Do Industries and Corporations of this Generation Align with the Thoughts of Milton Friedman on Corporate Social Responsibility?

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Abstract:- This research paper delves into the alignment of modern corporate social responsibility (CSR) practices with Milton Friedman's theory that a corporation's primary responsibility is profit maximization for its shareholders. It examines the pharmaceutical, banking, and food and beverage sectors to assess Friedman's theory's relevance in the current business environment. Contrary to Friedman's 20th-century view that dismissed broader CSR obligations, the 21st century has witnessed a shift towards recognizing corporate duties toward society, the environment, and a broader stakeholder group. The study scrutinizes how these sectors balance profit goals with social responsibility, including sustainable investing, responsible lending, sustainable sourcing, waste management, and nutritional transparency. Employing a mixed-method approach with data from corporate reports and sustainability indices, preliminary findings indicate a spectrum of adherence to Friedman's profit-centric model versus a comprehensive CSR approach. Results show that while profitability remains central, many corporations have integrated CSR into their business models to varying degrees, influenced by a complex mix of factors. This nuanced exploration provides insights into the evolving nature of CSR, offering a critical perspective on Friedman's relevance today and the degree to which corporations have embraced broader social responsibilities. It lays the groundwork for future research on the interplay between corporate profitability, shareholder value, and social responsibility, contributing valuable information for stakeholders, policymakers, and researchers interested in corporate ethics and sustainability.

***Keywords**:- Corporate Ethics, Corporate Social Responsibility, Corporate Governance, Milton Friedman.*

I. INTRODUCTION

Corporate Social Responsibility has experienced an astonishing evolution, moving from a peripheral to a central issue within the corporate world. The premise of corporate social responsibility is that companies should not only focus on profit maximization but also work towards social and environmental sustainability, addressing the interests of a broad array of stakeholders (Porter & Kramer, 2006). The business paradigm has shifted, as corporations have found a new role to play and contributing to sustainable development (Carroll & Shabana, 2010). However, not all agree with the expansion of this corporate role.

Milton Friedman, a Nobel Laureate economist, famously argued that “the social responsibility of a business is to increase its profits," a statement that set the stage for debates on the purpose of corporations (Friedman, 1970). According to Friedman, corporations’ social obligation is towards their shareholders and the sole focus on profit maximization indirectly contributes to social good. Despite this perspective, it is essential to recognize that Friedman’s viewpoint was expressed over five decades ago, during a time when businesses operated under different expectations.

Today, the evolving landscapes of industries and the increasing demands from shareholders have put CSR at the forefront of corporate strategies. Yet, the alignment of corporate behavior with Friedman’s view remains a topic of vigorous debate.

This paper aims to contribute to the discussion by examining how the pharmaceuticals and medical research industry, banking and investment services sector, and the food and beverages sector align with or diverge from Friedman’s viewpoint.

Pharmaceutical and medical research industries serve as a compelling case study because of their direct impact on health outcomes and their historical context of regulatory controversies (Banerjee, 2008). In contrast, the banking and investment sector is included due to the significant economic impact it can exert on society and its role in financial crises, which often lead to discussions on CSR (Laufer, 2003). The food and beverages sector is included due to its direct connection to health and environment-related issues, such as obesity and waste management (Richards et al., 2017).

By dissecting the actions in corporate strategies within these industries, I will explore whether the modern corporate world aligns with Friedman’s theory or if CSR has become a fundamental component of modern business practices. This analysis will provide valuable insights into the evolution of CSR and its implications for businesses and stakeholders.

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II. CORPORATE SOCIAL RESPONSIBILITY: AN OVERVIEW

Corporate Social Responsibility (CSR) Has evolved as a significant field in business practice and theory in the last few decades. CSR is a comprehensive concept that covers a broad spectrum of corporate activities and policies encompassing philanthropy, ethical business standards, and economic and social equity (Carroll, 1979).

CSR is seen as the business contribution to sustainable development goals, essentially stipulating that businesses are not only economically profitable but also socially and environmentally responsible. Carroll (1979) proposed a pyramid model of CSR, presenting 4 layers of responsibilities for corporations: economic, legal, ethical, and philanthropic.

Economic responsibilities involve being profitable to maintain shareholder trust and to ensure company survival and growth. Legal responsibilities relate to complying with laws and regulations. Ethical responsibilities involve doing what is right, just, and fair, even when not legally obligated to do so. Philanthropic responsibilities include voluntarily contributing to societal development and well-being.

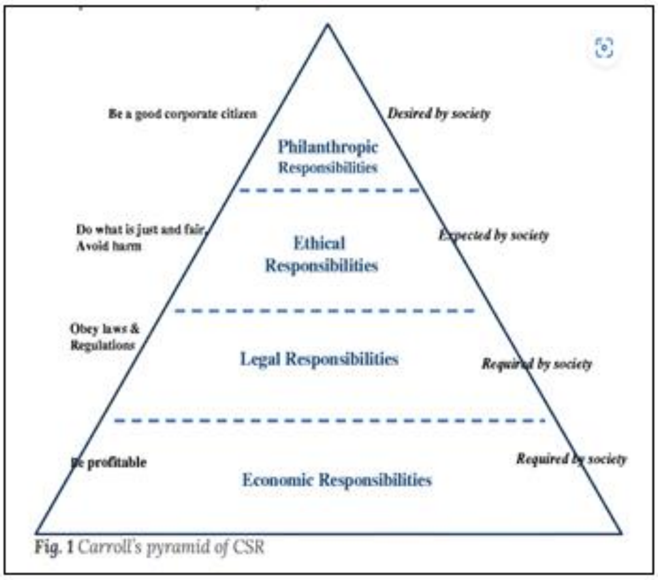

Fig 1 Carroll’s Pyramid of CSR
Note: Adapted from Carroll, A.B. A three-dimensional conceptual model of corporate performance. Academy of Management Review

Modern day CSR often goes beyond the pyramid model, integrating these responsibilities into core business operations. CSR is seen as an essential aspect of risk management, reputation building, and value creation (Porter and Kramer, 2006). CSR is not a peripheral activity but rather a core strategy that businesses use to engage with stakeholders, including employees, customers, suppliers, communities, and regulators.

The advent of the Environmental, Social, and Governance (ESG) Framework has further reinforced this integration, offering a holistic approach to measure a company's commitment to sustainability (Chen and Bouvin, 2009). This framework encourages companies to focus not only on short-term financial returns but also on long-term sustainability and resilience.

- *The Friedman Doctrine: Social Responsibility of Business*

Milton Friedman, a renowned economist, presented A fundamental different viewpoint on corporate responsibility. Friedman argued that the only social responsibility of a corporation is to increase its profits within the framework of the law and ethical custom (Friedman, 1970). He saw businesses as economic entities driven by profits and believed that business executives’ sole responsibility Is to their employers-that is, the shareholders.

Friedman argued that business leaders who chose to pursue social causes are essentially spending other people's money-the shareholder’s investments-for a purpose for which they have no mandate. He equated such behavior to taxation without representation. According to Friedman, social issues should be the sole domain of the state and not-for-profit entities. Businesses are neither equipped nor mandated to solve society's problems. Friedman's perspective is grounded in the classical economic view the businesses exist to generate profits for their owners.

This perspective, often referred to as a shareholder capitalism or the Friedman Doctrine, has profoundly influenced corporate behavior in governance, especially in the United States. Although Friedman’s view is still influential, it has been challenged by the rising importance of CSR and stakeholder capitalism.

In recent years, Corporate Social Responsibility (CSR) has become a critical facet of modern corporations. With the shift from Friedman’s traditional capitalist model to the stakeholder model, corporations now focus on a broader set of responsibilities, which include creating value for employees, customers, suppliers, communities, and the environment in addition to stakeholders (Freeman, 1984). CSR is now seen as a strategic tool that businesses use to generate goodwill, improve brand reputation, attract talent, and even drive innovation (Porter and Kramer, 2006).

Through effective CSR practices, corporations can distinguish themselves from competitors and build long-term, trust-based relationships with stakeholders, thereby strengthening their market position and reducing operational risks (Brammer and Pavelin, 2006). Furthermore, CSR activities can enhance a corporation's ability to attract and retain employees. By fostering an inclusive and sustainable workplace, businesses can promote employee morale, engagement, and productivity. Studies have shown that companies with strong CSR reputations often attract high quality workforce and exhibit lower employee turnover rates (Turban and Greening, 1997).

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CSR also plays a significant role in enhancing customer loyalty and brand reputation. Customers today are more informed and socially conscious, often favoring products and services from businesses demonstrating social and environmental responsibility. As such, businesses are incentivized to adopt and promote CSR practices to attract and retain customers, thereby enhancing their market share and profitability (Sen and Bhattacharya, 2001).

Identifying and measuring effective CSR practices is a complex task due to the multifaceted nature of CSR. However, several indicators can help assess the effectiveness of a corporation's CSR efforts. One of the prominent measures of CSR is the Environmental Social and Governance scores (ESG). The ESG framework has become a standard way for investors to evaluate corporations on their commitment to sustainability. ESG scores assess companies on a wide range of parameters, including energy use, pollution, waste management, employee treatment, community development, and corporate governance practices (Chen and Bouvin, 2009). ESG scores provide a comprehensive measure of a company's commitment to sustainability and social responsibility.

The scores assess corporations based on three key criteria: environmental impact, social responsibility, and governance quality. The environmental dimension evaluates the company's ecological footprint, including energy use, waste management, and efforts to mitigate climate change. The social dimension assesses the company's relations with its employees, suppliers, customers, and the communities in which it operates. This can include elements such as labor practices, Product Safety, data protection, and human rights issues. The governance dimension focuses on company leadership, executive pay, audits, internal controls, shareholder rights, and transparency (Chen and Bouvin, 2009). ESG scores this offer an integrated view of how well companies are aligning their operations with broad social, environmental, and governance objectives.

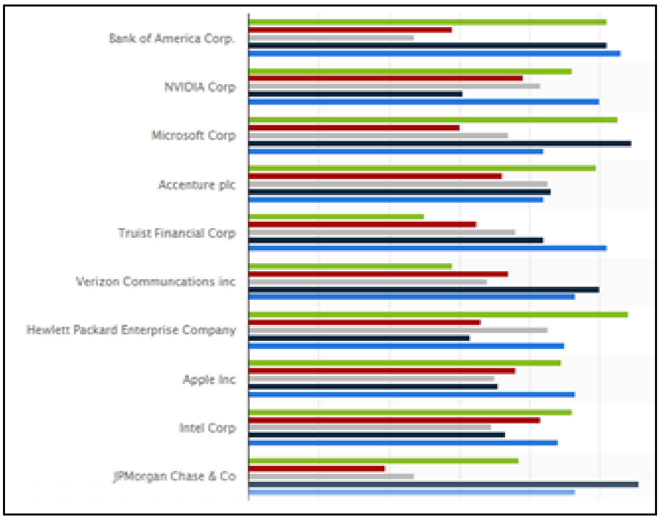

Fig 2 Top environmental, social, and corporate governance (ESG) ranked publicly traded firms in the United States in 2023

Note: *Adapted from Statista Research Department, May 2023*

Global Reporting Initiative (GRI) Standards are another set of widely adopted global standards for sustainability reporting. These standards enable businesses to disclose their impacts on issues such as climate change, human rights, and corruption. Businesses that adhere to these standards and transparently report their performance often have robust CSR practices (Kolk, 2004).

The Corporate Social Responsibility Index (CSRI) Is also a valuable tool. Developed by the Boston College Center for Corporate Citizenship and Reputation Institute, the CSRI measures stakeholder perceptions and evaluates the impacts of CSR programs on company reputation and consumers' behaviors. Certifications from recognized bodies are another indicator of effective CSR.

These include Fair Trade certification, Rainforest Alliance certification, and B Corporation Certification, each reflecting different aspects of CSR such as equitable trade practices, environmental sustainability, or overall social and environmental performance.

III. DISCUSSION

Pharmaceutical and medical research companies, as evidenced by firms like Johnson and Johnson and Novartis, exhibit significant efforts in CSR. Activities typically focus on public health issues, environmental sustainability, and ethical sourcing. The alignment of these practices with the Friedman Doctrine is nuanced.

On one hand, these initiatives address a broad spectrum of stakeholders, going beyond mere shareholders and reflecting A stakeholder model rather than Friedman's shareholder-centric approach. However, these CSR initiatives also potentially enhance the firms' reputations, attract talent, and build customer loyalty, which could ultimately benefit shareholders, demonstrating an indirect alignment with Friedman's doctrine.

The banking and investment services sector, represented by companies like JP Morgan Chase and Goldman Sachs, is making strides towards sustainable financial and economic inclusion. However, criticism over the sectors financing of environmentally harmful activities such as some alignment with Friedman's profit-centric doctrine. The rising adoption of ESG investing suggests a broader approach to stakeholder value demonstrating a shift towards more comprehensive business responsibility. Yet, it's almost plausible that these shifts towards ESG are driven by market and investor demands and thus, are strategies aimed at profit maximization. Food and beverage companies like Unilever and Coca-Cola have focused their CSR efforts on sustainable sourcing, nutrition, and waste reduction.

These initiatives, which go beyond profit maximization to address broader environmental and societal issues, seemed to deviate from Friedman's doctrine. However, these initiatives also enhance brand reputation and customer loyalty, suggesting they could be seen as profit maximizing strategies indirectly aligning with Friedman's perspective.

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The analysis suggests that modern corporations can integrate CSR activities and shareholder value maximization, rather than viewing them as conflicting objectives. The key lies in recognizing and strategically leveraging the interdependencies between business and society. By aligning CSR efforts with their core business strategies companies can create shared value, benefiting both stakeholders and shareholders. This requires A deeper understanding of stakeholders, their expectations, and how they intersect with the company's operations.

In today's hyper transparent world, companies cannot afford to ignore CSR. Poor social or environmental performance can harm reputation, customer loyalty, and investor interest, ultimately impacting the bottom line. On the other hand, strong CSR can differentiate companies and competitive markets drama fostering innovation, employee engagement, and customer loyalty.

Policymakers and regulators play a crucial role and promoting CSR. They provide incentives for responsible business conduct, such as tax benefits and procurement preferences. They can also mandate non-financial reporting to increase transparency and accountability, enabling stakeholders to make informed decisions. However, is important that policymakers and maintaining A conducive business environment. Over regulation can stifle innovation and competitiveness.

Therefore, policy measures should encourage voluntary CSR initiatives rather than imposing one-size-fits-all requirements. Society benefits when corporations embrace CSR. Businesses can contribute to tackling societal challenges, from climate change to inequity, leveraging their resources, innovation, and influence. However, while corporations can be part of the solution, they cannot replace governments or civil society.

Corporations' actions are ultimately driven by business considerations, which may not always align with societal needs. Therefore, society should not rely solely on corporations for social or environmental progress.

IV. CONCLUSION

This paper began with a review of the dichotomy between the perspective of Milton Friedman, who claimed that the primary social responsibility of a business is to increase its profits Ford shareholders, and the modern conception of Corporate Social Responsibility (CSR), which adopts a holistic approach towards creating shared value for a wide array of stakeholders.

Examination of three distinct industries-pharmaceuticals and medical research, banking and investment services, and food and beverages-revealed that while CSR practices deviate from Friedman's profit centric view by addressing A wider range of social and environmental issues, they can also be interpreted as long-term, strategic profit maximizing activities. This interpretation suggests an indirect alignment with Friedman's doctrine.

Corporations today are walking a tightrope between the tenet of profit maximization, as characterized by Friedman, and they brought her conception of business purpose. Businesses are finding ways to align their economic interests with societal expectations, indicating A symbiotic relationship between profit and purpose rather than a dichotomy. Business landscapes today demand corporations to adapt and embrace a holistic vision of value creation that goes beyond profit making to consider societal and environmental welfare. Importantly these efforts can and should be aligned with the fundamental business objective of profit.

As such, CSR, when effectively integrated into business strategy, can become a vehicle for sustainable long-term profitability. This not only challenges the stark distinction between the Friedman doctrine and modern CSR but also presents an evolution of the role of business in society-an evolution that harmonizes the pursuit of profit with the larger purpose of serving society.

I do not believe the narrative should be about choosing between Friedman and CSR, rather it should be about reconciling them, about leveraging the dynamics of capitalism to achieve societal objectives while creating economic value. This would be a perfect storm that unifies profit and purpose. This equilibrium, as challenging as it may be to achieve, will likely be the qualifying factor of sustainable business in the years to come.

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