to CSR.24
**Friedman’s Position**

So what is the narrow or neo-classical economic view of CSR? And why does Milton Friedman best represent the narrow view? Milton Friedman’s position was outlined in his famous article entitled “The Social Responsibility of Business Is to Increase Its Profits,” published in 1970 in the *New York Times Magazine*. This article summarizes his views set out earlier in his less often cited book *Capitalism and Freedom* published in 1962. The first key statement on CSR, which can be found in Friedman’s book, reads as follows: “[In a free society]... 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.” The second well-known quote found in Friedman’s 1970 *New York Times Magazine* article reads as follows: “[The responsibility of a corporate executive]...is to conduct the business in accordance with [the owners’] desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.”

Taken collectively, Friedman’s position might thus be summarized as follows: A corporation’s only social responsibility is “to make as much money as possible” (i.e., maximize profits) while conforming to the “rules of the game” or “basic rules of the society” in which the firm is operating which include: (1) obeying the “law”; (2) conforming to “ethical custom” (i.e., business norms where you do business); and (3) acting “without deception or fraud.” Actions that are considered anticompetitive in nature (i.e., firms must engage in “open and free competition”) would also presumably be considered reprehensible by Friedman, even if legally permissible in a given jurisdiction.

**Misunderstanding Friedman: Make a Profit or Maximize Profit?**

Before assessing Friedman’s interpretation of CSR, some aspects of Friedman’s position require additional clarification. First, Friedman’s claim that firms should “make as much money as possible” clearly means *maximize* profits, rather than just make a profit.
For example, a firm would be obligated according to Friedman to legally pollute as much as possible, assuming that this was the profit maximizing alternative. Second, it is not necessarily the case that managers must maximize profit. The obligation is contingent on stockholders’ “desires,” which are according to Friedman “... generally will be to make as much money as possible” [emphasis added]. It could be, for example, that shareholders of a given company will explicitly (e.g., through the company’s Charter, mission, or shareholder resolutions) or implicitly (e.g., by purchasing shares of a company in which they are aware has a mission statement indicating that maximizing profit is not the priority of the company) give their managers authority to act in ways that would not necessarily maximize profit. It is also not clear whether the obligation only applies in countries that possess legitimately elected representative governments with a legitimate and functioning legal system, as opposed to rogue governments (e.g., dictatorships).

**Friedman’s Limits to Maximizing Profits**

Some opine that the obligation of firms according to Friedman is to maximize profit, giving profits priority above everything else. In other words, this interpretation suggests that Friedman does not place any additional constraints on the firm relative to profit maximization. However, this is an incomplete and misleading reading of Friedman.

For example, Friedman makes it clear that firms cannot break the law in order to maximize profit, or even to avoid bankruptcy. Although not explicitly stated, it might also be the case that abiding by the law according to Friedman includes acting in a manner that avoids lawsuits. Deception and fraud (even if not captured by the legal system) would also not be considered acceptable to Friedman, suggesting that firms have an obligation to act in a trustworthy (i.e., honest) manner.

Friedman also indicates that firms must abide by “ethical custom,” but unfortunately he does not define the concept: “[Friedman] does not entirely spell out what he believes the scope of ‘ethical custom’ to be.” Some such as Grant suggest a very narrow interpretation of “ethical custom” as being equivalent to the law. Silver views “ethical custom” as simply encompassing
each of Friedman’s constraints (i.e., law, deception, and open competition). Shaw, however, suggests that ethical custom was intended by Friedman as a broader constraint to include “. . . truth-telling and promise-keeping, fidelity, fairness, and doing no harm.” Cosans goes even further and based on Friedman’s notion of freedom would also include Kantian ethics and utilitarianism as being part of “ethical custom.” Our interpretation falls between these extremes, in that “ethical custom” was intended by Friedman to merely refer to the industry norms in the locale where one is doing business and in this respect might go beyond the law in some instances. Any other broader interpretation of ethical custom (or “rules of the game” or “rules of the society”) would render Friedman’s prescription to maximize profits meaningless, in that almost any corporate action that did not focus on profits could be justified on the basis of such additional ethical principles.

After taking into account all of Friedman’s constraints (i.e., follow the law, abide by ethical custom/industry norms, and avoid deception/fraud), it could be argued that Friedman may not in fact represent the end of the spectrum for the “narrow” version of CSR. One could imagine the argument being raised that firms should be entitled to break the law (e.g., minor laws such as municipal bylaws) under certain circumstances (e.g., to avoid bankruptcy or when the law is never or rarely enforced or has little community support). Friedman also appears to assume that the law always has an ethical justification (or is merely amoral in nature), while in some cases, legislation, or the results of complying with such legislation, might be deemed unethical, thereby ethically justifying its violation (e.g., Apartheid laws in South Africa). It might also be argued that firms should be permitted to engage in deception in order to succeed in business (i.e., when deception is the norm in business such as during negotiations). Nonetheless, overall, Friedman can still be understood as representing one end of the CSR continuum.

It is important to realize that at no point does Friedman indicate that business has no social responsibilities. The title to his 1970 article (“The Social Responsibility of Business Is to Increase Its Profits”) makes this quite clear. Rather, business (or really the managers of a business according to Friedman) has only one responsibility: to maximize profit while still following the rules of
the game or of the society in which it does business. This is why Friedman should more properly be described as representing the “narrow” version of CSR. Despite this fact, several scholars have referred to Friedman when they argue that firms have no social responsibilities, or just economic ones. As demonstrated from the discussion above, however, Friedman recognizes constrained corporate social responsibilities that go beyond the bottom line.

**Friedman’s Logic**

While numerous arguments and theoretical constructs support Milton Friedman’s position, the following are arguably the most critical:

- managers are agents of shareholders and thus spending shareholders’ money in a nonprofit maximizing manner imposes taxes upon them without their consent;
- companies pursuing profits ultimately leads to social utility maximization;
- policy decisions are better left to government;
- shareholders or managers can still personally give to charity; and
- firms can engage in so-called broader “socially responsible” activity but only if it maximizes shareholder wealth.

These arguments will now be discussed. First, Friedman’s primary argument with respect to his version of appropriate CSR is that managers are hired (and paid) to act as the fiduciary agents of their principals (i.e., stockholders/owners) for the purpose of increasing their wealth. This should be considered an ethical argument, given that shareholders also have moral rights, captured as the moral right to “property” acquired through their investment in the firm. This moral right then creates an obligation on directors and managers of the firm not to infringe this right by misappropriating or “stealing” from the shareholders’ property (e.g., by giving to charity). This might be considered the strongest or most potent of Friedman’s arguments and the most difficult to argue against. He states: “The executive is exercising a distinct ‘social responsibility,’ rather than serving as an agent of the stockholders... only if he spends the money in a different way than they would have spent it.” Friedman states that spending
shareholders' money without their consent is a form of unauthorized taxation on shareholders: “But if [the executive spends money in a different way than the stockholders would have spent it] . . . he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.” 40 Friedman even notes the potential consequences of executives not acting as the stockholders’ agent: “. . . whether he wants to or not, can [the executive] get away with spending his stockholders’ . . . money? Will not the stockholders fire him?” 41

There are several other important arguments supporting Friedman’s position on CSR. Friedman is ultimately taking a utilitarian approach42 (i.e., “the greatest good for the greatest number”) and seems to take into account the best interests of society in addition to the best interests of the firm. Similar to eighteenth-century moral philosopher Adam Smith, who many consider the father of modern capitalism, it is only when business firms focus on their own best interests that ultimately the best interests of society (including customers and employees) are served.43 Despite the many deficiencies leveled against utilitarianism, such an approach clearly broadens the potential appeal of Friedman’s position (although Friedman would not support an action based on utilitarian arguments if it was not in the firm’s best self-interest as well).

Friedman’s view that government officials, rather than executives, are the only legitimate parties to make social decisions (e.g., regarding “pollution” or “training the hard-core unemployed”) is also attractive, in that society’s best interests are still protected by those most qualified to do so. In any event, according to Friedman, executives are always entitled to spend from their own pockets if they wish to give charity to various social causes. For example, when individuals like Bill Gates or Warren Buffet decide to give away billions of dollars of their personal wealth to charity,44 this would be considered completely acceptable by Friedman (as opposed to when the firms they own, such as Microsoft or Berkshire Hathaway, give to charity).

There is one final important misconception regarding Friedman’s position. Can a firm give to social causes (e.g., engage in charitable giving) under any circumstances? The answer is clearly yes, but going back to our starting point, this would only be the case when the firm or its executives can argue that by doing so the firm is maximizing profits (e.g., through customer goodwill,
employee morale, recruitment, and retention). When this is the case, Friedman would not only permit such activity but mandate it, with the caveat that such activity should not take place under the “cloak” of CSR. For example, if a firm engages in philanthropy (e.g., community assistance) based on self-interest while pretending to be “socially responsible,” this may violate Friedman’s prohibition against deception or fraud.

**Beyond Profits: The “Broad CSR” Position**

Contrary to Friedman’s views, another position at or near the other end of the CSR continuum is referred to here as the “broad CSR” position. This position on the CSR continuum is an amalgam of evolving principles that have been a work in progress for several decades. The principles underlying and justifying the broader CSR approach have been developed by theorists in several business and society fields including business ethics, stakeholder management, sustainability (i.e., triple bottom line), and corporate citizenship. While broad CSR was popularized by firms such as The Body Shop (which has been criticized over the years as a firm that in fact was not socially responsible or ethical) as well as Ben and Jerry’s Ice Cream, it has recently been reflected in a more robust form by companies such as Patagonia, Stonyfield Farms, and Interface Carpets. The position in essence is the following: Business should do more than make money—companies have additional ethical obligations (i.e., beyond Friedman’s ethical criteria) and/or philanthropic obligations (e.g., helping to solve social problems).

The first aspect of the position is that firms have ethical obligations that go beyond those suggested by Milton Friedman. For example, Friedman’s ethical obligations as discussed above are quite limited. The broad CSR position, however, would go further and require firms to take into account additional ethical constraints. While there is sure to be debate as to what these ethical obligations should consist of, based on a review of the business ethics literature, the following moral standards (i.e., ethical values or principles) should also be taken into account:

1) universal core ethical values: (1) trustworthiness (i.e., in addition to honesty, also promise-keeping, integrity, and
transparency); (2) responsibility (i.e., accountability, accept fault, fix mistakes, and apologize); (3) caring (i.e., avoid unnecessary harm and do good when of relatively little cost to oneself); (4) citizenship (i.e., in addition to obeying the law, also assist the community and protect the environment);

2) utilitarianism (i.e., act in ways that lead to greatest net good for all those who are affected, even if not in the best interest of the firm);

3) Kantianism (i.e., put yourself in the other person’s shoes, respect/do not exploit others);

4) moral rights (i.e., in addition to protecting the property rights of the shareholders, also respect the rights to life, health, and safety of nonshareholder stakeholders); and

5) justice/fairness (i.e., procedural justice in terms of unbiased decision making, compensatory justice when others are harmed, distributive justice in terms of distributing benefits and burdens based on relevant criteria, and societal justice in terms of ensuring the greatest benefit to the least advantaged).

Of course, many difficulties remain in attempting to apply these additional ethical constraints. For example, many of the moral standards will conflict with each other, and it has never been established which standard or standards should take priority. To somewhat assuage this concern, the broader CSR position simply suggests that firms have an obligation to attempt to respect such ethical values or principles as they pursue mission-driven objectives including an adequate profit margin. Another important feature of the broad CSR position is that theoretical room is given for firms to engage in a range of philanthropic activities, in other words, helping to solve social problems. Firms can and possibly should undertake such activities, even when by doing so their profit margins are sacrificed for other mission-driven CSR objectives.

What is important with respect to understanding the broad CSR position is that even if one rejects the philanthropic obligation, one is still in the broad CSR camp if he or she holds that firms merely have additional ethical obligations beyond Friedman’s. In other words, if one is not completely and consistently in line with all of Friedman’s views, he or she should be considered
to fall closer along the continuum toward the broad CSR position. This assertion provides a useful guidepost for business decision makers attempting to navigate the straits between the theory and practice of CSR.

**Arguments Supporting the Broad CSR Position**

The following summarizes the key arguments supporting the broad CSR position, along the CSR continuum, supported by many different theorists:

- the “rules of the society” or the “rules of the game” have changed (i.e., societal expectations for firms have increased since 1970 as the relationship and the position of business in society has evolved);
- corporations have made claims to citizenship within society and must therefore consider their impacts on nonowner stakeholders;
- shareholders’ desires often go beyond the bottom line;
- shareholders have moral obligations toward society;
- managers are engaged to make all manner of policy decisions under uncertainty;
- corporations have the power and ability to make important contributions toward solving societal issues; and
- society cannot rely solely on government to enact legislation to protect their own citizens from all possible actions or harm caused by corporations.

These arguments can be explained as follows. The first argument is that even according to Friedman’s criterion that firms must follow the “rules of the society” or the “rules of the game,” firms now have additional ethical and/or philanthropic obligations. For example, corporations in many societies have been granted rights akin to its citizens and must therefore consider the impacts of their actions on affected stakeholders. Paying corporate taxes is not sufficient to pay for all the negative externalities (e.g., pollution, outsourced labor, and catastrophic failure such as oil spills) that firms cause and for which they may not be held fully accountable. Second, shareholders’ desires often go beyond mere bottom line considerations. Evidence for this fact is the growing ethical and socially responsible movement, which takes into
account corporate ethical and socially responsible (e.g., philanthropic or environmentally sustainable) activity. Third, shareholders themselves have ethical obligations with respect to the impacts caused by the firms they own through investment. Just because the law may limit the legal liability of shareholders to the extent of their investment does not mean that shareholders bear no moral responsibility for how the firm’s assets are used. Fourth, in terms of Friedman’s concern over the ability of managers to make policy decisions, by the same logic one could argue that managers are required to make difficult decisions under uncertainty, and therefore are qualified to make policy decisions regarding the stakeholders their firms are affecting and, indeed, often do. Fifth, because corporations have the power and ability to make a difference within the society that supports the firm’s prosperity, they have a responsibility to do so. Finally, what if the government of the country a firm is operating within is not able, willing, or knowledgeable enough to protect its own citizens? In such cases, the particular firm arguably inherits additional ethical obligations with respect to protecting its stakeholders.

**PART THREE: APPLICATION OF CSR TO CASE STUDIES**

While there are many other classic critiques of Friedman (e.g., Davis, Stone, and Mulligan), at this point, one might attempt to answer the following question: “Of the two positions, Friedman versus ‘broad CSR,’ which is more persuasive?” To further parse this question, it is instructive to analyze actual business cases to see how each of the two positions translate into action. One could ask two questions: (1) How would Milton Friedman versus an executive operating according to broad CSR resolve the dilemma? and (2) Do I agree with the outcome based on my theoretical position (Friedman or broad CSR)? While individuals may initially feel comfortable with their theoretical CSR position, once confronted with the application of their position to actual case studies and obliged to defend their position, individuals may feel morally compelled to shift their initial positions. The following two classic cases will be used in this manner to further explore the CSR debate: (1) the Ford Pinto; and (2) Merck and river blindness.
In the early 1970s, the Ford Motor Company faced intense competition from German and Japanese small compact car imports. In an effort to quickly develop a competing model, Ford condensed the typical period of time to develop its new car, the Ford Pinto, from 3 1/2 years down to 2 years. As a result, a design flaw occurred that was not recognized prior to the tooling and the manufacturing plant set-up process. It was only during subsequent crash testing that Ford discovered that the Pinto’s fuel tank could rupture during a rear-end impact even at speeds under 25 miles an hour; leaking fuel could then possibly ignite, causing an explosion. To make changes to the design at that point in time would cost Ford $11 per vehicle, with 12.5 million vehicles needing to be recalled. Thus, the total cost to Ford would have been $137.5 million to fix the Pinto. Changing the design would also have resulted in less trunk space, which would have had a negative effect on Pinto sales. Ford predicted that as a result of the defect, 180 people could die, 180 people could suffer serious burns, and 2,100 vehicles could be destroyed by fire. Using 1971 figures from the US National Highway Traffic Safety Administration, the cost of a life to society (i.e., someone killed in a car accident) was estimated to be $200,000 (about $2 million per life today), and for a serious burn, the cost estimate was $67,000. These figures included elements such as future productivity losses, medical costs, victim’s pain and suffering, and legal costs. Thus, the total cost to society of not recalling the Pinto was $49.5 million (180 deaths × $200,000 + 180 serious burns × $67,000 + 2,100 vehicles × $700). There was no legal requirement to recall the Pinto, since despite the defect Ford was still in compliance with all legal safety requirements, and the Pinto was comparable in safety to competitors’ vehicles. Should Ford recall and fix the Pinto? What would Milton Friedman say?

Friedman would argue that it would be socially irresponsible for Ford to recall the vehicle. This would be based on the assumption that recalling the Pinto would cost Ford more than all of the long-term direct and indirect impacts on the firm by continuing to sell its potentially dangerous defective vehicle. Friedman would most likely not even apply the entire $200,000 figure, as this includes additional costs to society. He would only include those
costs that directly or indirectly negatively affected the interests of Ford (e.g., lawsuits, diminished reputation, lost sales, and lower employee morale). In terms of Friedman’s additional constraints, Ford was acting within the law and within ethical custom (i.e., within acceptable US automobile industry norms at that time). The only issue would be acting without deception, which would require Ford at a minimum to disclose the defect to the US government if not to the consumers directly (although the consumers would still be required to pay for fixing the vehicle). One might try to argue that according to Friedman, Ford might even be required to spend its own money ensuring that its customers were aware of the defect.

The broad CSR approach, on the other hand, would go beyond mere disclosure and require a recall to be paid for by Ford. Because Ford was responsible for the design flaw, it cannot sell a car knowing that there is an avoidable risk, especially one including the possibility of death, beyond what one would normally assume at that time when purchasing a car. Ford must act in a trustworthy manner and treat the customer with respect. In addition, by not recalling the car, Ford would clearly be violating the moral rights to health and safety of its customers.

**What Happened?**

Ford did nothing for 7 years until 1978 when under pressure from the media, government, and legal cases, the firm recalled 1.5 million Pintos built between 1970 and 1976. In total, 27 people died from accidents involving the Ford Pinto. One commentator suggests that when taking into account the millions of vehicles that were produced, the Pinto was still just as safe a vehicle as any other. Despite the legal costs and damage to its reputation, the decision not to recall and fix the Pinto, even in hindsight, appears to have been the long-term profit maximizing decision for Ford and thus consistent with Friedman’s CSR position.

**Merck and River Blindness**

In 1978, Dr. Roy Vagelos, head of research for the pharmaceutical firm Merck & Co., faced a difficult dilemma. One of his researchers informed him that he believed he had found a cure to a
worldwide disease called river blindness. The disease was caused by a parasitic worm carried by tiny black flies that bite people. Once a person was infected, the worm would reproduce, releasing millions of microscopic offspring that eventually travel throughout the body invading the eyes of its host, leading to blindness. It was estimated that the problem affected over 35 developing countries around the world, threatening blindness to about 85 million people living mainly in Africa, the Middle East, and Latin America. In 1978, the World Health Organization estimated that about 18 million were infected by the parasite, with approximately 340,000 people already blind due to the disease. At that point in time, Merck, a public company, was one of the largest drug companies in the world, with approximately $2 billion in sales and a net income of over $300 million annually. Most of the firm’s current revenues came from two drugs whose patents were about to expire, meaning that discovering new drugs through research was a priority for the firm. The expected cost to develop the river blindness drug was in the tens of millions of dollars. The problem, however, was that few people who would use the drug could afford to pay for it. In addition, there was a risk that in developing the drug, if any new side effects were discovered, the reputation and sales of Merck’s similar and profitable veterinary drug could be negatively affected. Furthermore, if a human version of the drug were developed and distributed as a philanthropic act, it could easily end up on the black market and negatively affect the sales of the veterinary drug. Merck could more effectively spend its financial resources on other potential drugs that would actually have a chance of making a profit (e.g., cancer drugs). Clearly, developing a drug for river blindness, while potentially benefiting the company indirectly through the effect of the decision on its employees (e.g., morale, recruitment, and retention), would not be a profit maximizing action for the firm. How would Milton Friedman handle this dilemma? What about the broad CSR approach?

Because making the drug was not a long-term profit maximizing decision, Friedman would obviously not condone making the drug. Friedman might still allow for Merck to give away its proprietary information on the drug to another company, nonprofit organization, or government, which might then further develop the drug, unless doing so would negatively affect the financial interests of Merck. However, clearly making the drug with all of the financial
risks, versus spending the money on more financially promising drugs, would not be the socially responsible decision as defined by Friedman. In fact, as a corporate philanthropic act, it might be considered to be “stealing” from the shareholders. There is no legal obligation to make the drug, no deception or fraud is involved, and the ethical norm at the time was clearly not to develop drugs for free. According to Friedman, should people therefore have to go blind? No, but this has to be the responsibility of governments or nonprofit organizations, not that of a public company. If all pharmaceutical firms were obligated to develop promising drugs that cannot be sold, very soon there would be no more pharmaceutical firms left to develop drugs for anyone. The only way Friedman might justify making the drug is based on the firm’s unofficial philosophy or motto, which apparently was stated by former chairman George Merck, the son of the founder, in 1950 as follows: “We try never to forget that medicine is for people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been.” According to this line of argument, if Merck did not make the drug (especially when no one else was willing or able to make it), the firm would be acting contrary to its motto, and thereby potentially in a deceptive manner to its investors and employees. While Merck’s motto may cast some doubt, Friedman’s position on this matter seems clear in that Merck cannot produce and distribute this drug as an act of charity.

So what about the broad CSR approach? How would this approach be different? From an ethical perspective beyond Friedman’s ethical criteria, in terms of caring (e.g., doing good when of relatively little cost to oneself), the drug should be made. The financial circumstances still need to be taken into account, but Merck could afford to make the drug at this time. In terms of utilitarianism, or the greatest good for the greatest number, the saving millions of people from blindness substantially outweighed any cost to the shareholders. Indeed, the drug would save numerous communities from the huge cost of lost labor and the cost of care for the blind. In terms of philanthropy, it might be argued that as a pharmaceutical firm, there is an expectation that drugs should sometimes be developed despite the lack of a financial return. This expectation appears to exist, for example, in terms of HIV/AIDS drugs in Africa and other developing countries.
This case can be problematic for followers of Milton Friedman. Individuals faced with this situation may try to justify the decision to make the drug based on the presumed long-term indirect financial benefits to Merck. While the argument for indirect financial benefit can be made based on the facts of the case, the lack of any direct financial return, in addition to the business risks, makes it very difficult to support from a Friedman perspective. For those who indicate that they are Friedmanites but would nevertheless make the drug, they must struggle to defend their position and may realize that they are not as committed to Friedman as they previously thought.

**What Happened?**

Merck decided to make the drug. The firm believed other organizations or governments would fund the distribution of the drug. However, no one stepped forward, so Merck decided to also fund the distribution of the drug into the future, forever. Eventually, millions of people were prevented from contracting river blindness, and it is no longer considered to be a worldwide disease. In terms of the financial return to Merck, the main benefit appears to be the recruitment of top research scientists over the years due to the river blindness story, yet it is not clear that one could use this indirect financial benefit to justify making the drug as a profit maximizing decision.

Table 1 summarizes the two cases regarding how Friedman versus the broad CSR approach would apply based on the criteria articulated above.

An application of Friedman to the Ford and Merck cases may demonstrate to some that his criteria are not completely acceptable. Of course, the same could possibly be said regarding an initial preference for the broad CSR position. The point, however, is that it is indeed incumbent on business professionals and business students to not only develop a personal position on CSR, but also to be able to defend it upon application to real business cases.

**DISCUSSION AND CONCLUSION**

It is a matter of choice whether instructors of business and society, business ethics, or CSR express their own personal views on the
CSR debate, or even require their students to take and defend a position. For example, Harvard Business School during its mandatory MBA “Leadership and Corporate Accountability” course holds a debate over the narrow CSR approach (i.e., “the shareholder maximization perspective”) versus the broad CSR approach (i.e., “multiple stakeholder perspective”). Rather than require students to take a position: “The goal of the session is not to pigeon-hole students, but rather to help them understand the strengths and weaknesses, as well as the assumptions and limitations, of each perspective.”70 There may be good reasons to hold back expressing an opinion, given that the instructor’s own personal views could skew the debate in the classroom. Nevertheless, our own view is that in addition to discussing the merits and concerns of both sides to the debate, students should ultimately be required to take a CSR position and defend it, particularly with respect to its application to real business cases. In addition, the instructor’s own personal position should also be expressed, once students have been given an opportunity to debate the issue themselves. In this way, people have to confront the totality and, in some cases, the finality of real consequences that flow from their CSR position.

So where do we stand between Friedman and the broad CSR approach? In many respects, there is much to be said in support

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Friedman</th>
<th>Merck—Make Drug</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximize profit</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Legal</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ethical custom</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No deception</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>OVERALL</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Core values</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Utilitarianism</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Kantianism</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Rights</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Justice</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>OVERALL</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

CSR debate, or even require their students to take and defend a position. For example, Harvard Business School during its mandatory MBA “Leadership and Corporate Accountability” course holds a debate over the narrow CSR approach (i.e., “the shareholder maximization perspective”) versus the broad CSR approach (i.e., “multiple stakeholder perspective”). Rather than require students to take a position: “The goal of the session is not to pigeon-hole students, but rather to help them understand the strengths and weaknesses, as well as the assumptions and limitations, of each perspective.”70 There may be good reasons to hold back expressing an opinion, given that the instructor’s own personal views could skew the debate in the classroom. Nevertheless, our own view is that in addition to discussing the merits and concerns of both sides to the debate, students should ultimately be required to take a CSR position and defend it, particularly with respect to its application to real business cases. In addition, the instructor’s own personal position should also be expressed, once students have been given an opportunity to debate the issue themselves. In this way, people have to confront the totality and, in some cases, the finality of real consequences that flow from their CSR position.

So where do we stand between Friedman and the broad CSR approach? In many respects, there is much to be said in support
of Milton Friedman. His argument that managers are fiduciary agents of their principals, the shareholders, is his most compelling argument about the proper interpretation of CSR. It is consistent and fair that philanthropy is not an “obligation” for public corporations. Instead, philanthropy can only be considered an obligation when it is based on economic (e.g., strategic philanthropy\textsuperscript{71}) and/or ethically consistent reasons.\textsuperscript{72}

Where Friedman can be questioned (and the source of our most serious concerns) is regarding the extent of the ethical obligations he ascribes to the firm. Requiring firms to avoid deception and fraud is certainly necessary but insufficient to match their pivotal role within society. A review of the Ford Pinto case above demonstrates the risks involved with such a position and the harm that can result from such a narrow view. If certain actions would be considered unethical for an individual citizen, they should also be considered unethical when enacted on behalf of a firm, especially because corporations have been granted the equivalent rights of an individual citizen by the US Supreme Court. Just as in law, where there are situations (e.g., fraud) whereby one can pierce the “corporate veil” that typically grants protection for shareholders from unlimited financial liability, one should be able to pierce what might be called the “morality veil” (which typically protects shareholders, executives, and managers from moral responsibility) in situations involving unethical activity by the firm. In other words, if a shareholder personally instructs their agent to only act in ways that will benefit themselves, but by doing so others are intentionally harmed, the shareholder is morally accountable for the actions of the agent. The agent should have a professional moral obligation not to act unethically and should not be able to justify such actions on the basis of: “I did what was necessary to maximize the interests of my principal.” Following this line of reasoning, shareholders should not expect managers of their companies to act in ways that they themselves would find unethical, and managers should not justify unethical behavior based on some misguided notion that the business environment is a place where societal ethical standards must be abrogated to serve the financial objectives of their principals (or their own personal self-interest).

The more difficult issue to resolve then becomes: “What additional ethical obligations do firms possess?” As discussed above, and despite the potential difficulties and conflicts that may arise
in their application, there are five primary moral standards as identified in business ethics literature by which all business firms should attempt to abide (or at least not clearly violate): (1) core values (i.e., trustworthiness, responsibility, caring, and citizenship); (2) utilitarianism; (3) Kantianism; (4) moral rights; and (5) justice/fairness.

Friedman’s ethical criteria are consistent to an extent with relativism (i.e., if based on the ethical norms of the industry) and ethical egoism (i.e., maximize the firm’s profit). In addition, Friedman’s ethical criteria also conform to the honesty component of trustworthiness (in terms of avoiding deception), utilitarianism (although only when the overall greatest net benefit to society is the result of focusing on the firm’s interests—which theoretically only works under conditions of perfect competition and transparency), and the moral property rights of the shareholders. The remaining moral standards, however, are not considered and therefore would never be applied by Friedman, unless they somehow ultimately contribute to the best interests of the firm (i.e., egoism) or are specifically stated by the corporate charter or a shareholder declaration.

At a minimum, Friedman’s position certainly runs into difficulties when one attempts to apply it to firms that are doing business in countries with corrupt regimes, dictatorships, and/or impaired abilities to enforce legal standards. In such countries, one cannot rely on governments to protect their own citizens, as these governments are typically focused only on the immediate challenge of maintaining order and control. In such cases, companies may have an ethical obligation not to enter or to refuse to do business in such countries, or to do so only when through constructive engagement the firm can ensure that a minimum ethical threshold of societal and human rights is being maintained.

Furthermore, in terms of the cases analyzed, Ford was morally responsible for recalling its Pinto from the moment it discovered the fatal design flaw. As seen in the Merck case, however, it could be argued on the basis of the moral standards of utilitarianism and/or caring, that Merck, especially as a pharmaceutical firm, was morally obligated under such circumstances to develop the river blindness drug, when it could afford to do so and no one else was prepared to develop and distribute the drug it had invented.
In the case of Ford, no consent was required from shareholders to engage in our recommended actions. However, in the case of Merck, there would need to be at least implicit authorization from shareholders to engage in such actions. The implicit consent can be obtained in several ways, such as through a formal mission statement (e.g., Ben & Jerry’s) that is publicized and easily accessible using current technology (e.g., via the firm’s web site). It was not clear, however, whether Merck’s motto (“Medicine is for people, not for profits . . .”) was widely known by its shareholders at the time of the case.

Eventually, mechanisms may be established, whereby shareholders can more directly be involved in decisions by their firms that would not necessarily maximize share value. In a sense, this process has already started via the increasing number of shareholder resolutions that are now taking place. Another US legislative development in several states (e.g., Maryland) has led to the possibility of “benefit corporations” being established, whereby company directors who make reasonable business judgments that include social and environmental values (which can be an explicit part of the firm’s charter) are protected against legal action. While not completely addressing Friedman’s concerns, by obtaining shareholder approval, Friedman’s primary concern regarding managers acting as agents in the best interests of their principals (i.e., the shareholders) is mitigated. At a minimum, even Friedman would arguably support the use of nonfinancial reporting (e.g., social, environmental, and sustainability reports), despite their expense, if such reporting is deemed to be necessary by market and nonmarket stakeholders to know what practices the firm is engaging in (i.e., for the firm to be acting in a nondeceptive manner) and to then be able to judge the firm accordingly.

In conclusion, while Friedman’s views on corporate philanthropy (especially when conducted without the explicit or implicit consent of the shareholders) have validity, his ethical constraints, while necessary, are insufficient for business to properly fulfill its responsibilities toward society. In other words, it is only when firms are fulfilling their economic, legal, and ethical obligations (i.e., beyond Friedman’s ethical constraints) that they can be said to be “socially responsible.” As such, we would suggest that our theoretical approach is a reasonable synthesis between Friedman’s narrow CSR approach and a broader CSR position.
One might therefore call our position “FPME,” or “Friedman Plus More Ethics.”

Applying FPME (in an albeit cursory manner) to the cases initially presented above, Google should be prepared to remain outside of China (e.g., based on moral rights). UBS Bank should cut its carbon emissions (e.g., based on utilitarianism), Heineken should provide HIV/AIDS medication to its African employees and their dependents (e.g., based on caring), and Philip Morris should cease selling cigarettes (e.g., based on moral rights and Kantianism). Ben & Jerry’s or other public firms, however, would require shareholder consent (explicit or implicit) before engaging in non-strategic (e.g., noneconomic) philanthropy, including donations following a natural disaster.

The “Friedman versus broad CSR debate” is an important one, and one’s position on CSR, in particular for business professionals, can have significant consequences in terms of the positive or negative impact of one’s business decisions on society. Boards of directors, chief executive officers, executives, and managers all need to be cognizant of their own personal theoretical CSR position and how this may be affecting their business decisions on behalf of the firm or its shareholders. The debate over CSR will of course not disappear in the near future, and one should expect that the notion of CSR will certainly provoke further reflection and discussion for those most involved in shaping and making business decisions in a dynamic and increasingly global society.

NOTES

1. This article is revised from “Should firms go ‘beyond profits’?” (ch. 3) in M. S. Schwartz, Corporate Social Responsibility: An Ethical Approach (Peterborough, ON: Broadview Press, 2011): 51–86.


27. Although based on the notions of “freedom of the individual” and “voluntary exchanges” Friedman in addition to disclosure of the act would also require the offering of compensation for such pollution to those negatively affected. See M. Friedman, *Capitalism and Freedom* at p. 30 and J. S. James and F. Rassekh, “Smith, Friedman, and self-interest in ethical society,” *Business Ethics Quarterly* 10 (2000): 659–674 at p. 668.

28. M. Friedman, “The social responsibility of business is to increase its profits,” at p. 52. See also C. Cosans, “Does Milton Friedman support a vigorous business ethics?” at p. 392.


35. See C. Cosans, “Does Milton Friedman support a vigorous business ethics?” at p. 395. He also states that according to his interpretation of Friedman: “Any practice, which has a negative externality that requires another party to take a significant loss without consent or compensation, can be seen as unethical” (p. 395).


37. See S. McAleer, “Friedman’s stockholder theory of corporate moral responsibility,” who states that according to Friedman “a business’s only responsibility is to maximize wealth for its stockholders” (p. 437).


39. M. Friedman, “The social responsibility of business is to increase its profits” at p. 52.

40. Ibid., p. 52.

41. Ibid., p. 53.


43. For example, consider the famous quote from Adam Smith’s Wealth of Nations: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.” A. Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations (London: J.M Dent & Sons, 1975 [1776]). See also J. S. James and F. Rassekh, “Smith, Friedman, and self-interest in ethical society.”


52. See M. S. Schwartz and A. B. Carroll, “Integrating and unifying competing and complementary frameworks: The search for a common core in the business and society field,” who summarize at p. 156 the different theoretical justifications for broader CSR which include: moral personhood or moral agency theory; social contract theory; social power theory; interpenetration theory; stakeholder theory; property based theory; utilitarian theory; and religious theory.


54. For more on the ethical responsibilities of shareholders, see M. S. Schwartz, M. Tamari, and D. Schwab, “Ethical investing from a Jewish perspective,” at pp. 146–147.


56. This might be considered the “Spiderman” argument, based on the famous line in the movie that “with great power comes great responsibility.” For the original corporate “social power” argument, see K. Davis, “Five propositions for social responsibility,” Business Horizons 18, 3(1975): 19–24.


59. T. Mulligan, “A critique of Milton Friedman’s essay ‘The social responsibility of business is to increase its profits.’ ”


65. See D. Bollier and S. Weiss, “Merck & Co. Inc (A),” at p. 3.


68. See K. Collins, “Profitable gifts a history of the Merck Mectizan® Donation Program and its implications for international health” (2004),

69. For example, Malden Mills went bankrupt after CEO Aaron Feuerstein decided to remain in Lawrence, Massachusetts rather than moving the firm’s operations overseas, while paying his employees tens of millions of dollars in wages despite no legal obligation to do so. Many initially considered Mr. Feuerstein’s actions to be exemplary of CSR. See T. Teal, “Not a Fool, Not a Saint,” *Fortune* (November 11, 1996): 201–203.


