Critical Review

Milton Friedman's Corporate Social Responsibility Doctrine

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Contents

Background

Milton Friedman, a well-known economist, gave his concept of corporate social responsibility in 1970 through an essay published in NYTimes Magazine (Friedman, 1970). The concept that he disclosed in his doctrine was completely different as it critically asserted the main aim of corporations as maximising their profits(Mayer, 2020). According to the doctrine, corporations held no responsibilities towards the society or public, and their sole responsibility was to the shareholders and potential clients.

Friedman’s doctrine did not receive much attention in the first go, however, after 6yrs, the doctrine received immense recognition when Jensen and Meckling (1976, pp. 305-360) published their business paper focusing on Friedman’s doctrine. In 1980, Friedman's doctrine got immense focus and most of the stakeholders restructured their corporate social responsibility (CSR) theories based around the doctrine, considering it to be the right way to evaluate their performance(Hartman, 2021).

So far, some corporations still regard Friedman's doctrine as part of their performance measuring strategy because to them, it effectively helps in maintaining positive economics within a firm’s structure(Backhouse, 2006). The global acceptance of Friedman’s doctrine earned him a Nobel prize as of the unique presented approach to CSR in his theory(Friedman, 1976).

1. Critical Analysis of the Doctrine

1.1. What’s the persuasion?

The sole responsibility of businesses is to enhance their profits - Milton Friedman

Through this statement, what Friedman actually tried to communicate was that corporate executives of private-property corporations should wholly focus on generating more profits with the main objective of returning more value to the shareholders, to whom they owe the responsibility in entirety (Tepper, 2020). What’s more to it is the assertion stating,

…businessmen believe to be defending a free corporation…whilst indulging in societal betterment chores…such businessmen are unaware of their claims actually hindering the formation of free society…

This implies that the businessmen do not possess the power of self-engaging in the acts of societal betterment such as doing charity works in the name of the corporation merely because their acts will help the society evolve. According to Friedman, businessmen who incorporate their own ways of utilising corporate funds for societal betterment actually hinder the conceptualisation of a free society let alone bettering it(Parker, Ferrari and Cowen, 1987). Friedman used the term ‘unwitting puppets’ in his famous doctrine for business executives who indulge in matters of societal betterment considering the acts to be a corporation's obligation, a part played by them being unaware of the claims without rationale.

It's not that Friedman was against the societal benefit as his doctrine conveys the idea of a free society, rather it was a distinctive approach to the conceptualisation of free society that he asserted by arguing vehemently that the corporate executives can only help better society by returning more profits to the shareholders who would look into the matter of societal betterment on their own behalf (CFI, no date). If executives were to involve in the affairs of societal betterment, according to Friedman, they were to do so at their own expense and not from the expenses of the corporation(Kramer and Porter, 2002). Friedman insisted that generally, it's the government who should be involved in endeavours of unemployment, climatic control, and other societal betterment-related issues.

For presenting a distinct assertion that was second to the then, already existing theories on corporate economics subsidised with factual analysis(Laidler and David, 2012), the doctrine earned global fame and widespread success.

1.2. Friedman's Doctrine on Strategic Philanthropy

Even though Friedman heavily criticised the executive's acts of indulging in social reform matters in the name of corporate considering them as its obligation, however in regards to the strategic philanthropy, Friedman considered it rightful only when it helped aid the generated profits for the firm which would, in turn, increase the profits to the shareholders(Schwartz and Saiia, 2012).

Friedman stated that philanthropy should only be considered obligatory to the firm when based on economically sound and ethically consistent reasons. According to Friedman, if corporate executives work for philanthropic acts because of self-interest, utilising corporate's resources without informing the higher authorities, he is not being loyal to his profession. Considering it to be professionally immoral and unethical for two reasons(Prevosand Watson, 2009); first, the employee(executives) not best serving the company because of being involved in activities like philanthropic acts; secondly, not acting loyal to business as in performing the acts of philanthropy without the consent of the employer; Friedman argued that the utilization of the time, energy, and resources of a company can result in declining revenues and profits of a business.

Some of the business corporates increase the prices of goods(to reserve the stocks) with an idea to have more profit and then use this profit for different tasks that come under the category of social responsibilities. This also proves to be unethical as they are utilizing the money of their customers for societal needs by considering it to be an additional profit(Mostovica, Kakabadse, and Kakabadse, 2009).

In addition to this, Friedman also stated that when business executives inflated product prices, it results in increasing the concern of customers regarding different issues. Issues such as taxation without representation could lead to other societal and political problems that disturb the working of a firm, thereby affecting its profits in the future(Passant, 2017).

1.3. Question on the soundness of 'ethical customs'

Within his famous CSR doctrine, Friedman stated:

…executives should conduct business to generate more money whilst perpetuating with the rules of the society embodied within the law and ethical customs…

This statement of Friedman was where his doctrine received the most debating arguments when economists derived different meanings out of the said quote. Avoiding deception and fraud in business was understandable, was accepted, but what sparked concerns was the lack of soundness in the used terminology of 'ethical customs'. Economists criticised stating that the doctrine in itself lacked ethical consistency(Schwartz and Saiia, 2012) when it deprived corporations of an obligation towards society, yet to be considered obligatory only for increasing corporate's profit generation purposes.

Friedman suggested that the only thing for which business executives are responsible is to maximize the profits as much as they can. For this, they don't need to consider themselves the legislators(Beebeejaun, 2020) to fight societal ills and rather focus on returning the most revenues to shareholders. That is to say, on one side he wanted the executives to generate more profits ethically for shareholders while completely ignoring the mishaps in society, acting unethically, the other way round just because countering the mishaps would have lowered corporate's generated profits.

1.4. Form of Judgement

Analysing Friedman's famous CSR doctrine a reader concludes it to convey a value-adding sort of judgment with normative statements describing how the world of the corporate economy should look like rather than how executives are making it look like by being 'unwitted puppets'.

Synthetic sort of judgement was used regarding the unwitted acts of the executives towards societal amelioration in corporate's name because that was how most corporate executives were conducting their part of the job.

In regarding the notion of corporations having responsibility on society as obsolete, Friedman made use of an evaluative judgement, through pedagogically sound empirical analysis stating the only responsibility of the firm to increase shareholder's value of the share that should help keep them satisfied.

Friedman's essay on CSR mostly contained constituted and standardized expressions. The sentences of the essay played an important role in highlighting professional values like being just or fair with your job. He compared these values with those practised by most business executives back then. In short, he drew the comparison between a just and righteous business executive with one who was not loyal to his profession. He indicated this by highlighting the tasks for which corporate executives were responsible and these tasks were quite different from social responsibility acts (Parker, Ferrari and Cowen, 1987). This can be better understood by the fact that Friedman's main idea always revolved around the statement that business executives only had the sole responsibility of increasing corporate profits; that's a value judgement discerning morality and integrity(White and Calkins, 2008).

1.5. Consistency and Persuasiveness of the Doctrine

Some critics (Palley, 2014), mostly economists, found the arguments of Friedman's CSR essay uncertain and credibly unsound. Friedman in his doctrine presented a completely different concept regarding CSR, however, the concept of business executives having a responsibility to shareholders and not towards fighting social ills wasn't digested by the critics. It was because of Friedman's concept regarding the ethical values of working in an organization that his essay was subjected to rejection.

Friedman insisted that the main reason for which executives should work hard towards increasing corporate profit was because of their responsibility of meeting shareholder desires of higher profit returns. This concept sparked a controversy in the corporate's ethical values of working, giving critics an open edge to debate. Aggravating the situation was the argument *'..abiding by the rules of the game…'* stating that executives, in meeting their shareholder desires, should work by ethical customs which rendered the doctrine as inept on both ethical and social grounds.

Another reason for which Friendman's essay was not liked by people was it overlooked other stakeholders. The whole of the essay revolved around stockholders and shareholders, leaving behind stakeholders which is a broader term encompassing even the employees, customers, and every other party that directly or indirectly contributed to corporate success. The reason for its criticism(CFI, no date) was that economists thought that if the main purpose of companies was to increase profits; why only the terms shareholder and stockholder were focused on contention leaving the entire list of stakeholders aside? What about the stakeholders who contributed a lot to increase the profits of an organization. Critics stated their ground arguing that if this concept was adopted by companies, it would only end up violating the basic rights of consumers, making them lose their trust in a particular firm(Caldwell, 1980).

The majority of the backlash was received by the argument that kept corporates at bay from committing to social responsibility. Critics believed that doing so can result in different societal issues as the role of corporations in creating awareness (Servaes and Tamayo, 2013) regarding different issues was of vital importance and that if the businesses stop doing it, whilst only working for the sole cause of profits, society would suffer immensely.

In a nutshell, Friedman's essay on CSR lacked ethical stability due to which it lost its effectiveness giving critics an open room for criticism. The essay could have done better if it was only for the companies to work for maximizing the profits whilst tending to social responsibilities for societal betterment side by side. Limiting the corporations to concentrate only on maximising profits(Schwartz and Saiia, 2012) came out as a serious blow to the development of society and was, therefore, not readily accepted by most economists.

1.5.1. Friedman's CSR Theory in the Contemporary

In the modern-day epoch, for corporates to be successful, social responsibility is a must because it serves a good reason for communication(Davis, 2016) between executives and stakeholders paving the way to economic success. It is vital because without economic growth societies are doomed to failure(Millon, 2011) and with society failure, corporates going bankrupt becomes obvious.

Friedman's shareholder-owned firms were prevalent in the 20th century, however, in the present-day epoch, the number of shareholder-owned firms has declined immensely (Campbell, 2007). Today corporations following Friedman's CSR theory are considered traditional corporations and as of the 21st century, the business economy has observed a regime shift that disapproves of such corporations.

2. Alternatives to Friedman's Theory and their Credibility

With Friedman's theory losing economical and ethical soundness, economists stepped up the game of business economy by introducing an alternative approach and theories to Friedman's shareholder theory. Following are some of the important, widely used today alternatives to Friedman's CSR theory.

2.1.Stakeholder Theory

Stakeholder theory was put forward by Edward Freeman(Preston and Donaldson, 1995)to oppose the shareholder theory of Milton Friedman and has been employed by well-established corporations like Google, eBay and Merck have been following lately(Scott, no date). Stakeholder theory is considered to be a more promising and economically sound theory compared to shareholder theory as it promotes the performance of a corporation by providing a sound basis for instrumental power, descriptive accuracy, and validity that's normative (Preston and Donaldson, 1995). Because of the sustainable business approach that it offers, it can be taken as an alternative theory for Friedman's shareholder theory. The reason for the validity of Freeman's stakeholder theory lies in the fact that it pays considerable attention to all the stakeholders and not only to the shareholders (Laplume, Sonpar, and Litz, 2008).

2.2.Stakeholder Capitalism

The stakeholder capitalism approach offers an even better business management and progress strategy side by side with socio-economic development; offering better returns on investments when a firm serves its stakeholders well, which then reciprocates better value to the firms. For instance, stakeholders in the form of customers reciprocate by giving positive feedback and reviews regarding the services and products of a company(Freeman, Martin, and Parmer, 2007). Customers can also help an organization by offering valuable and effective suggestions to help a brand improve its services. Stakeholder theory helps corporations by promoting their corporate social performance by indicating the needs, demands, and requirements of stakeholders. Also, it can help identify and understand the behaviour of new entrants which assists firms to beat their competition(Laplume, 2021).

As stakeholder capitalism offers a positive impact and acts as an additional source on which businessmen can easily rely. Stakeholder capitalism's main aim is to meet the combined goal of all the stakeholders including suppliers, customers, community, environment, and shareholders(Allen, Carletti and Marquez, 2009)

Thus, the CSV model can be adopted by corporations for the betterment of business and the goodwill of all stakeholders.

2.3.Creating Shared Value Model

Presently, businesses are incorporating a diversified form of capitalism in which they offer help to the abandoned and indefensible. By doing so, organizations invest in societal needs by following the CSV model, an idea that was first given by Porter and Kramer in (Porter and Kramer, 2011)(2011). This model is considered to have better uniformity and is thus rising as a more sustainable business practice as compared to stakeholder theory.

The CSV model says that businesses can enhance their performance by incorporating environmental and social needs as a part of effective marketing strategies(Jin, 2018) For this, businesses need to consider societal needs and should turn them into business opportunities. As the CSV model is generating greater revenues, different businesses are practising the CSV model as an effective marketing strategy.

The CSV model is playing an important role in the business industry as it is helping businesses get a profitable and innovative approach. Businesses are also incorporating CSV models to meet different environments and social needs. It is the consistent approach of the CSV model that has largely benefited the business industry in the form of innovative business strategies but also helps the economical environment in different ways. An example of a company that is benefiting from the CSV model includes the bank industry(Ilmarinen and Akpinar, 2018) specifically the Bank of America(2022) which is working on different greenery and energy renewing projects by considering the CSV model.

Conclusion

To conclude, Friedman's theory proved to be effective in the 20th century, however, with an increase in the advancement and technology in the field of business, businessmen are opting for more sustainable and ethical business approaches.

Therefore, Friedman's shareholder theory is now mostly left for students to understand the broader concepts of capitalism and economics. This is because businessmen have more ethical and sustainable models to follow these days. Businesses practice satisfactory and sufficient responsibility approaches that are not only helpful for the stockholders but stakeholders too.

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