Friedman’s ‘narrow’ csr approach vs. modern ‘broad’ csr apporach on new zealand business environment.

Businesses only have one social responsibility, to use their resources in such way to capitalize on any profit opportunities while obeying the law (Friedman 1970). Businesses play an important role in society in general, providing a nation; goods and services and employment which overall contribute towards a higher standard of living and economic growth. The main goal for any business operating is to make as much profit as possible while obeying laws. However, in the real world with increasing social pressures towards businesses nature of operating, it has forced them to take part in Corporate Social Responsibility (CSR) and therefore act more socially responsible towards their actions. One main disadvantage of CSR is the impact of profit for businesses, e.g. being environmentally friendly can have a negative impact on profit. The focus of this essay will evaluate the views of Friedman and other authors, on CSR in a New Zealand business environment.

Firstly, before covering the detail of this paper, it is important to acknowledge the definition of CSR. According to (A. Dahlsrud as cited in Schwartz and Saiia, 2012), there is no clear established definition for CSR; however, it is known that CSR is viewed as social standpoint in a business. (J. W. McGuire as cited in Schwartz and Saiia, 2012) state that CSR is relates not only to the economic and legal obligations of a business, but also beyond these obligations i.e. social responsibilities. CSR is then applied in two different perspectives, the ‘narrow’ approach and the ‘broad’ approach. Friedman’s views are summarised as the ‘narrow’ approach, primarily because he believed in merely just profits and obeying the laws (Friedman 1970). ‘Broad’ CSR would account for further ethical constraints such as responsibility and moral rights (Schwartz and Saiia, 2012).

It is argued that the expectations of business and the ‘rules of society’ have significantly changed over the last few decades. Friedman’s article which was published in 1970 follows the ‘narrow’ approach, however, (Schwartz and Carroll as cited in Schwartz and Saiia, 2012) argue that the ‘rules of society’ and business relationship to society have changed, thus forcing businesses to follow the ‘broad’ CSR approach. Consequently Eweje and Wu (2010) state that a change to a labour-led government in 1999 forced many businesses in New Zealand to reconsider their role in society. Roper (2004) also states the idea that an election in 1999 forced many businesses to rethink their strategy and covers the idea that the term ‘social responsibility’ was not publicly considered before 1998. For example, Roper (2004) states the involvement of Fonterra and Telecom into the New Zealand Business Council for Sustainable Development (NZBCSD) would promote eco-efficiency. In this case, Friedman would argue against the involvement, because promoting eco-efficiency (protecting the environment) would cut down businesses profit potentials. Whereas the public would promote such idea due to increased business ‘social responsibilities’ as a result of a change in government.

Ethical and Legal requirements play an important key in a business operation, however how these are viewed by the public from a business decision, differs and may cause conflicts. Friedman (1970) suggests that businesses will create as much money as possible while obeying laws and ethical customs. However, Friedman does not explain these ethical customs in detail. Cosans (2009) argues that Friedman’s inability to outline ethical customs is a reason for why many believe that businesses should do anything to maximize profits as long as it is legal. Schwartz and Saiia (2012) state ‘broad’ CSR accounts for further ethical constraints such as responsibility and moral rights. Take an example from Mercury Energy, a customer with an overdue bill had her electricity cut off, when she was fully dependent on an oxygen machine, however Mercury Energy had no prior knowledge of the health condition (Eweje and Wu, 2010). Friedman would argue that the business had a legal right to cut off the power, as it would affect profits. However, was it within moral rights and ethical behaviour? Sure, the business had a legal right to cut off the customer’s electricity but in respect to moral rights and business ethics in an ever-changing business world, was it morally correct? Did the business ever consider how their reputation would be affected? Increasing pressure from media and government led to Mercury Energy publicly apologizing and taking new incentives to prevent future incidents, however the statement only occurred after Prime Minister Helen Clark and Media were involved (Eweje and Wu, 2010). Mercury Energy clearly expresses the ‘broad’ CSR approach into account, as they have accepted responsibility for their actions and have respected the moral rights of society e.g. preventing further incidents.

In any business profits are the key goal, however maximizing profits may not be of interest. Friedman (1970) argues that executives would be spending someone else’s money for the interest of being ‘socially responsible’ and therefore reducing shareholder returns. Friedman (1970) also argues Businesses should make as much money as possible while obeying laws and ethical customs. However, Friedman does not acknowledge that each business will have a different mission statement, and may not necessarily desire to maximize profits. Schwartz and Saiia reiterate the point; it may not be in the interest of shareholders to generally maximize profits, the obligation of an executive is to fulfil the shareholders ‘desires’, which is generally outlined in the mission statement. Shaw (2009) also argues companies may have more than just profit goals in the long-term interests of the company. For example, New Zealand companies, Fonterra and Telecom are members of the NZBCSD; the mission statement of NZBCSD is to provide leadership towards eco-efficiency and sustainable development (Roper, 2004). It is clear that the shareholders have given specific permission to the respective executives of the companies for involvement towards providing leadership. Friedman’s argument would be invalid, as Fonterra and Telecom are expressing ‘social responsibilities’ as outlined in the mission statement of NZBCSD and that maximum shareholder returns are not the key goal.

The government plays a significant role in a society; it provides a nation with welfare, infrastructure and laws to abide by, how these laws and policies are structured will affect the nature of the business and its operations. Friedman (1970) suggests that social practices such as controlling pollution should be left to the government. Schwartz and Saiia (2012) similarly state that policy decisions are better left to the government. For example Roper (2004) states, the involvement of Fonterra and Telecom into NZBCSD would improve sustainable development and eco-efficiency. Friedman would argue the involvement of New Zealand’s two largest companies would support his theories as the policies are effectively left to the government. However, Friedman would also argue profits are not maximized because of companies taking part in being environmentally friendly. Friedman’s views could be interpreted as the ‘end’ spectrum of ‘narrow’ CSR (Schwartz and Saiia, 2012), i.e. Friedman seeks a social responsibility by approving government involvement for policy decisions, and however in doing so he disapproves of lost profit.

It should be understood, that Friedman’s views on CSR are not entirely appropriate for New Zealand business environment. Many key factors have influenced the change from a ‘narrow’ CSR approach to a more defined ‘broad’ CSR approach, however I believe the main reason of a more ‘broad’ CSR approach was due to the change to a labour-led government in 1999. The change in government caused many businesses in New Zealand to ‘rethink’ their strategy, forcing a more ‘socially responsible’ approach. Businesses are now inclined to; provide environmentally friendly products to society, promote sustainable development, maintain reputation and give more to the community than just goods and services, all while following the ‘basic rules of society’ and following business ethics. Friedman’s approach could be argued to business back in 1970, however due to the ever changing business world, government to labour-led, business structure etc, his views aren’t appropriate for New Zealand business environment.

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