Social Responsibilities of Business Managers

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The authors contend that value systems and styles of social responsibility of managers have gone through three historical phases—Phase I, the profit maximizer style; Phase II, the trusteeship style; and Phase III, the quality of life style. Phase III values will become more accepted by business managers of the future.

The concept of the social responsibility of business managers in recent years has become a popular subject of discussion and debate within both business and academic circles. Nevertheless, a look back through business history reveals that people have always held some concept of the responsibility owed by business management to society. It is the contention here that concepts of social responsibility have moved through three distinct phases.

HISTORIC PHASES

Phase I—Profit Maximizing Management

The Phase I concept was the belief that business managers have but one single objective—to maximize profits. The only constraint on this pursuit was the legal framework within which the firm operated. The origin of this view may be found in Adam Smith's *Wealth of Nations*. Smith believed that each individual business man acting in his own selfish interest would be guided by an "invisible hand" to promote the public good. In other words, the individual's drive for maximum profits and the regulation of the competitive market place would interact to create the greatest aggregate wealth for a nation and therefore the maximum public good. In the United States

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this view was widely accepted throughout the nineteenth century and the early part of the twentieth century. Its acceptance rested not solely on economic logic, but also on the goals and values of society.

America in the nineteenth and first half of the twentieth century was a society of economic scarcity. Hence, economic growth and the accumulation of aggregate wealth were primary national goals. The business system, with its emphasis on maximum profit, was seen as a vehicle for eliminating economic scarcity. In the process, employee abuses such as child labor, starvation wages, and unsafe working conditions could be tolerated. Moreover, few questions were raised with regard to expending natural resources, polluting the streams and the land. There was little concern about urban problems, unethical advertising, unsafe products, and poverty problems of minority groups.

The profit maximization view of social responsibility, moreover, complemented the Calvinistic philosophy which pervaded nineteenth and early twentieth century American thinking. Calvinism stressed that the road to salvation was through hard work and the accumulation of wealth. It then logically followed that a business man could demonstrate his diligence (and thus his godliness) and accumulate a maximum amount of wealth by adhering to the discipline of profit maximization.

Phase II—Trusteeship Management

Phase II, which may be labeled the trusteeship concept, emerged in the 1920s and 1930s. It resulted from structural changes both in business institutions and in society. According to this concept, corporate managers were responsible not simply for maximizing stockholder wealth but also for maintaining an equitable balance among the competing claims of customers, employees, suppliers, creditors, and the community, as well as the stockholders. In this view, the manager was seen as a trustee for the various contributor groups to the firm rather than simply an agent of the owners (2).

The two structural trends largely responsible for the emergence of the newer view of social responsibility were: (a) the increasing diffusion of ownership of the shares of American corporations and (b) the development of a pluralistic society. The extent of the diffusion of stock ownership may be highlighted by the fact that by the early 1930s the largest stockholders in corporations such as American Telephone and Telegraph, United States Steel, and the Pennsylvania Railroad owned less than one percent of the total shares outstanding of these companies (1). Similar dispersion of stock ownership existed in most other large corporations. In such situations management typically was firmly in control of the corporation. Except in rare circumstances the top executives were able to perpetuate themselves in office through the proxy mechanism. If an individual shareholder was displeased with the performance of the firm, he had little recourse other than to sell his stock. Hence, although the stockholder's legal position was that of an owner—and thus a principal-agent relationship existed between the stockholder and the managers—his actual position was more akin to bondholders and other creditors of the firm. Given such a situation, it was only natural to ask the question, "To whom is management responsible?" The trusteeship concept provided an answer. Management was responsible to all the contributors to the firm, i.e., stockholders, workers, customers, suppliers, creditors, and the community.

The emergence of a largely pluralistic society reinforced the logic of the trusteeship concept. A pluralistic society has been defined as "one which has many semi-autonomous and autonomous groups through which power is diffused. No one group has overwhelming power over all others, and each has direct or indirect impact on all others" (5). From the perspective of business firms, this translated into the fact that exogenous groups had considerable impact upon and influence over them. In the 1930s the major groups exerting significant pressure on business were labor unions and the federal government. Today the list has grown to include numerous minority, environmental, and consumer groups, among others. Clearly, one logical approach to such a situation is to consider the firm as having responsibility to each interested group, with management's task being to reconcile and balance the claims of the several groups.

Phase III—"Quality of Life" Management

Phase III, which may be called the quality of life concept of social responsibility, has become popular in recent years (4). The primary reason for the emergence of this concept is the very significant metamorphosis in societal goals which this nation is experiencing. Up to about the middle of this century, society's principal requirement of business was that it produce increasing amounts of goods and services and thus continuously raise the standard of living of the American people. The fact that the U.S. had become the wealthiest society in the history of the world was testimony to the business establishment's success in meeting this expectation.

In the process, however, the U. S. has become what John Galbraith calls an "affluent society" in which the aggregate scarcity of basic goods and services is no longer the fundamental problem. Other social problems, however, have developed as direct and indirect results of economic success. Thus, there are pockets of poverty in a nation of plenty, deteriorating cities, air and water pollution, defacement of the landscape, and a disregard for consumers, to mention only a few prominent social problems. The mood of the country seems to be that things have gotten out of balance, that economic abundance in the midst of a declining social and physical environment does not make sense. As a result, a new set of national priorities, which stress the quality of life, appears to be emerging.

Concomitant with the new priorities, societal consensus seems to be demanding that business, with its technological and managerial skills and its financial resources, assume broader responsibilities—responsibilities that extend beyond the traditional economic realm of the Phase I concept or the mere balancing of the competing demands of the sundry contributors and pressure groups of the Phase II concept. The socially responsible firm under Phase III reasoning is one that becomes deeply involved in the solution of society's major problems.

PERSONAL VALUES

Values are the beliefs and attitudes of a person which form his frame of reference. They help to determine the behavior which an individual displays. All managers have a set of values which affect their decisions, but the values are not the same for each manager; however, once they are ingrained in a manager, they do not change except over a considerable period of time. It is possible to group these values in terms of the general patterns of behavior which may characterize the three styles of managers—the profit maximizer, the trusteeship style, and the quality of life style of management.

Phase I

The Phase I profit maximizing manager has a personal set of values which reflects his economic thinking. He believes that raw self-interest should prevail in our society. His values dictate that "what is good for me is good for my country." Therefore, he rationalizes that making as much profit as is possible would be good for society. He bends every effort to become as efficient as possible and to make as much money as he can. To him, money and wealth are the most important goals of life.

In the pursuit of maximum profit, the manager's actions toward his customers would be reflected in a *caveat emptor* philosophy. "Let the buyer beware" would characterize his decisions and actions in dealing with his customers. He would not necessarily be concerned with product quality, safety, or sufficient and truthful information about his products and services. His views toward his employees would be stated as, "Labor is a commodity to be bought and sold in the market place." His chief accountability would be to the owners of the business, and chances would be good that he would be the owner or part owner of the organization.

To the profit maximizer technology would be very important. Machines and equipment would rank high on his scale of values. Materialism would characterize his philosophy.

Social values would not dominate his thinking. In fact, he would believe that employee personal problems should be left at home. The economic man should be separated from the social man or family man. His own leadership style would be as rugged individualist. "I am my own boss, and I will manage my business as I please." His values regarding minority groups would dictate that Blacks and Indians and foreigners are inferior to whites and that they should be treated accordingly.

His political values would be based on the doctrine of laissez faire. "That government is best which governs the least" would characterize his thinking.

As a result, any dealing with politicians and governments would be foreign and distasteful to him.

His belief about the environment would be stated: "The natural environment controls the destiny of man. Therefore, use it to protect your interests before it destroys you. Do not worry about the physical environment because there are plenty of natural resources which you can use."

Aesthetic values to the profit maximizer would be of minimal concern. In fact, he would say, "Aesthetic values? What are they?" He would have very little concern for the arts and cultural aspects of life. He would hold musicians, artists, entertainers, and social scientists in low regard.

The values that a profit maximizing manager held were commonly accepted in the economic textbooks of the 1800s and early 1900s, although they obviously did not apply to all managers of those times. It is easy to see how these values would conflict with the values of those characterized by the quality of life and the trusteeship styles of management.

Phase II

The Phase II trusteeship manager recognizes that self-interest plays a large role in his actions, but he also recognizes the interests of those people who contribute to his organization—customers, employees, suppliers, owners, creditors, government, and community. He thus operates from self-interest plus the interests of other groups. He states, "What is good for G. M. is good for our country." He is a profit satisficer; that is, he balances the profits of the owners and the organization with the wages for employees, taxes for the government, interest for the creditors, and so forth. Money is important to him, but so are people, because his values tell him that satisfying people's needs is a better goal than just making money.

In balancing the needs of the various contributors to the organization, the trusteeship manager deals with the customers as the chief providers of revenue to the firm. His values tell him not to cheat the customers because cheating is not good for the firm. He is concerned with providing sufficient quantities of goods as well as sufficient quality at the right time and place for customer satisfaction. He views employees as having certain rights which must be recognized; they are more than a mere commodity to be traded in the marketplace. His accountability as a manager is to owners as well as customers, employees, suppliers, creditors, government, and the community.

To the trusteeship style of manager technology is important, but so are people. Technological innovation is to be commended because new machines, equipment, and products are useful in creating a high standard of living for people. Materialism is important, but so is humanism.

His political values are reflected in a recognition that government and politics are important, but he views government and politics as necessary evils. He distrusts both, recognizing that government serves as a threat to his existence if his firm does not live up to laws such as those passed in the 1930s.

His environmental beliefs are stated as follows: "Man can control and manipulate his environment. Therefore, let him do it for his benefit and incidentally for society's benefit."

The social values which he holds are more liberal than those held by the profit maximizer. He recognizes that employees have several needs beyond their economic needs. They have a desire for security and belongingness as well as for recognition. He knows that he is an individualist, but he also knows the value of group participation in managing the business. He views minority groups as having their place in society, but "their place is usually inferior to mine. Minority group members are usually not qualified to hold their jobs, but that is not my fault."

Aesthetic values are not alien to the trusteeship manager, but "they are not for our firm although someone has to support the arts and cultural values."

Phase III

In contrast to the values of the profit maximizer and the trustee manager are those of the Phase III quality of life manager. He believes in enlightened self-interest. He agrees that selfish and group interests are important, but that society's interests are also important in making decisions. "What is good for society is good for our company" would be his opinion. He agrees that profit is essential for the firm, but that profits in and of themselves are not the end objectives of the firm. As far as money and wealth are concerned, his set of values would tell him that money is important but people are more important than money.

In sharp contrast to *caveat emptor* in dealing with customers, his philosophy would be *caveat venditor,* i.e., let the seller beware. The company should bear the responsibility for producing and distributing products and services in sufficient quantities at the right time and place with the necessary quality, information, and services necessary to satisfy customers' needs. The Phase III manager would recognize the dignity of each employee, not treating him as a commodity to be bought and sold. Accountability as a manager is to the owners, to the other contributors to the business, *and* to society in general.

Technological values would be important, but people would be held in higher esteem than machines, equipment, computers, and esoteric products. He would be a humanist rather than a materialist.

His political values would dictate that government and politicians are necessary contributors to the quality of life. Rather than resist government, he would state that business and government must cooperate to solve society's problems.

The social values of a quality of life manager indicate that a person cannot be separated into economic man or family man. The philosophy would be, "We hire the whole man and all of his problems." The manager would recognize that group participation rather than rugged individualism is a determining factor in his organization's success. His values regarding minority groups are different from the other managers. His view is: "Blacks, Indians, and foreigners are people as you and I are. They need support and guidance like any other person."

Man must preserve the environment, not for environment's sake alone, but for the benefit of people who want to lead a quality life. As far as aesthetic values are concerned, the phase III manager recognizes that the arts and cultural values reflect the lives of people whom he holds in high regard. His actions would support the aesthetic values by committing resources to their preservation.

The contrast among the three sets of values creates an awareness of the differing ideologies of managerial decision makers. (See Table 1.) A managerial set of values is important because values determine the decisions the manager makes. They are the norms for managerial statements of an organization's objectives. They determine the managerial policies that an organization follows in trying to accomplish these objectives. They determine the strategies and tactics which are used. They become the standards upon which the manager judges whether some action is right or wrong. They are the filters which a manager unconsciously uses to sort out one alternative from another. They determine the tones of his actions.

THE CURRENT STATE

The concept of social responsibility has gone through the three distinct phases described above—each corresponding to a described set of managerial values. Each new phase did not replace the earlier phase, but rather it was superimposed on it. Thus, a modern view of social responsibility would to some degree incorporate essential parts of all three phases of the concept. It would encompass not only a deep commitment to social problems, but also an understanding of the firm's responsibility to its contributors and, most importantly, a realistic comprehension of the need for profit as an essential prerequisite for operating at higher levels of social responsibility.

In today's business world and academic community there are people who subscribe to all three phases of the social responsibility concept. One rather vocal group follows the logic of Milton Friedman, who believes that Phase I logic still prevails (4). He feels that a corporate manager is an agent of the stockholders and any diversion of resources from the task of maximizing stockholder wealth amounts to spending the stockholders' money without their consent. Moreover, he argues that government, not business, is the institution best suited to attacking social problems. Although this position typically is supported vigorously by its proponents, in practice it often breaks down because of the extreme difficulty in drawing a line between spending the stockholders' money for charity and spending it in the enlightened self-interest of the firm.

Probably the majority of business managers today adhere to a Phase II concept of social responsibility. They understand the pluralistic nature of our

TABLE 1
Comparison of Managerial Values

Phase I Profit Maximizing Management	*Phase II Trusteeship Management*	*Phase III Quality of Life Management*
	Economic Values	
1) Raw self-interest	1) Self-interest 2) Contributors' interest	1) Enlightened self-interest 2) Contributors' interests 3) Society's interests
What's good for me is good for my country.	What's good for GM is good for our country.	What is good for society is good for our company.
Profit maximizer	Profit satisficer	Profit is necessary, but. . . .
Money and wealth are most important.	Money is important, but so are people.	People are more important than money.
Let the buyer beware. (*caveat emptor*)	Let us not cheat the customer.	Let the seller beware. (*caveat venditor*)
Labor is a commodity to be bought and sold.	Labor has certain rights which must be recognized.	Employee dignity has to be satisfied.
Accountability of management is to the owners.	Accountability of management is to the owners, customers, employees, suppliers, and other contributors.	Accountability of management is to the owners, contributors, and society.
	Technology Values	
Technology is very important.	Technology is important but so are people.	People are more important than technology.
	Social Values	
Employee personal problems must be left at home.	We recognize that employees have needs beyond their economic needs.	We hire the whole man.
I am a rugged individualist, and I will manage my business as I please.	I am an individualist, but I recognize the value of group participation.	Group participation is fundamental to our success.
Minority groups are inferior to whites. They must be treated accordingly.	Minority groups have their place in society, and their place is inferior to mine.	Minority group members are people as you and I are.
	Political Values	
That government is best which governs least.	Government is a necessary evil.	Business and government must cooperate to solve society's problems.
	Environmental Values	
The natural environment controls the destiny of man.	Man can control and manipulate the environment.	We must preserve the environment in order to lead a quality life.
	Aesthetic Values	
Aesthetic Values? What are they?	Aesthetic values are okay, but not for us.	We must preserve our aesthetic values, and we will do our part.

society and are generally committed to being equitable in dealing with the various contributors to the firm and the concerned outside pressure groups. Typically, these businessmen emphasize good wages and good working conditions and being fair and forthright in dealing with their customers and suppliers.

A growing number of academicians and business executives, however, appear to be accepting the Phase III concept of social responsibility. A number of our largest corporations, such as IBM, Chase Manhattan Bank, Xerox, Eli Lilly, and Coca-Cola are becoming involved in major social action programs.

It must not be forgotten, however, that managers are constrained in their actions by the economic needs of their companies. Profit and positive cash flow are still the *sine qua non* for all firms. Thus, the top management of a large profitable corporation has much greater latitude in the social area than does the manager of a small marginal operation, although even small firms can make a contribution to a better quality of life through social action programs. But in small as well as large companies, executives cannot afford to jeopardize their firm's financial position in the name of social involvement.

Boise Cascade Corporation, for example, promoted a minority enterprise in the heavy construction industry. The venture resulted in a pretax loss of approximately $40 million to Boise Cascade. As a result, the corporation's stock price plummeted 60 points and, undoubtedly, there was much serious soul searching within the organization. The point is that a business firm is still fundamentally an economic entity and must be concerned first with its own economic well-being. True, the public does expect business to become socially involved, but not at the expense of its primary mission, that of making a profit and thereby contributing to a healthy and vigorous economy.

In summary, currently there is a three-way split or schizophrenia in business and academic circles over the subject of business management's social responsibility. This disagreement among those who study, teach, and practice business has contributed greatly to public confusion and disenchantment concerning the role of business in today's society. Despite this confusion and disenchantment, the public views business as the most productive and efficient institution in society and therefore as a major resource in the struggle to solve society's great social problems. Since business as an institution exists only because it is sanctioned by society, it is inevitable that business managers will fall in line with society's expectations. Hence, the modern concept, Phase III, of business' social responsibility will be increasingly accepted by businessmen in the future.

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