Journal of Markets & Morality 3, no. 1 (Spring 2000), 120-126

Controversy: Do Corporations Have Any Responsibility Beyond Making a Profit? A Response to Norman P. Barry

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I am heartened by both the tone and substance of Professor Barry's response to my initial remarks. He recognizes what I hoped he would see, namely, that our differences are not as abysmal as he may have assumed, and that a useful exchange on corporate social responsibility must rise above the kind of caricature and name-calling that, alas, seems typical—though no less inappropriate—in our recent political campaigns. The issues outstanding between Professor Barry and myself are still significant, but their careful consideration, I hope, will tend to narrow the space between us.

Areas of Agreement

Let me begin, then, by acknowledging an area of profound agreement. Professor Barry concludes his response with an important observation: "Freedom, transparency, and honesty are important moral features of Anglo-American capitalism. Capitalist efficiency is often praised but its moral qualities are scarcely noticed." Indeed, not only are freedom, transparency, and honesty to be praised, but I argue that efficiency itself is not simply an economic imperative, it is also a moral virtue. This may be seen, for example, by considering our attitudes toward the opposite of efficiency, namely, profligacy, waste, and spendthrift habits and policies, particularly with respect to other people's money. The Parable of the Prodigal Son pictures the father forgiving his son, after the son has squandered his portion of the family inheritance. Though forgiven, the son is hardly commended for being a spendthrift (Luke 15:11-32). Similarly, even in the chapter of parables containing the saying most often invoked in religious arguments for expanding corporate social responsibility—"Whatsoever you do to the least of my brothers and sisters, that you do unto

Me"—the other two parables, the Parable of the Ten Bridesmaids and the Parable of the Talents, embody sound common sense regarding the immorality of inefficiency. The second of these, the Parable of the Talents, specifically addresses the case of managers who deliberately act contrary to the best interests of their employers: "You wicked and lazy servant! So you knew that I reap where I have not sown, and gather where I have not scattered? Well, then, you should have deposited my money with the bankers, and on my return I would have recovered my capital with interest…" (Matt. 25: 26-28). The New Testament, arguably, supports both a moral imperative for positive social responsibilities and a fiduciary duty on the part of managers (in biblical terms, *stewards*) toward the firm's owners or investors. The difficult point, of course, is how to relate these two in a coherent picture of business ethics that is relevant to the challenges of our current political economy.

Professor Barry, obviously, does not deny that each of us has positive social responsibilities. His argument, like that of Milton Friedman, is simply that individuals, particularly owners and investors who profit from the firm's efficiency, should freely make their own choices about how to fulfill these responsibilities, and that these responsibilities should not be preempted either by government or by the business corporations in whose profits they share. I take this to be the meaning of Professor Barry's challenge to me: "The case for corporate social responsibility would be acceptable if it were left to the stockholders but that possibility is never discussed by Professor McCann." Fair enough. Professor Barry and I agree that stockholders clearly have positive social responsibilities. If he truly believes that, then I, along with many other business ethicists, would welcome his help in educating investors on this point. In this particular context, investors must be confronted with the fact that the growing number of individuals who routinely default on this obligation certainly contribute to increased demands for an expanded list of corporate social responsibilities or more extensive government intervention in social welfare programming. No course on business ethics, therefore, can be considered complete without some serious attention to the moral and social responsibilities of individual investors.

Criticism of the Individualist Approach

That is a good start, but Professor Barry rightly senses that I have more in mind, which means that I must give good reasons for disagreeing with his individualist approach. Where do we differ? His discussion of Aristotle's teleological principle is suggestive. Here is what Professor Barry wrote:

> Aristotle claims that institutions are to be understood in terms of their purpose, i.e., the telos that constitutes their fundamental aim. I argue that the purpose of the corporation is to realize long-term owner value, which is why corporations were set up in the first place. However, any departure from this goal, and non-owning managers are skilled at diverting attention away from the corporation's fundamental purpose, is potentially fatal.

I agree that institutions must be understood in terms of their purpose and that undermining an institution's fundamental purpose is potentially fatal. But I would offer some amendments to my colleague's description of the corporation's purpose. Peter Drucker has written that the purpose of a business is "to create a customer."[1] This, I think, is the fundamental purpose of a corporation—not realizing "long-term owner value." Indeed, Drucker states explicitly that the purpose of a business is not primarily to maximize profits, though profit is clearly "the test of the validity" of the business's activities. Earning a profit, in short, is how one measures the firm's efficiency in fulfilling its fundamental purpose, namely, to create a customer. Drucker's point may seem to be counter-intuitive at first, if not perverse. But, as M. L. Brownsberger and I have argued elsewhere,[2] it carries a genuinely Aristotelian insight that is indispensable for a proper understanding of business ethics.

Since Drucker also argues that business functions as the "specifically economic organ of an industrial society," one may wonder whether he is simply confused in asserting that the purpose of a business is to create a customer. Is there a meaningful distinction between purpose and function that allows both observations to carry their own proper truth? Brownsberger and I suggested that both truths can be affirmed in a neo-Aristotelian understanding of causality. There are four dimensions to consider: the material and formal causes of an object or an action, its efficient cause, and its final cause. With regard to business activity in general, the material cause might be construed as the goods or services marketed by the firm; the formal cause, the actual exchange of goods or services for money, with all the institutional mechanisms in place that facilitate the actual exchange; the efficient cause, for both parties to an exchange, would be the desire to be better off—for business, specifically the desire to maximize profits; and the final cause, for the business and its management, would be the actualization of the kind of market relationship or association that Drucker refers to as *creating a customer*.[3] Managers and investors may be motivated by a desire to maximize profits (efficient cause); but the institution within which they hope to achieve this outcome is designed to create customers (final cause). Unless this purpose is fulfilled, there will be no profit, and hence no realization of "long-term owner value."

Why Corporations Should Be Regarded As "Persons"

Adopting Drucker's marketing perspective on the purpose of business may also make it possible to understand how and why business corporations are best regarded as persons, despite the obvious risks involved in the notion of corporate personality and corporate moral agency. Businesses exist to facilitate market transactions, which are themselves inherently interpersonal, inasmuch as their logic replicates the chief features of human moral agency. Aristotle recognized this fact in his analysis of the principle of commutative or rectificatory justice[4] and the point was clarified and systematically developed in Thomas Aquinas' seminal remarks on buying and selling in the *Summa Theologiae*.[5] Though Aristotle's analysis does not attend to the complexities introduced when one or more of the moral agents involved is a business corporation rather than an individual, the examples discussed in Aquinas clearly carry the same moral reasoning over from individual buyers and sellers to situations involving business firms and their agents. Moral responsibility is always attributed to persons, but corporate persons just as surely as individual human beings can and ought to be held morally responsible for their actions.

Professor Barry's objections against this view of the corporation are not insuperable. He claims that such a view is "risky," because "if morality is collectivized, then individual responsibility is diminished and persons are not given the blame (or awarded credit) for whatever action takes place within the company." But this inference is unwarranted. Individual and corporate moral agency need not be conceived as an "either/or." Both are responsible, insofar as either or both of them act, individually and collectively. The legal reasoning that Professor Barry cites does not count decisively against the notion of corporate moral responsibility, for corporations are routinely held accountable, and subject to fines, reparations, and other sanctions, for misdeeds performed on their behalf. What would count against my view, I suppose, would be a preponderance of legal precedents in which only individual employees were held accountable and where no penalties of any kind were ever exacted against corporations.

Drucker's marketing perspective on business confirms and presupposes the logic of individual and corporate moral responsibility. After all, creating a customer means participating in a moral relationship. Customers are persons who have freely chosen to do business with a proprietor. They have chosen to do so because they believed his claims regarding the goods or services he had on offer, and they act upon those beliefs by freely handing their money over to him. Because customers are those with whom a proprietor has a relationship, even his desire for profit gives him an incentive to maintain their trust, by acting consistently to keep his promises. The profit motive thus reinforces the basic moral practice of promise-making and promise-keeping operative in buying and selling. Keeping one's customers by living up to their reasonable expectations is the surer path toward profit maximization than is seeking opportunities for exploiting others on a one-time only basis. As Aquinas showed, fraud and theft are immoral precisely because they represent fundamental breaches in the conditions of moral agency normally obtaining in the interaction between buyers and sellers. *Victims*, or if you will, *marks*, are apt terms for those who have cheated in business; but in no sense can they be regarded as customers.

In a society that still honors the common good, acknowledging one's positive social responsibilities is a tried-and-true method of gaining other people's trust. This is as true of business corporations as it is of individual persons. One's standing in the community depends upon making visible one's intent to be a good citizen, one who can be counted upon to bear his or her fair share of the social responsibilities common to us all. Professor Barry seems to regard such social expectations as "curious." Indeed, he accuses corporations that would forego some profit for the sake of the common good of breaching "elementary rules of justice." His remarks are not very illuminating on this point. The example he cites for such breaches is the readily observable tendency of businesses to "favor interests with a high public profile because of the favorable publicity they generate."

Why this should be regarded as unjust remains a mystery to me. Why should corporations be any different from individual moral agents? Though the teachings of Jesus seem to favor an ideal of almsgiving that does not calculate the social benefit that one may enjoy from successfully cultivating a good reputation (Matt. 6:1-4), it still seems entirely natural that both individuals and corporations make such calculations. That a business would seek to publicize its good deeds in order to create a social climate favorable to creating customers seems entirely natural and consistent with the purpose of a business. That there is often a marketing advantage in acting upon one's acknowledged positive social responsibilities, and that in the end it will tend to increase profits, is hardly any less surprising. A business that acknowledges and tries to make good on its positive social responsibilities, no doubt, will incur additional costs. But these are part of the ordinary costs of doing business. Moreover, like any other investment they are likely to pay off in increased profits, at least for those who know how to capitalize on the good will that such social investments tend to create.

What is natural, however, often falls short of some of our ethical and religious ideals, as is clear in the tension between Jesus' teaching about almsgiving and the way businesses normally publicize their good deeds. But does this tension also signify a breach of our elementary rules of justice? When it comes right down to it, Professor Barry's rejection of corporate social responsibility rests upon an interrelated series of category mistakes. I have already belabored one of these; that is, his failure to take seriously the continuities between individuals and corporations as moral agents. By disallowing any useful analogy between individual and corporate personality, Professor Barry locks himself into an intellectual straightjacket of narrowly economistic thinking about business that makes the realities of management and marketing, in particular, virtually unintelligible.

But there is a second category mistake, latent throughout his argument, that surfaces clearly in his perverse criticisms of businesses, such as Coca-Cola, who seize upon the marketing advantages of acknowledging and acting upon the corporation's positive social responsibilities. Professor Barry's observations rest upon some serious confusion about the relationship between justice and supererogation. Justice, by definition, is obligatory. It means doing one's duty. Supererogation, by contrast, is not obligatory. By definition, it means doing what is not required, what is above and beyond one's duty. The ethic of sacrificial love, preached by Jesus, is an invitation to a life of supererogation. For love is always more than justice requires. Professor Barry, alas, rejects corporate social responsibility because he mistakenly regards it as supererogatory. He mistakenly believes that positive social responsibilities are above and beyond what is entailed by a true understanding of the purpose of a business. Thus when he sees businesses actually trying to fulfill their positive social responsibilities consistent with their own business strategies, he can only condemn them for acting unjustly. Coca-Cola is condemned rather than praised, because its practice has fallen short of the ethic of supererogation. This, it seems, is the strange conclusion to which Professor Barry's category mistake leads us.

Conclusion

At stake here is the appropriate moral standard for judging society's demands that a business fulfill its positive social responsibilities and for judging how corporations actually respond to those demands. The reasonable course, I believe, is the one I have outlined on the basis of Robert C. Solomon's insights, backed up here with moral reasoning culled from the *philosophia perennis* of Aristotle and Aquinas, and confirmed in the management philosophy of Peter F. Drucker. Positive social responsibilities are morally obligatory upon businesses just as they are upon all citizens in a society that still honors the common good. How businesses manage their positive social responsibilities is rightly evaluated in relationship to the ethical norms of justice, understood specifically in continuity with the actual purpose and functions commonly recognized as constituting a business corporation. Corporate social responsibility is not a work of supererogation. A well-managed program seeking to fulfill these responsibilities no doubt will involve some costs, but like any other sound business investment, it may also actually enhance the corporation's profitability. And there is nothing wrong with enhanced profitability, as I am sure that Professor Barry would agree.

Notes

1. Peter F. Drucker, *The Practice of Management* (New York: Harper and Row, 1954; Perennial Library Edition, 1986), 35–37. I realize, of course, that one could shrug off the significance of Drucker's definition by pointing out the differences between "business" (generic) and "business corporation" (specific). But the difference consists in the way the business is organized, for purposes of accounting and law. Business corporations are still businesses, and thus Drucker's definition applies equally to them as well as to all other forms of organized commerce.
2. Dennis P. McCann and M. L. Brownsberger, "Management As a Social Practice: Rethinking Business Ethics after MacIntyre," *The Annual of the Society of Christian Ethics (1990)*, ed. D. M. Yeager (Washington, D.C.: Georgetown University Press, 1990), 223–45.
3. Ibid., 231.
4. Aristotle, *Nichomachean Ethics*, V. This reference can be found in *The Complete Works of Aristotle*, vol. 2, ed. Jonathan Barnes (Princeton: Princeton University Press, 1984), 1781–97.
5. Thomas Aquinas, *Summa Theologiae*, vol. 37, trans. Thomas Gilby, O.P. (New York: McGraw-Hill, 1975), I.i.a, II.a.e,, 61; see also *Commentary on Aristotle's* Nichomachean Ethics, trans. C. I. Litzinger, O.P. (Chicago: Henry Regnery, 1964), 300–23.