

CHAPTER 05

Can Business Houses be Socially Accountable ?

“It was a venue in which Jews, Christians and Muslims could trade peacefully. The only ‘sin’ was bankruptcy”

Voltaire

(His comments on the nascent London Stock Market)

05.01 *Milton Friedman*¹ argued that expecting business houses to undertake social responsibilities was a self-defeating argument. To quote his words *“When I hear businessmen speak eloquently about the “social responsibilities of business in a free-enterprise system,” I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life”*². Milton contends that if a business is engaged in social good then it has to be at the cost of its stakeholders, primarily

- shareholders
- employees
- customers

05.02 Because all social activity would involve cost that will go on to reduce profits/wages or increase the price. Therefore, it will effect the profits, wages or the prices.

¹ Professor Milton Friedman won the Noble Prize in economics in 1976 and is a senior research fellow at the Hoover Institution, Stanford University.

² From the essay ‘The Social Responsibility of Business is to increase its profits’ by Milton Friedman, The New York Times magazine, September 13, 1970

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As a result a business house, by its inherent characteristics, cannot be expected to assume social responsibilities.

05.03 The corporate manager is an agent appointed by the shareholders and he has to serve the interest of his principal master, which is to maximize the profits. There is nothing wrong in businesses making profits. Profit making businesses are good for the society and also good for the country. But, the veneer of social responsibility does not go well with the face of business. Businesses belong to the realm of economics and principles of *quid pro quo*, i.e. you give something to get something. There is a movement of consideration to both sides. Whereas an NGO does not return anything back to its back donors except a promise to take it forward for a particular purpose. A business house may do great service to the society by fair and responsible execution of its economic function where social benevolence may also come as a by-product. But pro-poor accountability or social service does not come as a mandate. Therefore business tycoons such as Bill Gates and Warren Buffet have started distributing their wealth back to the society through philanthropic institutions.

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05.04 *Norman P. Barry*³ pointed out that a business corporation could only be charitable and socially responsible if the market is less competitive. Because in

³ Professor Norman Barry, University of Buckingham, United Kingdom. In Controversy: Do Corporations Have Any Responsibility Beyond Making a Profit?, *Journal of Markets & Morality* 3. no. 1

a competitive market, it will not have resources for unrelated social welfare. Only monopolistic companies, which are making excessive profits, can afford to be generous. Such generosity may be to appease the state for having softer regulatory regime, to quote :

It is only the monopolist who has sufficient surplus to engage in charitable causes, but many ethicists expect all business personnel to do so. It is noticeable that the recently privatized water company monopolies in Britain are among the market leaders in business ethics. Not only can such companies afford to be generous because of an obviously less than perfect market, but they fear that if they are not, they will be subject to excessive regulation. Does the social responsibility thesis, then, encourage the formation of monopolies? In most cases of corporate beneficence, it is not easy to see whether corporate beneficence is genuinely moral (i.e., if it was willingly approved by the shareholders) or merely prudent.³

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05.05 The argument is the social responsibilities of a business entity is directly related to the profits it is making. Higher the profit greater is the responsibility. Therefore, companies having a monopolistic control over the market were seen to be more socially responsible. Prof. Barry further points out that, often, ethical behaviour of businesses could be a tactical move given the low esteem business gets in capitalistic economy. And whether monopolistic or otherwise if businesses succeed in amassing too much of profit or surpluses it may imply that they have taken more out of the society than what they were entitled to.

³ Professor Norman Barry, University of Buckingham, United Kingdom. In Controversy: Do Corporations Have Any Responsibility Beyond Making a Profit?, Journal of Markets & Morality 3. no. 1

05.06 It has been seen that business empire seldom have sustained life span. Capitalist structures and business as a class keeps on growing, but business groups and entities continuously keep on perishing. Some instances are as under :

- i) Out of the top 100 corporation in world in 1900 only one survived till 2000 i.e. G.E. Corporation. In other words 99% of the top business empires of the world perished within the span of the century.
- ii) Out of the top 50 business house of India in 1947, only 3-4 belong to that club today.

05.07 The above instances would seem even more startling if we look at the great pace at which business organisation are disappearing in the recent past. *Gita Piramal*, the noted business historian, reported that out of the 50 top companies of the world 28 disappeared within the period of 9 years between 1991-1999.

05.08 In 2000 the richest 20% of the world population possessed 86% of the Gross National Product, 74% of all telephone lines and 93% of the entire Internet use in the world ⁴. Wealth keeps on accumulating in the hands of few but those few are also not static Norman Barry pointed out that :

*The very fact that a significant number of today's top American corporations are less than twenty years old and that major companies have been liquidated or taken over in recent years should be enough to convince the skeptic that corporations operate in a highly uncertain and competitive world.*⁵

⁴ From 'Perspective on the New Economy of Corporate Citizenship', The Copenhagen Centre

⁵ Professor Norman Barry, University of Buckingham, United Kingdom. In Controversy: Do Corporations Have Any Responsibility Beyond Making a Profit?, Journal of Markets & Morality 3. no. 1

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05.09 To add to the disconcert, business empire do not necessarily die due to organic or natural death. It is more due to the greed and myopic vision of the management. The CEOs of some of the largest corporations have committed suicide or are in jail, in past few years. Therefore, business as a class may not necessarily be a safe avenue for socially responsible behaviour. But then even charitable organisations may also have exceptions of corrupt governance.

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05.10 A free market economy and a free society is something we should fervently aspire and long for. But we have to evolve as a civilization to achieve such a milieu. Our business corporations as well as state machinery all are managed by individuals. Therefore, the effectiveness of all the structure and system boils down to the ethics and efficiency of the individual at helm. Therefore when a great soul is at the helm of business house may add great value and service to the society and country. Contrarily the past has many instances of corrupt corporate managements causing great damages to the society and the country. *Milton Friedman* says that the concept of corporate social responsibility is illusory in nature. A corporation being a artificial person will have artificial responsibilities:

The discussion of the “social responsibilities of business” are notable for their analytical looseness and lack of rigor. What does it mean to say that “business” has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but “business” as a whole cannot be said to have

responsibilities, even in this vague sense. The first step toward clarity to examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.⁶

05.11 All our system and organisation are managed by mortal human beings, therefore are subject to our mortal limitations and compulsions.

05.12 Further, as *Amartya Sen* pointed out issues such as education, health, poverty, etc. cannot be left in the hands of the market forces. In a market force mechanism, the weakest of the weak is thrown out of the system. It is the duty of the state to provide protection and clean administration for the marginalized.

05.13 Some day if our civilization and our people are evolved enough to invoke their bargaining power then the country can be subjected to the arena of market forces and capitalism. Then the state can concentrate on regulations and security. Till then *laissez faire* is a luxury we cannot afford. NGOs being the third force becomes that more relevant and pertinent.

05.14 In one of the Gandhiji's bhajan, the line goes "*jahan sanchay hai wahin paap hai*", in other words, accumulation of wealth is a sin. This statement should

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not be construed as something against creation of wealth or mega corporate institutions. But the creation of wealth vis-a-vis its instant utility determines the well-being of a society or an organisation. Once the money is hoarded it may reflect a healthy bottom line but it is detrimental to all concerned. Some instances, to illustrate this issue are as under :

- 1) A study made by International Fraud Prevention Research Centre revealed that most of the foreign loans to Africa ended up in the vaults of wealthy western banks. Consequently, the west benefited twice, not only did they get the interest payment of the original loan they also benefited as the amount was again invested in their banks.
- 2) Corpus of Harvard university is approximately 20 billion dollars. There is a debate in America on what should be the size of a corpus and how much should be set aside at the expense of billions of illiterate around the world.

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05.15 We live in a world of scarce resources coupled with the staggering gap between the wealth possessed by few individual/organisations and the general masses. In such circumstances if the wealth is not vibrant or kinetic then it will cause misery to the people around it. Two extremes of money are currency and corpus. When we talk of money in terms of transactions we use the word 'currency', which originates from the word 'current' analogous to energy happening at that moment. But when we talk of money in static terms we talk of corpus. Corpus by definition is a dead fund very close to the word 'corpse' i.e. dead. The moot point is that at any given point of time all our resources are required to be in use, be it business, social sector or the government.

05.16 Our longing for the security, which is an individualistic and a selfish concept, makes us to accumulate wealth. If individually or institutionally you

are securing your future then you might be robbing somebody else's present. This is a econo-ethical issue, which may lead us into an economic debate of when money can or cannot be said to have been ineffectively used. But morally, ethically and also in terms of larger social prudence all individual and all organisations should look forward to utilization of scarce resource for maximum social advantage.

05.17 Business houses have a specific mandate and function in the society which is not necessarily socially accountable. And precisely that is the reason why NGOs and charities have found their rightful place in the society. But both have the onus of responsible management of wealth and resources.

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