Arabian Journal of Business and Management Review

Machan, Arab J Bus Manage Rev 2015, 5:2
DOI: 10.4172/2223-5833.1000116

Opinion Open Access

To Whom Do Business Managers Owe Service?

Tibor R. Machan*

Professor of Business Ethics and Free Enterprise, R. C. Hoiles Chair in Business Ethics and Free Enterprise at the Argyros School of Business & Economics, Chapman University, Orange, CA, USA

***Corresponding author:** Dr. Tibor R. Machan, Professor of Business Ethics and Free Enterprise, R. C. Hoiles Chair in Business Ethics and Free Enterprise at the Argyros School of Business & Economics, Chapman University, Orange, CA, USA, Tel: +374 10 23-72-61; E-mail: tmachan@gmail.com

Received date: March 11, 2014, **Accepted date:** December 08, 2014, **Published date:** March 18, 2015

Copyright: © 2015 Machan TR. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

Introduction

Although not often noted in business ethics circles, business is a profession, the professional arm of the ordinary common human activity of commerce that nearly everyone is involved with in an amateurish capacity (i.e., most of us work for a living and shop, invest, save, etc.!). This is akin to how medicine is the professional arm of the ordinary human activity of health care that nearly everyone is involved with in an amateurish fashion. (I.e., we all attend to our fitness, try eating properly, etc.)

Unfortunately, commerce doesn't share the honored reputation of medicine even though it is ubiquitous in human community life (excepting perhaps among avid ascetics). So one often hears such questions as, "Isn't business ethics an oxymoron?" And this is understandable since in many social philosophies and religions it is deemed to be objectionable to seek to prosper, certainly in any systematic fashion—for example, it was morally condemned and even a crime in the old USSR to be a profiteer. That would be comparable to it being a crime to aspire to be a soldier among pacifists. But business, while widely embraced in many societies, carries a stigma, under the influence from certain prominent schools of ethics and certain religions. It is also often accepted that the objective of earning a profit must be morally suspect because trade is seen as a zero sum exchange —for someone to profit, someone else must lose and so one is hurting people if one prospers in life. While modern economics has defended the idea that trade is in fact a win-win exchange—so both parties to trade must understanding themselves as benefiting from the exchange (or at least benefit more than from alternative courses of action)—the impression that this isn't so is widespread. The idea is also helped by the long history of how most people gained wealth, namely, through looting and conquest.

Over the last several decades the field of business ethics, though not seen in exactly the same light by all those who have done work in it, has become very popular in colleges and universities, including in most business schools, around the world. Actually, ethics courses have also gained entry into the curriculums of such specialties as medical, legal, engineering, and other professional department and schools. (Oddly, though, the ethics of education and scholarship have not joined this trend!)

In the field of business ethics the focus has tended to be on what has come to be called the theory of Corporate Social Responsibility (CSR) or the stakeholder theory of corporate management. Although many accept the view of most non-academic observers of business that a company's managers have taken an oath, as it were, to promote the economic welfare of the firm, this CSR viewpoint takes it as a given, not in need of a lot of argument, that what businesses and business corporations ought to do, first and foremost, is to benefit society and not mainly those who own the firm.

One explanation of this focus is that in the field of economics, which is regarded a social science, it is widely accepted that what corporate managers will do—not so much what they ought to do—is to improve the company's bottom line. In some economists' opinion this is something managers cannot help doing—wealth maximization is an innate human drive, as many see this. Consider the following statements by three very prominent economists, the late Milton Friedman, the late George Stigler, and Gary Becker. Here is how Friedman put the point:

Every individual serves his own private interest. The great Saints of history have served their "private interest" just as the most money grubbing miser has served his interest. The private interest is whatever it is that drives an individual.

George Stigler, another Nobel Prize winner, made the point only slightly differently:

Man is eternally a utility-maximizer—in his home, in his office (be it public or private), in his church, in his scientific work—in short, everywhere.

Finally, Nobel laureate Professor Gary Becker, who may be the most explicit of those who embrace this homo economicus viewpoint, underscores the idea as follows:

The combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it.

Yet this more or less mechanistic conception of human economic behavior was supplemented by what amounts to a normative viewpoint by no less than the late Milton Friedman in his widely reprinted article for The New York Times Magazine, "The Social Responsibility of Business Is to increase its Profits." In it he insisted that the moral responsibility of corporate managers is to strive to make the company profitable since this is what managers promise to do for their employers, the shareholders.

Up until Friedman's declaration it was mostly taken for granted that corporate mangers would promote the firm's economic well being—this follows from the general assumption in economics that in the marketplace everyone embarks upon the maximization of utilities, which is pretty much the same thing as trying to make a profit. But Friedman changed the account somewhat by claiming that this is not only what corporate managers do but also what they are morally obliged to do. Why? Because they made a moral and contractual commitment to do so to the company's shareholders and investors. Not

Citation: Machan TR (2014) To Whom Do Business Managers Owe Service?. Arab J Bus Manage Rev 5: 2. doi:10.4172/2223-5833.1000116

only does this generate an ethical but also, in most cases, a legal obligation from managers.

In response to Friedman many who came from the field of philosophical ethics began to write extensively about business ethics and insisted that, on the contrary, what corporate executives ought to do is manage companies so they would benefit stakeholders. In other words, the moral responsibility of corporate managers is not to improve the bottom line but to help all those who could benefit from what the company is doing, all those who have a stake in the company's fortunes. This became the CSR movement. And today there are journals, magazines, conferences, and many books that advance the idea that the moral responsibility of corporate managers is to benefit society, not primarily the owners—shareholders, investors, stockholders—of the company.

This line of thinking is a not altogether subtle attack on the nature of the capitalist economy. In a capitalist system, those who buy shares and invest in them own companies; their managers' professional commitment and purpose is to make them succeed in the marketplace. Such success is measured, naturally, by how profitable they are, how good a return they bring in from their owners' investment, how well they prosper. The details depend on the kind of firm in question, obviously, but this is the general understanding of a capitalist business.

Of course, from the start many people have demeaned the idea of capitalism—a concept first used by critics—because it treated profit making as a good thing. Going into the marketplace with the intention of bringing home a good return on one's labor or investment just appeared too greedy, too avaricious. Never mind that, in fact, once one makes a good return on one's investment, it is an open question as to what one will do with the wealth one has accumulated or that no one could reap profits without also advancing what one's trading partner deems to be his or her economic interest.

So then the practical impact of rejecting the capitalist model is not so much a rejection of gaining wealth but a rejection of the private allocation of wealth. Critics of capitalist business, in other words, do not want private individuals to be in charge of spending the profits made in business. They would like society or the public—which for practical purposes translates into government—to decide what happens to the wealth.

This used to be called socialism, but by now that grand experiment as a political economic system has had innumerable setbacks across the globe, so the term "socialism" has been dropped. Instead we have CSR or stakeholder theory. If such an idea can catch on, it will have the same impact that socialism does—to undermine the rights of individuals to allocate their own wealth and place this power into the hands of politicians and bureaucrats and all that without having to admit to favoring socialism. But as the saying goes, a rose by any other name is still a rose!

What needs to be debated in the field of business ethics is whether ownership confers the rightful authority to allocate resources. There should be no question-begging presumption that companies must serve society (all within the realm)—after all, if they do their business well, they do that as a matter of course while they are seeking to make profits, to prosper in the market place. How profits are to be used should, arguably, be left to those who earned or otherwise peacefully (e.g., by their efforts and by good fortune) obtained them.