Journal of Business Ethics (2007) 76:137–145
DOI 10.1007/s10551-006-9262-7
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Why Firms Should Not Always Maximize Profits

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ABSTRACT. Though corporate social responsibility (CSR) is on the agenda of most major corporations, corporate executives still largely support the view that corporations should maximize the returns to their owners. There are two lines of defence for this position. One is the Friedmanian view that maximizing owner returns *is* the social responsibility of corporations. The other is a position voiced by many executives, that CSR and profits go together. This article argues that the first position is ethically untenable, while the latter is not supported by empirical evidence. The implication is that there may be good reason for firms to deviate from a maxim of profit maximization.

KEYWORDS: business ethics, corporate social responsibility (CSR), profit maximization, special duties

JEL CODES: D63, M14

Introduction

"The social responsibility of business is to increase its profits" (Friedman, 1970). In the past, many business executives have voiced their support for the idea that a business should be run exclusively with a view to profits or shareholder returns. Today, however, most executives would be disinclined to express themselves this bluntly. The increased focus on corporate social responsibility (CSR) or corporate citizenship, might even give the appearance that corporations may have strayed from the narrow path of profit maximization, focusing instead on a wider or different set of goals.

Appearances can, however, be deceiving. Upon closer scrutiny, it becomes apparent that CSR is in many cases simply viewed as an instrument to increase profitability, rather than a fundamental goal in itself. The following quote from a top executive of one of the world's largest oil companies provides an illustration of this:

> Corporate social responsibility is not itself our business but rather it is a way of conducting our business which, we believe, helps us to be more successful over the long-term. To commit to a socially responsible way of working is not, as some critics claim, a distraction from our core business. Nor does it in any way conflict with our promise and our duty to deliver value to our shareholders. In fact, just the reverse is true. This agenda is an attendant duty to our shareholders who make investments for the long-term and who need to have confidence they will see a return on those investments over the long-term (Adrian Loader, Director of Strategic Planning, Sustainable Development and External Affairs, Royal Dutch/Shell Group)[1]

In other words, CSR is not the ultimate end for corporate action, it is a means to the ultimate end of increasing shareholder returns. The above statement is by no means unique, which indicates that profit maximization or maximizing shareholder returns, remains the fundamental principle many corporate executives live by.[2] This has lead some observers to argue that CSR policies are basically insincere (Bakan, 2004).

Some corporate executives do, however, take a less direct approach, eschewing the question of whether CSR or profitability is the ultimate end. A common argument used is that CSR and profits go together. This is voiced for instance in the following excerpt

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from a speech given by the CEO of the world's largest corporation (in terms of market value):

> What I really want to talk about today is how a CEO or what business leaders can do to create a great and good company. Great in the sense of tremendous results for our investors and for our customers, growth and profitability, and good in the sense of connection to the world, adding to the quality of our work force and our customers and the communities we're a part of. Because profits alone cannot build reputation. And I also believe that doing things right ultimately will lead to more profitability (Jeff Immelt, CEO, General Electric)[3]

If the argument holds, and CSR and profits go together in a systematic way, it does not really matter whether the corporation treats advancing one or the other as its ultimate goal. If all good things go together, corporate executives never have to face dilemmas or make trade-offs between social and profitability objectives.

What we might term the neo-Friedmanian position on CSR, thus argues that out of all possible CSR policies, corporate executives should adopt those, and only those, that increase ownership returns. In contrast, the dilemma-less position on CSR, posits that whatever CSR policies a corporation adopts, will promote ownership returns. This article argues that neither of the two positions presented here, stands up to closer scrutiny. In the section entitled ''Why unlimited profit maximization cannot be defended by any reasonable ethical theory'', the arguments for the Friedmanian view of profit maximization are refuted. Furthermore, it is argued that profit maximization implies special duties of firms to shareholders that cannot be derived from any reasonable ethical theory. Solely using CSR as a means to an end of profit maximization, is thus not ethically defensible. In the section ''CSR and profits do not always go together'', it is shown that the notion that CSR and profits always go together in a positive way, is not theoretically feasible, nor underpinned by empirical evidence. The final section provides ''Conclusions''.

Why unlimited profit maximization cannot be defended by any reasonable ethical theory

The idea that corporations should pursue the interests of their shareholders, takes its starkest form in the sentiment expressed by Milton Friedman, that ''the social responsibility of business is to increase its profits'' (Friedman, 1970). Friedman is very clear in stating that it is illegitimate for a corporation to act in a way that is detrimental to shareholder returns.[4] Profit maximization is thus a moral imperative for corporate executives. The interests of groups other than the shareholders, should thus only be given weight to the extent that pursuing these interests, also benefits the shareholders. The implication is that CSR is permissible only if it is insincere i.e. used as an instrument to promote shareholder interests (Bakan, 2004).

To assess whether the Friedmanian position is tenable, let us first consider the arguments used to support it. Four basic arguments are commonly used to underpin this position. First, it is argued that the contract between the shareholders and a manager of a firm, binds the manager to pursuing the interests of shareholders, and therefore makes it illegitimate to pursue other ends. Second, pursuing other ends to the detriment of shareholder returns, is equal to taxing the shareholders, and taxation is a task for democratically elected governments, which it is illegitimate for managers to assume. Third, if businesses focus on too many tasks beyond their core operations, they become less efficient. An efficient division of labour between businesses and government is for businesses to create value, and the government to redistribute it. Fourth, a business that assumes responsibilities beyond maximizing profits, will incur added costs, and will therefore be wiped out in competition with firms that do not assume such responsibilities. In other words, assuming costly responsibilities will be self-defeating, and ultimately futile. Let us review each of these arguments in turn.

The first argument, that managers are bound by contract to act only in the interest of shareholders, intuitively appears too simplistic to hold. Two parties that enter into an agreement of any kind cannot reasonably argue that this releases them from responsibility for third parties. For instance, two people that get married, cannot claim that this bond precludes responsibilities for other human beings. If this were the case, we would see a proliferation of agreements expressly designed to limit the responsibilities of the parties involved. Beyond this intuitive refutation, it is a key implication of profit maximization that firms have special duties to

owners, an implication whose merits will be discussed in more detail shortly.

The second argument, that it is illegitimate for managers to tax owners, treats the question of corporate responsibility in an unnecessarily complex manner. The key question here is not whether managers should redistribute wealth from the owners to others, but whether shareholders ought to give up some of their returns to promote other ends. If one can demand that shareholders sacrifice some of their returns for other important ends, the fact that a manager is the one to put this into practice, does not nullify the demand on shareholders.

The third argument proceeds from an idea of an ideal division of labour between government and business. Both are claimed to be more efficient if they focus on their respective tasks, which works to the advantage of society as a whole. The problem with this argument is that the situation is often not one which permits the ideal division of labour envisioned. In many countries, especially in the third world, governments and public institutions are incapable or unwilling to assume many of the duties implied by the ideal division of labour. Given imperfections or restrictions of this kind, it is not inconceivable that the most efficient division of labour entails a greater responsibility for corporations than focusing on its core business operations.

The fourth and final argument in support of the Friedmanian view, states that taking an extra responsibility would put a firm out of business. A common way to meet this argument is to say that some firms do act responsibly, and are not eliminated by competition. If consumers, workers or shareholders value corporate responsibility, a responsible firm could survive and even thrive. In a context of less than perfect competition, corporate responsibility could even confer a strategic advantage on a firm. And in fact, the population of firms in a given market is often remarkably heterogeneous.

However, all this counter-argument does is show that the Friedmanian survival argument is overstated, it does not fully refute the argument. A more effective counter-argument is to say that if acting responsibly puts a firm at a disadvantage in the marketplace, other agents may be responsible for lessening the disadvantage. For instance, it may be the responsibility of consumers to pay a higher price for goods from responsible firms, or for shareholders to add a responsibility return to the standard financial return of firms when allocating investment funds. What the survival argument does, is to take too narrow a view of responsibility; when discussing the responsibility of business, we need not confine ourselves to just discussing the responsibility of business, we can also take the duties of other agents into account.

The arguments commonly put forth to justify a claim that corporations should act in the interest of their shareholders, thus do not stand up to closer scrutiny. That these particular arguments fail does not immediately imply that an ethical perspective which includes profit maximization by firms is impossible to conceive of. To build such a case against profit maximization, we need a more fundamental analysis based on ethical theory. The approach taken by many studies of the responsibilities of corporations, is to take one particular ethical theory, and from it derive corporate responsibilities. For instance, Bowie (1999) derives implications for corporations of Kantian ethics, and Donaldson and Dunfee (1999) do the same from a social contract point of view. Taken as a whole, these types of studies provide a basis for discussing the overlapping consensus of ethical perspectives on profit maximization. That basis is of necessity partial, however, as there could be other positions that would take a different view of profit maximization.

An alternative approach is to focus on what a maxim of profit maximization implies in ethical terms, and discuss whether these implications are consistent with the demands we would place on any reasonable ethical theory. For this purpose, the implications of profit maximization can be phrased in the language of special duties. A special duty is a duty that we have to some but not to others (Goodin, 1988). The view that a firm should maximize profits or owner returns, immediately entails a duty of the firm towards owners that it does not have towards other agents. So profit maximization implies that:

(a) firm has a special duty to its owners

In general, having special duties towards one agent does not necessarily preclude duties to other agents. However, unlimited profit maximization or the Friedmanian idea that it is illegitimate to deviate

from maximizing owner returns, implies that the special duty to owners trumps any duties the firm might have towards other agents. In other words, profit maximization also implies that:

(b) the special duty of firms to their owners takes preference over duties to other parties

So profit maximization does not only entail that a firm has a special duty towards owners, that duty is also a strict or preferential duty in the sense that it cannot be reneged upon to fulfil other duties.

The question then becomes whether this particular type of special duty can be defended from an ethical point of view. In ethical theory, special duties are derived in two ways. One approach is to say that an agent has a special duty towards another because they stand in a certain kind of relation to each other. Accordingly, this can be called the relationship approach to special duties. Another approach is to take a universalistic point of view, and say that everyone has the same general duties to everyone else, but that these general duties can be discharged more effectively, if each agent is assigned special duties towards a limited set of other agents.[5] This is basically the assignment approach of Goodin (1985, 1988).

In an article on stakeholder identification, Cappelen (2004) distinguishes among three traditions in the relationship approach; the voluntarist tradition, the mutual benefit tradition, and the communitarian tradition. Towards a more general point, it is instructive to analyze how the special duties that follow from profit maximization hold up in the framework of these three traditions.

According to the voluntarist tradition, special duties arise only from voluntary and informed agreement. Libertarianism, as advanced by Nozick (1974), is perhaps the best known of these types of theories. According to this theory, imposing involuntary actions on individuals violates their self-ownership, or their basic rights to life, health, property or liberty. The idea that self-ownership is violated if an action is not voluntary, certainly implies that special duties only arise from voluntary association, such as between the owners of a firm, or between management and owners. So implication (a) above can be vindicated in a libertarian setting.

It is, however, wrong to say that this implies that profit maximization can be pursued in all cases, that parties to a voluntary agreement can without limits pursue their own ends. According to libertarianism, using slave labour would be wrong, even though it might increase profits. And appropriating resources that others own would also be wrong, though it might increase profits. Appropriating resources might even be wrong in certain cases where they are not owned, according to the Lockean proviso of leaving "enough and as good for others" laid down by Nozick. One can even build a case against actions that infringe on the ability of others to enter into voluntary association, through such actions as union busting. The point is that though special duties can arise only through voluntary agreement, this does not nullify the duty of the parties to the compact to respect the self-ownership of agents not party to the compact. In other words, implication (b) above cannot be justified within a libertarian setting. In short, Friedman was not a libertarian.

Though the above arguments relate in particular to libertarianism, there is a more general point to be made here. Any theory in the voluntarist tradition would accept special duties only through some sort of voluntary consent. Conversely, any theory in this tradition would deem immoral actions that violate some idea of voluntariness. Any action by parties voluntarily bound to each other, such as the owners of a firm, that imposes some involuntary burden on other agents, would therefore be illicit. In the voluntarist tradition, therefore, there are limits to profit maximization that apply whichever strand of the tradition one would consider.

In the communitarian tradition, an agent is "partly defined by its relationships and the various rights, obligations, and so forth that go along with these, so these commitments themselves form a basic element of personality" (Miller, 1988, p. 650). An agent is embedded in a social and cultural setting, to such an extent that reducing the level of commitment to one's community would be similar to changing one's identity. The implication of such a position is that special duties arise from relationships that are key constituents of an agent's identity. There are several ways in which to delimit what types of relationship are morally relevant in this sense. Miller argues that the community in question be "constituted by the shared beliefs of a set of people" that (i) they belong together, that (ii) their association is neither transitory nor instrumental, that (iii) their community has

distinctive characteristics, and that (iv) there is loyalty in the sense of willingness to sacrifice personal gain to advance the interests of the community.

It seems a strange proposition to suggest that the relationship between firms and owners, or among the owners of a firm, takes the form demanded by the communitarian tradition. On Miller's criteria, the firm–owner relationship fails on several counts. Often and perhaps predominantly, owner's investment in a firm is done for short-term personal gain, and one cannot therefore in general argue that the relationship of an owner to the firm is ''neither transitory nor instrumental''. The notion of loyalty used by Miller also fits the firm–owner relationship poorly, owners are rarely inclined to incur personal loss to promote the interests of a firm or of other owners.

More generally, one cannot convincingly argue that the types of relationships that arise between firms and owners, are sufficiently connected to the identity of owners to have a special moral standing according to the communitarian tradition. The economic bonds that arise between owners and a firm are entirely different from the social and cultural factors that define who an agent is. The shareholder community therefore is not the type of community that is given a special moral standing in the communitarian tradition. Furthermore, in a globalized world, many firms have owners that are from widely different parts of the world, owners who have an allegiance to quite different socially and culturally constituted communities, which is hard to reconcile with a strict allegiance to a shareholder community. In sum, within a communitarian framework, the relationships formed between an owner and a firm are not morally relevant in the sense that they give rise to the special duties that are implied by profit maximization.

In what may be termed the mutual benefit tradition, social cooperation is seen as part of the circumstances of justice. This idea is central to the theories of Rawls (1971) and Gauthier (1985), but can also be traced back to David Hume (1986). Within this tradition, cooperation between individuals is deemed essential because it increases the production possibilities, thus creating a social surplus. However, with cooperation also comes an obligation to distribute the spoils of cooperation fairly among those taking part in the cooperative venture. The morally relevant relationship in this tradition is thus one that reflects a cooperative endeavour to increase the size of the pie. In contrast to the voluntarist theory, the relationship does not necessarily have to be voluntary to produce distributive obligations.

Now, a firm can be seen as one type of cooperative venture, through which owners collaborate to increase production possibilities. This would seem to entail a special obligation of the firm towards its owners. However, owners are not the only cooperating partner involved in creating the social surplus of a firm. The creation of the surplus also necessitates the cooperation of other groups, such as workers, customers, suppliers, and often governments. In the mutual benefit tradition, therefore, special duties of the firm extend not just to owners, but also to a number of other groups. In other words, the mutual benefit tradition entails more of a stakeholder, than a shareholder perspective on corporate obligations. It follows that the strict special duties towards owners that profit maximization implies cannot be justified within a mutual benefit tradition.

There thus does not seem to be much of a case for profit maximization and its corresponding special duties, in relationship approaches to special duties. If relationship approaches fail to provide a moral basis for profit maximization, the alternative is to attempt to find such a basis from universalistic theories, such as utilitarianism or Kantianism. In these types of theories, the point of departure is that everyone has the same general duties to everyone else. However, these general duties can be discharged more effectively if agents are assigned special duties for a subset of the total population, or for a subset of tasks. Assigning special duties produces a division of moral labour, which more effectively permits the general duties to be fulfilled. This is the assignment approach of Goodin (1985, 1988), which builds on a consequentialist perspective, but is consistent with other universalistic theories as well.[6]

The implication of the assignment approach is that the primary responsibility for a task should be allocated to the agent or group of agents who can fulfil the task most efficiently. Now, there is a large literature in economics, which discusses the efficiency of the market economy, including profit maximization by firms. Based on the First and Second Welfare Theorems of welfare economics, one can make a case for the idea that profit maximizing firms are particularly suited for making

efficient use of society's productive resources.[7] In other words, to preserve the efficiency enhancing properties of the market economy, one can argue for a division of moral labour in which firms are assigned the task of maximizing profits, while the state is assigned the task of redistributing income and correcting market failures. Based on this line of reasoning, one at least gets a *prima facie* argument for profit maximization by firms.

This particular division of moral labour builds, however, crucially on the assumption that the state is capable of and willing to perform the tasks allocated to it. In the case where the state fails to perform these tasks, they become ''the residual responsibility of all'' (Goodin, 1988, p. 684). If the state defaults on its obligations, other agents, including firms, have secondary or back-up responsibilities to make sure these tasks are carried out (Goodin, 1985). In other words, within the assignment approach, there are cases in which firms should deviate from profit maximization. In the words of Goodin (1988, p. 679): ''If special duties can be shown to derive the whole of their moral force from their connection to general duties, then they are susceptible to being overridden (at least at the margins, or in exceptional circumstances) by those more general considerations''.

The latter observation brings out quite nicely the general point demonstrated by the above discussion of relationship and assignment approaches. In universalistic theories, special duties are merely administrative devices that allow us to pursue general duties more effectively. In the event that any given division of moral labour breaks down, it is incumbent on agents to deviate from their assigned special duties, to make sure the general duties are properly pursued. In other words, there can be no special duty of firms towards their owners that takes precedence in all contexts and situations. In a universalistic framework, the space for special duties as implied by profit maximization, is restricted.

The relationship approach to special duties, and in particular communitarianism, can be seen as a reaction to the universalistic idea that everyone should count equally in our moral deliberations. Some relationships may be more important to us than others, for instance those closely related to our sense of identity, which implies that there may be reason to accept special duties to agents with whom we have these types of relationships. In an attempt to relax the very strict impartiality requirements of universalistic theories, relationship approaches in a sense delimit the extent to which duties can be partial towards certain groups or individuals, by defining what counts as morally relevant relationships. In all of the relationship traditions discussed above, the special duties of firms to owners implied by profit maximization, either fail to be based on relationships that have moral significance, or are based on relationships that are not the only morally relevant ones.

This point also extends to all other reasonable relationship approaches beyond the three discussed here. Owners do not have a monopoly on identity, self-ownership, voluntary association, mutually beneficial cooperation or anything else that can reasonably underpin strict special duties of firms to owners. To argue that owners are in any way special because they form relationships others do not, is to implicitly argue that owners are special because they are owners. And besides violating the impartiality requirements of universalistic theories, this would relax impartiality requirements far beyond what any reasonable relationship approach would permit. The special duties implied by profit maximization therefore cannot be defended from any reasonable ethical position, universalistic or otherwise.

A similar way to put this, is to say that an ethical theory built around (or consistent with) the idea that corporations ought only to pursue the interests of their owners, would include a strong element of egoism on the part of owners (through the construct of a corporation). As Williams (1993, p. 12) argues, ''we have a conception of the ethical that understandably relates to us and our actions the demands, needs, claims, desires, and generally, the lives of other people, and it is helpful to preserve this conception in what we are prepared to call an ethical consideration''. An ethical theory based entirely on self-interest, thus leaves out an essential component of any reasonable ethical theory.

Though a reasonable ethical basis cannot be found for the strict special duties implied by the principle that firms should always and only maximize profits, or shareholder returns, this does not mean that there is no room for profit maximization in ethics. Firms may have special duties towards owners, but these will be derivative and conditional, and may have to be deviated from to fulfil other duties. For instance,

within the universalistic framework discussed above, it may be efficient for corporations to maximize profits and the government to take care of redistribution. This argument presupposes, however, that there exists some sort of government that can redistribute effectively, if there does not, the argument breaks down, and the best state of affairs is not necessarily attained by letting corporations maximize profits. Since profit maximization is a derivative principle for corporate action, it will therefore be subject to exception, it will sometimes have to be deviated from to honour other duties.

The implication of the arguments in this section is that the neo-Friedmanian position that CSR policies should only be used to further shareholder returns, is ethically indefensible. The standard arguments for the Friedmanian position do not hold. No reasonable ethical theory can defend the strict special duties of firms to owners implied by profit maximization. To the extent that special duties to owners are derived from an ethical theory, they will be subject to exceptions, which implies that CSR policies may sometimes have to be used to further other ends than profit maximization.

CSR and profits do not always go together

If all good things go together, there is not much point to ethical theory, beyond defining what actually counts as good. There would be no need for ethical reasoning in terms of making trade-offs and resolving dilemmas, for passing judgement in the hard cases where one set of interests or objectives is pitted against another. Much of what has been developed in the field of ethics would be beside the point; a utilitarian could simply maximize individual utilities rather than the sum across all individuals, which among other things implies that Arrow's theorem is not of much import (Arrow, 1951).

The idea that CSR and profits go together is a narrow version of this more general notion. The idea does not stand up to closer scrutiny, however, whether from a theoretical or empirical perspective. From a theoretical point of view, the position that CSR always increases profits is quite easily refuted. Certainly, a company may get a reputation boost by doing some kind of socially beneficial work that goes beyond its normal operations. But after the initial boost, a company will not get as much of an effect if it further expands its CSR activities. At some point, the costs of expanding CSR activities will outweigh the benefits to the company. Put simply, company profits do not increase indefinitely in the number of schools or hospitals it funds. If that were the case, we should leave all funding of the social sectors to the private sector, since they can build and run hospitals for free.

If we look at empirical studies of how corporate social performance (CSP) affects profitability, we cannot conclude from these that the relationship is a generally positive one. In a review conducted by Griffin and Mahon (1997), 51 studies were identified which have explored this relationship. Though most of these studies found that CSP influences financial performance positively, a substantial number of studies found no effect, or even a negative effect. Hillman and Keim (2001) also suggest that some types of CSR affect profitability positively, whereas others do not. This would suggest that aggregating CSP dimensions into one would give different answers to the relationship between CSP and profits, depending on how the CSP dimensions are weighted.

In an attempt to reach a conclusive answer based on past studies, Orlitzky et al. (2003) performed a meta-analysis which used a particular weighing technique. Their conclusion was that CSP is positively correlated with financial performance, or that "social responsibility ... is likely to pay off". However, given the methodological shortcomings of past studies, the meta-analysis of Orlitzky et al. cannot be relied upon for a definite answer. Most past studies are based on limited data, and/or omit important control variables, and/or suffer from other methodological shortcomings, and any attempt to aggregate their findings is therefore meaningless.

Addressing the point of omitted variables, McWilliams and Siegel (2000) show that adding R&D intensity as a control variable, changes the effect of CSP on profits, from positive to insignificant. They take this as evidence for a line of argument that holds that companies expand their CSR activities up to the point where the marginal revenues equal the marginal costs, which means that there is no profit to be gained from expanding these types of activities at the margin.

Further doubt is cast by the fact that past studies of CSP and profits have relied on cross-section

techniques, not controlling for firm heterogeneity. Since past studies typically use data on firms from different industries, firm heterogeneity is likely to be substantial, which implies that these studies do not properly identify the effect of CSP on profits. In an important contribution, Elsayed and Paton (2005) show that while cross-section estimation yields a positive effect of corporate environmental performance on profits, panel data estimation reveals no significant effect. More efficient panel data estimation can thus substantially change results, and it is important that this be explored for dimensions of CSP beyond environmental performance.

Finally, a study by Darnall et al. (2004) on environmental performance and profitability, suggests that ''most estimation models used in previous studies did not consider that a firm's environmental performance is endogenous'' i.e. influenced by financial performance. The study therefore concludes that ''results of prior studies need to be interpreted with care and additional studies are needed to evaluate these relationships further'', a point which obviously extends to studies of CSP in general and profitability.

The most that can be said from empirical studies, is that the relationship between CSR and profits has not be adequately determined. Based on reasonable theoretical arguments, however, there is no reason to expect empirical data to show that the relationship is a generally positive one. The dilemma-less view of CSR, that CSR increases profits, and that the question of which end to pursue is therefore a trivial one, is consequently unsupported.

Conclusions

The comedian and film maker Woody Allen is reported to have said ''I'm not afraid of dying, I just don't want to be there when it happens''. Corporate executive today treat dilemmas in a similar fashion, they would rather not come face to face with one, and therefore prefer defining them away. As the previous analysis shows, however, there are real dilemmas that need to be faced. CSR does not generally increase profitability. And when corporate executives only implement acts of corporate responsibility that promote profits, and only as much of these activities as promotes profits, they are just being profit-minded, not responsible. This is in fact profitability in the guise of CSR. The correct way of approaching the issue of CSR, is to first ask what a company is responsible for, and then implement these responsibilities, whether they increase profits or not. And in some cases they will certainly cut into the bottom line.

Here, the reluctant executive might resort to Friedman, and argue that the responsibility of business is to increase profits, and only that. However, as this article has argued, this is an untenable position from an ethical point of view. There is thus a very real possibility that corporations should in certain cases deviate from profit maximization, from maximizing returns to owners, to pursue ends that are more important from a social point of view. This does not mean that corporations should abandon profit maximization altogether. For instance, the efficiency enhancing effects of this pursuit may in certain cases make profit maximization legitimate, but in other cases other interests will take precedence.

Defining exactly what is the responsibility of corporations is a question that would benefit from further research. One type of approach that can be taken, is that of Cappelen and Kolstad (2006), who attempt to derive an optimal division of moral labour between business and other institutions. One of the implications of their analysis is that whether corporations should maximize profits or not, depends on the ability of other institutions to fulfil other important functions. This entails that in countries were public institutions are unable to fulfil functions normally attributed to them, the responsibility of corporations increases, and profit maximization should be deviated from. In other words, this type of analysis implies that corporations have a greater social responsibility in poor countries than in rich countries.

Acknowledgements

The author thanks Ottar Mæstad, Arne Wiig, Tina Søreide and Alexander Cappelen for comments and inspiration.

Notes

[1] http://www.shell.com/static/media-en/downloads/speeches/adrianloader_sg_csr_23022004.pdf

[2] Granted, executives often pursue their own self-interest to the detriment of shareholders, but the publicly asserted normative basis of their actions is maximizing shareholder returns.

[3] http://www.ge.com/files/usa/en/company/news/Jeff_Immelt_BC_Speech.pdf

[4] More precisely, Friedman argues that corporate executives should pursue shareholder interests. In many cases, shareholders might be willing to forgo profits for other ends. Even if shareholders do have other interests than maximizing profits, this does not reduce the validity of the following arguments, as long as there is some deviation between shareholder interests and an ethically motivated view of society's interests, which is a reasonable assumption.

[5] I am using the term universalistic in a narrow sense here, since several of the relationship approaches discussed below are commonly thought of as universalistic.

[6] See e.g. Shue (1988) who discusses a division of moral labour in assigning duties correlative to human rights.

[7] See Cappelen and Kolstad (2006) for a more thorough elaboration on the implications of the assignment approach.

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