The Growing Concern Over Business Responsibility

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In the new era of business power, the old philosophy of business responsibility has been outdated. This article suggests a new and more adequate standard to follow in judging your responsibility, as a businessman, to society.

The television quiz show scandal, aired last autumn in Congressional hearings, has highlighted an issue that has been of increasing concern to many people—the public responsibilities of private businessmen. Concern about business power is not new, but the past decade has seen a growing consciousness of the problems that business power can create in a democratic society.

It is the contention of this paper that the heightened interest in the problem of business responsibility can be explained in terms of two developments of the twentieth century. One of these developments is intellectual, the other is institutional in character—and both of them are related to the collapse of *laissez faire* as a philosophy and as an economic order.

The Relevance of *Laissez Faire*

The disintegration of the world economy, starting early in the present century, signaled the beginning of the end for the *laissez-faire* philosophy and all its supporting institutions. The trend, accelerated by the First World War and the subsequent monetary panics of the 1920's, culminated in the early 1930's in what Karl Polanyi has characterized as "The Great Transformation." Free economy was transformed into regulated economy in all of the advanced nations that stood in the capitalist tradition, including Soviet Russia, where the 5-year plans were initiated; Germany, where National Socialism was in the ascendant; Italy, which was in the throes of corporate Fascism; and the United States, where the New Deal was the symbol of institutional transformation on a grand scale. These and other domestic economies, seeking to protect themselves from the ravages of a self-regulating market mechanism, were transformed to an economy in which centralized state planning and regulations were increasingly the rule rather than the exception.[1]

At the same time, it became more and more obvious that the world of business itself was the scene of growing economic power. Moreover, the growth of the large-scale corporation, with its tendency to divorce legal ownership from actual control of operations and with its technique of feeding upon itself for growth capital, freed the giants of business from the checks formerly put upon them by stockholders and capital investors. In addition, business had combined two forces to dilute what could be considered "consumer sovereignty:" a refined and sophisticated advertising program and what amounted to programming control of one of the nation's mass media of communication, thereby making possible the massive tailoring of consumer tastes to the standards of mediocrity that have become so common in our times.

[1] Karl Polanyi, *The Great Transformation* (New York: Rinehart and Company, 1944).

All of this institutional transformation was remarkable enough. Even more remarkable (though far less spectacular) was the intellectual revolution that accompanied the institutional change of the old order. It was to be expected that the maxims that had guided economic thinking for over a century would undergo change as the institutions themselves were transformed, and as early as 1933, Robinson and Chamberlin had written economic treatises discussing the impact of the large-scale corporation on traditional forms of competition.[2] Three years later Keynes published *The General Theory of Employment, Interest and Money*.

But the real revolution in ideas came from without—primarily from the social sciences. Psychology challenged the concept of a rational "economic man" who always pursued pleasures and avoided pains. Sociology questioned the individualistic "Robinson Crusoe" theory of behavior which had been an article of faith with economists for years. And comparative anthropology brought into serious question the belief in natural rights and natural order—a belief basic to the philosophy of *laissez faire*.

In a few words, the philosophy of *laissez faire* had collapsed as thoroughly as had its supporting institutional framework. All of the major foundation stones were disintegrating. Gone, or seriously weakened, was the invisible hand of free competition which was to guide selfish interests into socially-useful channels. Displaced from the center of the stage were the old forms of business organization—the proprietorship and the partnership—through which competition was to work. Gone was the theory of behavior which posited a free and rational individual capable of promoting his own interests if only allowed to do so by a meddlesome government. Gone was the theory of social institutions which found at their core a rational desire of man to solve his problems. Gone was the theory of a harmony of interests which was to be the automatic outcome of the self-seeking interests of a society of rational men checked in their selfishness by the invisible hand of competition. A type of civilization and a way of thinking were truly "gone with the wind."

The collapse of the *laissez-faire* philosophy created a philosophical vacuum. It is this vacuum that businessmen and others interested in the issue of business responsibility have been trying to fill since the end of World War II. Under the *laissez-faire* philosophy private interests were supposed to be channeled into publicly useful pursuits, but now such institutions as had been responsible had fallen into disuse. Under the *laissez-faire* philosophy, there had been a social theory by which private interests could be harmonized with the interests of society at large. This meant that there was no need to be concerned deliberately with the social responsibility of private businessmen; it would be produced automatically. But now there was no such theory. Quite plainly, the older rubrics no longer furnished an adequate intellectual system for explaining the social consequences of business activities. Hence, the collapse of *laissez faire* posed a giant intellectual conundrum for social theorists: How could a society with democratic traditions and democratic aspirations rationalize the growing amounts of power accruing to businessmen? And how could that power be channelled into socially-useful functions without driving the populace into some Orwellian nightmare of *1984* proportions?

Several events conspired to cloak the true nature of the crisis until after the Second World War. It is true that a few questioning voices were raised during the 1930's and the 1940's—most notably those of Adolf A. Berle and Gardiner C. Means in their monumental study, *The Modern Corporation and Private*

[2] Edward Chamberlin, *The Theory of Monopolistic Competition* (Cambridge: Harvard University Press, 1933); Joan Robinson, *The Economics of Imperfect Competition* (New York: Macmillan, 1933).

Property[3] and James Burnham in his analysis, *The Managerial Revolution*.[4] But preoccupation with the Great Depression and with the impending World War II served to postpone a consideration of the major problems of business power that had developed out of the broad-scale institutional changes in the 1930's.

However, with the resumption of peacetime production, and after it became evident that the American economy would not be subjected immediately to another large-scale depression, and particularly after studies which revealed the very great concentration of economic power that had occurred during the Second World War, all of the same worrisome questions were asked once again. Since 1950, as a result, five major currents of thought about business responsibility in American society have developed. Each of these currents attempts to grapple with the problems of power in a complex society and with the resultant issue of business responsibility to the society at large.

Management as Trustee

The first of these currents of thought, and one that has gained increasing favor, is the idea that corporate managers should voluntarily act as trustees of the public interest.[5] They should police themselves and their use of the tremendous amounts of power they possess. The keynote of this concept is the deliberate and voluntary assumption of public responsibility by corporate managers, even though at times such a trusteeship might cause a managerial group to forego immediate profits for the sake of the public good. Management, according to this concept, has a multiplicity of obligations—to the stockholders, to the employees, and to the public at large. This viewpoint, therefore, appeals to the conscience of individual managers to wield their power in a publicly responsible manner. One student of the problem has even called for the development of the "conscience of the corporation" to protect the public against possible abuses of corporate power.[6]

The Relevance of Christian Ethics

Easily the most appealing and the most emotional of these five viewpoints is the notion of relating Christian ethical principles of conduct to the problems of business enterprise.[7] The basic idea seems to be that the businessman needs to think of himself as something more than a simple money-grubber. He needs to have a nobility of purpose that overarches his corporate activities and day-to-day duties. He needs "skyhooks" to orient him toward the nobler ideals of Christian ethical conduct so that he might become a practicing Christian businessman on the job. One spokesman for this viewpoint even argues the direct applicability of such Christian doctrines as the idea of original sin, forgiveness, creation, and the general concept of God to the problems of business. Christian ideals and doctrines are said, therefore, to furnish the Christian businessman with a framework of ethics by which he can approach and grapple with problems of finance, personnel, production, and general decision making.[8]

Balance of Power

One of the most intriguing ideas to reappear in the postwar period is the notion that the answer to concentrated business power is more power.[9] The central theme of this argument is that business power is here to

[3] Adolf A. Berle, Jr., and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1932).

[4] James Burnham, *The Managerial Revolution* (New York: John Day, 1941).

[5] Frank W. Abrams, "Management's Responsibilities in a Complex World," *Harvard Business Review*, May, 1951.

[6] Adolf A. Berle, Jr., *The Twentieth Century Capitalist Revolution* (New York: Harcourt Brace, 1954).

[7] For representative viewpoints see J. C. Bennett, *Christian Values and Economic Life* (New York: Harper and Brothers, 1954); O. A. Ohmann, "Skyhooks," *Harvard Business Review*, May–June, 1955; and Harold L. Johnson, "Can the Businessman Apply Christianity?", *Harvard Business Review*, September–October, 1957.

[8] Johnson (See note 7).

[9] John K. Galbraith, *American Capitalism: The Concept of Countervailing Power* (Boston: Houghton Mifflin, 1952, 1956).

stay and that the answer to this problem is to build up countervailing power in the hands of the other major groups in the society so that a balance of power is struck between the contending members of society. Only by actively participating in the race for power can the various sectors of society protect themselves from the overweening power held by others. Government, according to this viewpoint, should play a major role in establishing a balance of power between the major functional segments of the economy, even if it means taking the side of one group against all the others while a sufficient amount of countervailing power is being developed. Thus, the balance of power doctrine handles the problem of business responsibility by permitting all parties, including the business interests, to look out for their own economic and social interests. The public welfare is presumed to be the outcome of the balanced sum of interests represented in the power struggle. This relieves businessmen of deliberately and consciously promoting public responsibility, often in contradiction to their own private interests.

The Viewers with Alarm

Perhaps the strongest of the currents that have attempted to fill the philosophical vacuum left by the collapse of *laissez faire* consists of the ideas of the group that "views with alarm."[10] Often these spokesmen see the problem of business power as only one facet of a larger process, namely, the drift of the total society toward monolithic and totalitarian control of the human mind and spirit. Huxley, Orwell, Riesman, Whyte, and Mills—all basically humanistic in their philosophical predilections—are dismayed by the press of technology and organization upon the traditions of a free society. They express grave doubts about concentrating so much power in the hands of so few bureaucrats, whether of the industrial, the governmental, or the military type. The members of this group have no clear-cut answer to the problem of concentrated power, counseling a resistance of the spirit against the ravages of organization and mass technology. Business responsibility, they seem to say, will be achieved only when there is a general recognition by businessmen and others of the perils to the individual personality that accompany great aggregations of power.

Capitalist Ethic Reformulated

The fifth major current is actually composed of many smaller rivulets of thought, all of them related to an attempt to reformulate and restate the capitalist ethic in terms that will be acceptable in the changed institutional situation that now confronts those of us living under the capitalist tradition. Perhaps the most notable attempt to reformulate the capitalist ethic can be found in *The Capitalist Manifesto*, by Louis O. Kelso and Mortimer J. Adler.[11] This manifesto argues that the capitalist revolution will not be fully realized until some of the basic capitalist principles—ownership, for example—have been extended to embrace ever larger numbers of citizens. As ownership is more widely diffused, so will the citizen's stake in the prevailing system increase. As a result, his interest and loyalty to the modified capitalist system will increase. Thus, a higher degree of responsibility on the part of capitalist-owners will be achieved by modifying and extending one of the basic capitalist institutions. Clarence B. Randall, formerly chairman of the Inland Steel Company, has also tried to restate a more realistic ethic for the capitalist system in his book, *A Creed for Free Enterprise.*[12]

[10] Representatives of this viewpoint are George Orwell, *1984* (New York: Harcourt, Brace and Company, 1949); David Riesman *et al.*, *The Lonely Crowd* (New Haven: Yale University Press, 1950); William H. Whyte, Jr., *The Organization Man* (New York: Simon and Schuster, Inc., 1956); and C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956).

[11] Louis O. Kelso and Mortimer J. Adler, *The Capitalist Manifesto* (New York: Random House, 1958).

[12] Clarence B. Randall, *A Creed for Free Enterprise.* (Boston: Little, Brown and Company, 1952).

A Critique

There is a surprising shortcominng shared by these five schools of thought: not one of them offers a clear-cut, substantive meaning of the social responsibilities of businessmen. That is, none of them explains in unequivocal terms what would constitute socially responsible business behavior. The public trustee theory and the Christian theory have been heavily influenced by the remnants of the *laissez-faire* philosophy in which "the greatest good of the greatest number" seems to have been a major criterion of social responsibility, although we are still left in some doubt as to the precise nature of the "good" to which the formula refers. The balance of power theory generally suffers from the same shortcoming, although in the case of John Kenneth Galbraith's version of countervailing power it is rather obvious that total over-all economic production constitutes the criterion of value, especially as revealed later in *The Affluent Society*.[13] The basic value assumptions of the "viewers with alarm" are those of individualism and humanism; therefore, socially responsible business behavior presumably would protect the integrity of the individual and humanist qualities generally. But it does seem amazing that throughout most of these writings there appears no precise formulation or description of behavior that clearly bears the label of social responsibility.

The real explanation, of course, is to be found in the precise nature of the intellectual vacuum created when the *laissez-faire* system collapsed. For that vacuum, more than anything else, is a vacuum of values. It is our value systems that have been most sorely bruised in the transformation to the world of large-scale organization and technology. Older value systems have been rendered useless by the advance of knowledge and by vast institutional transformation. And new value systems have not yet had time to emerge. We stand too close to the older systems and to the dust that still rises from the ruins of the fallen order. And as the five major schools of thought seem to demonstrate, the temptation to dart back into the murky ruins of the old order and to snatch at the weakened timbers for use in constructing a new philosophical framework is still great.

Moreover, the public trustee theory and the Christian theory are startlingly naive in some respects. They seem to ignore some of the basic and fundamental realities of historical development and of the contemporary institutional setting in which business enterprise operates. To the extent that they are based on a theory of history at all, that theory is an idealistic or a romantic one. Such a historical theory ignores the essentially materialist and self-seeking basis of business enterprise as it emerged in Western culture. Further, both the trustee and the Christian theories seem to ignore the force of historical tradition and custom in determining the basic value elements of contemporary business institutions and the force that these traditions still exert upon the behavior of businessmen caught up within such a historically determined system. Both theories seem to imply, for example, that private gain can be simply pushed to one side by the force of will of public-spirited businessmen or of those who have been inspired by Christian ethics.

In addition, the theory of behavior that underlies both of these positions on business responsibility ignores some of the basic and most significant findings made by social scientists in the past fifty years. Little or no use is made, for example, of the concept of the social role, which explains the behavior of any given individual in terms of a pattern of interrelated actions drawn from a variety of sources within the contemporary institutional setting. Such a social role defines for an individual a pattern of behavior to which he is expected to conform in order

[13] John K. Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958).

to carry out his socially approved functions within the society. The businessman's role is defined largely, though not exclusively, in terms of private gain and private profit. To ignore this important fact, or to assume that the businessman himself can ignore it simply by force of will inspired by Christian ideals or by public spiritedness is preposterously naive.

Therefore, we find that the businessman, by virtue of historical traditions and contemporary institutional forces, is in a sense "locked into" a going system of values and ethics that largely determines the actions he will take. There is no question that the system itself is subject to change over a period of years. Neither is there any doubt that the force of an individual personality can wield a great influence over the manner in which a person acts out his socially defined role. But there also seems to be little question that at any given time individuals who are active within the system of social roles and institutions are subject in large measure to its prevailing characteristics. This means that businessmen *must* be concerned primarily with private gain and profits, for they are a prime value within the presently existing system of business enterprise.[14]

The balance of power theory, on the other hand, is a grown-up version of the automatic institutional forces that allegedly worked for the social good under the *laissez-faire* order. The argument is basically the same: When countervailing power is brought to bear against the holders of original power, such privately wielded power will be deflected into channels that are not so harmful to the interests of society as would otherwise be true in the absence of such a power struggle. Under the *laissez-faire* order, competition between self-seeking business firms was said to have produced the same effects. Countervailing power in the Twentieth Century substitutes for the free competition of the Nineteenth Century. As Galbraith himself has been careful to point out, there are certain institutional situations, particularly inflation, in which the whole balance of power system breaks down and does not in fact channel private power into socially desirable uses. Moreover, in *The Affluent Society*, Galbraith seems to be saying that the entire institutional order, including the balance of power system is outmoded and unserviceable with respect to the utilization of society's resources for socially intelligent ends.

Some of the most powerful statements on business responsibility have been made by the "viewers with alarm," who, like Galbraith, at least are cognizant of some of the realities of the contemporary scene. They are aware, for instance, that power is now drawn up in different configurations and different proportions than was true of the older order; and they sense that these changed dimensions of power have shifted the nature of the problems. But since the alarmists are basically individualistic and humanistic in their predilections and since both individualism and humanism are products of an age before the fantastic aggregations of power that we know today, there is very little the alarmists can do except object to what is going on and to what power accumulations are presumably doing to individuals and to human values generally. For them, there is no way out save by some brand of passive resistance to the organizational society and its many bureaucratic institutions. It is characteristic of this group of thinkers that they have little or nothing to offer in the way of an institutional system that will lead us out of our present difficulties with respect to promoting the social responsibilities of private businessmen.

The Basis of an Adequate Theory

An adequate theory of business responsibility must meet several requirements. First, its criterion of value should be drawn from

[14] This seems to be the major point stressed by Theodore Levitt in "The Dangers of Social Responsibility," *Harvard Business Review*, September–October, 1958.

our increasing awareness of the requirements of socially effective economic production and distribution, and particularly the necessities of economic growth and development on a broad social scale. Some such value criterion has been a part of American thinking since the Great Depression of the 1930's, and it was reinforced by the great emphasis that the Second World War placed upon the value of high production and the efficient allocation and distribution of economic resources. In the current race with the Soviet Union to dominate the world economic scene, we see once again that economic production and distribution constitute a major criterion of value. Further, such a value assumption underlies the Employment Act of 1946. Also, such an assumption has caused the nation's two major political parties to pledge themselves to use all of the resources of government at their command to offset the fluctuations of the business cycle.

All of this suggests strongly that when we invoke the phrase "the social responsibilities of the businessman," we mean that businessmen should oversee the operation of an economic system that fulfills the expectations of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare. Social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are utilized for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms. The television quiz show scandal is a case in point.

The second requirement of an adequate theory of business responsibility is that it be based upon the new concepts of management and administration that are now emerging. There is an increasing awareness of the usefulness of scientific methodology in defining and solving problems within the management environment. The "Great Man" theory of management is being replaced with a concept of the manager as coordinator and planner, as a team member whose main play consists of making significant links between relevant pieces of information. This means that managers need to reconstruct their self-images and to de-emphasize the role that status and authority play in the management function. And finally, the study of human relations is convincing managers that careful treatment must be accorded employees if they are to be fully effective in the work situation and if their jobs are to form a part of the "good life." Any theory of business responsibility that ignores these recent developments in management science would be seriously deficient.

Third, an adequate theory of business responsibility will recognize that the present business system is an outgrowth of history and past cultural traditions. It will recognize that what we are today is, to a very large extent, a function of what we were yesterday. In more specific terms, this means that there is not likely to be any escape from the very powerful motive of private gain and profit which is often at variance with social interest. Rather than denying the importance of this force or wishing it away in an idealistic fashion or assuming that businessmen can or will ignore it as they make decisions, the new theory of business responsibility will attempt to find institutional means for hedging about this motive and for directing it into socially useful channels. This, of course, is the hope of Galbraith in his theory of countervailing power. It is also a hope expressed by Berle in *The Twentieth Century Capitalist Revolution* in which he speaks of the need to develop "the conscience of the corporation."

The fourth requirement of a theory of business reponsibility is that it recognize that the behavior of individual businessmen is a function of the social role they play in business and in society. This means two things: (a) that the individual businessman, however noble may be his intentions, is often unable to influence significantly the total business configuration within which he works; and (b) that many times the individual businessman will be motivated to take action or make decisions that are not at all consistent with the ideals of social responsibility that he may hold in the abstract. Both forms of behavior are understandable when we realize that the businessman does not operate in a cultural vacuum but within a social role whose total pattern is fairly well defined for him by the mores of his society.

Fifth, there should also be a recognition that socially responsible business behavior is not to be produced automatically but is rather to result from deliberate and conscious efforts of those institutional functionaries who have been given this task by society. There are no magic formulas and no automatic mechanisms which by themselves will guarantee the results that the public desires. Conscience alone, whether of public trustee or of Christian businessman, is not enough. A balance of power is likewise insufficient. Nor is courageous action by public servants enough. The task requires a constant tinkering with the institutional mechanisms of society, employing more and more of the fruits of scientific methodology and the scientific attitude. The job, though difficult, should become easier as social scientists increase their knowledge of human behavior and human institutions. It is true that we cannot totally escape the impact of our cultural heritage, but we are slowly accumulating a storehouse of knowledge about ourselves and about businessmen that should enable us to resolve some of the problems and issues of business responsibility.