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APPROVED BY

DISSERTATION COMMITTEE

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CHAPTER I

THE PROBLEM

Introduction

The United States of America may be characterized as a corporate society. With the possible exception of the Federal government, corporations constitute the most pervasive and influential economic force on the contemporary scene. Every aspect of modern life in this country today is influenced by the continued growth and development of corporations. Many changes have occurred in their organization and purposes. One change, however, appears to transcend all others; that is, corporations are now seeking clearer identification within the total framework of American life. Instead of merely promoting its own self-image, each corporate unit must function and identify within the range of the total composite corporate image.

A corporation is an economic, institutional entity. "For its existence and its operation it must depend upon the whole institutional framework of the society of which it is a part."[1] A corporation, obviously, is not a living organism capable of making decisions of its own. Yet, as a legal entity with identifiable parts, it must, much like a human being, think, react, and make judgments. There is no doubt that it must reach and execute decisions within the expectations of its investors, its workers, its customers, and the general public.

A corporation is the result of the efforts of people to organize. The human element in it is of major significance. A corporation consists of individuals, each of whom fulfills a peculiar and unique role. The employment roles do not change, although the people fulfilling them do. The organizational goals and the operational functions of most corporations remain essentially the same over long periods of time, while the persons are constantly changing. For this reason, individual responsibilities must constantly be adjusted within the framework of the overall corporate responsibilities.

It is characteristic of modern times that large segments of the population are not certain about their goals in their public and private lives. In the world of business, the quality of leadership assumes extraordinary importance.[2] Even

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[1]Donald J. Hart, Business in a Dynamic Society (New York: The Macmillan Company, 1963), p. 271.

[2]Herbert Johnston, Business Ethics (New York: Pitman Publishing Corporation, 1961), p. 163.

so, there is today no blueprint, no Hippocratic oath, and no map to which a businessman may refer for guidance of his behavior. Although various groups and segments of the business community have developed so-called "Codes of Business Ethics," these codes are specific and rigid and adequately cover only limited phases of business endeavor. There is, therefore, a need for deep and exhaustive study of the responsibilities of individual businessmen, as well as of the responsibilities of corporations. Simply providing a predetermined code of behavior for either a man or a corporation will not enhance understanding of the development of a more profound kind of philosophical reasoning. A corporate society requires unusual strength of character, based upon valid reasoning, to discount the preferences of others in the proper performance of one's functions.

The businessman is faced with the burdensome task of making decisions among many alternatives that offer competitive claims of seemingly equal strength. American business operates constantly under the impact of a plurality of often conflicting values. Fisk indicates that:

> Indeed it is perhaps necessary within the social framework of competitive values, all individuals have to strive for a compromise acceptable to reference groups and at the same time compatible with internal principles of conduct which are determined not only by the present but also by the past.[1]

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[1]George Fisk, The Frontiers of Management Psychology (New York: Harper & Row, 1964), p. 49.

What is needed is not merely a revival of business ethics. A new concept should be formulated of the total business responsibility. Application of such a concept should increase the self-respect of businessmen in ways supported by modern conditions. The immediate past is replete with concern about unethical business practices. The present requires a new perspective and a new set of standards. A perspective is needed that is geared to the future and not the past.

It is natural for the businessman to be committed to the economic objectives of the corporation for which he works.[1] However, the history of social legislation indicates that society will grant business managers freedom in their pursuit of corporate objectives only to the extent that human values are preserved and protected. In business, as in other areas of endeavor, <u>the price of freedom is responsibility</u>. Hart states that:

> In recent years businessmen have expanded their concept of moral responsibility to cover broad social responsibility, including direct concern about such matters of community and national welfare as can be affected by company action. Making a profit is fundamental--a business must do this to stay in business. But over and above that, management has come to recognize that today it must be mindful of the total (not solely the material) needs of society. This view has become identified with the idea of corporate citizenship, which carries with it the connotation that business enterprises have as much responsibility for sustaining a strong society as do individual citizens.[2]

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[1] Leon C. Megginson, <u>Personnel: A Behavioral Approach to Administration</u> (Homewood, Illinois: Richard D. Irwin, Inc., 1967), pp. 46-47.

[2] Hart, <u>op. cit</u>., p. 335.

The businessman and the corporation for which he works are uniquely significant in the American capitalistic system. Just as the businessman needs proper adjustment and orientation to life, the corporation needs a sense of its role, its purpose, and its status in our highly organized society.

For centuries the ethics of the individual businessman have held the attention of government leaders, businessmen, churchmen, and laypeople. Yet, the curiosity of the general public has never been aroused with regard to the larger ethical elements in the responsibility of business enterprises. Riley indicates that:

> . . . Never have the relationships between the corporation and its constituent publics been more complex; never has there been a greater need for a clear specification of the kinds and extent of corporate responsibility to the larger society.[1]

Because corporations are essential and valuable, appropriate behavioral theory should be developed for relating the corporations to the larger society within which they operate. Basic research, fundamental to such behavioral theory, is required if Americans are ever to acquire the knowledges and the attitudes essential to intelligent policy formation that will be consistent in its application to the ethical practices and its fulfillment of corporate responsibilities. Furthermore, such serious and disciplined research as that undertaken in this study, may contribute to the development of more

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[1]John W. Riley, Jr., The Corporation and Its Publics (New York: John Wiley & Sons, Inc., 1963), p. 187.

realistic and practical theory applicable to the corporation as a form of business enterprise.

Statement of the Problem

The problem of this study was to develop understandings and concepts basic to selected areas of business responsibility in corporate citizenship.

This study evolved out of the hypothesis that corporations have specific kinds of responsibilities that are within patterns of behavioral theory and are applicable to the functions and operational methods of the corporation. This study, then, represents an exploratory attempt to develop conceptually the areas of responsibility with which businessmen and students of business should be familiar to perceive correctly the role of business in contemporary society.

Delimitations

The purpose of this research study was not to conceptualize all the areas of business responsibility that might involve ethical choices. Neither was it an attempt to take certain situations and determine the "ethical" answers and dictate when they either should or should not be used. The concepts and the understandings developed in this study relate in depth to some of the basic ethical questions associated with the fundamental responsibilities of business.

Definition of Terms

Concept.--A concept is an extension or a generalization of understandings derived from an interpretation of certain foundational facts and knowledges.

Understanding.--An understanding is a broad idea resulting from the organization and interpretation of the facts and knowledges existing in any given situation.

Ethics.--Ethics pertain to "the principles of morality including both the sides of the good and the nature of the right."[1]

Corporate citizenship.--Corporate citizenship includes all volitional activities engaged in by a corporation in which the welfare of society is the overriding criterion. This definition restricts corporate citizenship to the actions of the corporation and excludes those of the managers and the employees.

Sources of Data

Data obtained for the purpose of conducting this study were derived from many and varied sources. The most important source of information was current literature.

The chief sources of data were textbooks in sociology, business administration, and psychology; non-fiction materials; and both professional and news magazines. Other data

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[1]Clarence L. Barnhart, The American College Dictionary (New York: Random House, 1960), p. 412.

from a variety of other sources were gathered to obtain ideas that led to the development of numerous understandings and concepts for each area selected. These sources included lectures, addresses by leading businessmen, newspapers, monographs published by such organizations as the National Association of Manufacturers, and personal conferences with businewsmen. All sources of data contributed relevant information that helped make more meaningful the concepts and understandings presented for each area.

Procedure

The first step in this study was to establish clearly the basic areas of business responsibility. Data from a variety of sources were analytically processed to provide ideas leading to the isolation and definition of five broad areas of business responsibility.

The second step consisted of obtaining factual information fundamental to the development of each basic area of business responsibility. The information was analyzed, interpreted, and categorized to establish a proper perspective for each selected area. The most significant information was selected and used to develop understandings basic to this study.

The third step was to develop from the understandings certain conceptual ideas that were relevant to and indicative of the kind of reflective thinking essential to the establishment of a sound and comprehensive presentation of the elements in corporate citizenship.

The final step, leading to the completion of this study, was the formal preparation and presentation of this research report, its implications, and pertinent conclusions.

CHAPTER II

THE CONCEPT APPROACH

Studies of the management of corporate enterprises have been almost exclusively restricted to analysis of the design of such entities and to measurement of their accomplishments. What is needed now are studies of the elements of corporate administration so that essential concepts may be formulated. Such concepts may be used to construct hypotheses that may be researched in an effort to establish a more valid and more reliable body of corporate management theory. This study consisted of concept development applicable to the aspect of business management that is referred to as "corporate citizenship."

Knowledge of business administration can and should be structured in terms of concepts and operational theories. The concepts held by the individual administrator in business direct his methods of operation. If he possesses a variety of appropriate concepts, he enlarges his frame of reference and develops a heightened sensitivity to people and to specific business situations.[1] Concepts provide solid kinds of

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[1]Dean George Denmark, "Concept Learning: Some Implications for Teaching," Liberal Education, Vol. 51 (March, 1965), p. 55.

clues for resolving the problems of individuals and groups responsible for the management of corporate units. With a conceptual grasp of corporate citizenship, the management of any corporation should be capable of effectively fulfilling its "citizenship" role in interactions with owners, employees, consumers, local community, and government.

This study of corporate citizenship did not use scientific formulae to predict the outcomes of any business operation. Its conceptual approach to the study of the total business responsibility relied upon philosophical reasoning. Through concept development, directions were formulated to help corporate management deal with the problems arising from interrelationship situations.

> . . . Concepts mark out the paths by which we may move most freely in logical space. They identify nodes or junctions in the network of relationships, termini at which we can halt while preserving the maximum range of choice as to where to go next.[1]

In the generalization process used in this research, any facts, knowledges, and understandings were analyzed and interpreted to develop sound, logical, and concise concepts. The precisely and clearly stated concepts were categorized and placed in a sequential, outline form. They are presented in the concluding chapter of this research report.

Concept development ordinarily involves logical, sequential steps that facilitate understanding. The concept

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[1]Abraham Kaplan, The Conduct of Inquiry (San Francisco: Chandler Publishing Co., 1964), p. 52.

approach used here to define business responsibilities was designed to go well beyond the factual and knowledge considerations and to reveal the broader, underlying understanding and concepts in corporate citizenship. There is no proliferation of facts in this report. In essence, the generalization process is used to present understandings and concepts that embody and replace the masses of facts and even the knowledges available. As Woodruff states:

> . . . A concept is important because it is the internal mediating variable that accounts for the direction of a person's response to a situation.[1]

The concept development approach here contributes to the expansion of the broader understanding of corporate citizenship, while making possible considerable simplification and compression of the applicable knowledge.

Within the behavioral theory applicable to the operation of corporations, some content is shaped around the idea of corporate citizenship. This content deals primarily with functions and operations out of which behavioral theory has grown. Culbertson states that:

> The construction of concepts may grow out of activities such as the observation and description of situations, the use of techniques like polarization and analogical reasoning, the discovery and analysis of gaps in theory, and the analysis of empirical

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[1]Asahel D. Woodruff, "The Use of Concepts in Teaching and Learning," Journal of Teacher Education, Vol. 15 (March, 1964), p. 84.

> generalizations. Threaded throughout are the elements of imagination, creativity, and insight.[1]

It is necessary to locate, analyze, and interpret the behavioral material about how business functions, if conceptual ideas are ever to be formulated.

The process of concept formation relative to corporate citizenship that was used in this study involved four steps:

1. Acquisition of facts--Many facts were acquired relative to the areas of business responsibility which contribute to corporate citizenship.

2. Assimilation of knowledges--The factual information was sifted to gain clear perception and knowledge of the significant facts or truths.

3. Development of understandings--The specific knowledge relationships were, through reasoned judgments, rendered intelligible and developed into broad kinds of understandings.

4. Formation of concepts--The particular understandings were developed, through reflective thinking, into carefully stated concepts that are applicable in the area of corporate citizenship.

Each of the foregoing steps facilitated the development of broad generalizations beyond the limits of facts and knowledges.

Corporate citizenship can best be understood by structuring concepts that facilitate the development of solutions to complex business problems. Imagination, creativity, and insight are prerequisite for concept formation in business inasmuch as considerable data lack unformity and consist

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[1] Jack A. Culbertson and Stephon P. Hencley, Educational Research: New Perspectives (Danville, Illinois: The Interstate Printers & Publishers, Inc., 1963), p. 103.

merely of enumerated facts. The value of facts, existing in isolation, is indeed limited. Yet, many people ignore this limitation and in their thinking continue to emphasize the facts. They seldom are able to find for themselves generic elements in the enormous masses of factual information. Bruner points up the error in this by stating that:

> . . . Facts simply learned without a generic organization are the naked and useless untruth.[1]

Finding the generic, perceptual relationships in experiences, memories, images, and imaginative thinking is essential to the emergence of concepts.

Each step of the development is functional in nature. Facts become functional when they are used to form knowledges. Knowledges become functional when they are used to form understandings. Thus, in each step, the facts learned and the knowledges acquired take on usefulness and become functional in reaching the next higher step in the total generalization process.

In summary, there are today voluminous amounts of material concerning the organization and the operation of business enterprises. Much of this material is derived from the behavioral sciences. Detailed descriptions of business problems exist. There is factual information concerning business ethics from which understandings and concepts may be

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[1]Jerome S. Bruner, "Learning and Thinking," Harvard Educational Review, Vol. 29 (1959), p. 185.

developed. Rarely is such information so organized, however, that the understandings and the concepts become discernible in cognitive groups. Chapter III of this report makes certain understandings and concepts of corporate citizenship readily discernible. The information is summarized in Chapter IV with a concise outline of the understandings and concepts developed from the larger, more comprehensive presentation.

CHAPTER III

CORPORATE CITIZENSHIP

As society changes, business entities must change so that the business system can be maintained at a high level of service to society. Withers states that:

> . . . Although we do not have socialism, large corporate property is social, not private. When this socialized conception of corporate property is really accepted by stockholders and management, great benefits will result.[1]

The significant change in philosophy, from solely profit motive to social responsibility, confronting business today involves interest in and concern for corporate responsibility. Historically, an owner managed his business and could be held directly responsible to society. Now that management and ownership are separating, questions arise concerning the location of responsibility.

> . . . For the fact to be attended to in modern industrial society is not the location of ownership but the location of responsibility.[2]

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[1] William Withers, Business in Society (New York: Appleton-Century-Crofts, 1966), p. 71.

[2] John F. A. Taylor, "Is the Corporation Above the Law?" Harvard Business Review, Vol. 43 (March-April, 1965), p. 126.

Corporate responsibility refers to a corporation's obligation to consider the effects of its decisions and actions on the whole social system. The reasons for a more concentrated emphasis include complex social dependency, changing attitudes, and partial separation of ownership from management.

The problem of corporate citizenship is partly one of adaptation to changing social and political conditions. This adaptation is complicated because businessmen are pragmatists. Corporate citizenship is a reality in a pluralistic society wherein business is interacting with many other groups capable of challenging its actions. Much current emphasis on corporate responsibility also generates from humanism and social conscience as reflected in the general concern of people for the welfare of others.

To facilitate the study of ethical elements in business, the nature of business as a legal entity must first be established. Furthermore, each area of business responsibility must be dealt with on the basis of ethical responsibility to set forth appropriate concepts and understandings. This is done in the subsections that follow.

Nature of Corporate Citizenship

Corporate organization, as an invention of man, is the device upon which our modern Western society largely depends in the accomplishment of its economic purposes of production and distribution. There are also social purposes for corporate organization examplified by churches and universities.

Most visible are the large scale organizations referred to as "big business" enterprises. The business corporation is strictly modern and cannot trace its lineage back more than a century. Thus, the modern corporation cannot effectively utilize tradition in seeking solutions to its problems. The corporation must often seek to solve its problems through conscious and deliberate pioneering action. This is true not only in matters concerning economic organization and management but also in matters that relate directly to social responsibility and ethics.

A decision made by management on one occasion may not be appropriate at another time. The standards or criteria on which decisions must be made vary sharply in periods of either prosperity, recession, war, or national emergency. At any particular time, the set of standards by which a corporation is managed is substantially affected by such things as security, rate of growth, stability, and convenience.

Businessman in the past have tended to identify themselves with the economic ideology that demands and condones a single-minded preoccupation with growth and expansion. Megginson states:

> The corporation itself has evolved as a powerful, flexible, and generally efficient economic institution. But, the corporate philosophy has been essentially materialistic rather than aesthetic, social, or spiritual. Consequently, the corporation has

> tended to create an impersonal world in which employees spend a large portion of their time under pressure for conformity.[1]

Today, this kind of materialistic approach is often severely criticized. Businessmen themselves are questioning the respectability of business and are viewing anew the obligations and responsibilities of their chosen field of endeavor. Fenn[2] suggests that there has been a definite movement toward the development of corporate "citizenship." He indicates that:

> . . . Corporate management has moved perceptibly from the old concepts associated with ownership to a kind of stewardship that recognizes a widening range of community worker interests.[3]

This kind of stewardship suggests that each business organization has responsibility for the maintenance of equitable relationships among its interested groups--stockholders, employees, customers, and the public at large. Drucker observes that a business enterprise fulfills both economic and social functions.

> . . . The modern business enterprise is not just an economic institution. In order to discharge its economic function, it has to have a concept behind it, an organization and a constitution. It is a social institution and a community as well, and needs to be managed--and studied--as such.

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[1]Megginson, op. cit., p. 39.

[2]Dan H. Fenn, Jr., Business Responsibility in Action (New York: McGraw-Hill Book Company, Inc., 1960).

[3]Ibid., p. xiii.

[4]Peter F. Drucker, The Concept of the Corporation (New York: The John Day Company, Inc., 1964), p. xii.

A corporation is always primarily a producer of goods and services, but it is more than just that. It is a small society within a larger society. It has motivations and it operates with rules and principles of its own. It is a purposeful organization that can and must give more than money to those who serve it and more than goods and services to those it serves.

Because of its early excesses, business has become subject to much criticism and in recent years has been the "scapegoat" for many of the nation's problems. Numerous American corporations have painfully learned that they must assume functions beyond the traditional one of making money for stockholders. Now a corporation must exhibit positive awareness of national goals and objectives, social as well as economic. It must make an effort to conform as much as possible to prevailing public opinion. Johnson states that:

> One of the most important changes that has taken place in the current generation as a part of the American social-economic revolution is the development of a new role of corporate citizenship with the corporation recognizing its social and economic responsibility to the whole community.[1]

The time has come for business leaders to recognize that they must endeavor to make a major contribution to the solution of problems such as education, civil rights, and air and water polution.

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[1]Holgar J. Johnson, "The Emerging Pattern of Corporate Citizenship," Address delivered before the Institute of Life Insurance annual meeting, New York City, New York, December 10, 1957.

A business enterprise is an integral part of the community. It is not an organization isolated from the prosperity, culture, and reputation of the community. It is a partner in all these things, whether it wants to be or not. The affairs of corporations, therefore, are not of private but public concern. The success or failure of a business in a community affects the destiny of that community. Fenn states that:

> . . . The corporation should avoid extreme positions. Corporations reaching the optimum size can stress areas such as research or charity to a point that could be harmful to all concerned. The moral obligation to use property to promote the common good is one of social justice and charity.[1]

Business must avoid substituting glib declarations in the area of business responsibility for hard thinking and concrete action. It is not practical to attempt to isolate, examine, assess, and weigh each of the conflicting interests that are bound to develop in any simple business situation. But, it is desirable and feasible to act within broad conceptual guidelines for business activity and to exercise deliberate and specific action within their scope.

Increasingly, businessmen are accepting positions of leadership in the government.[2] Thus, the image that industrial and business management presents becomes the face of this

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[1]Fenn, op. cit., pp. 102-103.

[2]William T. Greenwood, Issues in Business and Society (New York: Houghton Mifflin Company, 1964), pp. 130-133.

nation to those people around the world who are either building or rebuilding national strength of their own and are looking to the United States for leadership and example.

Business is the concern of every man, woman, and child in the United States. As life and social climate have changed for the individual, so have they changed for business and industry. Industrialization and the simultaneous improvement in transportation and communication have resulted in an increase in the size of business organizations and changed the nature of many of them. In this regard, the development of the corporation, as indicated by Laberee, has been unique.

> . . . The most significant fact in American industrialization has been the development of the corporation. It has been the greatest single factor in the prosperity of the country, for it has brought capital to support research, managerial, productive, and selling skills under one coordinated roof, and made mass production both possible and feasible by giving customers what they need at the prices they could and would pay.[1]

During the last 50 years, the United States has been the scene of the most spectacular growth of business enterprises in modern history. Not only has the number of firms expanded substantially but the average size of firms has also grown. At one time, the United States was a nation characterized by small-scale enterprises. Now, it is synonymous with "big business."

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[1]John C. Laberee, "Social Responsibilities," Baylor Business Studies, Vol. 67 (Waco, Texas: The Hankamer School of Business, Baylor University, 1963), p. 10.

The tremendous growth of corporations has changed the nature of capital ownership. Increasingly, the traditional sole proprietorship and the partnership have given way to a form of ownership in which a single firm may be owned by thousands of individuals. This universal type of ownership reflects a new kind of responsibility with which corporate management must be concerned.

The expansion of the corporation, undoubtedly, is one of the most important changes in man's social history. It has given him new capacities with which to solve better his problems and fulfill his wants and needs. Wertenberger states that:

> . . . One hundred thirty-five corporations own 45 per cent of the industrial assets of the United States--or nearly one-fourth of the manufacturing volume of the entire world. This represents a concentration of economic ownership greater perhaps than any yet recorded in history.[1]

Basically, the United States is an industrial civilization; therefore, efficient business operations are essential to the continuation of the "democratic" way of life.

Business has assumed a primary leadership role in society. To be sure, it is the businessman *per se* who must lead, but it is the corporation, or the direct effect of the existence of the corporation, that forces him into this leadership position. As managers of corporations, individual

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[1]Henry J. Wertenberger, *Morality and Business* (Chicago: Loyola University Press, 1962), p. 98.

businessmen are looked upon as leaders in our society. William C. Stalk, President of the American Can Company has said:

> . . . You and I and other businessmen as corporate executives must give more personal attention to our unique opportunity to exercise the area of leadership, to fulfill our unique responsibility as managers of human resources.[1]

Corporate management must develop an increasing concern for human resources and a more sophisticated appreciation of human welfare. In particular, management must have a conscious recognition of its responsibility to its employees.

The growth of corporations has led to certain competitive practices that are so obviously unethical that the state legislatures and the Congress were forced to regulate all business with restrictive laws in an attempt to correct the worst abuses. Around the world, the United States is often described as a corporate society. If the corporations are judged corrupt, then it will be concluded that the society itself is corrupt. The relationship between business practice and ethical practice has come under recent scrutiny, thus encouraging new laws to govern the corporate conduct. Such laws tend to be negative in nature; they tell only what must not be done.

Business corporations are an extension of society itself. They exist with the permission of the society to serve

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[1] Fenn, op. cit., p. 82.

the broad purposes of that society.[1] They reflect at most times the prevailing ethical, moral, and even cultural values of society. More specifically, they tend to reflect the values of the people at the top levels of management. One of the many fascinating aspects about a business corporation is that--in its daily life, and not merely in the legal sense--it takes on many of the attributes of a person. It exhibits a distinct personality; it may be either liked or hated with real emotion.

Corporations cannot be anything other than what they really are. No amount of false front will keep the real character of corporations from erupting. They tend to behave as people expect them to behave. They, like many other entities, are frequently beset by a fickle public. Harris,[2] in a survey concerning the public image of United States business, indicates that Americans are ambivalent and sometimes contradictory when they examine American business. Many of those interviewed had praised business for its intelligence and dedication to raising the standard of living. Indicating the contrast to this praise, Harris states:

> . . . Yet there are lurking fears and distrust. A full 78 percent of those surveyed agree that business

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[1]Henry Ford, II, Business Ethics in 1961, Published address delivered before the Junior Chamber of Commerce, Minneapolis, Minnesota, April 20, 1961 (Detroit: Ford Motor Company, 1961).

[2]Louis Harris, "What Americans Really Think of Business," Newsweek, Vol. 67 (May 2, 1966), pp. 84-86.

> hasn't done enough to keep the cost of living down; 52 percent say it hasn't taken care of workers displaced by automation. Nearly nine out of ten believe monopolies are still a threat and 42 percent agree that most businessmen will do anything, honest or not, for a buck.[1]

Close evaluation does not indicate that business corporations should assume either narrow or specific social, political, and other non-business roles. Instead, corporations should continue to serve society best as individual companies and try to achieve maximum long-range profitability consistent with the public interest. This does not mean that corporations should avoid becoming involved in non-business activities. They should involve themselves, however, only to the extent that the public good is enhanced.

It is axiomatic that businessmen have power.[2] Their control of the productive and distributive resources of the nation gives them a large degree of control not only over the economic aspects of the nation's existence but also over its cultural and social aspects. Such checks as competition and legislation have been employed to curb this power. In recent years, another force has been limiting any abuse of this power. This force is the conscience of the businessman that provides an increased awareness of social responsibilities. This has been described by a former Chairman of the Board of Johns-Manville Corporation:

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[1] Ibid., p. 84.

[2] Hart, op. cit., pp. 265-266.

> . . . In the evolution of a complex industrial society the social responsibilities of management have broadened correspondingly. Management no longer represents, as it once did, merely the single interest of ownership; increasingly it functions on the basis of a trusteeship which endeavors to maintain, between four interlocking groups, a proper balance of equity. Today the executive head of every business is accountable not only to his stockholders, but to the members of his working organization, to his customers, and to the public.[1]

The granting of legal status to corporations has led to an assumption by society that they also possess responsibilities similar to those of natural persons. Corporations are "citizens" of the communities in which they are located, as are the individuals who work for them.

There are two main objectives of the corporation--longevity and profit. While these are broad and basically general objectives, they are also interwoven into every business operation. The objectives are interactive but they are not identical. Corporations should promote a continuing strong economic growth and provide a high level of employment. It is essential that business enterprises continue to be aggressive, inventive, venturesome, profitable and, therefore, increasingly efficient. In addition, enterprises that are rational and responsible citizens, should be decent in their community relationships and humane in their treatment of people. But, above all, such enterprises must be fundamentally and strongly driven by economic and service motives.

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[1]H. R. Brown, Social Responsibilities of the Businessman (New York: Harper and Brothers, 1953), p. 49.

In summary, the corporation is a mechanism of business, which when used by management for the best interest of the nation, contributes materially to the dynamic growth of the economy that it serves. The most powerful imperatives imposed on corporate management are that it must adequately serve the community and so conduct itself that it retains the confidence of its customers, its labor, its suppliers, and the section of the public with whom it deals. This, then, is the essence of corporate citizenship as it is dealt with in this research report. The specific elements in corporate citizenship are presented under five subheadings in the sections that follow.

Responsibility to Owners

With the growth of population and the development of urban centers, commerce and industry have evolved into a complicated system of production and distribution. Consequently, there is a need for large accumulations of capital. The corporate form of organization has been developed to pool such wealth for use in business endeavors.

At first, the suppliers of capital exercised management control. But, as greater amounts of capital were needed, the suppliers of capital gradually became less and less the "owners" in the traditional sense of the term.[1] Owner management is obviously impossible when there are over two million owners of a single company, e. g., the American Telephone and

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[1] Hart, op. cit., pp. 95-97.

Telegraph Company. Such dilution of ownership power has given rise to a need for more responsible management-owner relationships.

The management of the time and the money of other people is a responsibility not to be undertaken lightly. Business has a responsibility to its stockholders because their money sustains it. Stockholders, however, are seldom in complete agreement. Thus, management must concern itself with the minority, as well as the majority point of view.

The relationship between the board of directors and the management in a corporation is what the law calls a "fiduciary" relationship.[1] This is merely a relationship of trust and confidence in which one side (the stockholders) entrusts its welfare to the other (the directors).

A corporation is managed by executives chosen by a board of directors who, in turn, are elected by the stockholders. The stockholders, in essence, are the owners of the corporation. Because of the large number of stockholders in a corporation, the traditional relationship of a hired manager to the owner does not exist. In actuality, the members of the board of directors are typically selected not by the stockholders but by the remaining directors. This is accomplished through proxy forms as a result of the apathy of many

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[1]Keith Davis and Robert L. Blomstron, Business and Its Environment (New York: McGraw-Hill Book Company, 1966), pp. 217-218.

stockholders. It is possible for the directors and other top managers to become self-selecting and self-perpetuating, more or less independent of the stockholders.

Hastings describes the director-stockholder relationship in the following statement:

> . . . Stockholder relations in the past were notable in many instances for their absence of any attempt by the directors to cultivate the owners of the business. Information about the company was rarely sent to them except for financial statements, and these were prepared with little thought of making them readable to persons unfamiliar with accounting. Attendance at stockholders' meetings was not solicited, although announcements of time and place were usually sent. Stockholders visiting the offices of the company were given a reception indistinguishable from that given any strangers.[1]

Obviously, the lack of two-way communication has been a vital factor in many instances of ineffective company-stockholder relationships.

The major investors in modern society are changing from individuals to institutions. Major investors today are mutual fund organizations, insurance companies, pension associations and other groups representing millions of small savers.[2] All such groups combined in 1962 purchased over four billion dollars' worth of common stock and thus became a potent force in business investment.[3] The investment

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[1]Paul G. Hastings, Fundamentals of Business Enterprise (Princeton, New Jersey: D. Van Nostrand Co., Inc., 1961), p. 619.

[2]Davis and Blomstrom, op. cit., p. 7.

[3]Daniel Seligman and T. A. Wise, "New Forces in the Stock Market," Fortune, Vol. 69 (February, 1964), pp. 92-95.

objectives of these groups and individuals tend to complicate management's job. A balance among the types of investors must be achieved.

Seventy-five years ago there was little doubt that the sole function of profit was to provide reward for entrepreneurial risk. Hart states:

> . . . Making a profit is fundamental--a businessman must do this to stay in business. But over and above that management has come to recognize that today it must be mindful of the total (not solely the material) needs of society.[1]

In today's complex society, owners must recognize the many social groups that make strong demands on business and thus dilute profits.

As an essential part of the social fabric of this nation, business has the obligations to continue to exist and to serve, which, in fact, it can fulfill only if it makes a profit. Services made available to customers and profits made available to owners are a single responsibility. Neither cannot occur over any length of time without the other, and they are intertwined.

Stockholders must be treated fairly in the distribution of the corporation's profits. The corporation should return to the stockholder an adequate yield or profit on his investment. Laberee defines an "adequate" yield somewhat differently from most authors. He states:

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[1]Hart, op. cit., p. 335.

> . . . Adequate, that is, to give them (stockholders) a feeling of pride and satisfaction in having invested in the company, and to serve as a reward for their having saved enough money in the first place to invest.[1]

Corporate action concerning the distribution of profits in the form of dividends should be guided so that it will contribute to the general welfare of the stockholders.

Management, of course, should acknowledge the stockholders' views and ideas but should recognize that the stockholders are not always in a position to know where their best interests lie in the operation of the corporation. Preconceived ideas and prejudices of stockholders could cause disaster in the long run both to themselves and to the corporation.

As individual entities, corporations must assume the responsibilities that go with the acceptance of power. With every right, there is a corresponding obligation. Davis states:

> . . . The power-responsibility equation suggests that because business is powerful in society, it also has equivalent social responsibility in the areas where it has powers.[2]

When a group of men acquires a legal prerogative to form a corporation, it simultaneously, assumes a major kind of obligation. They take on the analogous moral responsibility of operating that corporation within "reasonable bounds."

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[1]Laberee, op. cit., p. 12.

[2]Davis and Blomstrom, op. cit., p. 329.

The owners of a corporation derive their authority from the state that granted its charter. This authority is clearly defined in the charter and in the laws governing business operations. Although the stockholders are legally the owners of the corporation, their legal claims against it are minimal. Davis states:

> . . . Stockholders do not own property in the sense in which we usually think of property ownership. That is, they do not have title to company property, nor can they control its use in the same way that a single proprietor can control his property. . . . Property is owned by the corporation not by the stockholders. Stockholders have no direct claim on corporate property except in the case of business failure and liquidation of assets.[1]

This restriction of legal possession is accepted by stockholders and is exemplified by their lack of interest in exerting control as long as operations are profitable. Garrett states that:

> . . . Today, however, we live in a world of collective capitalism where managers are the employees of a corporation while legal owners are so numerous as to form a faceless mob and so powerless as individuals that they often have little control over what is technically their own property.[2]

In a corporation, the director's responsibilities to stockholders are clearly defined by law. However, beyond these relatively clear-cut rules lie broad areas of action in which ethical value judgments may play a significant part.

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[1] Ibid., p. 212-213.

[2] Thomas M. Garrett, Business Ethics (New York: Appleton-Century-Crofts, 1966), p. 161.

Management's decisions concerning the distribution of earnings imply actions. Business must be willing to educate its owners concerning the use of their money and the profits derived from their investments in the corporations. Management's use of profits, whether it be either divided among the stockholders, reinvested in the corporation, or given away, must be evaluated. In recent years, there have been rather strong challenges to management about grants for philanthropic purposes. Moley states that:

> . . . A 1965 estimate was that annual corporate aid, including sums from corporate-supported foundations, was very close to $800 million. This is a very conservative estimate. The amount was probably around $1 billion. This deductible sum ranges between 1 and 2 percent of corporate profits before taxes. The limit imposed by law and rulings by the Internal Revenue Service is 5 percent.[1]

Although objections to this philanthropic giving have been thwarted, their mere existence implies a need for public education concerning the role that business plays in society.

Ownership implies a right to have adequate information about the financial position of a corporation and its position in comparison to other firms in the economy. Because management is the only group that can supply this information, it has the obligation to do so. Basically any reporting must be truthful and reasonably complete. Any projections of financial data should be soundly based with appropriate

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[1]Raymond Moley, "Corporate Giving," Newsweek, Vol. 67 (June 6, 1966), p. 104.

restraint, good judgment, and careful adherence to the available facts. Any news concerning annual and quarterly earnings, dividend announcements, acquisitions, mergers, stock splits, and major management changes should be handled in proper perspective. Weaver states:

> . . . Management responsibilities to shareholders should be defined with reference to shareholders' legitimate expectations, a reflection of goals of passive investors rather than those of co-owners in a business enterprise.[1]

Favorable and unfavorable news likely to affect stock values and investment decisions should be reported promptly, clearly and in detail. This information should be not only adequate but also written in such a manner that the ordinary stockholder can understand it and find it useful in intelligent judgments.

Judgment must be exercised as to the timing of a public release by weighing the interests of both present and potential stockholders who, at any given moment, may be considering either buying or selling the company's stock. With the present system of securing stock, the potential stockholder must be considered essential to the growth and the stability of a corporation. Profit still remains, however, as the major incentive for a business to innovate, the stockholders to invest and the workers to produce.

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[1] David B. Weaver, "The Corporation and the Shareholder," The Ethics of Business Enterprise, ed. Arthur S. Miller (Philadelphia: The American Academy of Political and Social Science, The Annals, Vol. 343, September, 1962), p. 84.

In summary, the ownership of American business has, through stock ownership, gradually shifted from families and small groups to the general public. This separation of ownership from operation has placed upon management the responsibility for balancing the demands of stockholders with the demands of society so that a reasonable degree of stability can be maintained. Today's corporate management must not assume that contracts with the owners limit operations to the narrow interpretation of short-term profit maximization. Concomitant with the responsibility to stockholders is the responsibility to the society that allows the corporation to develop and which sustains the environment in which it operates. But, management must not forget that profit still remains the major incentive for a business to innovate, the stockholders to invest, and the workers to produce. Management must make decisions that are consistent with the profit motive, social responsibility, and proper rewards to investors of capital. Because the results of business decisions are so widely felt, not only by stockholders but by other groups as well, management is increasingly considered to function in a fiduciary relationship not only to stockholders but also to the rest of society.

Responsibility to Employees

The expansion of social relationships has resulted in a perpetual problem between man and organizations. Man seeks freedom and self-actualization, while the organization strives for coordination and control in meeting its objectives. Argyris states:

> . . . It is our hypothesis that the incongruence between the individual and the organization can provide the basis for a continued challenge, which, as it is fulfilled, will help man to enhance his own growth and to develop organizations that will be viable and effective.[1]

The first half of the twentieth century was a time of concern for the organization. However, the modern trend is more toward concern for the man. The aim should be to produce a balanced relationship between the man and the organization.

The business corporation, a member of organized society, is a political unit, a power structure, and an organization controlling and affecting the lives of many employees. The employees are generally divided into two major personnel groups--management and operative. Because the corporation cannot speak for itself, it must do so through its employees, especially managers. There is employment responsibility that extends from the corporation to its managers. The management, in turn, has the task of handling employment responsibility on the operative level.

Business practicality, organizational ability, skill in systematization, and a high degree of perseverance are necessary ingredients for success in the management of

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[1]Chris Argyris, Integrating the Individual and the Organization (New York: John Wiley & Sons, Inc., 1964), p. 7.

employees. Managers must develop relationships with employees with extreme care. They must realize that all human beings are different. Davis states:

> . . . One erroneous value judgment is the assumption that men universally desire self-actualization and opportunity to create. Actually, men find fulfillment under all sorts of conditions. Some desire routine work which leaves their minds free to dream, others like the challenge of heavy physical labor. Still others want the guidance of a firm authority because they feel more free to act when solid boundaries are set. Some, it is admitted, do need creative opportunities.[1]

Managers must realize that work is not necessarily the central life interest of everyone. The traditional attitude of business toward employees is characterized by a gulf that separates the mingled insensitivity and paternalism of the late nineteenth century, the undisguised hostility of the 1930's, and the rather mixed approach of contemporary management.

Management has found that money is not the only compensation for which men work. Megginson states that:

> . . . In a classical treatment of incentives, a leading economist concluded that there were five reasons why men work, and that only one pertains to money.[2]

There are other factors that influence the quantity and quality of a worker's output, such as desire for status, pride in accomplishment, the desire to be appreciated, and the need for respect.

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[1]Davis and Blomstrom, _op. cit_., p. 128.

[2]Megginson, _op. cit_., p. 386.

Another element of human nature often overlooked by management is the social nature of man.[1] An employee is a member of many groups, both formal and informal. It must be recognized that the informal group is extremely valuable to the effectiveness of the employee and that this is something over which management has no official authority.

President Johnson advocates the building of a "Great Society." The American businessman, and his counterpart in organized labor, represent key personnel who must find solutions to the problems confronting society. The corporation, through a recognized responsibility to employees, must make an added contribution to the economy, social structure, and level of life.

Business should fulfill its responsibility to employees by encouraging the application of the principles of self-improvement. This requires that the individual worker constantly attempt to improve his talents and abilities in his total life as well as the performance of his job. DeLucca states:

> . . . Work has a twofold function: (1) to provide man with the means for a standard of living and (2) to allow him to make his contribution to society and the times.[2]

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[1]Robert A. Sutermeister, People and Productivity (New York: McGraw-Hill Book Company, 1963), pp. 475-476.

[2]Daniel N. DeLucca, Business Ethics: Its Social Dimensions (Pamphlet published by St. Joseph's College, Philadelphia, Pennsylvania, 1965), p. 15.

Management must realize that more than the mere physical conditions of work are important. The famous Hawthorne experiment proved the importance of considering the emotional makeup of the employee as well as the physical circumstances surrounding his job.

The importance of the American businessman today is manifested by the complexity of the problems that he faces. There appears to be a trend for young people to veer away from business in favor of the professions and more "rewarding" careers.[1] Evidently, the business community and the colleges have not demonstrated to the youth of the nation the depth of involvement and the range of challenges besetting the contemporary business society.

The employees of any corporation are its most important assets.[2] As highly valued assets, they demand certain responsibilities from the corporation. Fair wages and optimum working conditions are basic in nature. The employee should be surrounded by a climate of human relations that make him feel that he is an important individual, employed by a corporation with which he can identify with pride.

Personnel and labor relations create some of the most serious current business problems. Large corporations have to deal with thousands of employees who differ greatly in

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[1]Duncan Norton-Taylor, "The Private World of the Class of '66," Fortune, Vol. 73 (February, 1966), pp. 128-132.

[2]Davis and Blomstrom, op. cit., pp. 243-250.

intelligence, education, training, social and racial background, and personality. People have to be assigned to varied types of work, trained for that work, paid wages and salaries, promoted and fired, motivated in various ways, and organized into work teams. In the work atmosphere, both the employee and the employer should strive for the objective of top quality. A corporation that limits job satisfaction to the payment of a minimum wage or grudgingly, even a higher one, is not fulfilling its duty to its employees and to the company as a whole. Megginson states:

> . . . Job satisfaction does not result merely from the job, the individual, or the environment; a combination of all these factors is necessary. The basic hypothesis of this section is that job satisfaction varies directly and proportionately with the extent to which the needs of the individual worker which can be satisfied in a job situation are actually satisfied.[1]

If workers' personal needs are satisfied, they are more likely to remain in their jobs as productive employees.

Every facet of business is involved in human relationships--with manufacturing, suppliers, wholesalers, employees, customers, and competitors. The firm's employee relations and its public relations are of great importance. Every move and every deal made by an employee reflects on the company's integrity. Business should seek to employ only people who like to do the type of work the company offers them. Each employee is a person whose help is needed and whose attitude--

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[1]Megginson, op. cit., p. 116.

actual or potential--must be respected. Each employee must be encouraged to develop and use his abilities as fully as possible within the business, but he should not be exploited.

Management, or the administrative control of business, is of crucial importance in American society, if for no other reason than the great number of people involved. But, numbers alone do not determine the importance of a social group. The ability of a group to make basic decisions is essential to the development of social power. There can be little doubt that, in this respect, the power and the importance of management far outweigh those of any other group in American society.

One of the chief functions of an executive is to lead the group for which he is formally responsible. Megginson states:

> . . . No longer are employees thought of as commodities to be exploited and then discarded. Now there is a more "scientific" approach to performing the function of selection, training, developing, and motivating employees which is based upon understanding, predicting, and influencing human behavior.[1]

The executive should strive to discover how those under his leadership will react to his decisions, to his commands, to his desires, and to changes in the environment.

Decision-making is seldom a simple process. The wisdom of basing a management decision on intuition becomes exceedingly questionable. Management has a responsibility to

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[1]Megginson, op. cit., p. 48.

make the best decisions possible, based on valid and relevant evidence. Available tools are mathematics, statistics, and economics.

The industrial revolution brought about a high degree of specialization in business administration as well as in factory work. The organization of large corporations today involves so much specialization in management that many executives are often incapable of seeing the operation of the business as a whole.[1] Each corporation should, through its top management endeavor to educate lower-echelon managers to see beyond the corporation's immediate functions to its relationship with the total economic and political life of the nation.

One of the grave problems created by the growth of business into giant corporations has been the loss of personal contact between the management at the top and the workers at the bottom. Culliton states:

> . . .Present-day management realizes that there is an interrelationship between the leader, the follower, and the environment; and modern management considers all of these in its relations with employees. Essentially, management theory and practice are in a period of transition from the age of 'analysis' to one of 'synthesis.' The former looks at business activities in terms of the individual parts of the whole organization and its unique contribution to the whole. The latter regards the individual parts as being interrelated to, and interacting with, the whole organization and its milieu.[2]

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[1] Withers, op. cit., pp. 129-130.

[2] James W. Culliton, "The Age of Synthesis in Management," Harvard Business Review, Vol. 40, No. 2 (March-April, 1962), p. 49.

Corporations such as General Motors, with more than 300,000 employees, and the Bell Telephone System, with more than half a million employees, have compounded many of the problems of employee relations. Because personal contact between top management and employees is not feasible, other methods of communication must be established. Fundamental to bridging the gap between employees and management is an efficient program of two-way communication. Company magazines, bulletin boards, open houses, and public address systems are some examples of effective modes of communication. It must be emphasized that the information extolled through these media be pertinent, factual, informative, and truthful. It should not be mere propaganda developed to appease restless employees. For example, the corporation should not allow propaganda to be distributed that would indicate that anyone can become either board chairman or president. Our society no longer permits the belief in a realistic chance for everyone to become either chairman of a board or president of a company.

Corporations should devote much energy to sponsoring programs aimed at awakening both their own employees and the general public to the dangers of communist subversion in this country. The general public does not always recognize its own best interest, and those who are able to detect society's higher goals should use their power even against the democratic tide.

Raskin[1] expounds the idea that the expansion of automation has increased the responsibility of management. Labor unions have adopted as conceptual truth the idea that employers have an obligation to workers "too old to work and too young to die," which is just one aspect of increased social security for employees. Whether management readily accepts this view, or is coerced into a position of acceptance, is only secondary to the existence of an ethical involvement.

If employers have an obligation to workers "too old to work and too young to die," this obligation actually constitutes an ethical concern for business. Perhaps it would be necessary to define "too old to work." Certainly a person so aged that he is no longer able to contribute to the organization would be considered too old. However, when union contracts call for retirement at age 60, with only 10 years of service, several ethical obligations of the organization seem to be in conflict. However, consideration should be given to the fact that union contracts are written not for individuals, but for large groups of people.

Modern business is faced with a constant demand for higher wages and more fringe benefits, simultaneously with an actual decline in labor productivity. Business should recognize its responsibility to labor to do its share in avoiding any wage-price spiral that would adversely affect both parties.

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[1]A. H. Raskin, "Automation: Road to Lifetime Jobs?" Saturday Review, Vol. 47 (November 28, 1964), pp. 14-16.

Business should endeavor in every way to make labor aware of the dangers in such a spiral. The responsibility toward the company can be jeopardized if responsibility to employees is considered foremost. Featherbedding and compulsory "non-firing" practices can place a company in a position of financial strain, whose results may be disastrous to all employees instead of just a few.

Employees have a right to expect job security. Laberee emphasizes that:

> . . . Assuming that the employee is satisfactory and that he does his job well and conscientiously, making a normal effort to improve himself in his job he is entitled to the knowledge that his company will keep him on the job just as long as it is possible to do so; and secondly, by adoption, both of products and methods--in a word through innovation--the company will see that there is employment for that man right up to retirement.[1]

Obviously, if such conditions as these are present, every level of the company's operation will be constantly improved. Research will bring on new products and methods as well as replace obsolete and unprofitable ones. This, of course, reflects the basic objectives of business--longevity and profit.

It appears that total security for all workers lies in a full-employment economy that has never existed during a time of military peace. The possible trend toward lifetime jobs that is considered utopian for unions implies ethical

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[1]Laberee, op. cit., p. 47.

problems for both employer and employees. If management is prevented from extending automation to produce merchandise of better quality, there is interference with obligations to the public and to the stockholders.

Corporations are confronted as never before with the problem of creating many more jobs. DeLucca states:

> . . . The Labor Department estimates that there will be 26,000,000 boys and girls entering the labor forces in this decade, plus 3,000,000 additional women who will become new entrants. This is 29,000,000 people who will be looking for jobs.[1]

With approximately 16,000,000 persons leaving the labor market during the same period, a 13,000,000 job deficit will be formed. The creation of this number of jobs in a decade is unprecedented. An additional factor in this problem is the technical demands of automation. Jones states:

> . . . It seems doubtful that normal economic growth will be able to create enough jobs to absorb those citizens increasingly being displaced by technology. New concepts of work, leisure, and human purpose will be called for.[2]

The people available for work do not match the available jobs. In solving this problem, business must recognize that it alone has the key to the solution. With recognition of the varying capabilities of employees, training programs must be established. Business must go a step further and recognize

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[1]DeLucca, op. cit., p. 14.

[2]Peter d'A Jones, The Consumer Society a History of American Capitalism (Baltimore, Maryland: Penguin Books, 1965), p. 358.

that the only way to cope with poverty, the deplorable living conditions, and the human suffering from disease is to alleviate illiteracy.

This responsibility of management toward employees seems inevitably to conflict with social costs and perhaps to cause complete rigidity in business. The expanded fringe benefits and required tenure make it difficult for the unemployed to find employment because the extra expense for management will encourage operations with minimum employment after the normal attrition eliminates the surplus employees.

The civil-rights issue provides an example of corporations' influencing social policy. Business should not seek to avoid controversy but instead should seek to combat it in the safe path of civic endeavor. The right of the individual to privacy is primary and gives way only to the proved reasonableness of interference by management.

Management, as representing owners, must retain control of the organization. Johnston states:

> . . . It is true that management, as representing the owners, must retain control of the economic decisions that determine the fortunes of the business concern whose destinies they are charged with guiding. But those economic decisions are not made or carried out in a vacuum.[1]

The challenge to business management is to be as sure as it can be that, if someone gets hurt, the reason is sufficient and that the overall gain for society offsets the damage.

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[1]Johnston, op. cit., p. 172.

This kind of judgment imposes a heavy burden on a businessman and, to be made honestly, demands a high degree of intellectual honesty, objectivity, and wisdom.

In summary, each employee is a whole person and the corporation should help him without interfering with his personal independence. Corporate policies that intrude into the private lives of employees have been challenged. Paternalism is frowned upon. Modern attitudes require that employees must be regarded as mature, self-respecting individuals. Business must realize that man needs enough material wealth to sustain life in himself and his family and to provide freedom from physical want. Too, man needs the kind of independence that contributes to the development of human capacities. Both trust and cooperation are essential to relations between a business and its employees. Neither labor nor business can exercise proper social responsibility in a militant collective bargaining climate. There must be willingness on the part of both labor and business to solve common problems peacefully within the framework of each other's needs.

Responsibility to Consumers

A free-enterprise system is dependent upon many things, but there can be no doubt about the importance of the ultimate consumer. The consumer in America has changed in certain respects. No longer is he independent in his basic needs.

He must depend on others to furnish the products to meet those needs. Davis states:

> . . . Dependency is one side of the coin. On the other side is responsibility. It follows, then that since citizens as consumers are dependent upon business to satisfy their material needs, business must have responsibilities to consumers.[1]

The consumer is more dependent upon business than ever before, yet the definition of the basic responsibility of the manufacturer to the consumer remains relatively unchanged. The manufacturer should provide the product and the service required by the consumer under circumstances that will help him gain status and increase his standard of living.

Extensive use of automobiles, decentralization of industry, and the strong desire of many people to escape the annoyances of large cities, have given impetus to the development of suburban communities. More than half of the United States population lives in 168 metropolitan areas, which account for nearly two-thirds of the retail and about nine-tenths of the wholesale volume of the nation.[2]

Consumers collectively are in a stronger position to influence the nation's economy than ever before. The wants of people are insatiable, whereas their purchasing power is limited.[3] As the total output capacity of the economy

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[1]Davis and Blomstrom, _op. cit_., p. 225.

[2]Jones, _op. cit_., pp. 332, 370-379.

[3]_Ibid_., p. 356.

reaches a level at which consumers' basic wants and needs are fully satisfied, producers turn out more goods than will be purchased, unless consumers are willing to raise their scale of living--that is, increase their rate of buying. Consequently, it is necessary for businessmen to become more market-oriented than at any other time in history. Jones states that:

> . . . Greater social depth was given to the consumer market by the expansion of the middle-income-range group in the American social structure, and by improved marketing techniques. . . . Over 60 percent of GNP went into consumer goods and services in the fifties. Total personal income in the United States doubled between 1950 and 1962.[1]

This indicates that close attention must be paid to long-range goals based upon analytical market research. Business must be solidly concerned about both the short-range and the long-range goals of the consumer.

The freedom of choice enjoyed by consumers puts pressure on business to satisfy their wants. Thus, consumption--the satisfaction of wants--becomes the goal of corporations. The corporation must give time, place, and possession utility to goods and services. This they should do within a price structure that is fair to the buyer and yet returns a reasonable profit to the seller. For example, the consumer should be respected to the extent that, when he has been influenced to recognize his wants through advertising, these products

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[1] *Ibid.*, p. 355.

will be available for him to buy. Premature announcements of new products whose commercial application cannot yet be realistically evaluated should be avoided.

Through automation, more and more goods are created with less and less manpower. It may be that the increased capacity will become self-defeating unless income is so distributed that large numbers of people buy the new products. Garrett indicates that:

> . . . The businessman would like to solve the problem of excess capacity and abundance by teaching people to fill their new leisure with consumption. Consumption is thus elevated to the status of a virtue, if not a patriotic duty.[1]

The importance of increased consumption has been reflected in three presidential administrations. Both Presidents Eisenhower and Kennedy encouraged consumers to buy so that consumption would be increased. President Johnson, however, has made at least one urgent appeal to the public to refrain from buying in an effort to help curb inflation. This sharply indicates the responsibility on the part of business either to sell hard or to refrain from selling as the needs of the national economy dictate.

Increased consumption is not the result of independent action. Katona[2] indicates that it is derived from the interaction of a variety of forces. He states that:

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[1]Garrett, op. cit., p. 196.

[2]George Katona, The Mass Consumption Society (New York: McGraw-Hill Book Company, 1964), p. 4.

> . . . Changes in the composition of the population, in education, as well as in customs, attitudes, and aspirations, have all contributed to the emergency of discretionary purchasing power among the American masses.[1]

The direction that consumption takes is of major concern of the corporation. The corporation should help to direct the use of purchasing power so that it will be most beneficial to the consumer, the manufacturer, and the nation.

Enterprises should supply authentic products. That is, a business should not deceive the consumer as to the nature of the product and service provided. Realistically, products should be of proved quality and fairly priced. The corporation should serve customers impartially and fulfill its obligations in such a manner as to earn continuing confidence.

A most serious responsibility that corporate management has to consumers is the maintenance of a rapidly growing volume of production at lower or at least steady prices. The extent of the fulfillment of this responsibility determines the standard of living and the economic progress of the nation. Thus, management is obligated to attempt to maintain a steady rate of growth.

The corporation should endeavor to direct the development of the consumer power so that it will be in the best interest of the consumer, the business enterprise, and the nation.

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[1] *Ibid.*, p. 9.

The average American is rapidly becoming a more competent buyer. Collectively, consumers in America are the most sophisticated people in the world because they are becoming better educated. Gentry states that:

> . . . By education we mean the dissemination of knowledge that will make the consumer a more objective and better informed buyer--a knowledge that will enable him to detect and denounce fraudulent schemes rather than fall victim to them.[1]

Education affects consumer demand in at least two ways. First, it increases the consumer's wants. Through education, one is exposed to different customs, products, ideas, and methods of doing things, and in turn, one's desire is increased for goods and services both material and aesthetic. Education also changes the character of individual wants. It tends to make individuals more discriminating, harder to please, and more conservative. The ultimate objective of the whole manufacturing process is the distribution of goods and services. Until a product or a service is immediately available to a consumer, it has no genuine value. Ninety percent of the wealth in the United States is controlled in some respect by women. With this in mind, the producer should recognize that, to sell to an informed consumer, he must become involved with the proper consumer education of women.

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[1]Dwight L Gentry and Charles Taff, Elements of Business Enterprise (New York: The Ronald Press Co., 1966), p. 82.

The consumer is in a position in our present economy to exercise discretionary purchasing power, but he can exercise it only within the limits that business provides in goods and services.[1] Not only the people in the upper income category but also those in the middle and upper lower classes now have discretionary purchasing power. Consumers have much more leisure time and can devote more time to making their decisions. This leisure time also provides a new market area for leisure-time products and services. The technology that has brought this about is the same technology that is contributing to the purchasing power of the consumer and makes it possible for him to exercise his power.

Each company should be interested in convincing the consumer that he should substitute its product for any of the various alternatives which he might otherwise select. Discretionary purchasing power goes beyond basic needs, leisure can be done without. Thus, the business firm must do more selling and involve itself in more competitive practices to engage in this market area. Or, an alternative would be to develop a superior product.

The distribution of the purchasing power of the American masses and their economic behavior represents a challenging ultimatum to the distributors and manufacturers of consumer goods. Westing states:

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[1]Katona, op. cit., p. 9.

> . . . Business firms, if they are to survive and prosper in a longterm buyers' market, can no longer function under a philosophy which holds that the customer exists for the business. They must recognize that the customer is the focal point and that the firm exists to serve him.[1]

The prices of products and services should be as low as is consistent with the making of a reasonable profit. The attitudes and expectations of millions of people are of principle concern.

The reactions of consumers are constant reminders to corporate management that business is not static. The uniqueness of consumers as individuals makes the study of consumer motives unusually complicated, but indeed necessary. These buying motives can be divided into categories--emotional or rational. Emotional motives are subjective in nature and are often impulsive and not based on logical thinking. Rational motives are directly the opposite. They are based on a logical analysis of why purchases either should or should not be made. Management must be fully aware of the buying motives, both emotional and rational.

Corporate management must constantly be alert to the desires and the wants of consumers. As long as consumers collectively have the right of free choice and the right to say "no," they hold the ultimate success or failure of any corporation in their hands. Consumers may not know what kinds of

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[1] J. Howard Westing and Gerald Albaum, Modern Marketing Thought (New York: The Macmillan Company, 1964), p. 2.

products will best satisfy their needs. But, they can and do define the need itself.[1] When dealing with consumers, there is no room for complacency. With the obsolescence of old products and old methods comes the need for flexibility and adaptability of the corporate organization itself. For the large corporation, particularly, obsolescence increases the responsibility to perform ever increasing amounts of research. The smaller business needs to adapt quickly to changing times and adopt new products and processes as they become available through the research efforts of the larger corporations.

Corporate management must be concerned with the unique position of consumers which is characterized by some writers as being the result of an affluent society.[2] "Affluence" is a comparable but somewhat relative term. Affluence can only be related to the past or to another nation's economic level. Wilhelms states that:

> . . . Americans in the mid-twentieth century are heirs to the wealth of a nation that produces and consumes more goods per person than any other nation in the world. Although we occupy only 7 percent of the world's total land area, we are responsible for about half of the world's production of factory goods. Although we have just slightly more than 6 percent of the world's population we enjoy about 40 percent of its income.[3]

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[1]Davis and Blomstrom, op. cit., p. 229.

[2]John Kenneth Galbraith, The Affluent Society (New York: The New American Library of World Literature, Inc., 1963).

[3]Fred T. Wilhelms, Ramon P. Heimerl, and Herbert M. Jelley, Consumer Economics (New York: Gregg Division, McGraw-Hill Book Company, 1966), p. 452.

It is not enough to argue in this affluent society that Americans will buy anything that is offered for sale. Actually, everything the corporation does, its sales, its profits, and its very future depend on the consumer's good will. Thus, it becomes axiomatic that all business should be conducted so that the consumer's interests are protected and his satisfaction is assured.

Competition has become much more rigorous and more complicated. No longer can the manufacturer of a product assume that it will be sold. Of necessity, he must endeavor to determine what the market opportunities are and where they lie and then produce accordingly. The consumer can be placed in a precarious position through competition. When a large corporation deliberately prices some of its newest services too low, so as to curtail competition, the consumer is hurt. The corporation thus constrains the research, the price maneuvering, and the improving of quality that comes from competition in new fields of endeavor.

In determining the market possibilities, several important aspects must be considered. First, the most important is to determine if the product is what the firm should offer. Also the prices at which the product is offered, the channels of distribution through which they are available to customers, and the promotional and selling programs used to attract customers are vital to the success of the operation.

Market research does not limit itself to products but is involved with the consumers themselves. Basic consumer research conducted by Katona indicates a somewhat unorthodox view of what has been happening in post-World War II America:

> . . . Where others have portrayed American consumers as irrational and grossly materialistic, we found them to be less than ideal 'rational men,' to be sure, and yet to be sensible and not easily swayed when it matters and to be spurred on by success to higher levels of aspirations. Our so-called wealth has not blunted incentives, rather, concrete and attainable rewards were found to motivate millions of people to work hard to improve their lives still further.[1]

The work that an individual performs and the pattern of his home life constitute for him an environment that is changing through technological advancement.

A corporation must be sensitive to trends in consumer preferences, to what other producers are doing to satisfy wants, and to how well the total environment is likely to support efforts to improve the firm's market position. Satisfaction of the consumer is the end objective of distribution. Distributing goods involves making them accessible to people who may want them. Any cost, confusion, and disruption of the distribution process will directly affect the consumer. Through good management, costs of distribution can be kept at minimum levels.

A discussion of the responsibility of business to consumers necessitates the consideration of consumer credit.

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[1]Katona, <u>op. cit</u>., p. 4.

Consumer credit is of vital importance to the modern consumer, as well as the businessman. The possibility of making purchases on credit adds greatly to the consumer's discretion of action.[1] More and more consumers are buying on credit. Thus, the total amount of the consumer debt is becoming astronomical. Not only are consumers assuming original debts, but they are refinancing and trading in unpaid items for other items to be added to their installment plans. It has been observed that the pressure is on Americans to "consume, consume, consume." Much of today's production is based solely on the premise that through installment buying the consumer will purchase in increasing amounts. However, not all goods and services are subject to the installment plan. Automobiles, television sets, washing machines are; the services of the schools, hospitals, and public libraries usually are not. A preoccupation with the production of goods to satisfy human wants may well tend to neglect the individual consumer as a human being.[2]

Consumer credit has become one of the prime controversial issues of modern times. This credit is ordinarily repaid in installments, and it should be emphasized that a rather large increase in the interest rate results in only a small increase in the monthly payment. The businessman must

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[1]Katona, _op. cit_., p. 19.

[2]Westing and Albaum, _op. cit_., p. 2.

be concerned with consumer credit in not letting the consumer overextend himself.

At most times, the business firm and the consumer have interrelated responsibilities. While the seller is under a legal obligation to disclose major defects, the buyer is not excused from gathering information and comparing products. The buyer should use his resources intelligently. He should not be guilty of aiding the dishonest seller in promoting deceit and exploiting ignorance. Through lackadaisical behavior, consumers who buy without information, encourage the substitution of gimmicks for real value. The shrewder the buyer becomes, the easier it is to enforce honesty in the business community. If buyers are skilled, honesty becomes not only good ethics, but the best avenue to profits. In this regard, the corporation should exercise responsibility well beyond the legal obligations imposed upon it.[1]

Business cannot ignore its responsibility to foreign consumers who constitute a valuable market and who provide stability to the economy of the world. Corporations can really make a contribution when they go into local production of articles where "knowhow" does not exist in the developing nations. The foreign consumer market should not reflect a double standard of quality for products produced in the United

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[1]Davis and Blomstrom, op. cit., p. 230.

States and in their native country. A double standard pattern of dealing at home and overseas should be avoided.

In summary, in the modern market economy corporate ownership of the means of production is fundamental. Such ownership is from one point of view a privilege; but it also imposes on the corporation a heavy social responsibility. The private owners of the means of production cannot employ their property merely for their own satisfaction; they must employ it in ways that will promote the best possible satisfaction of consumers. Business, if it is to survive and prosper, must recognize that the consumer is vital and that the firm exists to serve him. No firm can function under a philosophy which holds that the customer exists for the business. Business must produce commodities that consumers need, want, and can afford to buy. A major obligation of business is to generate and maintain a flow of new and improved products. Closely related is the responsibility of helping consumers buy. To perform adequately, the economic function allocated to it by society, business needs to provide for consumer orientation and industry self-regulation. A responsibility exists to go beyond merely refraining from exploiting the consumer's ignorance and to support those means by which consumers can become better informed and by which they can be protected from unscrupulous producers.

Responsibility to the Local Community

Every business establishment in every city should assume certain responsibilities to the citizens of that city, its various organizations, and its governing body. The reason for this is quite simple. Long states:

> . . . One thing seems clear, the corporation cannot occupy the publicly accepted leadership roles of our business-oriented culture in the local community and wash its hands of the responsibility that occupation implies.[1]

The city is comprised of two communities, each dependent upon the other--the business community and the residential community--and there are obligations of good citizenship which must be met by both.

Business responsibility to the residential community may take a variety of forms. Businesses are expected to contribute heavily to community projects, to give freely to local charities, to abide by local zoning laws, to prevent the pollution of air with smoke and gases and the streams with industrial waste and chemicals, and to assist in preventing noise and traffic problems.[2] But most important is the promotion of community growth and the prevention of stagnation and want through shutting down operations or moving out of the area.

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[1]Norton E. Long, "The Corporation and the Local Community," The Ethics of Business Enterprise, ed. Arthur S. Miller (Philadelphia: The American Academy of Political and Social Science, The Annals, Vol. 343, September, 1962), p. 217.

[2]Davis and Blomstrom, op. cit., pp. 268-269.

Business has the ideas and technical knowledge to achieve a smooth change-over due to technological advancement. For example, when a new product replaces an old established one, a new manufacturing process may be required. Then comes the problem of whether to relocate and build a new plant or remodel the old plant. If most factors are favorable, it would be better to remodel the old plant in an effort to avoid deterioration of present facilities and a possible down-grading of the area in which the plant is located. Deterioration of physical property, movement of people, and congestion are end results the businessman can sometimes avoid if proper planning and purpose is employed. Fenn states that:

> . . . A major part of economic climate depends on the very community in which the business has to operate, the ways its people live, the services provided to them, their happiness, and their jobs. So the businessman, if he does not take care of the healthy development of his own community, is building a climate which ultimately is going to be detrimental to the interest of his stockholders.[1]

For business organizations to fulfill their obligation of production within the framework of the American value system, the decisions and the policies of business must be either shared, made, or developed in the full light of public scrutiny and attention.

The closing of a plant can again be used as a good example of community responsibility. In many cases, industrial establishments have to do things that have adverse effects on

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[1]Fenn, op. cit., p. 52.

employment and on the levels of income of particular areas. A responsible policy is not one that involves permanent postponement of locally disagreeable acts. It does include carefully planned arrangements by which some of the hardship and slack can be minimized. This could mean specifically ample notice to all of those affected by plant shifts and closure and cooperation with community undertakings to encourage new industry into the area.

Much progress has been made in causing people to understand that business payroll is but a small part of the huge corporate contribution to the American way of life. Business not only helps to establish a locality's standard of living, but as people are beginning to realize, it represents a major source of community support. It appears that the need for civic consciousness will increase with time and the complexities of our world.

Corporate management should cooperate with the local community in every respect. Mauser suggests that the well-being of the corporation depends upon the good will of the general public.[1] Even though much has been accomplished toward educating the American people concerning business procedures, the responsibility still remains to further educate the people concerning specific problems such as technological

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[1]Ferdinand F. Mauser and David J. Schwartz, Jr., American Business (New York: Harcourt, Brace and World, Inc., 1966), pp. 654-655.

change, or perhaps better expressed, technological unemployment. A truthful approach here is the answer as opposed to a form of paternalism on the part of business.

Businessmen have considerable influence upon their communities by what they say. Their counsel is sought by the community. Greenwood[1] calls this type of influence "social power." He states that:

> . . . To the extent that businessmen or any other group have social power, the lessons of history suggest that their social responsibilities should be equated with it. Stated in a form of a general relationship it can be said that social responsibilities of business need to be commensurate with their social power.[2]

This idea of power equal only to responsibility is one of the basic tenets of scientific management.

In defining the boundaries of other aspects of socially responsible behavior, the problem of defining the community obligations of enterprise is difficult. Hastings states:

> . . . Effective community relations is not a matter of giving money to worthy causes, although such contributions from business are always welcome. It is found in the participation of business leaders in community affairs. Also, it is found in the recognition of management that nearly all of their business decisions affect the community in some way, and that community welfare should be given consideration in making decisions.[3]

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[1] Greenwood, op. cit., pp. 485-486.

[2] Ibid., p. 486.

[3] Paul G. Hastings, Fundamentals of Business Enterprise (New York: D. Van Nostrand Co., Inc., 1961), p. 623.

Much criticism can be presented against many community activities of a business enterprise that normally come under the heading of "responsible community relations." Corporate contributions to local projects from new gymnasiums to the sponsorship of art galleries may be acts of paternalism that dampen the enthusiasm of local citizens to solve their own problems. It must be remembered that, according to a social system frame of reference, the fundamental responsibility of the business organization is the production of goods and services. But, complicating the situation is the fact that it does operate in a social context or setting. This social setting results in certain business obligations arising out of the value structure of society. Responsibilities thus include efforts at minimizing to some extent the impact of corporate operations upon the locality.

Many people, like politicians and educators, recognize that the abilities and training of businessmen can and must be utilized outside the area of business. Fenn recognizes the desirable traits of businessmen that when properly used enhance the public good. He states:

> . . . He (businessman) has a gift of realism. His ideas are constantly tested by action, and he never gets far away from the practical. His motive is fundamentally optimistic. He has a rare capacity to resist adversity, and to keep coming back to the job until it is somehow done.[1]

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[1]Fenn, op. cit., p. 157.

Business firms have a broad influence on the community-at-large, not only producing goods and services for the market but also bringing about particular circumstances and conditions of employment and distribution in the communities in which the firms are located. In some cities, the circumstances of industry have marked effect upon the physical and sociological climate in which many people live.

In recent years, an awareness of the impact of corporations upon the communities in which they operate has caused business officials to direct attention toward community relations. The programs and policies of community relations extend over a whole spectrum of activities. They range from invitations to the local citizenry to inspect plant facilities, technical assistance to local schools, and generous gifts to local charities, to the study of the effect of company expansion on the local "pollution" problem, school system, governmental and recreational facilities.

Business enterprises in an era of full prosperity and 50 percent tax rates are giving increasing sums of money to local charities, needy college students, private universities, religious groups, and community health projects. The Wall Street Journal reported that in 1965 company contributions to colleges, hospitals, and other causes exceeded $610 million and projected that 1966 contributions would exceed $700 million.[1] However, even though this represents a great deal of money it is just above one percent of earnings. This one percent figure has remained almost constant since 1958. Inasmuch as giving has been geared to earning for the last eight years, it is logical to assume that, if an earning squeeze were to develop, it would affect business generosity. Corporations should recognize that through proper philanthropy they can insure and strengthen the society that gives them existence. A growing practice is to create company foundations with personnel specialized in philanthropic work.

No corporation should become so obsessed with philanthropy that it abandons its major purpose of producing goods and services at a profit to the shareholding owners. Without a margin from profits, there can be no philanthropy. But one of the most important considerations is that in a free society there should be a balance between "governmental" and "private" responsibility to meet the infinitely varied needs of modern society. To permit government to carry all the burden is to assume the omniscience of a bureaucracy. The price could include individual freedom.

To industry, the principle of social justice is prescribed. The business enterprise must become an integral part of the community. Johnston suggests that:

> . . . It is important that business recognize the existence of other types of justice regulating the

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[1] The Wall Street Journal, June 15, 1967.

> relations between individual persons and the societies that they form.[1]

Employees and employer, thus, should be a team directed toward the economic fulfillment of the business society and the community.

Each of the 11,000,000 business enterprises in this country must be an active instrument in the whole society, involved with its own function and the fulfillment of the whole society. DeLucca states:

> . . . I submit that the business enterprise is an integral member of the social community. It is not an isolated organization apart from the prosperity, culture, and reputation of the community. It is a partner in all of these things whether it wants to be or not. The affairs of the corporation are not a private matter; they are of public concern. The role of business in the community affect the destiny of that community.[2]

A healthy, growing community is vital to the browth of business. Industry needs a vigorous educational system to supply the ever increasing demand for educated personnel, to provide the facilities for basic research and development, and to contribute to general economic stability.

Drucker further establishes this idea of social or community responsibility.

> . . . It is management's public responsibility to make whatever is genuinely in the public good become the enterprises' own self-interest. It must succeed in harmonizing public and private interest by making

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[1]Johnston, <u>op. cit</u>., p. 65.

[2]DeLucca, <u>op. cit</u>., p. 22.

> what is the common good coincide with its own self-interest.[1]

Corporations should actively encourage the general public to help solve their problems. One way to do this is to help destroy the idea that there is nothing left for the common individual to invent. Industry should encourage individuals to invent things that will in the long run prove beneficial to industry and the community.

As life and social climate have changed for the individual, so have they changed for business and industry. The theory of corporate citizenship does not deny high profit rates which result from managerial talent and ability, but only of profit derived from illegitimate maneuvering.

Research, both pioneering and applied, is essential to the longevity and profit of a company. Increased research contributes to a rapidly accelerating rate of discovery and development of new products, with the consequent obsolescence of old products and old methods.

In summary, the community is a corporation's area of local influence. As a possessor of community social power, a business cannot ignore its community responsibilities. Business practice has direct, significant effects on the community. These are the effects of giving gifts and the volunteering of time, as well as the way business conducts itself in the

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[1]Peter Drucker, <u>The Practice of Management</u> (New York: Harper & Row, 1965), p. 92.

ordinary course of operations. These operations would include such matters as land development, air pollution, water pollution, and fairness in dealing with customers. The success of a major community employer is inevitably tied to that of its community. If the business fails economically, the community suffers. The social goal of any business is to contribute toward making living more enjoyable for more people. The dynamic nature of American business and the trends now evident hold a promise that much greater improvement in living standards will occur.

Responsibility to Government

Government is an invention of man, just as is the corporation. In the United States, all levels of government and corporations interact. The corporate responsibility requires cooperation with, as well as a check on, a centralized government. Business, however, must recognize and understand that the role of government in a free enterprise economy has many facets. Blough states:

> . . . One thing is certain, I believe; that no modern dynamic society can operate at all if either industry or government is to be strait-jacketed by outmoded concepts concerning size and scope. What is wanted is more understanding of the needs of both; not less.[1]

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[1] Roger M. Blough, The Real Revolutionaries, Published address before the Whirlpool Corporation Management Club, Benton Harbor, Michigan, September 25, 1963 (New York: United States Steel Corporation, 1963), p. 15.

The task of government is to support a growing standard of living for the whole population in an environment of individual freedom. The increasing complexity of a modern economy requires more and more services by governmental authorities. Increasingly technological innovations are making it necessary to create new rules in many fields which were formerly of no economic significance.

The corporation is a major facility provided by the American legal system for handling the business phase of a free enterprise society. Benton states that:

> . . . If private enterprise is to fill its promise and its obligations, the people through their government must police it without obstructing it, must encourage it without pampering it, and must help provide it with a balance wheel in times of business boom or depression.[1]

The relationship between business and government is determined by the nature of the prevailing economic system and the philosophy underlying it. This is evidenced by the evolution from mercantilism to a system of free enterprise. In both mercantilism and free enterprise, there is evidence that the relations of government and business are based on the kind of economic system that society accepts. By following the philosophy and economics of the accepted economic system, government formulates a corresponding set of policies in dealing with business.

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[1]William Benton, "The Economics of a Free Society," Fortune, Vol. 30 (October, 1944), p. 120.

Undoubtedly, business in the United States does not operate solely under conditions of free enterprise and *laisez faire*. In fact, there is little truly free enterprise because of large-scale business and the manifold regulations of governments on all levels. Business must recognize this and re-evaluate its relations with and its responsibilities to the federal government. Government not only is involved in business affairs but also is a source of business. Davis states:

> . . . Government purchases an almost incomprehensible array of goods and services today. Purchases range from paper clips to space capsules, and from adding machines to huge electric generators. It buys the services and skills of thousands of people who perform the tremendous variety of activities it is engaged in. As government grows larger, it will become an even greater purchaser of goods and services.[1]

Billions of dollars of defense contracts are awarded every year by the Federal government to private industry, so that many corporations depend entirely upon these contracts for their existence. Instead of depending on defense contracts in order to keep a high level of business activity, corporations should work for better world relations. This would suggest a reevaluation of management's system of values.

Traditionally, free competition has meant to the businessman a minimum of government intervention and control. This interpretation has been changed considerably through the application of anti-trust laws and the increasing body of federal, state, and local regulations on business.

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[1]Davis and Blomstrom, *op. cit.*, p. 195.

Business-government interrelationships are, therefore, increasing at all levels and for all types and sizes of firms. This changing situation challenges business to restudy its responsibility to the government.

George Champion, President of the Chase Manhattan Bank of New York City stresses that business has a definite responsibility to government in trying to keep it strong and effective. He states:

> . . . In today's increasingly complex world, a business corporation has two main responsibilities. One is to the business itself--its survival and its success. Another is its responsibility to the public and to our country to help strnegthen and maintain a political and economic system which has given all of us so many opportunities.[1]

It has become more and more apparent that, no matter what governments do--be they federal, state, or local government--they affect business very deeply. These actions include all kinds of legislation that either help or hinder a business in discharging its many obligations.

In classic economic theory[2] the optimum relationship between business and the good of the whole society was supposed to be established automatically. As a result, business did not have to worry about broad social impacts. The classical theory, however, rested on assumptions which are no longer true, if they ever were. Davis states:

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[1]Greenwood, op. cit., pp. 132-133.

[2]Dwight L. Gentry and Charles A. Taff, op. cit., p. 20.

> . . . It is becoming increasingly clear that businessmen need to become more concerned with governmental processes. Because of the growing complexity and interdependence of the government-business relationship businessmen can ill afford to stand silent.[1]

Modern business must face problems of national policy if it is to fulfill its obligation as a member of society.

Recognizing that a corporation is a member of a group, it must certainly seek to minimize the harmful, or potentially harmful, impacts of its activities. This may be done, for example, by entering into cooperative arrangements with the industry, the unions, and the government. As a result, many business obligations are really transformed into general obligations to work with others for the betterment of society. This means that business must accept its responsibility for a corporate kind of citizenship and transcend the status quo and the accepted practices of business in the past. It does not mean, however, that business must either become a social reformer on a large scale or turn its business into a benevolent association. Neither activity would really serve society in the long run.

With the passing of every year, American business develops a greater number of increasingly complex relationships with government. At local, state, national, and even international levels, new agencies and officials come into existence and exercise some influence on the conduct of

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[1] Davis and Blomstrom, op. cit., p. 201.

business firms in the United States. The legal and governmental framework within which businessmen operate is politically determined. Because businessmen, either willingly or unwillingly, consciously or unconsciously, affect and are, in turn, affected by government policy and action, they should concern themselves with their proper role in the political process.

The government has a reciprocal responsibility to business in admitting that it has a vital interest in corporate profitability and should encourage it. Instead of recognizing profit as a creative force of the economy, government units often equate profit with corporate or individual greed. Until the government is willing to more correctly recognize the essentiality of profit, it remains a corporate responsibility to resist every unwarranted intrusion into its affairs which jeopardizes continued ability to remain free to do the primary job with which it has been entrusted.

Nothing would stop the need for government intervention faster than for business to identify critical problems and take the initiative in dealing with them before the Federal government feels the need to act. Eells states:

> . . . Goverance is the exercise of an authority that seeks not merely the right to direct and to lead but to control. The problem of government has always been the same in all forms of human association; how to muster both the power and the authority required by the purpose of association to achieve its ends in a practical, fair, and orderly way; and how to limit that power and authority to specified areas rather

> than to permit it to overflow into matters that are not its basic concern.[1]

To preserve its own decision-making power, the corporation should seek to determine whether its values--expressed in product, service, and method of managing--are really in harmony with the American way of life.

Many executives, especially in the large corporations, have long realized that their activities are frequently beset with the public interest and have acted accordingly. Much of this has merely been exploratory, and indications are that there should be more action and expenditure to cope with public nuisances like air and water pollution and educational deficiencies before the Federal authorities feel compelled to do so. If contemporary government has made anything clear, it is that it will try to fill any vacuum abandoned by other groups. Buskirk states that:

> . . . Disturbing trends suggest that the changing ideals of our people and the radically altered character of our society may have made obsolescent a governmental system designed nearly 200 years ago. If there be validity in this possibility, certainly no group of American citizens has a higher degree of responsibility to recognize and to act upon it than our business leaders.[2]

A good corporate citizen has a real responsibility to aid in finding solutions for such national problems as poverty. The

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[1]Richard Eells and Clarence Walton, Conceptual Foundations of Business (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 301.

[2]Fenn, op. cit., p. 124.

managerial skills and financial integrity of a corporation provides an opportunity for unlimited contribution. Businesses, small and large, should actively set an example of good citizenship and do everything possible to encourage their employees to participate in civic and political activities.

A capitalistic system operates best under a democratic system of government. Thus, it behooves management to work for the preservation of a democratic system of government in which free enterprise is an essential element. Through corporate influence much fundamental organization can be improved. Leadership is imperative in politics, and businessmen are typically good leaders and organizers. A company must not only make a statement of encouragement concerning participation in a political party but also supplement it with some action that attests to its sincerity. This can be done by assigning to an executive the responsibility for certain government relations. This executive might be charged with maintaining a political relationship. He might become the source of guidance and direction for those who have questions on this subject, and maintain vigilance over all the company's activities to detect any governmental action that might have affect at federal, state, or local levels. The Director of Civic and Governmental Affairs Office, Ford Motor Company, states:

> . . . I suggest it is time that business--all business--admitted that governmental relation is a proper and essential management function. It is, in fact, a responsibility of management to advocate its business

> interest vigorously and effectively before courts, legislatures, and administrative bodies.[1]

A recognition of this type would demonstrate that business is saying, in effect, that this matter is of sufficient importance to require organizational provisions just as marketing, purchasing, and manufacturing do.

Businessmen must observe objectively the members of the Congress and assess their abilities as leaders and lawmakers. It is unfair and unwise for businessmen automatically to treat politicians with disdain. Legally, management and labor are prohibited from making financial contributions to political organizations as a unit, but as a unit they should encourage individual employees to perform their civic duties.

Corporations must realize that corporate employees in recent years have virtually cut themselves off from day-to-day political activity and, thereby, from influencing the governmental and political process. The following statement suggests that:

> . . . The time has come for corporations, without getting into politics themselves, to say to their employees: We believe that political activity is desirable and that you as individual citizens should work for the party of your choice just as you participate in charitable fund-raising drives and other community activities.[2]

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[1]Thomas R. Reid, Address delivered before the American Power Conference, Chicago, Illinois, April 14, 1964.

[2]Fenn, _op. cit._, p. 80.

Because businessmen have experience in meeting payrolls and in other financial matters, they have the responsibility to help the public in general and politicians in particular, to understand the basic elements of organizational procedures.

It is desirable for a corporation to set an example of good citizenship and show cooperation with the established government by obeying all laws, including the paying of taxes without an elaborate, publicized scheme for finding "loop holes" in the laws. This legal type of evasion of the law merely suggests that observers should also participate. Instead, corporations should encourage or, in fact, demand of Congress the provision of carefully written and well planned legislation.

Fundamentally, corporate responsibility to government is not a program. Rather it is a philosophy. It is not a medication that can be applied from time to time as needed. It is a "mind set" which conditions the activities of a corporation.[1] It recognizes a continuing responsibility toward the established system of government and its legislation which is directly or indirectly related to business.

In summary, for many years corporate management was only mildly concerned with business-goverment relationships. The belief prevailed in both business and the general society that the role of government should be limited to performing

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[1] Laberee, op. cit., p. 9.

functions considered inappropriate for other groups. However, democratic government is a cooperative venture and business should contribute to its functioning. As society becomes more complex, it appears that the economy depends equally upon a strong government and a strong business environment, both of which are vitally interrelated. An understanding of this relationship will result in responsible action on the part of corporations concerning the day-to-day workings of government, expression of the businesses' point of view, and the solving of many pressing social problems.

Summary

Corporate citizenship is of prime importance in a capitalistic system. As corporations grow and assume greater importance, their responsibilities also grow. In the United States, corporations have a vast amount of freedom of operation. At the very heart of all this freedom is responsibility. Freedom, however, must be warranted on the basis of a record of responsible action. An examination of the laws limiting the corporate structure reveals that they are the outgrowth of irresponsibility.

Defining corporate responsibility is essential, for it is impossible to evaluate corporate action without a sound definition to use for comparisons. This chapter has dealt with five basic areas of corporate responsibility. The information indicates that there is deeper meaning to corporate citizenship than is usually associated with business responsibility. The information and data make it clear that corporations have definite responsibilities to the owners, the employees, the consumer, the local community, and to the government.

CHAPTER IV

SUMMARY

In order to understand what business does and how it operates, it is necessary first to have a thorough understanding of the primary forces that make American business what it is. It is obvious that the primary functions of business are to serve its customers and to make a profit. Corporate management, however, is not entirely free to carry out these functions, despite the fact that the United States has a "free enterprise" system. The owners, the government, employees, consumers, and the local community influence the activities of business.

Corporations are a dominant force in society. They are employers of workers, and in this capacity they generate the buying power that keeps the economy in motion. They are a social force in the community, influencing the way people live and act. Also, they have an important effect on the kind of government under which people live, and on the way that government regulates social activity. Because corporations wield so much power, it is necessary to determine and understand the responsibilities that accompany their immense social power.

The precise nature of the responsibilities that corporations must assume varies with the time and the circumstances. Particular situations in which ethical choices are made will vary according to customs and specific conditions. However, the development of broad concepts concerning corporate responsibility is feasible and helps in the development of an understanding of corporate citizenship. There is evidence among corporate managers today that they recognize the essentiality of understanding the basic aspects of corporate responsibility. It was toward the end of providing a conceptual basis for corporate citizenship beyond that characterized as factual content that this research study was directed.

Restatement of the Problem

The problem of this study was to develop certain understandings and concepts basic to selected areas of business responsibility in corporate citizenship. Through this study, an attempt was made to develop conceptually those areas of business responsibility basic to corporate citizenship with which corporate management should be familiar. The understandings and concepts developed through this research study should provide a more adequate understanding of the citizenship role demanded of corporations in modern society.

In this study, no attempt was made to conceptualize all the areas of business responsibility in which ethical choices might be involved. Nor does it propose to take certain situations and determine the "ethical" answers and dictate when they should or should not be used. The understandings and concepts presented represent an approach which corporate management may use to gain clearer perception of corporate citizenship.

Conceptual Outline

The most significant method by which information about corporate citizenship can be acquired and developed is through the concept approach described in Chapter II of this study. Many facts about business ethics are available. However, it was considered appropriate to include only understandings and conceptual matter in the final draft of this study. All material presented is based upon numerous facts and knowledges which were analyzed, interpreted, and categorized to form the basic conceptual ideas.

If corporate management is to practice corporate citizenship, it must develop proper attitudes about business responsibility. The preceding chapter presents background material for the understandings and concepts stated below. The outline represents basic material with which corporate management must be familiar if corporate citizenship is to be achieved.

The major outcome of this investigation of corporate citizenship is represented in the outline of significant understandings and broad concepts. Each of the six concepts presented is identified by means of an underscored paragraph heading. Following each of the stated concepts, there are several additional statements which substantiate the major idea in that particular concept.

I. Nature of Corporate Citizenship.--The most powerful imperatives imposed on corporate management are that it must adequately serve the community and so conduct itself that it retains the confidence of its customers, its labor, its suppliers, and the section of the public with whom it deals.

A. The corporation is a mechanism of business which, when used by management for the best interest of all the nation, contributes materially to the dynamic growth of the economy that it serves.

B. For its existence and its operation, each corporation must depend upon the whole institutional framework of the society of which it is a part.

C. As an entity with identifiable parts, a corporation must, much like a human being, become capable of thinking, reacting, and making judgments.

D. The organizational goals and operational functions of most corporations remain essentially the same over long periods of time while the persons involved are constantly changing; individual responsibilities must constantly shift and be adapted within the framework of the larger corporate responsibility.

E. The management of a corporation requires unusual strength of character, based upon solid reasoning, to discount the preferences of others in the proper performance of one's own functions.

F. Society grants to the management of a corporation freedom to pursue the objectives of that corporation only to the extent that human values are preserved and protected; the price of that freedom is responsibility.

II. <u>Responsibility to Owners</u>.--Separation of the ownership and the operation of a corporation places upon management the responsibility to properly balance the demands of stockholders with the demands of society in order to maintain a reasonable degree of economic stability.

A. Corporate management is obligated to keep secure the investments of stockholders and to endeavor to provide a reasonable return on their money.

B. Corporate management must establish communication patterns that are adequate to permit owners to form reasoned judgments of the appropriateness of operations at any time.

C. The emergence of organized investor groups has complicated management's job in maintaining a balance among the various types of stockholders served.

D. Maintaining longevity and earning profits are essential corporate responsibilities that must be consistently met and solidly interrelated.

E. Beyond the legal limits defined by law there are broad areas of action which involve ethical value judgments on the part of management if the responsibilities to owners are fully met.

F. The management of other people's money invokes a specific responsibility to provide factual yet understandable financial information concerning the position of the corporation in the current economic circumstances.

III. <u>Responsibility to Employees</u>.--A major and continual challenge of corporate management is to enhance the growth and well-being of each employee to the degree required to maintain the viability and effectiveness of the entire corporate unit.

A. Corporate responsibility to employees is always immediate, direct, and consequential because all aspects of the lives of employees are affected by their employment.

B. Corporate management should strive to help employees overcome their problems without interfering with their personal independence.

C. To the extent that employees strive for freedom and self-actualization and corporate employers strive for coordination and control of operations, conflicts of interest should be reconciled in an atmosphere of trust and cooperation that is consistently encouraged through appropriate corporate management activities.

D. Every employee is entitled to a living wage; in fact, wage policies should aim to make life as full as possible for the employee, at least to a degree compatible with management's other financial responsibilities.

E. Each employee is an individual with abilities and desires which corporate management should recognize and use to both his and the company's advantage.

F. A dynamic and expanding corporate entity is essential to the betterment of human life and to providing an increasing standard of living for each of its employees.

IV. <u>Responsibility to Consumers</u>.--In a free economic system, the object of all business activity is the satisfaction of individual needs and wants, and the consumer is the focus of all business activity as enterprises exist to serve him.

A. Corporate management is obligated to interpret society's demands for goods and services and should strive constantly to distribute the goods and services as efficiently as possible.

B. The modern sophisticated consumer requires substantial amounts of accurate information so that he can make intelligent buying decisions.

C. Through advanced technology, business encourages innovation and progress to the benefit of society.

D. Corporations must give time, place, and possession utility to goods and services within a price structure that is equally fair to the consumer and to the seller.

E. All business should be conducted on a basis that protects the consumer's interests and ensures his satisfaction.

F. In order to provide products at the lowest possible prices, in relation to cost and reasonable profit, consumer needs must be satisfied as efficiently and economically as possible.

G. To the extent that consumers purchase merchandise and credit service in single transactions, business enterprises have a responsibility to make abundantly clear the cost of each.

V. Responsibility to the Local Community.--The social and economic development of the community is a source of corporate improvement, and management must lead in the formation of reciprocal arrangements that contribute to growth in both the community and corporate units.

A. Corporate management should help to shape the future of the community in every possible way and consequently to create a favorable atmosphere for conducting of business.

B. A corporation can best fulfill its responsibility to the local community by expanding itself, by maintaining its longevity, and by earning profits that can be absorbed in the community.

C. The preparation and experience of corporate managers is usually such that they can effectively lead community action programs and counsel other community leaders; such activities should be a part of their individual and collective corporate citizenship roles.

D. Corporations relate to communities in the conduct of ordinary operations, concerning such matters as land development, air pollution, water pollution, and plant maintenance; this requires constant surveillance of all such operations.

E. To gain a wider perspective of its community responsibilities, corporate management must formulate an effective philosophy and establish policies for the systematic handling of contributions to the communities' charitable and philanthropic causes.

VI. Responsibility to Government.--The corporate philosophy that underlies any significant business operation either implements or deters the sustenance and maintenance of the governmental processes designed to solve national problems.

A. Business exists as private enterprise because the citizens of the United States, acting through their government, allow it to take this form; in return for this privilege, business has an obligation to obey all laws.

B. Corporations must help to provide the financial and other kinds of support required to maintain a political system and a legal framework that will facilitate a good climate for business enterprise.

C. A modern society cannot progress if either industry or government is hindered by outmoded ways of doing things; what is needed is innovation, experimentation, and dynamic action on the part of both industry and government.

D. Business corporations must cooperate with government units to jointly ensure the national well-being through the production of ever-increasing amounts of goods, number of jobs, and investment opportunities.

E. As society becomes more complex, national economic performance depends on both a strong government sector and a strong business sector. Corporations should do everything possible to enhance the trust in and the understanding of both sectors among the people affected.

Concluding Statements

Conclusions of the type usually found in doctoral dissertations were not appropriate in this research study. However, after thirty-six months of investigation into material relevant to this study and five semesters of using it in developing understandings and concepts with college business students, the investigator developed the following generalized statements.

1. The social responsibilities of business, involving decisions and actions that are at least partially beyond a corporation's direct economic or technical control are now far-reaching and consequential, and will become even more so during the decades that lie ahead.

2. The responsibilities of corporate managers need to be equated with their corporate power because authority and responsibility are best exercised when they are equal. Corporations have social and economic power and, therefore, should fulfill responsibility commitments that are commensurate with that power.

3. The continued vitality and the growth of corporations are dependent upon their vigorous acceptance of responsibilities for people and things, as well as the development of greater competencies in the management and utilization of the human resource.

4. In its true breadth, corporate citizenship is the quality of a corporation's response to membership in a community. It can contribute to the solution of business problems that arise as many corporations increasingly operate in areas and ways extending beyond what is considered to be ordinary business procedure.

5. Extreme concern for the more intangible corporate responsibilities of an enterprise may divert attention and energy away from the primary purposes for which that enterprise exists. At the same time, failure to recognize such intangible corporate responsibilities can weaken the environment in which the firm operates and impair its profit-making efficiency.

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