An Analysis of the Social Responsibilities of Business Managers.

Van cook Mcgraw
Louisiana State University and Agricultural & Mechanical College

Follow this and additional works at: https://digitalcommons.lsu.edu/gradschool_disstheses

Recommended Citation
https://digitalcommons.lsu.edu/gradschool_disstheses/1130

This Dissertation is brought to you for free and open access by the Graduate School at LSU Digital Commons. It has been accepted for inclusion in LSU Historical Dissertations and Theses by an authorized administrator of LSU Digital Commons. For more information, please contact gradetd@lsu.edu.
McGRAW, Van Cook, 1934—
AN ANALYSIS OF THE SOCIAL RESPONSIBILITIES OF BUSINESS MANAGERS.

Louisiana State University, Ph.D., 1966
Economics, commerce—business

University Microfilms, Inc., Ann Arbor, Michigan
AN ANALYSIS OF THE SOCIAL RESPONSIBILITIES OF BUSINESS MANAGERS

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy in

The Department of Management and Marketing

by

Van Cook McGraw
B.S., Northwestern State College of Louisiana, 1956
M.S.Ed., Northwestern State College of Louisiana, 1959
January, 1966
ACKNOWLEDGEMENT

The writer wishes to express appreciation to Dr. Leon C. Megginson, Professor of Management, Louisiana State University, for the assistance and guidance he has given during the preparation of this dissertation. The writer also wishes to acknowledge the helpful suggestions made by Dr. Thomas R. Beard, Associate Professor and Head of the Department of Economics, Dr. Frank D. Ferguson, Associate Professor of Secretarial Administration, Dr. Thomas V. Greer, Assistant Professor of Marketing, Dr. Raymond V. Lesikar, Professor and Head of the Department of Management and Marketing, and Dr. Lloyd F. Morrison, Professor of Accounting.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>ii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>xiii</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>Statement of the problem</td>
<td>1</td>
</tr>
<tr>
<td>Definition of terms</td>
<td>4</td>
</tr>
<tr>
<td>Delimitation of the problem</td>
<td>5</td>
</tr>
<tr>
<td>Method of approach to the problem</td>
<td>6</td>
</tr>
<tr>
<td>Arrangement of material</td>
<td>6</td>
</tr>
<tr>
<td>CHAPTER</td>
<td></td>
</tr>
<tr>
<td>I. PECULIAR ROLE OF THE MANAGER</td>
<td>9</td>
</tr>
<tr>
<td>Changes complicating the economic system</td>
<td>9</td>
</tr>
<tr>
<td>Separation of ownership and management</td>
<td>16</td>
</tr>
<tr>
<td>Management as a profession</td>
<td>22</td>
</tr>
<tr>
<td>Characteristics of a profession</td>
<td>22</td>
</tr>
<tr>
<td>Signs that management is approaching a profession</td>
<td>26</td>
</tr>
<tr>
<td>Forces against professionalization of management</td>
<td>28</td>
</tr>
<tr>
<td>Possible consequences of professionalization</td>
<td>30</td>
</tr>
<tr>
<td>Prospects for professionalization</td>
<td>32</td>
</tr>
<tr>
<td>Philosophy of management</td>
<td>32</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>PAGE</td>
</tr>
<tr>
<td>---------</td>
<td>------</td>
</tr>
<tr>
<td>Definition of management philosophy</td>
<td>32</td>
</tr>
<tr>
<td>Need for a philosophy of management</td>
<td>38</td>
</tr>
<tr>
<td>Conclusions on management philosophy</td>
<td>44</td>
</tr>
<tr>
<td>Summary</td>
<td>45</td>
</tr>
<tr>
<td>II. MANAGERS AND THE STOCKHOLDERS</td>
<td>47</td>
</tr>
<tr>
<td>Source of authority of business managers</td>
<td>48</td>
</tr>
<tr>
<td>Formal authority theory</td>
<td>49</td>
</tr>
<tr>
<td>Acceptance theory</td>
<td>50</td>
</tr>
<tr>
<td>Implications</td>
<td>52</td>
</tr>
<tr>
<td>Legal responsibilities of managers to stockholders</td>
<td>53</td>
</tr>
<tr>
<td>The case of Dodge v. Ford Motor Co.</td>
<td>54</td>
</tr>
<tr>
<td>Modifications of the basic concept</td>
<td>55</td>
</tr>
<tr>
<td>Traditional view on the profit motive</td>
<td>58</td>
</tr>
<tr>
<td>What are profits?</td>
<td>58</td>
</tr>
<tr>
<td>Role of profits</td>
<td>59</td>
</tr>
<tr>
<td>Dominance of the profit motive</td>
<td>60</td>
</tr>
<tr>
<td>Maximization socially beneficent</td>
<td>62</td>
</tr>
<tr>
<td>Dangers of abandoning profit maximization</td>
<td>66</td>
</tr>
<tr>
<td>Summary</td>
<td>71</td>
</tr>
<tr>
<td>III. MANAGERS AND THE STOCKHOLDERS (CONTINUED)</td>
<td>72</td>
</tr>
<tr>
<td>Conflicts of business with society</td>
<td>72</td>
</tr>
<tr>
<td>Conflicts of managers with stockholders</td>
<td>73</td>
</tr>
<tr>
<td>Why profits are not maximized</td>
<td>75</td>
</tr>
<tr>
<td>Personal goals of managers</td>
<td>76</td>
</tr>
</tbody>
</table>
CHAPTER PAGE

Alternate business objectives ................................. 79
Reasons for limiting profits .................................. 82
Illustration of not maximizing profits ........................ 83
Pursuit of other objectives .................................. 86
Intermediate goals ............................................ 87
Complexity of profit maximization .......................... 89
Ranking objectives ............................................ 90
Stockholder welfare .......................................... 90
Related concepts .............................................. 94
Balancing of interests ...................................... 94
Concept of satisfactory profits .............................. 96
Business power ............................................... 98
Summary ......................................................... 100

IV. MANAGERIAL RESPONSIBILITIES TO CONSUMERS 102

The marketing concept ...................................... 103
Definition ...................................................... 103
Development .................................................. 108
Implications for management ............................... 111
The influential consumer .................................. 113
Educational attainment ..................................... 113
Informative value of advertising .......................... 118
Changing consumer purchasing power .................. 120
Consumer cooperation ....................................... 125
Special considerations ....................................... 127
<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislation protecting consumers</td>
<td>127</td>
</tr>
<tr>
<td>Selected federal regulations protecting consumers</td>
<td>128</td>
</tr>
<tr>
<td>State regulations protecting consumers</td>
<td>131</td>
</tr>
<tr>
<td>Advertising</td>
<td>133</td>
</tr>
<tr>
<td>Innovation</td>
<td>134</td>
</tr>
<tr>
<td>Summary</td>
<td>135</td>
</tr>
<tr>
<td>V. MANAGERIAL RESPONSIBILITIES TO AND FOR EMPLOYEES</td>
<td>137</td>
</tr>
<tr>
<td>Managers and employee needs</td>
<td>137</td>
</tr>
<tr>
<td>Employee needs</td>
<td>138</td>
</tr>
<tr>
<td>Physiological needs</td>
<td>138</td>
</tr>
<tr>
<td>Safety needs</td>
<td>139</td>
</tr>
<tr>
<td>Social needs</td>
<td>139</td>
</tr>
<tr>
<td>Egoistic needs</td>
<td>139</td>
</tr>
<tr>
<td>Self-fulfillment</td>
<td>139</td>
</tr>
<tr>
<td>Summary</td>
<td>141</td>
</tr>
<tr>
<td>Legislation</td>
<td>142</td>
</tr>
<tr>
<td>Summary</td>
<td>146</td>
</tr>
<tr>
<td>Managers and labor unions</td>
<td>147</td>
</tr>
<tr>
<td>Union development</td>
<td>147</td>
</tr>
<tr>
<td>Motivation to join or reject unions</td>
<td>148</td>
</tr>
<tr>
<td>Motivation to join unions</td>
<td>149</td>
</tr>
<tr>
<td>Motivation to reject unions</td>
<td>150</td>
</tr>
<tr>
<td>Attitude of managers toward unions</td>
<td>151</td>
</tr>
<tr>
<td>Accept unions</td>
<td>151</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>PAGE</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Human relations</td>
<td>151</td>
</tr>
<tr>
<td>Consultation</td>
<td>152</td>
</tr>
<tr>
<td>Communications</td>
<td>152</td>
</tr>
<tr>
<td>Grievances</td>
<td>152</td>
</tr>
<tr>
<td>Political nature</td>
<td>152</td>
</tr>
<tr>
<td>Proposals</td>
<td>153</td>
</tr>
<tr>
<td>Opposition</td>
<td>153</td>
</tr>
<tr>
<td>Summary</td>
<td>154</td>
</tr>
<tr>
<td>Managers and automation</td>
<td>154</td>
</tr>
<tr>
<td>Nature and significance of automation</td>
<td>154</td>
</tr>
<tr>
<td>Employee problems and benefits of automation</td>
<td>157</td>
</tr>
<tr>
<td>Actions of managers to lessen impact</td>
<td>159</td>
</tr>
<tr>
<td>Summary</td>
<td>162</td>
</tr>
<tr>
<td>VI. SELECTED AREAS OF MANAGEMENT RESPONSIBILITY</td>
<td>164</td>
</tr>
<tr>
<td>Managers and politics</td>
<td>164</td>
</tr>
<tr>
<td>Increased interest in politics</td>
<td>165</td>
</tr>
<tr>
<td>Political programs</td>
<td>165</td>
</tr>
<tr>
<td>Reasons for political activity</td>
<td>167</td>
</tr>
<tr>
<td>Improve business-government relations</td>
<td>167</td>
</tr>
<tr>
<td>Offset union power</td>
<td>168</td>
</tr>
<tr>
<td>Increase efficiency of government</td>
<td>169</td>
</tr>
<tr>
<td>Reap individual rewards</td>
<td>170</td>
</tr>
<tr>
<td>Meet social responsibilities</td>
<td>172</td>
</tr>
<tr>
<td>Objections to political activity</td>
<td>174</td>
</tr>
<tr>
<td>CHAPTER</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>Summary ..................................................</td>
<td>177</td>
</tr>
<tr>
<td>Managers and business ethics ..........................</td>
<td>178</td>
</tr>
<tr>
<td>Ethics defined ...........................................</td>
<td>178</td>
</tr>
<tr>
<td>Related terms ............................................</td>
<td>179</td>
</tr>
<tr>
<td>Origin of ethics ..........................................</td>
<td>179</td>
</tr>
<tr>
<td>Scope of ethics ...........................................</td>
<td>180</td>
</tr>
<tr>
<td>Ethical guides ............................................</td>
<td>181</td>
</tr>
<tr>
<td>Need for understanding ethics ..........................</td>
<td>181</td>
</tr>
<tr>
<td>Ensuring ethical conduct ................................</td>
<td>182</td>
</tr>
<tr>
<td>Ethics and profits .......................................</td>
<td>182</td>
</tr>
<tr>
<td>Improving ethics in business ...........................</td>
<td>183</td>
</tr>
<tr>
<td>Codes of ethics ...........................................</td>
<td>184</td>
</tr>
<tr>
<td>Managers and religion ....................................</td>
<td>188</td>
</tr>
<tr>
<td>Separation of business and religion ..................</td>
<td>188</td>
</tr>
<tr>
<td>Christianity and capitalism ............................</td>
<td>189</td>
</tr>
<tr>
<td>Managers and religion ....................................</td>
<td>190</td>
</tr>
<tr>
<td>Conclusion ................................................</td>
<td>193</td>
</tr>
<tr>
<td>Managers and business philanthropy ....................</td>
<td>193</td>
</tr>
<tr>
<td>Philanthropy defined .....................................</td>
<td>194</td>
</tr>
<tr>
<td>Development ...............................................</td>
<td>194</td>
</tr>
<tr>
<td>Reasons for corporate philanthropy ....................</td>
<td>197</td>
</tr>
<tr>
<td>Objections to corporate philanthropy ..................</td>
<td>198</td>
</tr>
<tr>
<td>Gifts to education ........................................</td>
<td>199</td>
</tr>
<tr>
<td>Trends in corporate philanthropy.......................</td>
<td>201</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>PAGE</td>
</tr>
<tr>
<td>---------</td>
<td>------</td>
</tr>
<tr>
<td>Guides to corporate philanthropy</td>
<td>202</td>
</tr>
<tr>
<td>Summary</td>
<td>203</td>
</tr>
<tr>
<td>VII. SUMMARY AND CONCLUSIONS</td>
<td>204</td>
</tr>
<tr>
<td>Major hypothesis</td>
<td>205</td>
</tr>
<tr>
<td>Legal relationships of managers and stockholders</td>
<td>205</td>
</tr>
<tr>
<td>Management as a profession</td>
<td>206</td>
</tr>
<tr>
<td>Philosophy of management</td>
<td>207</td>
</tr>
<tr>
<td>Role of the profit motive</td>
<td>207</td>
</tr>
<tr>
<td>Goal of satisfactory profits</td>
<td>208</td>
</tr>
<tr>
<td>Balancing of interests</td>
<td>208</td>
</tr>
<tr>
<td>Complex environment of the manager</td>
<td>209</td>
</tr>
<tr>
<td>First collateral hypothesis</td>
<td>210</td>
</tr>
<tr>
<td>Source of managerial authority</td>
<td>210</td>
</tr>
<tr>
<td>Managers and stockholders</td>
<td>211</td>
</tr>
<tr>
<td>Consumers and the marketing concept</td>
<td>211</td>
</tr>
<tr>
<td>Influence of consumers</td>
<td>212</td>
</tr>
<tr>
<td>Consumer legislation</td>
<td>212</td>
</tr>
<tr>
<td>Employee needs</td>
<td>212</td>
</tr>
<tr>
<td>Employee-employer legislation</td>
<td>213</td>
</tr>
<tr>
<td>Automation</td>
<td>213</td>
</tr>
<tr>
<td>Labor unions</td>
<td>214</td>
</tr>
<tr>
<td>Politics</td>
<td>215</td>
</tr>
<tr>
<td>Ethics</td>
<td>215</td>
</tr>
<tr>
<td>Religion</td>
<td>216</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>PAGE</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>216</td>
</tr>
<tr>
<td>Second collateral hypothesis</td>
<td>218</td>
</tr>
<tr>
<td>Third collateral hypothesis</td>
<td>219</td>
</tr>
<tr>
<td>SELECTED BIBLIOGRAPHY</td>
<td>222</td>
</tr>
<tr>
<td>VITA</td>
<td>235</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Earned Degrees Conferred by Level of Degree, United States, 1940-1960</td>
<td>117</td>
</tr>
<tr>
<td>V. Volume of Consumer Credit by Major Types: 1940-1962</td>
<td>126</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Philosophy of Management</td>
<td>37</td>
</tr>
<tr>
<td>2. Why Profits are not Maximized</td>
<td>84</td>
</tr>
</tbody>
</table>
ABSTRACT

A basic and difficult decision to be reached by business managers is the nature and extent of their social responsibilities and the relationship of these responsibilities to profit objectives. Guidelines of general applicability are not felt to exist.

Statements of business managers and other observers were studied in relation to the major and collateral hypotheses of the study:

Major hypothesis:

The changing internal and external environment of business has caused business managers to assume and profess certain social responsibilities.

Collateral hypotheses:

(1) Certain of the social responsibilities that business managers accept may be observed and, to an extent, their rationale may be stated.

(2) Social responsibilities have been assumed to a greater extent by managers of large corporations whose stock ownership is widespread.

(3) Given certain goals for society, the adoption of the attitude that business managers have social responsibilities results in benefits for society.

Several developments have tended to cause managers to accept social responsibilities. Present legal provisions now allow managers considerable leeway in meeting social responsibilities, especially in making charitable contributions. Managers have assumed certain of the attributes of professionals, encouraging a more favorable attitude toward responsibilities. Efforts to arrive at a philosophy of management
and the tendency to substitute satisfactory profits for maximum profits as a corporate objective favor socially responsible acts. Managers operate in an increasingly complex environment and must attempt to balance the interests of several groups.

Authority to organize and operate a business firm is most realistically seen as flowing from society. This authority may be withdrawn or modified if managers fail to meet responsibilities to stockholders, such as preventing minority abuses; to consumers, such as providing adequate information on which to base buying decisions; to employees, such as satisfying higher needs and reducing the unfavorable impact of automation; and to the public, such as engaging in politics, conducting business operations ethically, and engaging in certain philanthropic endeavors. These and other responsibilities have considerable justification. However, the responsibilities of a particular manager may vary according to the circumstances, such as degree of influence held by the manager, level of profitability of the employing firm, and actions of other interested agencies.

Several forces operating in large corporations with widespread stock ownership have tended to encourage the acceptance of social responsibilities. Managers who are not also owners may be more willing to meet responsibilities which reduce profits. The public expects financially strong corporations to fulfill responsibilities of a financial nature. The relative permanence of the large corporation allows it to reap returns from long-run projects, such as the support of educational institutions. Superior managerial talent permits a broad
view of the role of business in society and recognizes mutual responsibilities.

Business managers, in meeting social responsibilities, seem more likely to benefit than to harm society. A danger is that managers may become unduly influential in matters which should not be their primary concern. Also, most managers are appointed by other managers and not elected by the public. However, these and similar dangers are overshadowed by advantages to society of managers accepting social responsibilities. Consideration of these responsibilities is likely to become even more important in the future, as exemplified by the problems of conservation of natural resources, water and air pollution, maintenance of a sound and growing economy, and foreign trade.
INTRODUCTION

Many of the most perplexing problems facing modern business managers stem from the basic question: What are the "social responsibilities" of business managers? If, indeed, such responsibilities exist, the recipients of the resulting benefits (such as employees, consumers, and educational institutions) are equally and directly concerned. No matter what the conclusion concerning the nature and degree of the social responsibilities of business managers, the implications of the question range far and wide. This situation exists because of the pervasive influence of American business activities, not only in the United States but throughout the world.

Statement of the Problem

For several reasons the social responsibilities of business managers have been receiving increasing attention in recent years. Not only is there more writing and talking about the subject, but there seems to be a growing conviction and acceptance of the conclusion that business managers really do have social responsibilities. These observations lead to the major hypothesis of this study:

Major hypothesis:

The changing internal and external environment of business has caused business managers to assume and profess certain social responsibilities.

This study will analyze these environmental changes in an attempt to
explain the influence of the changes on the acceptance of social responsibilities by business managers.

Numerous statements by business managers and many tangible acts by managers give rise to the belief that socially responsible attitudes and actions may be observed and recorded. Also, arguments favoring and opposing these attitudes and actions have been presented. A collateral hypothesis of this study is thus developed:

**First collateral hypothesis:**

Certain of the social responsibilities that business managers accept may be observed and, to an extent, their rationale may be stated.

After presenting statements of social responsibilities and considering arguments favoring and opposing these obligations, this study attempts to form conclusions, where possible, concerning the acceptance and adherence to the various responsibilities.

Managers who do not own significant amounts of stock in the firms which employ them may not have as great an interest in making profits as managers who are large stockholders. These managers who are not also owners seem more likely to be found in large corporations. In addition, certain other influences favorable to the development of attitudes of social responsibility are felt to exist in large corporations. A second collateral hypothesis, therefore, is indicated:

**Second collateral hypothesis:**

Social responsibilities have been assumed to a greater extent by managers of large corporations whose stock ownership is widespread.

Resolution of this issue requires consideration in this study of the trend toward professionalization of management, the separation of ownership and
management, and other influences most operative in large corporations.

The fact that managers assume responsibilities with respect to several groups in society does not necessarily mean that society will be better off than it was before. Inequities could exist, excesses could occur, and other faults could negate the desirable aspects of the assumption of responsibility. Nevertheless, the third collateral hypothesis of this study is:

**Third collateral hypothesis:**

Given certain goals for society, the adoption of the attitude that business managers have social responsibilities results in benefits for society.

This study will consider the advantages and disadvantages to society of the acceptance of social responsibilities by business managers. The net effect will be assessed where possible.

The above hypotheses are to be proved, or disproved, within the framework of certain assumptions. First, it is recognized that many schemes for an ideal society have been designed. What one observer may regard as an ultimate goal of society, another would reject. The writer would regard the following goals of society as being particularly significant to this study:

1. **Maximum attainment of each individual's potential;**
2. **Maximum individual freedom consistent with the requirements of an organized society;**
3. **Achievement of ever-increasing material levels of living;**
4. **Adherence to the basic tenets of free enterprise while maintaining sufficient flexibility to adapt to changed conditions;**
5. **Attainment of such economic and military strength as is necessary to maintain world peace or to prevail in world conflict; and**
6. **Progress toward the goals of higher civilizations, including spiritual and human values, equal opportunity, freedom from fear, and social justice.**
Second, an assumption of this study is that relative freedom of business managers and individuals, operating within the parameters set by custom and law, is desirable.

A further assumption is that it would be desirable if the forces of competition, the weight of public opinion, and attitudes of social responsibility would be sufficient to relegate governmental control to a secondary position.

Finally, to judge the suitability of the business system on solely economic grounds is not deemed sufficient. This study assumes that human as well as economic values must be weighed in evaluating the social responsibilities of business managers. This assumption would allow managers, for instance, to devote time and effort to meeting the social as well as the economic needs of employees.

Definition of Terms

The expression, "social responsibility," is widely used and accepted. Its precise meaning is difficult to stipulate because of its use in different contexts, but a useful first approximation is that social responsibility refers to the obligation that business has to the various elements of society (stockholders, employees, customers, the government, and others), usually over and above a single-minded dedication to profit maximization. Though these responsibilities may take many forms, some examples could be:

1. To produce better products at lower prices;
2. To treat employees equitably;
3. To reduce unemployment;
4. To maintain a financially strong company;
5. To make charitable contributions;
6. To design and abide by codes of ethics; and
7. To support community activities.
Delimitation of the Problem

To study the question of the social responsibilities of managers requires consideration of a fairly broad range of concepts and empirical data. Only a fairly comprehensive study would have much meaning in the development of a general impression of what the social responsibilities of managers are, so that more specific questions can be put into a useful perspective. This study, accordingly, is rather broad in scope, thus necessarily limiting exploration of the various aspects of the problem to those considered to be most vital. Further consideration of specific areas would no doubt be interesting and profitable but must be excluded from this report.

No more than incidental descriptions of the economic system of the United States will be attempted, and the economic system will be taken as a given premise rather than another variable. Alternatives to the present system constitute a more basic question but have relatively less significance to the topic under consideration.

Within the given economic system, business is operated by managers. These managers are felt to have a peculiar role in most large firms, as they are separated from the owners and also "represent" several other groups. It will be necessary to consider what has caused this role to develop and the relationships between management and these various groups. Again, no history of business is attempted, nor are the interest groups with which management must deal treated in any comprehensive fashion.
Several general issues concerning management and society are surveyed: ethics, religion, philanthropy, and political participation by managers. These issues are included to cover the problem more completely but are developed only to the extent necessary for this study.

Method of Approach to the Problem

An extensive body of literature exists with reference to various concepts explored in the study. It is intended that the most pertinent of the ideas presented in this literature will be fitted into the conceptual framework of this study.

Where possible, logical arguments for a certain point of view will be developed rather than presenting merely an objective analysis. In some cases, the opinions of certain selected executives are the only basis for reporting. It is felt that when a considerable number of authorities are agreed on a certain point of view, the usefulness of this view is improved.

Complete agreement on the social responsibilities of business is not to be expected and probably would not be desirable. Indeed, wide differences of opinion exist in many, if not most, areas. These opposing arguments are presented where appropriate, and specific conclusions are sometimes not possible.

Arrangement of Material

The business manager is the crucial figure in this study. He both affects, and is affected by, society, but the responsibilities which the manager has to society are the basic concern of this study. Whatever
determines the manager's peculiar role is significant in an analysis of his responsibilities. Chapter I places the role of the manager in its rightful position in the economic system and sets the stage for consid­ering the relations between managers and their various "publics."

Historically, managers have been most closely connected with the stockholders, being chosen as the stockholders' representatives. Though this direct and narrow connection has changed perceptibly, it is still basic. Chapter II analyzes this relationship, with special attention to the traditional view on the profit motive.

Chapter III continues the analysis of the relationship between managers and stockholders. Reasons for variances from the profit maximization objective are presented, with the conclusion that profits are not maximized in most situations. This conclusion would allow managers to meet those responsibilities which would tend to reduce profits.

The influence of the consumer in shaping managerial responsibility is outlined in Chapter IV. Companies which have adopted the marketing concept are good examples of firms which act responsibly toward consumers; consequently, attention is devoted to the nature and importance of the marketing concept. Some special topics are also considered: innovation, advertising restraints, and legislation protecting the consumer.

The responsibilities of managers to employees are examined in Chapter V. This chapter examines employee needs and ways of meeting them, labor-management legislation, labor unions, and the problems of automation and possible remedies.
Selected areas of manager responsibilities are discussed in Chapter VI. The role of managers in politics is examined, including the reasons given for political activity. This chapter stresses the importance of ethical business behavior and includes examples of specific codes of ethics which have been adopted in the past. The close relationship between religion and business is shown. The concluding section deals with business philanthropy: development, arguments favoring and opposing, recent trends, and suggested guides. The summary and conclusions will compose Chapter VII.
CHAPTER I

PECULIAR ROLE OF THE MANAGER

The economic system within which an American manager must operate is extremely complex. This is true even for the smallest of firms. In addition, larger firms have a complicated organizational structure and other internal matters with which to contend. Making decisions in this kind of atmosphere is not as simple as some people seem to believe. The manager must utilize all the knowledge and techniques available to him to reach most efficient solutions, and the answers are not always clear. The most characteristic feature of the manager's environment is change; the manager cannot be satisfied with just one analysis of the vital elements affecting his decisions. Constant re-evaluation is required.

The first section of this chapter will outline some of the more important changes which have served to further complicate the economic system of the United States. Other sections of the chapter will consider the separation of ownership and management which exists in many corporations, the tendency of management toward becoming a profession, and the implications for social responsibilities of a philosophy of management.

I. CHANGES COMPLICATING THE ECONOMIC SYSTEM

It would hardly seem possible that the changes which have been taking place in the United States could have happened in such a brief period of time. All the thousands of years of civilization seem to have
been but preparation for the climactic development of this country, a gathering of strength for the feverish activity and growth of just a few hundred years. The overall development has been one of growth, expansion, invention, and change, though there have been some reversals.

Many of the changes which have affected today's economic system have had complicating effects. The purpose of this section is to enumerate certain of these complicating factors in order to demonstrate the complexity of the matters with which managers must deal.

For many years after the initial settlements, the people of the United States could anticipate and take advantage of open geographic frontiers. New land was cheap or even free, available to those who wanted to settle on it. In many cases, even this step was unnecessary; during one period, an individual could obtain land by having someone else homestead it for him. It has been only in recent years that the geographic frontier of the continental United States has been closed. No longer can employees leave and settle out West in new territories if they don't like their jobs.

This fact does not mean that the people of the United States can no longer move; the fact is that Americans are quite mobile. Population growth in an area is due to natural increase and migration. In the West, between 1950 and 1960, the increase in population due to migration was 19.1 per cent, almost as much as the natural increase of 19.9 per cent. The effects of migration are not similar for all regions; the North Central and Southern regions lost population through migration between 1950 and 1960. The per cent increases due to natural increase and
migration in 1960 over 1950 for the various regions of the United States are shown below:

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Natural</th>
<th>Migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>18.5</td>
<td>16.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Northeast</td>
<td>13.2</td>
<td>12.3</td>
<td>0.9</td>
</tr>
<tr>
<td>North Central</td>
<td>16.1</td>
<td>16.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>South</td>
<td>16.5</td>
<td>19.5</td>
<td>-3.0</td>
</tr>
<tr>
<td>West</td>
<td>38.9</td>
<td>19.9</td>
<td>19.1</td>
</tr>
</tbody>
</table>

The population is also moving to urban areas. Practically every decade since 1790 has shown an increase in the proportion of the total population living in urban areas, and, of course, a corollary decrease in the proportion living in rural areas. The first census in 1790 showed an urban population of only five per cent; the 1960 census classified the urban population at nearly 70 per cent. The definition of urban was changed in 1950, and again in 1960, but the trend of urban growth can be seen in the following figures by decade, from 1900 to 1960:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent Urban</th>
<th>Per Cent Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>39.7</td>
<td>60.3</td>
</tr>
<tr>
<td>1910</td>
<td>45.7</td>
<td>54.3</td>
</tr>
<tr>
<td>1920</td>
<td>51.2</td>
<td>48.8</td>
</tr>
<tr>
<td>1930</td>
<td>56.2</td>
<td>43.8</td>
</tr>
<tr>
<td>1940</td>
<td>56.5</td>
<td>43.5</td>
</tr>
<tr>
<td>1950</td>
<td>64.0</td>
<td>36.0</td>
</tr>
<tr>
<td>1960</td>
<td>69.9</td>
<td>30.1</td>
</tr>
</tbody>
</table>

The shift from rural to urban has not been equal in all geographical regions. The most rapid growth in urban population during the 1950's was in the West. Between 1950 and 1960, the South's rural population

---

decreased by 5.9 per cent. The per cent growth for four geographic regions in 1960 over 1950, urban and rural, is shown to vary widely:

<table>
<thead>
<tr>
<th>Region</th>
<th>Per Cent Growth, 1950-60</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td>Northeast</td>
<td>14.2</td>
</tr>
<tr>
<td>North Central</td>
<td>24.5</td>
</tr>
<tr>
<td>South</td>
<td>40.1</td>
</tr>
<tr>
<td>West</td>
<td>55.3</td>
</tr>
</tbody>
</table>

The United States has experienced, and is expected to continue to experience, a rather large increase in total population. The increase from 1900 to 1960, by decade, can be seen in the following figures from the Bureau of the Census:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>76.0</td>
</tr>
<tr>
<td>1910</td>
<td>92.0</td>
</tr>
<tr>
<td>1920</td>
<td>105.7</td>
</tr>
<tr>
<td>1930</td>
<td>122.8</td>
</tr>
<tr>
<td>1940</td>
<td>131.7</td>
</tr>
<tr>
<td>1950</td>
<td>150.7</td>
</tr>
<tr>
<td>1960</td>
<td>179.2</td>
</tr>
</tbody>
</table>

The Bureau of the Census has made a group of projections of the future total population of the United States, based on different assumptions about the fertility rate. The Series II estimates are based on the fertility rate of 1955-57, and yield a figure for 1970 in excess of 214 million. Other series project the total population for 1970 within a range from approximately 202 million upwards to over 219 million. The birth rate has declined every year since 1957, in which year there were 25.2 births for every 1,000 population. In 1963, the birth rate was

\[\text{Ibid.}, \text{ p. 38.}\]
21.8. Early in 1964, the total United States population estimated for 1970 was 209 million. The Census Bureau estimated the January 1, 1964, population at 190,818,000.

Another complicating factor concerning population is that the increase will not be the same for all age groups. Briefly, the younger and older age groups, which are normally considered to be dependent, will grow much more between 1960 and 1970 than will the middle age groups. This means that fewer productive people will have to support more people who are essentially dependent. The younger age groups will require large expenditures for education, and will be unproductive for longer durations as their years devoted to education are extended.

An increase in the proportion of the labor force which is female is also expected. In 1955, the labor force participation rate for females 14 years and over was 34.5 per cent. This figure is projected to increase to 39.3 per cent by 1970, an increase of 13.9 per cent. The male labor force participation rate is projected to decrease by 5.7 per cent to 77.6 per cent in 1970. Thus, by 1970, over one-third of the labor force is projected to be female.

Population changes are only one group of complications in the economic system. The shift of the economy from agricultural to predominantly industrial eliminated some opportunities in agriculture, but opened numberless opportunities in industry. Coupled with this shift has been the rapid advancement of science and technology in production,

greatly increasing the capacity for production and complexity of the processes. Goods are now produced in what must seem like endless variety and with vigorous change. A large proportion of the goods now consumed were not available just a few years ago. In some lines, including chemicals and electronics, half of a company's products were not even in planning five to ten years ago. The circumstances in the United States have been favorable to invention and adaptation of the new and original. The advantages and problems of automation have created serious questions as yet unanswered.

The growth of some firms to large size has caused several complications. Large firms generally require such conditions as can be provided only through incorporation, thus causing the development of the corporation as the dominant form of business organization. Larger firms frequently can utilize more efficient techniques and equipment, limiting the opportunity for development of smaller enterprises because of the high entrance costs. Concentration of various forms provides the opportunity for monopolistic control, requiring government regulations. Strength in large businesses has increased the professed need for stronger labor organizations. The larger firms (and many smaller ones), because of the sophisticated marketing system tend to have national distribution of their products. Mass production and mass advertising have been natural concomitants of large-scale business firms.

The state and Federal governments have come to be increasingly active in the regulation of business and in participation in the affairs of business. Nearly every phase of business operation is influenced to
some degree by government intervention, and reaction has varied from 
adamant resistance to complete acceptance, depending on the circumstances. 
Some governmental operations are in direct competition with private 
industry, sometimes with decided advantages. Over and above legal re-
strictions on business, one of the most significant areas of government 
participation is in profits, through net income taxation. Profits of 
corporations are also reduced by incorporation fees and franchise taxes. 

The government is also engaged in a tremendous purchasing 
function, being the sole customer of many business concerns. The United 
States is apparently committed to a large spending program particularly 
for prevention of or preparation for war. The government, through 
monetary and fiscal policy, attempts to regulate the economy, with far-
reaching implications for business. Private enterprise has not been 
capable of limiting the harmful effects of depressions and recessions, 
or to limit gently the rise of boom periods; the government has thus 
undertaken these activities. 

The people of the United States present a complicated picture to 
the business manager. The people are free, they can vote, they are be-
coming better educated, they are becoming more wealthy, their level of 
living is rising, they work fewer hours per week, they are organized and 
powerful in many respects, and they have unlimited wants. Managers must 
be able to work with these complicated people in changing situations. 
One area of change is found in the separation of ownership and management.
II. SEPARATION OF OWNERSHIP AND MANAGEMENT

The corporation has become the predominant form of business organization in the United States during the last 100 years; it was predominant, in fact, a century ago in finance, mechanized industry, and non-maritime transportation. The corporation had its primary historical antecedent in the joint-stock company of England (though the roots of the corporation can conceivably be traced back to antiquity), but in America the form was changed somewhat to be more in accord with the political framework of the new country.

During the colonial period, a few small business corporations were chartered by Massachusetts, Rhode Island, Connecticut, and Pennsylvania. At the time of the American Revolution, there were only six commercial companies organized as corporations in the colonies, all in the public utility field. The Bank of North America was chartered in 1781 by the Continental Congress, and the Bank of the United States was chartered in 1791. Banks were chartered by the states in 1782, and by 1800, there were at least 310 business corporations. By 1830, there were 1,900 business corporations in the New England states alone.

---


6 Dodd, op. cit., p. 11.
From this beginning, the corporation has grown to its present strength. For comparison with other forms of business organization, the number of sole proprietorships, corporations, and partnerships in the United States in 1960 was:

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Number in U. S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorships</td>
<td>9,090,000</td>
</tr>
<tr>
<td>Corporations</td>
<td>1,141,000</td>
</tr>
<tr>
<td>Partnerships</td>
<td>941,000</td>
</tr>
</tbody>
</table>

In 1947, just 13 years before, there were only 552,000 corporations.

Though the growth in numbers of corporations is great, the business done by corporations in 1960 as compared with other forms of organization is more revealing:

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Business Receipts (Millions of Dollars)</th>
<th>Net Profits (Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations</td>
<td>802,791</td>
<td>43,505</td>
</tr>
<tr>
<td>Sole Proprietorships</td>
<td>171,257</td>
<td>21,067</td>
</tr>
<tr>
<td>Partnerships</td>
<td>72,771</td>
<td>8,360</td>
</tr>
</tbody>
</table>

Thus it can be seen that corporations, though comprising only about 10 per cent of the total number of business concerns, nevertheless took in more than 75 per cent of the total business receipts, and made nearly 60 per cent of the total net profits. This achievement was reached in spite of the relatively small size of many of the corporations.

Most corporations have assets of less than $100 thousand, and the vast majority of corporations have assets of less than $500 thousand. A

---


8 Ibid., p. 490.
relatively few very influential corporations have assets of great proportions. The number of corporations in 1960 in each of several asset size-classes is given below: 9

<table>
<thead>
<tr>
<th>Asset Size-Class</th>
<th>Number of Corporations</th>
<th>Per Cent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,140,574</td>
<td>100.0</td>
</tr>
<tr>
<td>Under $100 thousand</td>
<td>684,614</td>
<td>60.0</td>
</tr>
<tr>
<td>$100 to $249 thousand</td>
<td>229,142</td>
<td>20.1</td>
</tr>
<tr>
<td>$250 to $499 thousand</td>
<td>105,174</td>
<td>9.2</td>
</tr>
<tr>
<td>$500 to $999 thousand</td>
<td>54,991</td>
<td>4.8</td>
</tr>
<tr>
<td>$1 to $5 million</td>
<td>47,983</td>
<td>4.2</td>
</tr>
<tr>
<td>$5 to $10 million</td>
<td>8,280</td>
<td>.7</td>
</tr>
<tr>
<td>$10 to $50 million</td>
<td>7,912</td>
<td>.7</td>
</tr>
<tr>
<td>$50 million and over</td>
<td>2,478</td>
<td>.2</td>
</tr>
</tbody>
</table>

The reasons for this phenomenal growth in corporate strength can be found in the nature of the corporation. The description of a corporation given by Chief Justice Marshall in 1819 is illuminating in many respects:

A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly, or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality; properties, by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to manage its own affairs, and to hold property without the perplexing intricacies, the hazardous and endless necessity, of perpetual conveyances for the purpose of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men, in succession, with these qualities and capacities, that corporations were invented, and are in use. By these means, a perpetual succession of individuals are capable of acting for the promotion of the particular object, like one immortal being.10

---

9Ibid., p. 496.

This nature of the corporation has given rise to several advantages over other forms of business organization, notable among which are: (1) limited liability of stockholders, (2) flexible types and divisibility of shares of ownership, (3) easily transferred shares of ownership, (4) corporate life independent of individuals, and (5) definite legal authority of officers (as opposed to the capacity of any partner to act to bind the partnership, even though his actions are not authorized by the partnership agreement).

Other circumstances permitting, these advantages allow the corporation to grow to very large size. Large-scale operations have several possible advantages, such as: (1) specialization of men and processes, (2) efficient use of capital assets which can be utilized only in large increments, (3) hiring of better qualified personnel, (4) stability, (5) ability to handle the large, specialized kinds of investment, and (6) ability to withstand competition.

As most corporations grow to very large size, the number of shares of stock held by any single stockholder becomes a small proportion of the total stock outstanding. The end result is that ownership of the corporation is spread thinly among hundreds or thousands of stockholders who may also be widely dispersed geographically.

As a result of their proportionately small ownership interests, individual stockholders typically have something less than an all-consuming interest in the affairs of the corporation so long as they receive their regular dividends. The usual means of expressing dissatisfaction with the investment is to sell the stock, which may indirectly affect the management through depressing the market price of the stock.
A depressed price usually makes the raising of further capital more difficult should the management decide to do so.

Even with greater interest, participation by small stockholders would be ineffectual because of the absence of any voting control. It is only as many stockholders pool their voting strength that any effective measures are possible. About the only group in the corporation which can collect votes, or voting power, in sufficient quantity is the board of directors through the solicitation of proxies at corporation expense. Stockholders commonly forward their proxies to the board members in office, assuming operations have been reasonably satisfactory and no concerted effort has been made by some other group to obtain proxies. On rare occasions, some outside group attempts to wrest control from the board in power, but the odds against success in this kind of venture are very great. Few attempts succeed.

It is through the process of solicitation of proxies that the board of directors, legally the representatives of the stockholders, is able to perpetuate itself in office and choose its successors. The board, theoretically, at least, makes broad policy decisions and sees to the overall management of the corporation in the best interest of the stockholders. To attend to the day-to-day affairs of the corporation, the board selects the officers—president, vice-president(s), treasurer, and secretary—who may also be members of the board. Even where the management is more directly under the control of the stockholders, the managers are more than likely not the same people as the stockholders; that is, they own no shares of stock. And, to a large extent, those managers who
do own stock in the corporation have their investments overshadowed by those stockholders who are not also managers. Thus arises the question of the separation of ownership and management.

This separation of ownership and management has led to many claims and counter-claims about how the managers may no longer be concerned with the operation of the corporation in the best interest of the stockholders, due to conflicting motives. In small corporations, the managers are more likely to be also the owners, and no conflict between the two groups arises. But in the large corporation, how can it be said that the ultimate responsibility of management is to the stockholders when management tends to perpetuate itself in office and otherwise operates outside effective control by the stockholders?

An extensive fear of the consequences is held by Burnham, who sees a "managerial revolution," which was supposed to be complete in about the year 1964. The type of capitalist society which the United States knew up to World War I was to be replaced by a managerial society, in which the assets used in production were to be owned by the state, and managers were to be the ruling class in society.  

Though the argument presented by Burnham has not been borne out, much of this theory has validity. The government has continued to extend its influence into areas traditionally sacred to the capitalists. Control in many companies has, for all intents and purposes, passed from the hands of stockholders, perhaps willingly, into the hands of hired managers. And it is widely known that business

---

influences society to a great extent. Whatever is decided about the ultimate effects of the separation of ownership and management, it can be said now that the separation has been a basic influence on the attitude toward social responsibilities. Another influence has been the tendency of managers to assume the standing of professionals.

III. MANAGEMENT AS A PROFESSION

The degree to which management assumes the attributes of a profession affects the attitude which managers hold toward social responsibilities and, consequently, actions taken toward fulfilling those responsibilities. To determine the implications of this statement, it is necessary to explore the answers to these questions: What are the characteristics of a profession? What are the signs that management is approaching a profession? Why is management not now a profession? What are the possible consequences of the professionalization of management?

Characteristics of a profession. There is no general agreement on a precise definition of profession. Some of the more notable writers in the area will not define the term. Existing definitions are controversial. The argument is not idle, either. Not only must the existing traditional professions (law, medicine, theology, and teaching) protect their status, but other followings aspiring to the standing must have clear goals. Too frequently the designation is used to distinguish

a gifted athlete from an amateur, or to refer to an habitual and capable criminal. These meanings are not appropriate to the professional aspects of management. Nor should professional managers be used to mean hired managers, or to refer to managers simply because they exist in the occupation in large numbers.

The essence of the meaning of profession can be obtained by the examination of several definitions of the term. These definitions usually take the form of a listing of criteria or characteristics of a profession. For example, Flexner claims these six criteria for a profession: (1) intellectual operations coupled with large individual responsibilities, (2) raw materials drawn from science and learning, (3) practical application, (4) an educationally communicable technique, (5) a tendency toward self-organization, and (6) increasingly altruistic motivation.\(^{13}\)

Practical application refers to the utilization of the skill of the profession in solving real problems rather than seeking knowledge for its own sake. It is also significant that the skill exercised in the profession is one that can be acquired through the process of education; an individual does not become a member of a profession by accident or by membership in a social group. The formation of one or more organizations to represent the profession may not be a universal requirement, but is typical.

Dennison lists four tests of professional activity: (1) the use of trained intelligence, requiring practice and study, (2) the free and

\(^{13}\)Abraham Flexner, "Is Social Work a Profession?" *School and Society*, I (June 26, 1915), 904.
open application of the methods and fruits of science, (3) a motive of service to mankind greater than the motive to one's self and one's own, and (4) a code of ethics. The main difference here is the addition of the requirement of a code of ethics. It is in this code that the ethical responsibility of the members of the particular profession to society is considered and specified. It is understood that the members are expected to abide by the jointly designed code.

Consider also Person's list of the requirements of a profession: (1) calls for attainment in special knowledge, requiring special and continuous study; (2) deals with affairs as distinguished from mere study or investigation for its own sake; (3) possesses a technique of utilization or application of the knowledge to affairs; (4) has a motive of service to fellow men; and (5) has a code of ethics. Person indicates that to be eligible for membership in a profession, a certain level of attainment in specialized knowledge must have been reached; this is usually accomplished through a formal course of study.

Deardorff provides this list: (1) intellectual work and personal responsibility, (2) scientific sanctions, (3) scientific technology, (4) educationally transmissible content and technique, (5) a body of scientific data with critical analysis, (6) class-conscious and self-interested

---


organization, and (7) public welfare motivation.\textsuperscript{16} The emphasis in this list is on the scientific aspects of the profession, perhaps to an excessive extent. Much of the practice of the professions is as much art as science, though it is true that the scientific elements are vital in all professions.

While the statement of the criteria for professionalism which is given by Brandeis is less inclusive than some of the others, he points out that the financial return should not be the dominant measure of success:

\ldots First, the necessary preliminary training is intellectual in character, involving knowledge and to some extent learning, as distinguished from mere skill; second, an occupation which is pursued largely for others and not merely for one's self; third, the amount of financial return is not the accepted measure of success.\textsuperscript{17}

Certain other discussions of profession also mention the secondary role which personal gain should play to public service. As will be explained later, too much emphasis should not be placed on this criterion.

Members of a profession are not limited to the routine practice of the technique of the profession based on existing knowledge; they can expand and elaborate on the existing body of knowledge through original contributions.\textsuperscript{18}


The practice of a profession is flavored by the attitudes held by the members. Blauch included this feature in his rather comprehensive description of a profession and also indicates that there are entrance requirements to the profession and control over the practice:

The professions are not always sharply distinguished from other vocations and occupations. In general, however, they may be described as occupations which provide highly specialized intellectual services. These occupations, at their best, possess three principal features: (1) a body of erudite knowledge, a set of attitudes, and a technique which are applied to the service of mankind through an educated group; (2) a standard of success measured by accomplishment in serving the needs of the people rather than by personal gain; and (3) a system of control over the practice of the calling and the education of its practitioners through associations and codes of ethics.19

Other definitions of profession can be given, but remaining variations are minor. It will be noted that in the definitions provided, requirements differ. These variations may exist because some of the definitions are not meant to be all-inclusive. In any case, management would have to meet practically all the requirements listed in order to be called a profession. These requirements are being approached in varying degrees.

Signs that management is approaching a profession. There are several indications which point to the professionalization of management; however, no single trend should be taken as conclusive proof that management has, indeed, achieved professional status. The entire movement, in fact, only demonstrates that management is tending to move in the direction of becoming a profession.

The tendency is evident in several areas. The intellectual activity required of a successful manager is of the highest order because the inherent nature of management is dynamic, complex, and demanding. While not an absolute necessity, at least an undergraduate degree is usually a prerequisite of a candidate for a higher managerial position. An ever-increasing proportion of executives has completed at least four years of higher education. Business schools are experiencing significant growth. Scientific methods of study and application are increasingly being used in most functions of business.

Management literature is young but extensive. Much of the material falls outside an internally consistent body, but this can be attributed to the carelessness of youth. The vigor and creativeness of these early works will be supplemented by more rigorous and scientific analysis made possible by the broad foundations already laid. It is also becoming possible to integrate knowledge from other disciplines with that of management, notably that of sociology, cultural anthropology, and psychology. Management literature serves as one other force toward professionalization: It is a means of communication in which the desirability of the professionalization of management is popularized. The power of suggestion is considerable, especially when received by a group which can be assumed to be eager for the increased stature derived from being a member of a professional group.

There are numerous statements by business leaders to the effect that the motive of business should be service to the public (in the broad sense) and that profits should assume something of a secondary goal. Many managers actually believe in this service concept and attempt to
conduct their business activities accordingly. Many other businessmen make such statements to create favorable public opinion, without really meaning what they say. The proportion of each kind is unknown. Nor can it be decided for certain which side is right. Increased publicity, governmental regulation, competition, and possibly other reasons have, however, caused business as a whole to become more mindful of the wishes of society.

Managers find themselves at least loosely organized with their contemporaries through various kinds of trade and public service organizations--Better Business Bureaus, Chambers of Commerce, Rotary International, and many others. Various organizations, such as the American Management Association, include in their memberships some of the leaders in management thought and practice. All of these organizations can and do accomplish many of the purposes of a professional association but in lesser degree, and not nearly so consistently. Some of the activities in which they may engage in this way are: (1) control admission and activities of members, (2) protect the membership and the public from infractions by individual members, and (3) make public the objectives and useful functions of the association and its members. Such groups could lead ultimately to a formal professional association for managers, though it is doubtful whether an association of managers would ever approach the sophistication of the American Medical Association in medicine.

**Forces against professionalization of management.** In the traditional professions, rewards to oneself are assumed to be secondary as a motive to service to fellow men. There are some members in the
professions who do not live by this lofty appeal, and remuneration must not be negated as a motivating factor in any case. In the main, however, and with maturity of the individual and the profession, the tendency is to regard service as the primary objective of the professions. It should be pointed out here that a person acts for several reasons at the same time, and it may be impossible to state any one as the main reason. The truth is that all the motives are important. Also, the different objectives of an individual do not have to be conflicting; it could well be that providing maximum service results in receipt of maximum income (profits, rewards, returns).

Business must provide some service needed by society in order to maintain its long-run success. This service need not necessarily be as extensive as humanly possible, but it must be positive; that is, the service must do more good than harm. The weakness comes, not from the enforced minimum of service, but from the unenforced maximum. Profits in business have been used as a measure of service provided; the more profit, presumably the more service.

Profits are assumed to be a selfish motive, but they are an incentive to produce economically. According to the traditional view as held by Adam Smith and others, to strive selfishly for profits is to benefit others, incidentally but inevitably. The drift away from a predominantly laissez-faire type of economy weakens this argument, though much validity is left. The point is that profits are not generally regarded as an indication of disservice, profits are not altogether frowned upon as a measure of service, and profits still serve as a major
motivating force to economic activity. Perhaps service is the justification for the existence of business, but profits insure it.

Other requirements of a profession are violated, though the seriousness of some violations is diminishing. There are few, if any, recognized standards of qualification or performance, and no procedure for the licensing of managers. Because of the absence of a strong central association, all the functions that would be performed by such an association are absent. The functions carried on by lesser groups are not coordinated, are relatively ineffectual, and tend toward lobbying or educational activities. A designated level of academic achievement is not an absolute requirement for many managerial positions. Those individuals holding degrees are not automatically awarded a managerial position just because they have the degrees. Codes of ethics are not consistent; they vary by firm and industry. Enforcement of codes is limited. The extensive number of managers, their geographical dispersion, and their diverse forms all tend to react against professionalization. The net effect is summarized by Cummins: "... Management is not a profession today and is not likely to become one in the immediate future. The transition to professionalism will come with time."20

Possible consequences of professionalization. The tendency toward professionalization of management can have several desirable consequences for the recognition of social responsibilities. With higher educational

levels should come a better understanding of human needs and an awareness of the proper place of business enterprise in society. The gradual acceptance of the service motive could result in the rejection of questionable business practices which increase profits at the expense of, and to the detriment of, others. The need for governmental controls and regulations would be diminished, and the trend toward more governmental influence would be weakened. Information about successful business practices would be more readily exchanged and utilized. The design of, and adherence to, a code of ethics would be facilitated. Managers would find themselves with enhanced prestige due to their professional status. For these reasons, many managers welcome the increasing professionalization of management. Society would also benefit in the areas indicated.

Not all the possible consequences would be so favorable. Bowen sees three dangers: (1) codes may become rigid and nonadaptive, (2) restrictive practices may be applied by the associations, and (3) collusive practices and selfish pressure on government may develop. 21

In addition, many observers would regard the displacement of the profit motive by one of service to be a real threat to the efficient operation of the economic system. If management's function is primarily economic in nature, the removal of the economic incentive which is felt to be so vital would destroy the purpose of this function. The goal of service is much more difficult to interpret and to translate into action. Its adoption as the primary aim of business might lead, particularly in

---

the early stages, to random or conflicting activity. It would probably be preferable for the profit motive to remain of considerable importance in the operation of the economic system, though not the exclusive consideration.

Prospects for professionalization. For these reasons, management is not likely to become a full-fledged profession in the near future. Perhaps the significant idea is that management is developing some of the attributes of a profession and is thus tending toward becoming a profession. If virtual control of the business world is placed in the hands of management, then for managers to possess certain of the characteristics of professionals would not be undesirable. Certainly leadership of the business system by a group of managers more mindful of the public good than of personal gain would not be frowned upon.

IV. PHILOSOPHY OF MANAGEMENT

This section will seek answers to the following questions: What is meant by a philosophy of management? Why is a philosophy of management needed, and what specific parts of a philosophy are in need of special attention? How does management philosophy relate to social responsibilities? In what ways can the development of management philosophy be beneficial to all concerned?

Definition of management philosophy. Defining the expression, philosophy of management, is difficult because of the numerous ways in which it has been used. As an example, eight quotations from a nine-page article by Mee are given below:
1. The philosophies, theories, fundamentals, and principles of management are stated in terms of concepts.

2. The conceptual framework for a philosophy or theory of management consists of elements or functions which may be identified in accordance with the requirements of the desires of the institutions and the economy.

3. . . . A system or philosophy of management thought . . .

4. . . . Into similar conceptual frameworks or philosophies . . .

5. . . . As a philosophy or mental attitude . . .

6. . . . An integrated system of thought or a management philosophy.

7. The fourth stage of management thought has developed from the concept of the management process as a philosophy of management to a broader perspective of a philosophy which includes statements of the purpose of business and the ethical beliefs relating to the conduct of business affairs in addition to the process of management.

8. The conceptual framework for management indicates the factors, elements, and functions of management which can be identified and combined into a philosophy of management.22

Mee was not primarily concerned with defining management philosophy, but his use of the expression in varied senses points out its wide applicability. As will be seen all these uses could be justified.

Webster's includes three definitions of philosophy which are appropriate to management philosophy:

1. A critical examination of the grounds for fundamental beliefs and an analysis of the basic concepts employed in the expression of such beliefs.

2. A system of motivating beliefs, concepts, and principles.

3. The sum of an individual's ideas and convictions.23

A philosophy of management is an individual thing, insofar as each manager will have, explicitly or implicitly, a certain set of ideas and convictions. These may or may not correspond with those of others in a


systematic manner, with the result that, as yet, there is no common philosophy of management. Nor is a common philosophy necessarily desirable if it would lead to a suppression of creativity or originality in management. A philosophy of management should not harden into a dogma, either, because of the dynamic nature of business institutions and the constant state of flux of the political and economic system.

Davis associates philosophy and management this way:

A philosophy is merely a system of thought concerning certain phenomena in a particular field of knowledge, and the problems that are related to them. It relates certain general objectives, principles, functions, factors, points of view, and methods of attack, in a manner that facilitates problem-solving thought ... A philosophy of management is a system of thought concerning certain business problems. It serves as a basis for their solution.24

Management philosophy, when formalized in a particular business organization, may be designated as the company creed. A working definition of such a creed is given:

A "company creed" . . . may be thought of as the most basic sort of guiding statement of company objectives which also lays down the ethical practices to be adhered to in achieving these objectives. Of course, a particular creed may emphasize goals or objectives in such a way as to include ethical principles, or it may state ethical principles in a manner which at least implies the goals to be achieved.25

In any case, a proper management philosophy includes the overall company objectives as a logical base, and should indicate the moral and ethical


principles to which the managers will adhere in attaining these objectives.

A significant extension of the definition is made by Terry when he includes knowledge as part of a management philosophy. He writes, "Management philosophy may be defined as a body of knowledge and beliefs that supply a broad basis for determining solutions to managerial problems."26 The inclusion of knowledge would indicate that a manager might have the right "attitude" and still not be most effective if he lacked the requisite knowledge. There would also exist the possibility for education to make an important contribution toward the development of a proper management philosophy.

As can be seen, several different approaches to management philosophy are possible, reflected in the sometimes widely varying philosophies that are held by individual managers and business institutions. In all, however, is found the idea that management philosophy must serve as a basic guide in the solution of managerial problems, which include the problem of social responsibilities. No actions are taken that cannot be related to the fundamental principles or concepts of the individual or business concern.

A proposed definition, based on the above analysis, takes this form: A management philosophy is a carefully considered and justified system of motivating beliefs, concepts, principles, and understandings which is held by an individual manager, by a particular business

institution, or by managers in general, and upon which all actions taken by managers in solving problems are based.

Certain relationships pertaining to management philosophy may be visualized through use of the illustration on the following page. The objectives of the business firm are set directly by management, the employees, and the owners in the very short run. These objectives must be adjusted sooner or later to the needs of the customers and the public at large, if the company is to continue to exist. They must be properly balanced between such objectives as service, profit, and personal and social objectives, according to the situation at any one particular time. The various objectives are thus seen to converge on one central focal point, which represents a critical balance. Certain objectives pervade the entire business, such as the service objective, and would be represented on the illustration by the upper case O's and the vertical lines which reach through all levels of an organization. Perhaps O₁ could represent the pervasive service objective; O₂, profit; O₃, personal and social objectives; and Oₙ, any other pervasive objectives.

Specific objectives must be established for departments at particular levels in the hierarchy, or for particular individuals, and these would be represented by the lower case o's, which vary by the levels of the hierarchy. These levels are separated by the horizontal dashed lines. For instance, oₐ could represent the sales objective of a salesman; oₖ, the regional sales objective; and oₐ, the overall company sales objective. In addition, a goal oₙ is included in the diagram to represent all the other departmental and individual objectives found in an organization.
Influenced by:
Standard of living
Ethics and morals
Social sciences
Capitalism
Government
Technology
Education
Freedom
Unions
Other

Set by:
Management
Employees
Owners
Customer
Public

Directly (Immediate)
Indirectly (Ultimate)

PRINCIPLES

* Focal point of decision making

PHILOSOPHY OF MANAGEMENT

FIGURE 1
(No significance should be attached to any of the dimensions of the
diagram.)

Much of the same kind of analysis can be made of the policies of
the business concern. Policies, also, may pertain to all levels, or to
particular levels of departments. Policies may be set directly and
immediately by management and the owners, but are indirectly and ulti-
mately determined by customers and the public. These policies must be
carefully set if they are to lead to the attainment of the enterprise
objectives, and thus also lead to a focal point.

Principles of management, relatively fixed, serve as guides to
action and thought and are represented in the illustration by a straight
line drawn through the entire system as a kind of stable factor about
which the other elements are forced to revolve.

The objectives and policies set are influenced by many factors,
such as an increasing standard of living, a rising educational level,
and other factors listed on the illustration. The activities of the firm
also affect the influencing factors mentioned; there is at least a two-way
relationship.

The focal point of the various objectives and policies has been
named the focal point of decision-making. It represents the critical
nature of the management function. This point could also represent such
relationships as the proper combination of the factors of production, but
their inclusion would unnecessarily complicate the illustration.

Need for a philosophy of management. This entire study points up
the need for a philosophy of management. Managers must resolve in their
minds the issues confronting them and have the tools to deal with new problems as they arise. One of the problems most difficult of solution is the extent of the social responsibilities of business.

In the preface to his book, Sheldon points up this problem:

As the barque of industry grows daily more heavily freighted, and ploughs through seas of increasing storminess and danger, the task of steering that barque is proportionately increased in complexity and responsibility. . . . Philosophy is the postulation of a vast query, which dwarfs into comparative nothingness the problems of day to day things. It demands of us whether we are conducting our practice according to any principles or laws, or merely snatching at the floating straws which pass.27

Though written almost 35 years ago, these words seem to have even more truth today than they did when they were written.

At the risk of anticipating material in subsequent chapters, certain other pressures demanding a more mature management philosophy are pointed out in the following paragraphs.

Employees need a better understanding of management's goals and perspectives, and need to be able to identify themselves with the organization for the common good. The effort on the part of management to formulate a management philosophy may, in itself, through the process of introspection, lead to a bettering of management-employee relations.

A clearly stated philosophy could serve the useful purpose of convincing the people of the United States that the present economic system is preferable to any alternative. Criticism could be met and evaluated. Where the criticism is justified, the attitude of management

---

must be reformulated to accord with the needs of society.

For some of the reasons mentioned earlier in this chapter, many companies in the United States have attained tremendous size and complexity, which may have the effects of greatly increasing the delegation of authority and of lessening the effectiveness of control and coordination. In such instances, an appropriate management philosophy, generally understood and followed, could serve as a valuable guide to the solution of managerial problems. In the area of marketing alone, Westinghouse Electric Corporation has this kind of complexity:

Approximately 1,650 of its employees have pricing and marketing responsibility and are located at numerous plants and sales offices throughout the United States. The Corporation's product mix runs from heavy electrical equipment and defense and atomic projects to various electrical devices used in the home—in all some 8,000 basic products, with about 300,000 variations.\(^\text{28}\)

This report goes on to describe the different markets in which the company must operate, the different types of competitors, the changing product mix, and the varied distribution channels and sales outlets used.\(^\text{29}\) Many other companies have a similar complexity.

A careful analysis of the need for a managerial philosophy is made by Ohmann.\(^\text{30}\) The remainder of this section is based largely on his work, direct quotations being taken from it.

\(^{28}\)Erwin N. Griswold and others, A Report from the Board of Advice to the Westinghouse Electric Corporation, July 19, 1962, pp. 6-7.

\(^{29}\)Ibid.

One of the most important areas in which management philosophy has been receiving increasing attention has been that of the loss of managerial control. The manager of yesterday had control over "raw materials, transportation, plant facilities, dollars, and labor," and could direct these elements so as to maximize profits. This strong, clear authority of management is not now so powerful and simple. The loss of the manager's power to command is a result of several factors:

1. The arrogant use of power by earlier generations of management.
2. The growth of union power.
3. The world-wide depression and the coincident rise of socialism.
4. The rising power of the federal government and the increase in both legislative and administrative controls on business.
5. The prolonged tight labor market since 1940.
6. The growing interdependence of all business and the resulting loss of control of the elements in production.
7. The increasing influence of public opinion and pressure groups.

This loss of authority has had significant effects on the philosophy of managers. The thinking of managers must be adjusted to take these factors into account.

The individual worker has changed in many ways with the growth of large corporations. There has been a major trend toward specialization, with its subsequent segmentation of jobs into repetitive operations at which an individual can become particularly adept. While this process may well serve to increase earnings, it also may lower the worker more or less to the status of a machine. Work becomes less challenging and meaningful; the individual is not stimulated because he may have less

31 Ibid.
32 Ibid., p. 4.
pride in his work and less understanding of its relationship to the overall operation. In these cases, the worker looks elsewhere for security and satisfaction: to management, to the corporation, to the labor union.

Taylor early recognized that the pay of an individual was only one incentive, and he considered pay as only one element in scientific management. Once a certain level of income is reached, other incentives may assume greater relative value, such as recognition for work done, status derived from a title, friendly treatment, security and many others. Many managers, however, still place blind faith in the incentive value of pay. There are, in addition, several reasons why the pay envelope has become even less significant as an incentive, among them being high taxes, price levels, payroll deductions of various kinds, unemployment insurance, and a more equitable distribution of income. The reduced incentive afforded by pay must be recognized by management and a corresponding adjustment made in management philosophy:

The assumption of "economic man" and the automatic regulation of the enterprise system through financial incentives, which was once the cornerstone of managerial science, is no longer sound. We need to discover and utilize other appeals to get work done.

As workers achieve a higher educational level and become more sophisticated, they are better able to see through crude or fallacious appeals of management. It may appear that management should always have believed that the labor force was very discerning, but this has not been

---


34 Ohmann, *op. cit.*, p. 45.
the case. The realization by management that the labor force, as well as the public in general, is attaining increasingly higher levels of education should mean "a more rational and perhaps more idealistic type of leadership." This change would not mean the complete overthrow of practicality or hard-headed business, but would represent an attempt to reconcile the interests of the various groups concerned. A business organization with a proper management philosophy should have nothing to fear from more highly educated employees. Quite the contrary, management should assume a leadership position in reaping the rewards from this increased ability and see to it that an appropriate distribution of the returns is made.

While mainly applying to larger enterprises, the point is made that as business enterprises become more interdependent, increased emphasis is placed on co-operation (some would call it collusion), in place of the effort to drive all competitors out of business. This increased interdependence of industry results from such forces as the increased size and complexity of the business firm itself (one company may serve another in all the roles of customer, supplier, competitor, distributor, and owner), rapidly changing technology (a company may find itself suddenly needing some new product of an old competitor), and the increased interrelationship of all markets (one contemplated purchase may now compete with many others). The implications of this trend for management philosophy are extensive. Receiving particular attention as a result of rapidly changing technology will be long-range planning, maximum flexibility, and an increased communications burden.
While the preceding discussion of the importance of, and the need for, a philosophy of management is not intended to be exhaustive, it should indicate certain conclusions: (1) There is at the present time a need for an effective philosophy of management. (2) The need for a managerial philosophy is always present, but in varying degrees. (3) Particular elements of management philosophy are undergoing significant change. (4) More attention needs to be devoted to the development of philosophies of management for the particular business concern, and for business as an entirety.

Conclusions on management philosophy. A complete philosophy of management would include everything about the political, economic, and social setting of business. The managers of a business enterprise have limiting factors placed on them from all directions, and the actions of the managers, in turn, reach back into all aspects of society. Just one attitude, one custom, one decision, or one law could have extremely pervasive effects. A management philosophy could apply to a business enterprise, an individual, or the overall art and science of management, and each would be different. Some philosophies are better than others, and a particular philosophy may "work" for one individual and not for another. Finally, an acceptable philosophy may be outmoded tomorrow, as conditions change and knowledge is extended.

To have a more widely accepted definition of management philosophy, and perhaps a more widely applied common philosophy, may be desirable. Many effective concepts could be applied to great advantage in particular business concerns if only the management were aware of them. It is only
as elements of a philosophy are proven effective and desirable that they will be widely adopted, even on a piecemeal basis.

There are, however, several forces tending to keep philosophies varied. Management as a science is still in its infancy. Knowledge of what makes people as they are, or even how people are, is still mainly lacking. Finally, it may be said that the very individuality, or uniqueness, of various philosophies leads to success, perhaps to greater success than if there were some common philosophy of management. People are, after all, different.

A carefully considered and sincere philosophy of management may help serve: (1) to develop better managers and to improve the quality of the process of managing; (2) to defend the free enterprise system; (3) to justify the continued existence of a particular business and to promote its success; and (4) to benefit society.

V. SUMMARY

The purpose of this chapter was to describe the peculiar role of the manager in modern business. For one thing, he operates in an extremely complex situation in which answers are not always clear. Guidelines are, in many instances, conspicuously absent. The separation of ownership and management existent in many corporations seems to allow managers to give weight to interests of parties other than stockholders. Also, the tendency of management toward becoming a profession has the effect of stressing service, which may lessen the emphasis on profits as the exclusive objective of business operations. Finally, the development
of a sincere philosophy of management may improve operation of the
economic system for the benefit of all concerned. Subsequent chapters
will consider the relationships of managers with their several publics.
The first group considered is the stockholders.
CHAPTER II

MANAGERS AND THE STOCKHOLDERS

Of all the groups with which managers must operate, the group of stockholders is the most fundamental. This statement would hardly have been necessary 60 years ago, but the current emphasis on the importance of the corporations' publics and the scant attention given the stockholders by some corporation managements have altered the situation considerably. The primary interest of the stockholders is not now universally and completely accepted. The argument is convincingly presented that the interests of the stockholders must be sacrificed sometimes for the benefit of employees, suppliers, customers, government, or the public at large.

Management can benefit groups other than the stockholders in many ways, but stockholders are interested in essentially one aspect: financial return. Stockholders would have little complaint against a supplier-relations program which had to do, for example, with improvement of the tone of voice used in telephone conversations with vendors' salesmen, but would tend to object to another program which called for gratis hotel accommodations for all visiting salesmen. The latter program would likely reduce profits while the former program would likely not reduce profits. Both programs would be welcome to suppliers, but stockholders would object to the program which reduced profits.

The emphasis which is placed on profits is thus seen as crucial
in an analysis of the social responsibilities of business managers. If management's sole social responsibility is to maximize profits, as many people believe, then most other considerations stand for naught. There is no room left for at least those responsibilities which would represent a reduction in possible profit for the stockholders. The only hope for reconciliation would rest in the possibility that the quest for maximum profit would somehow result in optimum gain for the other groups. This view is hopefully held by many; the results would lead to the best possible world.

The first section of this chapter will consider the source of authority of business managers, in the belief that equal and corresponding responsibility is owed to that source. A second section is concerned with the legal responsibilities of managers to stockholders, because social responsibilities that are also legal responsibilities can be enforced. It will be seen that the overlap is only partial. The final section of this chapter presents the traditional view on the profit motive, including sub-sections on (1) the definition of profits, (2) the role of profits, (3) the dominance of the profit motive, (4) the idea that profit maximization is socially beneficent, and (5) the dangers of abandoning profit maximization as the primary business objective.

I. SOURCE OF AUTHORITY OF BUSINESS MANAGERS

In management, authority is regarded as the legal or rightful power, a right to command or to act. A related management principle holds that the authority needed to accomplish a given assignment should be
commensurate with the responsibility to accomplish that assignment. Conversely, responsibility should be commensurate with authority to command or act. Thus, if a business has the authority to operate, its responsibility (to someone) must be equal to its authority. This result makes the source of authority important to the study of social responsibilities.

Formal authority theory. The formal authority theory is the most acceptable theory of the source of managerial authority. One version of the theory concludes that the authority of managers flows from society. The people prepared a constitution, which may be amended and modified by the will of the people. The constitution guarantees the right of private property and contract, which may be enforced by law. Therefore, authority is granted by society through the government to allow business firms to be organized and to operate.¹

Another version of the formal theory of the source of authority is provided by O'Donnell, who regards the ultimate source as being inherent in the nature of man. He summarizes his thesis in this way:

(1) Man as man has natural rights derived from the law of mankind and from the natural law; (2) somehow, man has developed a moral sense; (3) man has always behaved in an organized way and thus submits to laws and the power to enforce them; (4) the tool created for the purpose of developing statute law and confirming natural law is the state; (5) part of the legal system is the law of contract which establishes the right of a manager to command and the duty of the managed to obey; (6) the managed have the power to disobey but the broad penalties of the law generally prove sufficient, along with the natural behavior of man, to achieve obedience;

and (7) at the extreme, universal disobedience results in revolution which is succeeded by another legal system embodying statutes or contract law which is approved by the collective will of the people.2

This version is interesting in that it considers the source of authority in greater detail, but it is not greatly different from the theory held by Petersen and Plowman. O'Donnell goes all the way back to the nature of man, but this is only one step removed from the society level mentioned by Petersen and Plowman. O'Donnell immediately reaches the society level of discussion when he points out that man behaves in an organized way. In addition to requirements of the legal system, the authority of managers is limited by social custom and other institutions such as labor unions and banks. The conclusion is reached that it is society which grants to business firms the authority to operate and to managers the authority to manage.

Acceptance theory. Jones defines authority in this fashion: "... Authority is a successful attempt by one person to guide the behavior of another in a chosen direction."3 This definition requires consent of the governed, and ignores formal authority. Barnard, who is widely known for his acceptance theory of the source of authority, regards authority as the character of a communication which causes a member of an organization to accept the communication and adjust his behavior in the


organization. 4 This observation is correct. But Barnard goes on to state that the recipient of the communication may obey or disobey, as he chooses. If he disobeys, then the communication was issued by one with no authority. If he obeys, then the person who issues the order has authority. It is the recipient who determines the authority. 5

Haimann offers several criticisms of Barnard's statements. For one thing, many of the thoughts included in the acceptance theory apply more to discussions of leadership than authority. Also, a subordinate really has little choice in accepting or rejecting an order when the penalty for rejection is dismissal. In addition, the power of the subordinate to disobey does not have the effect of depriving the superior of his authority. Finally, a manager could not operate if he didn't know whether or not each and every order would be accepted by subordinates. Not to know would result in chaos. 6

Barnard's acceptance theory of the source of authority deals mainly with authority within the business organization, the authority relationship between manager and subordinate. If the theory were applied to the business firm as a unit, it would hold that the firm would be responsible only to the extent that it accepted authority in a given area. The authority is not forced on the firm, or even granted; authority


5Ibid.

is accepted. Responsibility follows the acceptance. This application does not appear relevant to this analysis of social responsibilities.

A related problem does arise. If, for one reason or another, a business firm undertakes to assume authority in some matter, and, from the point of view of society successfully exercises that authority, society may in effect agree that the firm should have authority in that matter. This step could be, for instance, the making of financial contributions to educational institutions. The question then is not so much the source of authority as who initiates the granting of authority. Authority still comes ultimately from society; the firm merely facilitates its granting.

Implications. What is the implication of the conclusion that authority is ultimately derived from society? First, consider some definitions of society taken from Webster's:

Society - - the social order, especially as a state or system restricting the individual; one's social environment; community life.

- - the community as an aggregate of persons; all those who are responsible for the prevailing social order.

- - an enduring, co-operating social group so functioning as to maintain itself and perpetuate the species; a community, especially a nation with respect to its traditions, institutions and collective activities and interests. 7

Society is seen as restricting the individual and the business firm, particularly through the machinery of the state. Society may be regarded

as all of the persons who make up a community, and this is the sense which is most widely used when referring to business's responsibility to society. It is society which determines the prevailing social order and the specific niche of business in it. Society seeks to maintain itself and to perpetuate the species; any disrupting forces are resisted. If business begins to operate against the best interests of society it will be suppressed.

In the United States, relative freedom of business enterprise has generally been accepted as being in the best interests of society. The results have not been unfortunate. The personal freedoms and material satisfactions of the people of the United States have been unequaled. But society was not bound to choose this system; other alternatives were available and still present themselves. There is little that is inviolable in the system; desirable as it is, there is no attribute that cannot be taken away if society so chooses.

It therefore behooves business managers to determine what society wants, to interpret the sometimes blatant and sometimes barely audible signals of approval and disapproval emitted by society through all of the groups in contact with management. What to do about all the indications perceived will not always be an easy decision, but the effort needs to be made.

II. LEGAL RESPONSIBILITIES OF MANAGERS TO STOCKHOLDERS

The law provides only a partial answer to the question of what responsibilities managers owe to the stockholders. Legal responsibilities
are concerned only with financial considerations, while it is apparent that social responsibilities may be construed in considerably more than financial expression. Stated simply, the law requires that managers of a corporation conduct the affairs of the corporation so that returns on the capital invested by stockholders are maximized and that that capital is preserved intact. But the law does not prohibit certain actions of a socially responsible nature even if profits to stockholders are thereby reduced in some degree, so long as these actions are deemed to be in the best long-range interests of the corporation. Also, management is allowed broad leeway in determining what the best interests of the corporation are, and the courts have been hesitant to substitute its business judgment for that of management, particularly where it is obvious that management has been conducting the business successfully.

The case of Dodge v. Ford Motor Co. 8 A leading case concerning the legal responsibilities of management to stockholders is that of the Dodge Brothers v. the Ford Motor Co. Henry Ford planned a large investment and expansion program, a reduction in the price of cars, and a restriction in the amount of dividends distributed. To this policy the Dodge brothers, stockholders of Ford Motor Co., objected, and brought suit.

Ford had stated:

My ambition is to employ still more men, to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes. To do this we are putting the greatest share of our profits back in the business. 9

---


9 Ibid.
But the court required that dividends be paid, declaring:

The difference between an incidental humanitarian expenditure of corporate funds for the benefit of the employees, like the building of a hospital for their use and the employment of agencies for the betterment of their condition, and a general purpose and plan to benefit mankind at the expense of others, is obvious. . . .

A business corporation is organized and carried on primarily for the profit of stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits or to the non-distribution of profits among stockholders in order to devote them to other purposes.10

Modifications of the basic concept. This legal basis has been altered or modified somewhat in the years since 1919, not so much in a drastic fashion as in a gradual shift. Contributions to charitable and educational institutions are allowed by law, and the impact on short-run or long-run profits is not clear. This example could be supplemented by an almost endless variety of corporate policies designed to serve the public interest, in many cases clearly at the expense of stockholders. The courts for the most part have not interfered, thus resulting in legal approval of socially responsible acts.

To gain an idea of the extent of the acceptance of the making of contributions to non-profit groups by corporations, it is useful to examine in detail the five areas in which the U. S. Steel Foundation makes contributions. Specific activities in each area will be indicated:

1. Social welfare - Assists local chests and united funds, Red Cross, Salvation Army, the Boy Scouts of America, and various other groups

10 Ibid. Emphasis added.
2. Medicine, hospitals and health
   a. Aids fundamental research in overcoming mental illness, heart disease, and cancer, and assists programs related to occupational illnesses
   b. Has supported integrated medical sciences and physical science research
   c. Encourages training in the field of nursing
   d. Helps finance the construction of hospitals
   e. Has supported medical teaching and training

3. Cultural and community needs
   a. Assists slum clearance projects
   b. Seeks to improve citizen participation in community problems
   c. Helps the attack on illiteracy
   d. Assists in the improvement of vocational skills
   e. Assists selected art museums and symphony and opera societies

4. Science and technology
   a. Makes grants to assist the growth of both basic and applied human knowledge
   b. Has projects or grant programs in:
      (1) The physical sciences
      (2) Peacetime nuclear applications
      (3) New studies in spatial, serial, and magnitudinal mathematics
      (4) Research on human behavior--singly and in teamplay
   c. Supports scientific bodies of the nation and some abroad
   d. Has begun assistance to the study of ocean resources, of the earth's crust, and of the polar regions
5. Aid to education

a. Provides aid to virtually every accredited four-year private college in the nation

b. Has a leadership-institution-aid plan to provide significant assistance to great private universities on a sustained basis

c. Helps unaccredited colleges secure accreditation

d. Helps institutions to secure more aid from alumni

e. Assists colleges to utilize their available resources through better scientific management of them

f. Seeks to further scholarship and excellence by other grants while encouraging the parallel growth of the humanities and the sciences

g. Provides graduate-study assistance to outstanding young advanced students

h. Assists the major educational associations in alerting America to its educational needs and in spreading the base of support

i. Aids libraries and supports research library centers

j. Otherwise forwards the use of better teaching methods

Berle and Means claimed in 1932 that the well-defined interests of the stockholders were: (1) maximum profit compatible with a reasonable degree of risk; (2) distribution of as large a proportion of the profits as the best interests of the business permit, and assurance of an equitable distribution; and (3) freely marketable stock at a fair price. A broader concern of corporation directors was presented by Baker in 1945:

\[\text{Berle and Means, The Modern Corporation and Private Property} (\text{New York: The Macmillan Company, 1932}), \text{p. 121.}\]

\[\text{Adolf A. Berle, Jr. and Gardiner C. Means, The Modern Corporation and Private Property} (\text{New York: The Macmillan Company, 1932}), \text{p. 121.}\]
The essential concern of corporation directors, particularly in our large corporation, is not today, nor should it ever have been, merely protection of stockholders and their interests. These functions are simply more in evidence than others. The problem is vastly more important. It is the reconciliation of private enterprise with the smooth functioning of a democratic society with justice to all groups: stockholders, executives, employees, creditors, customers, and the public. Such a broad concept of the functions of directors is frequently overlooked. Nevertheless, this should be the contribution of directors in our national life.\textsuperscript{13}

Probably the most accurate current legal interpretation of the responsibilities of managers to stockholders is that managers should be concerned mainly with making profits for stockholders and maintaining their investments, but there is left some discretion for fulfilling social responsibilities.

\textbf{III. TRADITIONAL VIEW ON THE PROFIT MOTIVE}

This section on profits will seek answers to the questions: What are profits? What functions do profits perform? How important is the profit motive? Will maximizing profits result in maximum benefit to society? What are some of the dangers in abandoning profit maximization as the primary business objective?

\textbf{What are profits?} Eells and Walton state:

It may fairly be said of profit that many people are apologetic about it, that most Americans regard too much of it with suspicion, that everybody wants it, and that no one has ever given a satisfactory definition of it.\textsuperscript{14}


To illustrate some of the varied opinions about profits, Eells and Walton quote from Chamberlain:

To the businessman a profit is what is left when he has paid his costs; it is the difference between red ink and black. To the economist who believes that an economic system strains toward equilibrium, profit is a temporary thing which is destined to disappear whenever competition in a given field of endeavor has reached the point of saturation. To a Marxist, profit is wrung from the poor by taking from the worker the "surplus value" he creates over and above the cost of his subsistence. And to believers in an illusory "perfect competition" profit is a monopolistic charge which the proprietor of a patent or the possessor of some temporary secret piles on top of the "natural" price which is compounded of costs, plus the "wages" of management and the interest paid out for the loan of capital.15

Only the first of these ideas, that of profits as the excess of returns over costs as conceived by the businessman, has significance to this study. It closely corresponds with what accountants regard as profits. Profits are the residual return to entrepreneurship; unlike the other factorial returns, profits are not contractually determined. Profits are that share of income which serves as a reward for risk, and are the causal factor in the competitive system: profits are the anticipated rate of return which is necessary to encourage entrepreneurs to undertake production.16

Role of profits. Many statements have been made of the useful functions which profits serve. Gordon, for instance, holds that profits serve two functions: (1) profits are the fundamental criterion in


measuring the desirability of possible lines of action, and (2) profits are an incentive to profit-receivers to perform some needed economic function. Profits are also used as a measure of business efficiency:

"The main test of technical proficiency in American democracy resides in the profit the enterprise earns." Profits not distributed as dividends may be used to supplement the capital funds of the business institution, with disposition for a variety of purposes: reduction of debt, increased working capital, inventory or plant expansion, increased accounts receivable, and many other uses. In short, profits play a dynamic and vital role in the economy of the United States.

**Dominance of the profit motive.** Few people would deny the supreme position held by the profit motive as the prime mover of economic activity in America. "Profit-making has always been the strongest force flowing through the free enterprise system and it is still the main goad to efficiency and accomplishment." In large institutions, status, security, prestige, and recognition for loyal service are also of great importance. Chapter V will treat these subjects in greater detail.

Stigler recognizes these other goals but finds that economic analysis requires concentration on profit maximization as the dominant

---


objective of business enterprise. The other goals are ignored:

In order to predict how firms will behave, we must know what their owners seek. The entrepreneur could have, and historically has had, very diverse goals: to be his own boss, to maintain a customary standard of living, to obtain money and economic power, to obtain political power, etc. . . . No economist would deny that all entrepreneurs are subject also to other desires that may conflict with profit maximization, nor even that some of these other forces may be widespread and important. Rather, the position is that profit maximization is the strongest, the most universal, and the most persistent of the forces governing entrepreneurial behavior.20

In other words, if it were necessary to attribute one and only one business objective to managers, the best choice would be profit maximization. This is the choice in most economic analysis.

Berle presents a brief sketch of nineteenth century theory concerning the profit motive, and commends this theory by stating:

As in the case of most sanctified theories, there was a good deal of truth inherent in its propositions. Business enterprises, individual or corporate, do seek profits. They do like to make as much money as they can. They do not go into projects which offer only prospects of loss. They withdraw from losing ventures as soon as they reasonably can. In any line of activity, they take those steps and do those things which tend to maximize their profit. Without that motive, a political economic system which relies on a privately owned and privately operated mechanism for production and distribution would probably break down. By the law of its being, private enterprise must at least break even to continue in operation at all. It must have at least a modest profit in order to expand as the population and its market expand, to pioneer new fields, either geographically (as the great oil companies do in exploration) or technically (as electronic companies do in distant research). There profits must be more than modest.21

To this extent, the profit motive is valid. But Berle points out two faults in the theory: (1) the process of production does not always


generate enough distribution to provide a market for all the goods to be produced (Say's Law does not work), and (2) the costs are too great in waiting for automatic mechanisms to bring about the desired balance.22

The traditional view is that business must, and does in fact, attempt to maximize its profits. Friedman writes that, in a free economy, . . . There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.23

But all business does not operate in free and open competition. As has been pointed out, if there were only free and open competition, business would have no choice but to attempt to maximize profits in order to survive. The full exploitation of monopoly elements cannot be adjudged to be in the best interests of society.

Maximization socially beneficent. A simple, old, and idealistic belief is that by attempting to maximize profits, society is thereby best treated; better treated, in fact, than if the effort were consciously made to benefit society. This is the "invisible hand" of Adam Smith. It has been put this way:

If power is a necessity to maintain and increase our standard of living, management's first responsibility must always be to maintain the enterprise in good economic health. . . Thus, self-interest puts a premium on managerial competence and effectiveness, so that in the end, while some individuals and even certain communities may be

22 Ibid., pp. 77-81.

adversely affected, the power exercised is more likely over the long run to bring the best results to the whole society by making possible increasing wealth and well-being. Adam Smith has written that an individual, by pursuing his own interest, "... frequently promotes that of the society more effectually than when he really intends to promote it."

These views illustrate the widely held belief that benefits to society will flow naturally from the private seeking of profits. A concomitant conclusion is that social responsibilities can be accepted and fulfilled only if business operations have been profitable; that is, profits must precede any socially desirable actions on the part of the business enterprise. "Certainly the primary economic objectives of business must come first, else business will lose its reason for existence."

Profits are thus frequently placed first as a business objective, sometimes to the exclusion of any other objectives, but more typically in some sort of priority rating, as in the following statement:

Our function is an economic one, and we have a very direct responsibility to carry out that function just as ably as we possibly can. Our social responsibilities are part of the package, but they are indirect. Unless they are properly evaluated in terms of our basic function, they become a sort of hitchhiker. The main point is this: Only so long as we do a good job in meeting our economic responsibility are we going to be able to discharge our social responsibilities. Any activity labeled "social responsibilities" must be judged in terms of whether it is somehow beneficial to the immediate or long-range welfare of the business.

---


26Leland I. Doan, "Fundamental Role of Business Is To Operate Profitably," Commercial and Financial Chronicle, CLXXXVI (July 18, 1957), 286.
Chamberlain regards the problem as even simpler:

The notion of a firm's pursuing multiple objectives, of which profit is only one, with others being actually inconsistent with or competitive to the profit drive, has probably been overdone. There is no a priori reason why high profit should be inconsistent with most other goals. In fact, more often than not profitability facilitates rather than impedes the achievement of other objectives. Low profit realization is very seldom explainable by multiple management goals. It is probably more consistent with poor management, failing to achieve the profit which it would like to achieve, than with good management diverted into paths of seeking objectives other than or in addition to profit.27

Chamberlain has also presented an interesting classification system of the goals, in addition to profits, of a firm. Included are concomitant, subsidiary, and anterior goals. Concomitant goals are those goals maintained jointly with the profit objective, even though viewed as subordinate to it. Three examples given are: (1) establishment or maintenance of a reputation for quality, (2) attention to employee welfare, and (3) control of an identified share of the market. This last objective presents some difficulties: (1) the determination of just what the market is may be difficult, (2) too vigorous pursuit of a given share of the market may jeopardize profits, and (3) success in the accomplishment of the objective may lead to antitrust action. This discussion refutes the apparent conclusion of the above quotation from Chamberlain, but a more careful reading reveals that the quotation is merely less precise.

Subsidiary goals are those goals deriving from the profit motive, and include such goals as: (1) realization of the budget, (2) short-run objectives whose achievement is sufficiently in doubt that they have not

actually entered into budget planning, and (3) goals set for units of the company, such as return on investment and, most common, sales quotas for marketing divisions.

Anterior goals are the reasons why profit itself is sought. Chamberlain minimizes the necessity for managers in a publicly held corporation to make a superior profit to satisfy stockholders in order to retain their jobs. Instead, the reasons for seeking profits are: (1) pleasure in bettering prior performances (dollars constitute the units by which business performances are measured and compared), (2) growth for its own sake (called the Napoleonic complex; the managers who subscribe to this doctrine are the creators, the doers, the empire builders, and the dreamers), and (3) attainment of specific but grandiose achievements, such as a corporate complex, bold and imaginative conceptions, architectural achievements, and the overcoming of specific production or engineering challenges. 28

Chamberlain has seen too little significance in the possibility that other goals can conflict with profit maximization. In any given company, the possibility of conflict is more like a certainty. What is a more realistic conclusion is that other goals do not prevent the attainment of a less than maximum profit which may be quite satisfactory to all concerned, and it is indeed this profit which makes the attainment of certain other goals possible. But it cannot be said that the attainment of maximum, or even very high, profits makes it possible for the firm to

28 Ibid., pp. 66-73.
reach other objectives. It is more accurate to say that if certain other objectives are attained, profits will not be maximized.

**Dangers of abandoning profit maximization.** Most of the objections to abandoning strict profit maximization as the objective of business are inherent in the reasons for adhering to that objective. Certain of these reasons have been discussed above. In addition, certain other specific objections will be pointed out in this section.

Profit maximization as a business objective is relatively concrete. When questions of social responsibility, ethical values, and human worth are raised, answers become considerably more elusive. Who is to decide?

If it remains part of the administrator's task in each enterprise always to keep costs low and profits high, the effort immediately involves him in technical decisions that in the very nature of things cannot be precise. For how low is low, if costs are measured, not by the monetary factor alone, but by tests of economic soundness, of social responsibility, of ethical-human values? 29

The authors conclude that:

... It remains unreal and impractical to expect a corporation to operate with equal proficiency as a technical tool mobilizing economic and scientific power to produce goods and services and as a social institution with human beings depending upon it both inside and outside its gates. 30

The corporation must concentrate on its economic objectives, and hope that, in general, and over the long run, society will be best served. Again, other objectives are reached incidentally, if at all. The corporation must not act as a social institution because this is not its

30 Ibid., p. 65.
purpose and the corporation is not proficient in carrying out this role.

Some commentators have sensed a renewed power of stockholders, which, if true, would cause management to direct more attention to the wishes of stockholders, including a greater dedication to profit maximization. Burrell gives as some of the reasons for this change: (1) the action of the Securities and Exchange Commission causing a fair presentation of issues to stockholders for decision, (2) the necessity of going to the stockholders for funds for capital expansion, and (3) the activities of "stockholder representatives," such as Lewis D. Gilbert and his brother, John J. Gilbert, who present the stockholders' viewpoint at stockholder meetings. 31

Burrell states that a "stockholder movement" has been developing in recent years with a sort of platform of good management behavior regarding stockholders. Some of the platform's planks indicate where improvement is desired:

1. All directors elected annually by cumulative voting.

2. Annual meeting of stockholders held in a convenient location with an occasional regional meeting.

3. A majority of directors independent of management.

4. Directors to maintain a reasonable ownership interest in the company.

5. Election of auditors by stockholders.

6. Orderly conduct of shareholder meetings, no curbing of free speech—post meeting reports when possible.

7. Reasonable executive compensation geared to performance and subject to review by independent directors or stockholders.

8. No waiver of pre-emptive rights.

9. No "side deals" or self dealing between the corporation and management.

10. Full disclosure.

11. Some partial reimbursement from corporate funds of the losing side's costs in a proxy contest where a substantial issue has been presented and the losing side polled a substantial vote.32

Not all these improvements concern profit maximization directly, but the list presents an excellent summary of what many stockholders desire from management. The effect of the granting of all these wishes would be to place considerably more control in the hands of stockholders and to bring about a partial return to the stockholder control usually in effect in a new or closed corporation. If stockholders were able effectively to utilize their increased power from such changes, it is likely that any social responsibilities which require a reduction in profits would go wanting, for the most part. Management would have much less leeway in deciding which social responsibilities would be met and to what extent.

Friedman strongly objects to the notion that business has any social responsibilities other than to maximize profits. His conclusion is firm, and allows of no variance:

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine. If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what

32Ibid.
it is? Can they decide how great a burden they are justified in placing on themselves or their stockholders to serve that social interest? Is it tolerable that these public functions of taxation, expenditure, and control be exercised by the people who happen at the moment to be in charge of particular enterprises, chosen for those posts by strictly private groups? If businessmen are civil servants rather than the employees of their stockholders then in a democracy they will, sooner or later, be chosen by the public techniques of election and appointment.33

Further acceptance of social responsibilities by business managers will definitely change the free enterprise system. But this is only one of many changes which have been taking place, and certainly is not the change most destructive of any free enterprise model. Business managers are, in fact, accepting more responsibilities, talking and writing about them, and spending money on them. Decisions about social responsibilities are admittedly difficult, but they are being made. Many companies even have exacting, detailed programs established for making charitable contributions. Contributions are sound in law, including income taxation law. And why should anyone question the accidental power of existing managers in this one respect? If it is accidental or transitory here, is it not the same in all the many other areas of the system in which management has such a major influence? Most managers are probably proud of the selection process which placed them in their positions. To the objection which claims that managers may well become appointed or elected civil servants, exactly the opposite reasoning may be applied: It is to prevent the assumption by the government of the responsibilities in question that some managements take the initiative. The idea is that if business does not step in to meet the responsibilities, the government will.

33Friedman, op. cit., pp. 133-34.
Another strong protest against business assuming any social responsibilities has been voiced by Levitt, who believes that business has only two responsibilities—to obey the canons of everyday civility (honesty, good faith, etc.) and to seek material gain. According to Levitt, businessmen have assumed a dangerous pose regarding their responsibilities in human welfare, politics, and society. They not only say they have responsibilities; they believe it. The danger comes from the corporation turning into a monolithic influence, a very strong and efficient one. No kind of monolithic society is desired, even one led by well-meaning corporations. These corporations would closely resemble each other, and present a unified front, preoccupied with every humanitarian task of society, and the profit motive would be sublimated.

Levitt believes that the broader responsibilities must be assumed by the government and the union, institutions that today are equally powerful with big business. Business must continue to fight the government and the union to maintain the system of countervailing checks and balances. The four main groups in the economy—business, government, labor, and agriculture—must be kept separate. Their combination would be disastrous.

Welfare activities should be allowed when they make good economic sense, but only then. Allowing sentiment or idealism to convince managers of the desirability of welfare measures encourages "leniency, inefficiency, sluggishness, extravagance, and hardens the innovationary arteries." Criticized are programs of retirement, unemployment, and health benefits; these are deemed to be economic only on a compulsory
Stock purchase plans are considered by Levitt to be justifiable only when they reward superior performance. These dangers to be feared, but the case is made too strongly. Certainly a nation run by big business, and big business alone, is not desired, not even by big business. Would allowing labor unions and/or the government to take over measures previously executed by business lessen the danger of a monolithic influence? Are the people willing to have a single national program of retirement, unemployment, and health benefits? Wouldn't the overthrow of all the individual programs in favor of a central program be a major spurt of growth in the monolithic influence of the government? And does it not seem reasonable to believe that steps would be taken by someone—stockholders, the government, the courts—long before an excessive devotion to social responsibilities would inflict any real harm?

Summary. This chapter has briefly explored the meaning and role of profits as the dominant business motivation, and has considered the dangers of abandoning profit maximization as the primary business objective. It has been seen that the dangers are more apparent than real. Several other matters relating managers to stockholders are included in the next chapter.

---

CHAPTER III
MANAGERS AND THE STOCKHOLDERS (CONTINUED)

The preceding chapter dealt with several important relationships between managers and stockholders. There are, in addition, some other areas worthy of treatment. Accordingly, this chapter will consider (1) conflicts of business with society; (2) conflicts of managers with stockholders; (3) reasons why profits are not maximized; (4) stockholder welfare; and (5) related concepts.

I. CONFLICTS OF BUSINESS WITH SOCIETY

It can be said that, in the main, the private seeking of business profits has incidentally benefited society, probably to a greater extent than would have resulted from any system other than the free enterprise system. The system is far from perfect, however; severe inequities have been found, and some still exist. The managers of some business firms, in the eager quest for material gain, have gathered riches unto themselves at the expense of the public—through monopoly or monopoly-like elements, and through outright fraud and deception. This kind of profit is sorely resented, and casts an unhappy reflection on competitive and legitimate business operations. While many of the more flagrant abuses have been eliminated or reduced, many violations of good business practice continue.

A business firm could be in conflict with society in any number of ways: constructing a dangerous munitions plant in a densely populated
area, raising prices indiscriminately, laying off workers instead of changing products, draining of company funds through excessive executive salaries, and avoiding responsibility for community affairs. These and similar conflicts represent areas where the business is engaged in operations which could be improved with respect to the public. Though not included in the purpose of this study, reference is made to an equally important responsibility which society has to the business firm. Practices of society and its representatives can also be improved with respect to the business firm, such as the reduction of useless and troublesome regulation, elimination of waste in government, and improvement of the educational system. It is deemed one of the social responsibilities of business managers to do their share in reducing these conflicts between business and society.

II. CONFLICTS OF MANAGERS WITH STOCKHOLDERS

Of a more restricted nature, though of equal significance, ample opportunity exists for conflict between managers and stockholders, particularly in larger corporations where the two groups are not one and the same. The progress of the separation of ownership and management has been reviewed above.

Donaldson is concerned with the possible areas of conflict between the financial goal of management and stockholders, particularly where "professional" managers pursue what they consider to be the best interests of the corporation, as opposed to what "professional investors" (career security analysts) regard as the best interests of corporate ownership.
Donaldson points out four possible conflicts:

(1) The focus of management tends to be on the effects of various actions on cash flows, particularly those of the immediate future. In certain circumstances, an increase in cash flows to the corporation retained for internal use may result in some sacrifice of growth in property values as measured by dividends, earnings per share, and market price.

(2) If the internal return on investment is less than external opportunities, stockholders are inclined to impose standards leading to increased cash outflows to them. But for management to yield would be to admit inferior performance.

(3) Management gives top priority to retained earnings as a source of funds, implying that internally generated funds are automatically committed to internal investment. A related preference of management is to minimize dividends. Stockholder preferences may vary from both these management goals.

(4) Management makes investment and fund acquisition decisions in the light of risks to the individual corporate entity, and not in the context of the stockholders' portfolio risks, which alter risk magnitudes because of diversification.¹

This type of conflict is readily explainable by the two sets of viewpoints—managers vs. stockholders. Managers are not subject to censure in these cases because their actions are not taken with an awareness of injustice to the stockholders. Managers may, of course,

intentionally wrong stockholders. Lindahl and Carter give examples of how management could conflict with stockholders: (1) management may receive salaries and other remuneration far in excess of the value of services rendered; (2) management may be allowed an allotment of purchase warrants or stock options to buy unissued stock at prices below the market quotation; (3) management may expand the size and scope of the corporation to enjoy greater prestige and power, and higher remuneration; (4) management may decide to continue operating a business when that business should be liquidated in order to minimize stockholder losses, the purpose being to continue salaries as long as possible; and (5) management may take advantage of its inside knowledge to profit from stock market transactions. In these instances, stockholders are not the only losers; society likewise suffers. The responsibilities which managers have in these cases are clear; to right the wrongs, to forgo taking advantage of their unique positions at the expense of stockholders and the rest of society.

III. WHY PROFITS ARE NOT MAXIMIZED

The importance of the profit motive was discussed in Chapter II. It was seen that private profit seeking does explain much of business managers' motivation. Also, arguments portraying the profit motive as one of maximization and its consequences were presented. It is agreed

---

that the profit motive does give direction to the actions of businessmen, and that the loss of the profit objective would completely change the economic system of the United States, no doubt for the worse. What this section of the chapter will indicate is that, although some profit is indeed sought, it is not the maximum profit, and, further, even if a maximum level of profits is desired, its attainment is unlikely. These arguments, though strong, are not to be taken as relegating the profit motive to an insignificant consideration; the opposite has already been granted.

If one were to conclude that the only social responsibility of business was to maximize profits, the consideration of some other responsibilities would be negated. Only the social responsibilities which would not affect profits could be met, and then only if the managers would so decide. But if profits are not maximized anyway, the meeting of certain social responsibilities is possible, particularly when it is thought that a less-than-maximum profit is more desirable than a maximum profit. As will be seen, many arguments support this conclusion.

The material of this section is organized under several headings: (1) personal goals of managers, (2) alternate business objectives, (3) reasons for limiting profits, (4) illustrations of not maximizing profits, (5) pursuit of other objectives, (6) intermediate goals, (7) complexity of profit maximization, and (8) ranking objectives.

**Personal goals of managers.** While the personal ambitions of managers must in general mesh with the business objectives of the firm which employs them, complete agreement is not expected. Some conflicts
between managers and the firm as represented by the stockholders have already been noted. Success of an individual manager may or may not be dependent on success of the firm, though a profitable firm will generally be in a better position to contribute to the welfare of a manager. Several personal objectives of managers which tend to cause the business firm never to reach the level of maximum profits have been advanced.

One such personal objective is easily recognized: the desire of managers, particularly owner-managers, to substitute leisure for more managerial activity. The additional profit is simply not worth the additional effort. In large corporations, top executives may sacrifice maximum profits to avoid upsetting their subordinates, and this kind of restraint is even greater in the opposite direction; that is, subordinates are even more hesitant to disturb their superiors. At lower echelons of large corporations, foremen may undermine profit maximization by restricting output to prevent layoffs or to avoid a reduction in piece rates, because these foremen may (1) feel closer to employees than to the company, (2) be reluctant to reduce the number of subordinates, and (3) want to maintain good relations. Existing management may forgo securing the additional capital necessary for profit maximization if obtaining the capital would mean possible loss of control. Finally, managers' salaries and company profits may not vary directly; salaries tend to be relatively constant through widely varying profit levels, which means that managers would tend to be less interested in maximum profits.³

Great significance has been attached to the separation of ownership and management of large corporations, and with some validity. Were managers also the holders of large ownership interests, many arguments of the above paragraph would be empty. But the separation does exist, with the possibility that the incentives of management are inadequate to maximize profits, making the "public service" aspects of business leadership more attractive to executives. This development may be one of the reasons for the increased attention given to social responsibilities by business executives.

Another obstacle to profit maximization which results from personal aims is professional characteristics of the executive function which emphasize security of tenure and interest in the job for its own sake. Though at least a minimum profit criterion must be met in order to keep directors and stockholders passive, managers may adopt other criteria:

1. Personal position and power
2. Growth in size of firm
3. Security and the avoidance of uncertainty
4. Welfare of workers, consumers, or other broad groups

---


7Ibid., pp. 327-328.
An owner-manager may also pass up profits in order to remain or become his own boss.

**Alternate business objectives.** Objectives alternative to profit maximization may be more closely identified with the entity of the firm itself than with individual managers. Analysis is not simple because of several complicating factors. When there is separation of ownership and management, for whom are the profits made? What should be maximized, long-run or short-run profits? Also, it is impossible to determine for certain which of the alternate business objectives foster either long-run or short-run profits or both, and which prevent maximization of profits. Despite these complications, some study of alternate business objectives is warranted.

Similar to the personal objectives of managers, the managers as a group may move in unison, as a sort of personality of the firm, to devote more funds and attention to social responsibilities—to employees, customers, suppliers, and the public at large—once a minimum or satisfactory level of profits is reached. Additional profits are never made, or, once earned, are distributed for purposes other than for the direct benefit of the owners.

An interesting point is that a quasi-monopolist may be less efficient than a pure competitor. Again, full exploitation of profit potential is not attempted. It is also interesting that some writers claim, and it is reasonable to believe, that much more effort is expended when a company is suffering a loss than is to be found when that company is making a comfortable profit; let profits fall, and cost-reduction
campaigns will be instituted, managers will work overtime, inefficient workers will be laid off, and other steps will be taken to improve the profit position. Reder, who advances the above arguments, also gives the example of the entrepreneur who maximizes profits in the short-run so as to sell out at a considerable gain, but at the expense of long-run profits of the firm. This is a clear case of short-run maximization pre-empting long-run maximization. Most other examples are more complicated.

Profits are definitely a widely used measure of corporate success, but managers also consider a successful corporation as one that:

1. Initiates new ideas, new methods, and new products
2. Produces efficiently
3. Has a smoothly running organization
4. Improves and enlarges its facilities, increases its employment, and expands its output
5. Achieves stability, security, and survival
6. Advances the welfare of its workers and the public welfare
7. Enjoys a good reputation
8. Makes a satisfactory profit

Success measured by one of these criteria may not mean maximum profits. If the last criterion, satisfactory profits, is adopted, maximum profits as an objective is thus replaced. It may be that the other seven criteria

---

8Reder, loc. cit.

9Ibid.

of success could be regarded as objectives intermediate to the ultimate objective of profit maximization, but this is not necessarily so. New ideas, methods, and products may be essential to a firm in a dynamic economy, but not in and of themselves. Security may be the antithesis of maximum profitability. In other words, concentration on one or more of these objectives as ends in themselves could lead to reduced profits.

It is argued that the profit expectancy held by companies is not a maximum profit, but one with some other basis:

Wherever they appear on the profit-objective spectrum... it would appear that most companies operate with a more or less definite profit expectancy which motivates their planning. If this is a valid finding, it is a significant one. The profit which (1) is a specified a priori objective, which guides the making of the budget, or (2) is viewed as acceptable as an a posteriori product of the budgeting process is the profit which is sought by the firm, not some hypothetical maximum. It becomes an empirically tested and experience-sanctioned objective which is considered feasible and acceptable by those whose approval is needed.¹¹

This statement is not saying that entrepreneurs would not prefer to make higher profits, but all things considered, this pre-determined, less-than-maximum profit seems to be the best choice to those who decide.

A frequent argument against profit maximization is that some firms pay more attention to maintaining or increasing their shares of the market than to maximizing profits. Efforts are thus made to increase sales, with relatively less importance attached to profitability. Cyert and March found in one industry some evidence that firms with a declining

share of the market devoted more effort toward increasing sales volume than firms with a steady or increasing share of the market.  

In the large corporation, original decision-making must be delegated. In approving what filters up to him, the chief executive will likely apply very broad criteria, particularly financial criteria. Not infrequently, standards of solvency and liquidity take precedence over standards of profitability and efficiency. There is a tendency in the very large corporation for the manager in many instances to emphasize financial caution at the sacrifice of imaginative and creative leadership because of the magnitude of the operation involved.

Reasons for limiting profits. The above discussion paraded a number of alternative business objectives which could have the effect of preventing profit maximization. There are also some definite reasons why some managers intentionally limit profits, such as:

1. To discourage potential competitors
2. To woo the voting public and restrain the zeal of antitrusters
3. To restrain wage demands of organized labor
4. To maintain customer good will
5. To keep control undiluted
6. To maintain pleasant working conditions.

---


13 Gordon, op. cit., p. 322.

14 Dean, op. cit., p. 29.
The first four reasons may have the effect of maximizing long-run profits, but the outcome would be impossible to measure. Immediate profits are missed, in any case.

To the list provided by Dean may be added:

1. To avoid arousing employee resistance
2. To avoid hostile public opinion
3. To meet certain social responsibilities
4. To avoid higher taxation

Illustration of not maximizing profits. It is useful to study a simplified visualization of the effects on profit maximization of alternate personal and business objectives, and obstacles to profit maximization. Such a visualization appears on the next page. No special significance should be attached to any of the dimensions.

The diagram deals with how much of the intent and actual effort of management is devoted to profit maximization. First, it is assumed that managers plan and act only within a given area; there are certain limitations on activity which are biological, physical, economic, and technical. This excluded area is represented at the top of the diagram by the diagonally hatched portion. Managers are also prohibited by law to operate in certain areas, represented at the bottom of the chart by the diagonally hatched portion. The clear section at the center of the diagram represents the area of possible manager intent and effort.

To what end is manager intent and effort devoted? Assume that manager intent and effort flow in the general direction, from left to right on the illustration, and that positions toward the right represent
Limitations:
- Biological
- Physical
- Economic
- Technical

Alternate Goals:
- Personal - Status, salary, leisure
- Business - Market share, security, revenue maximization
- Personal and Business - Social responsibilities

Alternate Goals

Manager Intent and Effort

Legally Prohibited

Loss Break-even level Satisfactory Profits Profit Maximization

Obstacles:
- Attraction of competition
- Hostile public opinion
- Social responsibilities
- Employee resistance
- Anti-trust action
- Labor union demands

WHY PROFITS ARE NOT MAXIMIZED

FIGURE 2
higher profits. At the extreme left is seen a loss; then, moving from left to right, the break-even point, a survival level of profits, satisfactory profits, and at the extreme right, the target of profit maximization. The managers of a company operating at a loss will likely concentrate on minimizing losses. Thus, the full flow of manager intent and effort at this level of profitability is depicted as being directed toward profit maximization.

Moving to the break-even point, essentially the same analysis holds. The company operating here is making neither profits nor losses—not a happy situation, but better than suffering a loss. An entrepreneur would choose to dissolve the business in favor of one which could make a profit. It is here assumed that there is a level of profitability which is just adequate to cause the business firm to remain in existence, a survival level of profits. Up to this point, all manager intent and effort are depicted on the illustration as being toward profit maximization.

Above the survival level, however, not all manager intent and effort are toward maximization. Some is siphoned off toward alternate personal objectives (such as status, salary, and leisure) and alternate business objectives (such as market share, liquidity, and revenue maximization). There are also some reasons why greater profits would tend to be limited; that is, certain obstacles block some manager intent and effort from reaching profit maximization (such as attraction of competition, hostile public opinion, and the meeting of social responsibilities).

Somewhere between a level of profits necessary for survival and profit maximization there is assumed to be what is regarded as a
satisfactory level of profits. Owners and managers are satisfied with this profitability, and no one voices too strong opposition to it. But as this level is exceeded, somewhat more manager intent and effort is drained off to meet alternate personal and business objectives, and obstacles to further devotion to profit maximization become more numerous and forceful. Employees may become resentful, anti-trust action may be taken, and labor unions may become more militant. It is thus seen that only a portion of manager intent and effort reaches toward profit maximization at the higher levels of profitability.

Pursuit of other objectives. While Stryker is mainly concerned with having management adhere to the profit standard through the use of planning and control (P and C), he does make this statement:

The belief that the top managements of large corporations have a single-minded devotion to profits is one of the great myths of modern American capitalism. As almost any management consultant can tell you, a company's top executives are likely to put a lot of things ahead of profits, and what's more, the pursuit of these other objectives may seriously impair the company's earning power. 15

These actions may take the form of:

1. Retaining an outmoded product out of sentiment
2. Pushing a new product for the glamour
3. Indulging in "business statesmanship"
4. Dedicating themselves to union negotiations and advancing industrial relations generally

---

5. Improving the community

6. Managing for the sheer fun of it

Intermediate goals. Jones provides an interesting discussion and classification of personal and business goals in which he lists some intermediate goals of a company which tend to ensure the company's future welfare (ultimate goals). These are some examples of intermediate goals:

1. To develop new products
2. To find a new group of customers
3. To make a profit
4. To become a leader in its community
5. To grow larger
6. To improve its position in its own industry; that is, to secure a larger percentage of the business done by its industry
7. To gain a reputation for quality products—or for low-priced products
8. To accumulate a financial backlog which will enable the company to weather a depression
9. To increase sales
10. To ensure the welfare of its employees
11. To find and fill a given niche in the business world, one in which it can flourish

Profits are here included as an intermediate, rather than an ultimate, objective. This is rather surprising, but Jones gives as examples of

16Ibid.

ultimate goals, among others: (1) to prosper, (2) to live in peace with others, and (3) to help people to flourish.  

As far as the analysis of this section is concerned, too vigorous pursuit of nearly any of these intermediate objectives could result in deviation from profit maximization. However, attention to specific objectives may be a more efficient way of coordinating business activities than more general objectives, such as maximizing profits.

The necessity for intermediate goals, or "short-cuts," has also been stressed by Gordon. Gordon recognizes that businessmen are guided by non-pecuniary motives as well as profit maximization, but chooses to ignore them because of the lack of knowledge about how these non-pecuniary motives interact with the profit criterion. He regards as even more important the semi-pecuniary considerations that guide business firms: actions of competitors; and actions of organized groups representing labor, suppliers of capital, and others. To deal with these problems, short-cuts are used in determining business policies, such as:

1. Maintaining the firm's traditional share of the market
2. Preventing organization of the labor force
3. Selling through particular distributive channels

But Gordon sees two difficulties in relating these subordinate (intermediate) objectives to profit maximization: (1) the expression of a functional relationship between profits and various degrees of fulfillment of the subordinate objectives may be impossible, and (2) it may be

\[^{18}\text{Ibid., p. 11.}\]
impossible to make marginal adjustment toward the subordinate objectives because of the inappropriateness of quantitative analysis or because adjustment may be possible only in large increments.¹⁹

Complexity of profit maximization. One argument against the idea that profits are maximized is that the whole notion is so complex, it is impossible to grasp:

A simple statement that managers try to maximize corporate profits, as is frequently assumed in economic theory, is almost meaningless. The concept of profit is a highly tenuous one in that it involves the valuation of assets, the allocation of joint costs, the treatment of developmental expenses, and a host of similar problems for which there are no easy or definite solutions.²⁰

Complexity is further illustrated by this list of faults with the idea of profit maximization:

1. The troublesome question of the time period over which profits are maximized arises.

2. It is difficult for either managers or observers to calculate the effect on profit of given actions which may affect the business indefinitely in the future.

3. Businessmen are often deterred by custom and by ethical principle from exacting the highest possible profit.

4. The businessman may forgo profits to avoid the demands of organized labor, or public regulation, or entry of new firms.

5. Businessmen often show greater interest in business volume and business expansion than they do in profits.

6. Interest in profit probably varies among firms. The struggling, near-failing company has a great interest in at least a survival level of profits.


²⁰Bowen, op. cit., p. 89.
7. The interest in profits varies from time to time. There may have been a greater appreciation of high profits in the nineteenth century than now.

8. Attitudes toward profit may vary with phases of the business cycle.21

**Ranking objectives.** In much of the literature concerning business objectives, the objectives are frequently ranked, with profits perhaps being first on the list. Glover, however, views the corporation as having to pursue its multiple objectives concurrently and simultaneously. The objectives have co-equal rank, no one having priority over another, for the following reasons: (1) If objectives are ranked, the ones of lower rank may come to be thought of as being in opposition to each other, and particularly to the "first" objective. This conclusion, of course, is not necessarily true. (2) To rank objectives and assume them to be in opposition may cause managers to presume that their own policy objectives are in opposition to each other and that their policies are inconsistent. (3) Conceiving the objectives as having different priorities may allow the lower ranked objectives to be considered as means to accomplish the end of the number one objective.22 One effect of ranking objectives in a business, then, may be a variance from profit maximization.

IV. STOCKHOLDER WELFARE

In a small corporation, stockholders usually have the power to

21Ibid., pp. 89-90.

see that their wishes are turned into realities. The relative lack of individual stockholder power usual in large corporations has been sufficiently stressed. The position of the stockholder in a large corporation has been described this way:

Theoretically, the stockholder is a part owner of the business, but, in fact, he does not consider it his function to help formulate business policies. He thinks of himself as an investor who hopes to receive dividends and ultimately to sell his stock at a profit. The theoretical differences between stocks and bonds has largely disappeared, at least in the mind of the average stockholder. Control of the corporation has been abandoned to a group of managers whom the stockholder does not know and over whose actions he has little or no control.23

The directors, who are the elected representatives of the stockholders, may lack the incentive of a large ownership share. In large corporations, the combined stock holdings of all board members will usually be less than one per cent of the total, as is the case in the Sinclair Oil Company. The proxy committee solicits and receives proxies from stockholders on behalf of the management, and "it is not unusual to find that this committee votes 90 per cent of all votes cast at a meeting."24

Paradoxically, a minority of stockholders may find themselves in a very weak position with respect to the majority, or they may actually dominate the activities of the corporation in the face of an unorganized majority. Several protections for the minority are:

---


1. **Majority must exercise diligence and good faith in conserving the assets of the corporation**

2. **Majority cannot act without the provisions of the charter**

3. **Majority must protect with diligence the interest of the minority**

4. **Minority can seek relief through courts of equity**

5. **Courts protect the minority against fraudulent acts of the majority**

6. **Minority stockholder can exercise voting rights**

7. **Minority stockholder has the rights:**
   a. To attend stockholder meetings
   b. To vote in the election of officers
   c. To participate in profits and dividends
   d. To share equitably in assets upon dissolution
   e. To examine the books of the corporation for good cause

Though the majority of the stockholders is assumed in legal and economic theory to have the ultimate power over corporate industry, a minority of stockholders may, because of the wide dispersal of shares of ownership, have control. Among the special devices which have been used as aids to minority control are (1) weighted or multiple voting stock, (2) a voting trust, (3) non-voting stock, and (4) a holding company.

How might such a minority control group abuse the corporation and the majority of stockholders?

1. **Members of the minority control group may elect themselves to the board and appoint themselves to offices at high salaries.**


2. The control group may cause the corporation to make leases and award contracts favorable to firms in which the control group has an even stronger interest.

3. They may divert earnings from certain classes of stock, such as passing dividends on non-cumulative preferred stock. These kinds of activities are not in the best interests of the remaining stockholders; it is the responsibility of management to see that these abuses, as well as less obvious ones, do not exist. The courts afford some protection, but there is an early limit to what they can do. Also, individual stockholders may be ignorant of what is going on, and even if they knew, legal action might be too expensive or too much trouble. Usually, if a stockholder gets too displeased with the company, he will sell his stock in that company, and the matter (for him) is ended. This answer, however, is inadequate from society's viewpoint; someone else inherits the previous owner's problems.

What do stockholders like with respect to dividends? Two surveys of stockholder preferences were made under the auspices of the Bureau of Business and Economic Research of the University of California, Los Angeles, and the Los Angeles Division of the Pacific Coast Stock Exchange. The questionnaires were sent to individual stockholders only, 5,000 in 1951 (with a 26 per cent return), and 3,000 in 1958 (with a 29 per cent return). The conclusions on dividend policy preferences were:

The questions and answers on the subject of dividends give rise to three definite observations on preferences of individual stockholders: (1) they favor a "normal" or middle-of-the-road ratio of dividends to earnings, one which will reward the stockholder but also

---

Ibid., pp. 108-110.
provide for company growth; (2) they place high emphasis on company growth and development, and in the main are willing to have dividend policy adapted to company financial needs; and (3) they approve a regular-plus or a cash-plus-stock dividend policy.  

It was concluded from the study that the best stockholder relations policy is one of candor and explicitness, because of stockholder sophistication and a willingness to go along with a dividend policy suited to the company's financial needs. Stockholders also should be kept fully informed.  

V. RELATED CONCEPTS

This concluding section will deal with three topics: (1) balancing of interests, (2) concept of satisfactory profits, and (3) business power.

Balancing of interests. A concept which alarms the individuals who believe in profit maximization is the one which regards managers as somehow having to balance the interests of employees, customers, and the public at large, in addition to the stockholders. Managers have a responsibility not only to the stockholders, but to all these other groups, as well. Blough puts it this way:

In a corporation . . . managing employees decide what should be made, who shall sell, and who shall account for its affairs; in a word, who shall prudently balance the interest of owners and

---


29Ibid., p. 55.
employees in the group. Such decisions, however, are successful only if they also meet the requirements of persons outside the productive group who are being served by it.\(^ {30} \)

Bullis makes a slightly less definite statement: "Management has the duty of seeing that no one group gains unreasonable advantage at the expense of the others."\(^ {31} \)

If this view seems too altruistic, Jones makes a somewhat more compelling statement:

Over the years, most executives have held that the sole objective of a company is to maximize the profit for the owners. This is obviously an important objective; investors are a very necessary group of company members, and a company must make money to survive. But investors are not the only group whose contributions are required and who must therefore be rewarded with enough inducements to persuade them to make these contributions. Sometimes, it is advisable to reduce profits and dividends, instead of maximizing them—to distribute more of the company's revenues to employees, executives, and suppliers, and/or to customers through lower prices.\(^ {32} \)

Not all such statements regard the interests of all the various groups as being in opposition to each other. Some writers see the possibility of benefiting all groups simultaneously, perhaps through more efficient production, elimination of waste, and adherence to a code of ethics. It is possible that the interests are felt to be somewhat balanced when the benefits accruing to each group are increasing; no


\(^ {32} \)Jones, *op. cit.*, p. 363.
group can complain because each day finds them in a more advantageous position relative to the preceding day. However, there is some basis for inequity; the rate of increase in benefits may not be the same for all groups. Profits may be increasing, but salaries paid to employees may be increasing at an even faster rate.

There is also the matter of how much pressure each of the interest groups can bring to bear on managers. It must at times seem to managers more like juggling than balancing. The most vociferous group must be silenced before attention can be given to the other groups.

**Concept of satisfactory profits.** If the profit motive is strong, yet profits are not to be maximized, what then is the profit goal? The answer might be called "satisfactory," "reasonable," or "moderate" profits, all terms describing a level of profits that, while not maximum, is high enough to meet the needs of all concerned, but not so high as to incur unfortunate repercussions. The dividing line is not the somewhat more definite break-even vs. profits but "reasonable" profits vs. maximum or "excessive" profits, as the case may be. A distinction is made between maximum and excessive profits because maximum profits are by no means necessarily excessive.

The concept of satisfactory profits, as has been noted, is not as specific as the concept of maximum profits or the break-even point. But the expression does have definite meaning for particular individuals, and is concrete in that sense. To strive for a satisfactory profit is not synonymous with lack of effort; to make a satisfactory profit may require extreme effort from all concerned. Many business managers would consider
themselves quite fortunate if they could cause their firms to earn a satisfactory profit. It is thus seen that satisfactory profits and maximum profits are concepts that can at times be the same, or either one can exceed the other, depending on the circumstance. For instance, the best profit that a firm can make may be just a satisfactory profit; a low profit may be maximum but not satisfactory; and a very high profit may be maximum and above a level regarded as satisfactory.

A satisfactory profit may be regarded as a fair profit:

To be successful, industrial and business management knows that it is obligated to make and distribute products and provide services of highest possible quality at lowest possible prices, pay fair wages and reasonable dividends, earn a fair profit and retain enough of it for capital investment to expand and improve plant and equipment.33

Fairness, or perhaps justice, is the criterion used in the many decisions about wages, product design, dividend policy, and earnings retention.

Several writers believe that there is a greater tendency for the mature, successful firm to wish only to "satisfice" rather than maximize profits; young, struggling, or unprofitable companies have greater incentive to maximize profits:

It may be more realistic to describe the quest for profit as a seeking for "satisfactory profits" rather than maximum ("satisfactory" defined in relation to the profit experience of other firms), the goal of maximum profits paradoxically being more characteristic of the struggling or unprofitable company than of the strong and powerful company.34


34Bowen, op. cit., p. 90.
I suspect that "satisfactory profits," as vague as this criterion is, is frequently a more accurate description of the primary objective than "maximum profits." This is particularly likely to be true of mature, successful firms.35

It is therefore likely that only the large, successful firm has much of a choice. Part of the reason for this growth and success may be attributed to the monopoly element in imperfect competition:

Many firms, and particularly the big ones, do not operate on the principle of profit maximizing in terms of marginal costs and revenues, but rather set standards or targets of reasonable profits. . . . The policy problems in setting profit standards arise only in imperfect, that is, real-world competition. When competition is intense enough to approximate "pure-competition," prices have to be set close to the cost level, and only by trying to maximize profits can a firm stay solvent. But for many products a firm has a substantial monopoly position, either shortrun or permanent, and has a range of discretion in pricing. Such firms must make crucial policy decisions on profit standards.36

The failure of such large corporations to strive for maximum profits, and, instead, to adopt satisfactory profits as their business objective, allows those companies to fulfill certain social responsibilities that otherwise would have been thwarted. Examples could be: better quality goods, lower prices, greater employee benefits, and more charitable contributions.

Business power. Can it be said that a manager, or a business, has a social responsibility simply and solely because of the extent of the influence that such an individual or organization possesses? If, for instance, in setting a wage level, the influence is felt not only by the

36Dean, op. cit., pp. 28-29.
owners in a change in profits and employees in a change in wages, but also by the industry wage level because the firm is a wage-setter for the industry, and price levels change because the firm is also a price leader, and tax revenue changes because profits are reduced, and so on:

does a social responsibility exist? It certainly sounds like it. But does not public regulation (laws) control the actions of the firm? And how about the power of public opinion? Competition? Labor unions?

These are strong influences, but there is still a broad area of discretionary decision-making within which managers may or may not act in ways that are best for society, or in ways that are socially responsible.

Business managers do have the power.

Why do they have this power and what are the consequences?

Businessmen have considerable social power because they:

. . . are leaders, are intelligent men of affairs, and speak for the important institution we call business. . . . To the extent that businessmen or any other group have social power, the lessons of history suggest that their social responsibility should be equated with it. Stated in the form of a general relationship, it can be said that social responsibilities of businessmen need to be commensurate with their social power.37

Davis believes that the avoidance of social responsibility will lead to the gradual erosion of social power as other groups move in to assume these responsibilities.38 That this is a real danger can be seen from this example: The failure of the automobile industry to devote sufficient funds to automobile safety research, and the failure to incorporate

37Davis, op. cit., p. 71.

38Ibid., p. 73.
necessary safety features in new automobiles may lead to legislation requiring certain safety features on all new cars. The initiative should have come from the manufacturers.

VI. SUMMARY

There are mutual responsibilities for reducing conflicts between business and society. Managers can improve certain activities with respect to society, and other elements of society can make improvements with respect to business firms. Managers may be in conflict with stockholders, especially where stockholders desire maximum profits and/or dividends and managers concentrate on other objectives.

While profits are the dominant business motivation, it has been shown that the more likely profit objective is to "satisfice" rather than to maximize. Alternate business and personal objectives channel off manager activity, away from profit maximization. In addition, certain obstacles to profit maximization arise at higher levels of profitability. The very complexity of business operations is seen as a hindering factor to profit maximization. Failure to intend to achieve or actually to achieve profit maximization opens the way to meeting certain social responsibilities which would be inconsistent with profit maximization.

In larger corporations, stockholders frequently are not very influential in corporate affairs. Great dissatisfaction usually is expressed by selling the stock, but financial loss may result. Stockholders appear to be satisfied with a dividend policy which provides cash
rewards but also allows for company growth. Stockholders need to be kept fully informed. Managers should see that minority abuses do not exist.

Whether or not one likes the idea, managers are in the position of having to balance the interests of stockholders and several other groups: employees, customers, and the public at large. An opposing conclusion is that managers must maximize profits for the stockholders and let the other groups take care of themselves. Many managers have adopted this view in the past. And the other groups have taken care of themselves to some extent, through labor unions, restrictive legislation, court decisions, and hostile public opinion and pressure. A more beneficial attitude is that business managers have considerable authority and influence concerning the several groups and should operate the firm to result in fair and just treatment to stockholders, customers, employees, and the general public.
The relationship between the managers of a business firm and ultimate consumers is an intricate one and varies from one circumstance to another. Competition in one industry may cause manufacturers to pay particular attention to consumer needs (needs are defined here as being both what consumers must have as well as what they would like to have), while a lack of competition in another industry may attenuate the need for devoted concern for the welfare of consumers. Again, a business firm may be quite close to the ultimate consumer, dealing directly with him on a daily and personal basis; or a firm may be at the other end of the distribution channel, receiving only partial feedback from the distant consumer. And the relative status accorded the ultimate consumer in the minds of managers has varied considerably, especially according to the existence of a buyer's or a seller's market.

Managers may view consumers as "kings" or as something infinitely less royal and important, with or without an altruistic motive or guilty conscience. To the extent that managers recognize consumers as being independent arbitrators among competing offerings in the market place and conduct their business firms in such a manner as to yield to the wishes of consumers, then consumers are thereby benefited. Consumers receive advantages without there necessarily being an altruistic attempt on the part of managers to aid them. But if consumers are regarded as secondary
to the profitable operation of the business firm, consumers will thereby suffer, or there will at least be a greater possibility that they will suffer.

How do businessmen regard the ultimate consumer? One enlightened view is that exemplified by the marketing concept. This concept is discussed in the following pages. Such a discussion is the pivotal point for all business activities, and thus tends to clarify the responsibilities of business managers toward another large group, the consumers.

I. THE MARKETING CONCEPT

This section will attempt to answer the questions: What is the marketing concept? What caused the development of the marketing concept? What effects does the marketing concept have on business managers' responsibilities to ultimate consumers?

Definition. The marketing concept has been variously defined, and is variously called marketing philosophy, total marketing concept, customer orientation, market orientation, marketing management concept, and other names.

One narrow view of the marketing concept is the change in organization structure from a Sales Manager to a Marketing Manager or a Vice-President in Charge of Marketing. The new position of Marketing Manager typically manages the sales force, as usual, plus advertising, sales promotion, marketing research, and sometimes product planning, production scheduling, physical distribution, and inventory control. Full implementation of the marketing management concept gives the
marketing manager very wide authority, and the overall organization tends to be built around him.

Another consideration is the time in the productive cycle at which conscious attention is given to marketing problems. According to the marketing concept, the marketing man is brought in at the very beginning of the productive cycle, when the idea for a product is first conceived or early in the continual analyses of existing products. Marketing is also integrated into all phases of business operations. It is marketing which determines what the customer is really like, what product the customer wants, what price the customer is willing to pay, and where and when the customer wants the product.¹

The influence of the marketing concept on business functions can be seen from the following examples:

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Effect of Marketing Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>Scheduling and inventory requirements based on marketing estimates.</td>
</tr>
<tr>
<td>Research and Development</td>
<td>Research directed by marketing personnel to those areas with greatest potential.</td>
</tr>
<tr>
<td>Finance</td>
<td>Requirements based on sales forecasts and marketing activities.</td>
</tr>
<tr>
<td>Product Design</td>
<td>Products designed to satisfy the customer. Other requirements come second.²</td>
</tr>
</tbody>
</table>

The marketing concept has been defined this way:


A corporate state of mind that insists on the integration and coordination of all of the marketing functions which, in turn, are melded with all other corporate functions, for the basic objective of producing maximum long-range corporate profits.\(^3\)

This definition adds two important criteria. First, the marketing functions themselves are integrated and coordinated. For example, advertising efforts must culminate in public display at approximately the same time the physical product is made available to the ultimate consumer for purchase. Or the package design might have to be altered so as to include space for a special price promotion. Each marketing function is undertaken only in relation to all other marketing functions so that the net result is most effective from the point of view of getting the best job done at the lowest cost.

The other criterion is one of maximum long-range corporate profits. The point has already been made that maximum profits are not the likely objective of most firms, and certain pressures limit such efforts where they do tend to exist. Even so, profits are a basic objective of business firms, however they are construed, maximum or satisfactory. This provides the rationale for the marketing concept.

It has also been said that the marketing concept is more than an attitude; it is a logical tool for decision-making. The marketing concept organizes marketing action and marketing thinking throughout the firm. The concept recognizes that planned actions may change the situation under which the actions were planned. The marketing concept is

forward-looking, but it also is quite interested in learning from the past. The marketing concept is one of planned risk-taking. The concept recognizes that risks which should be taken but are not taken fail to appear on the books. Estimates should be made of the risks involved, but over-reliance should not be placed on techniques from mathematics and behavioral sciences.  

One last fragmentary interpretation of what is involved in the marketing concept places great emphasis on research in solving marketing problems. Solutions await thorough research. The research may involve studies of product usage, product design, motivation of consumers, advertising effectiveness, or any of the many other areas in marketing where research can be used. This approach is also known as scientific problem solving.

Integrating the several interpretations of the marketing concept is successfully accomplished in the following definition:

... A managerial philosophy concerned with the mobilization, utilization, and control of total corporate effort for the purpose of helping consumers solve selected problems in ways compatible with planned enhancement of the profit position of the firm.  

---


This definition has the marketing concept involving:

1. **Awareness throughout the company of the role of the consumer as it is related to the company's existence, growth, and stability.** The consumer is placed in a dominant position.

2. **All managers aware of the interdependence of decisions and activities among departments.** The entire network of forces should be directed toward meeting defined consumer needs in an integrated and coordinated fashion. Balance is maintained, not only among departments, but with the firm's external environment.

3. **An overall company concern with innovation as it helps to solve selected consumer problems.**

4. **Managerial awareness of the effects on present and future profit positions of the introduction of new products and services, and the usefulness of product planning.**

5. **Expansion of the marketing research function and assimilation of all other sources of marketing information, to be used in setting objectives and taking action.**

6. **Participation and agreement by all managers in setting corporate and departmental objectives which lead to enhancement of the firm's profit position.**

7. **Formal planning, both short-range and long-range, resulting in defined and coordinated corporate functions in accomplishing objectives, strategies, and tactics.**
8. Changing corporate functions in whatever ways are necessary so that corporate activity is directed toward solving selected consumer problems in a profitable fashion. 6

These descriptions of the marketing concept, particularly the last summary statement, depict firms which are organized and adapted to operate efficiently, on an informed basis, with a minimum of conflict, with an eye to the future and competitively to satisfy the needs of consumers at a profit.

Development. The importance of the ultimate consumer has probably always been recognized. In the days of the small shops and general stores, contacts with the ultimate consumer were frequent and personal. Consumer purchases were largely of staple products, mostly food. To a large extent, the customer was regarded as a means to the end of profits.

The 1920's and 1930's were decades of production-oriented firms. There were a few firms and individuals who emphasized consumer satisfaction, but they were in the minority. The period of World War II saw concentration of production on vital war materials; consumer goods had a ready market.

Following World War II was a decade of quantity buying. Consumers had accumulated savings, instalment credit expanded greatly, and production rapidly shifted to consumer goods. There was a sellers' market. The end of this decade, around 1955 and 1956, saw an increase in

6Ibid.
the literature on the marketing concept. Certain changes were taking place, and other changes were expected in the future, calling for a new philosophy—new in the extent of its publicity and adoption.

Some of the changes causing the development of the marketing concept are: (1) Many consumers have satisfied their basic needs; they can afford to be more selective in what they buy. (2) Consumers are attaining much higher levels in formal education. While this does not necessarily indicate an improvement in taste, it does result in more intelligent buying. (3) Workers are experiencing shorter work weeks. More leisure time, coupled with higher incomes, has led to a whole new leisure-time market. (4) Competition has appeared in new forms; a product now has to compete not only with other products of the same type, but also with other types of products, and with services. Many business firms have broken with their traditional operations in order to compete more successfully, as in scrambled merchandising. (5) Consumers are more discerning than heretofore. The rise of the middle class market with its price consciousness, the search for dependability in products, the dissatisfaction with expensive frills—all have tended to lead to a demand for solid values. (6) Both total consumer income and consumer discretionary income have increased greatly—consumers have more to say about what they will spend their money for, when they will spend it, and even if they will spend it. (7) A greater proportion of consumer income is being spent for services, such as education, medical care, and vacation travel. (8) Some firms have tended to specialize in the manufacture of particular products, making proper market analysis more vital.
than ever. (9) Other firms have diversified, moving into production and marketing of new and different products. This requires a development of knowledge and understanding in new areas and draws upon research for the right information. (10) Automation has increased the investment in fixed plant facilities, again requiring accurate forecasts and capable management to see that the forecasts become realities. Otherwise, there will result large wasted capital expenditures, and once such capital expenditures are made, there tends to be a lack of flexibility. (11) Production and marketing functions have become more complex in many instances. (12) The management structure has tended to become more complex and unwieldy as many firms have grown in size. (13) There have been squeezes on profits resulting from pressures to raise wages and pressures to keep prices down. (14) There has been a separation of ownership and management in many firms, with a resultant management group which senses responsibilities to other groups in addition to the owners.

From this summary of changes involved in the expansion of the marketing concept emerges the portrayal of a firm faced by increased competition of several types with richer consumers but better buyers, with less flexibility in its operations, and with a greater need for understanding consumers. To meet this challenge, many companies have adopted the marketing concept in varying degrees.

The consumer is made the focal point of all company activities. The consumer is studied in great detail to learn his nature and needs. Functions of the company—production, research, marketing, finance—are
organized to meet the needs of the consumer most effectively, in a manner consistent with what has been learned about the consumer, and in a way which will yield profits. This procedure is said to be one of working from the consumer backward.

**Implications for management.** Conscious and primary attention to the needs of consumers must necessarily result in benefit for the consumers. Businessmen have always recognized the necessity for consumers, but consumers have never been emphasized to the extent they presently are under the marketing concept. Managers are now aware that the consumer is the focal point of economic activity. Production occurs when there appears to be a profitable market for the product, when some felt need exists; production in the absence of an expected market does not take place.

More specifically, a myriad of marketing activities are adapted to better serving ultimate consumers as a result of the marketing concept. Products tend to be designed with the first consideration being consumer satisfaction; engineering and production may also result in convenience and lower costs and lower selling prices. Selling price is only one aspect of meeting the needs of consumers.

Goods must be made available to consumers when and where they are wanted. The development of suburban shopping centers and one-stop shopping are responses to the wishes of consumers for more convenient buying. Automated procedures and merchandise handling help to assure adequate stocks, but with little excess. Consumers resent being unable
to purchase items immediately once the decision to buy is made, and they resist buying shop-worn merchandise.

Promotion--personal selling and advertising--to be most effective, must be built around the psychological characteristics of consumers. Promotion must be truthful and must actually interpret for the consumers the want-satisfying qualities of the promoted goods. The sequence must be: (1) study the needs of consumers, (2) design or adopt a product to meet those needs, (3) show consumers how the product satisfies the consumers needs, (4) complete the sales, and (5) assure satisfaction. Promotion should not be developed independent of consumer analysis and product planning or any other marketing activity; ideally, all activities are considered simultaneously, each in its relations with all the others.

The last example is taken from the marketing function of pricing. Pricing is one of the most difficult decision-making areas in marketing. Seldom is a price set with complete assurance that it is the "best" one. Even for new products, consumers have a surprisingly keen awareness of what the price should be. If managers set a price much above this expected price, consumers conclude that in purchasing this particular product, they are not getting their money's worth. If, on the other hand, the price is set much below the expected price, consumers may assume that something is wrong with the product. Informing consumers about the reasons for the difference between the expected and the actual prices may be sufficient to dispel resistance to purchasing, but it may be more efficient to set prices in line with what consumers have reason to expect.
To summarize briefly: Managers who adhere to the marketing concept make their objective the satisfaction of consumers at a profit. Consumers and their needs are the first question. Products and pricing and promotion and all the other business comings and goings revolve around the consumer. It would be difficult to conclude otherwise than that the marketing concept has led to increased consumer satisfaction, whether or not managers had selfish motives even in adopting the concept.

II. THE INFLUENTIAL CONSUMER

The preceding section has indicated something of the effects which better educated and more affluent consumers have had on the development of the marketing concept. Alert, articulate, and financially strong consumers wield significant power over managers of business firms, not only in sophistication of purchasing, but also in matters of legislation regulating business and protecting consumers, public opinion as it affects business operations (particularly concerning such areas as defensibility of profit position and stands in labor disputes), and understanding of the role of business in the society. Consumers have increased in influence because of (1) greater educational attainment, (2) informative value of promotion, (3) increased purchasing power, and (4) consumer cooperation.

Educational attainment. The people of the United States have always had a high regard for the value of formal education. Though there have been some setbacks and false leads, the general trend in education
has been to growth and improvement. Managers themselves have become better educated--practically all presidents of larger corporations have college degrees, at least. Consumers are likewise experiencing more years of formal education. While years alone do not provide a perfect measure of the worth of the education acquired, more years in school have generally been taken to mean a better education.

During this century, the number of persons graduated from high schools has increased from less than 100,000 in 1900 to nearly two million in 1962. In 1900, over 27 thousand college students were graduated; in 1962, nearly 418 thousand were graduated from colleges. The increase can be seen clearly from the following tabulation adapted from *Statistical Abstract of the United States, 1964*:

<table>
<thead>
<tr>
<th>Year of Graduation</th>
<th>High School Graduates</th>
<th>College Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>94,883</td>
<td>27,410</td>
</tr>
<tr>
<td>1920</td>
<td>311,266</td>
<td>48,622</td>
</tr>
<tr>
<td>1940</td>
<td>1,221,475</td>
<td>186,500</td>
</tr>
<tr>
<td>1950</td>
<td>1,199,700</td>
<td>432,058</td>
</tr>
<tr>
<td>1952</td>
<td>1,196,500</td>
<td>329,986</td>
</tr>
<tr>
<td>1954</td>
<td>1,276,100</td>
<td>290,825</td>
</tr>
<tr>
<td>1956</td>
<td>1,414,800</td>
<td>308,812</td>
</tr>
<tr>
<td>1958</td>
<td>1,505,900</td>
<td>362,554</td>
</tr>
<tr>
<td>1960</td>
<td>1,864,000</td>
<td>392,440</td>
</tr>
<tr>
<td>1962</td>
<td>1,929,000</td>
<td>417,846</td>
</tr>
</tbody>
</table>

Gains were also made in the numbers of persons who attended high school and college but did not graduate. Table I summarizes educational gains.

---

# TABLE I

**PERSONS 25 YEARS OLD AND OVER—EDUCATIONAL ATTAINMENT, 1960, AND PROJECTIONS, 1980**

(in thousands)

<table>
<thead>
<tr>
<th>Date</th>
<th>Persons 25 years old and over</th>
<th>None</th>
<th>Elementary School</th>
<th>High School</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1 to 4 years</td>
<td>5 to 7 years</td>
<td>8 years</td>
</tr>
<tr>
<td>1960</td>
<td>99,024</td>
<td>2,251</td>
<td>5,997</td>
<td>13,710</td>
<td>17,397</td>
</tr>
<tr>
<td>1980 (Series A)*</td>
<td>130,783</td>
<td>1,101</td>
<td>4,062</td>
<td>9,471</td>
<td>11,987</td>
</tr>
<tr>
<td>1980 (Series B)*</td>
<td>130,783</td>
<td>1,156</td>
<td>4,200</td>
<td>10,078</td>
<td>12,718</td>
</tr>
</tbody>
</table>

*Series A and B imply the following assumptions regarding trends: A, continuation of short-term past trends, and B, continuation of long-term past trends, in attainment of younger adult age groups.

Source: Adapted from *Statistical Abstract of the United States, 1964*, p. 112.
attainment of persons 25 years old or over in the United States in 1960
by years attended in elementary schools, high schools, and colleges.
The table also provided projections of similar data for 1980. (Projections
are extensions of past trends, and are not predictions). Figures
include graduates.

Comparing projected 1980 figures with actual 1960 figures
indicates tremendous gains for the 20-year period.

The number of persons 25 years old and over who will have
attended no school at all will be cut in half. Persons attending
elementary school will be reduced, in all categories: one to four years,
five to seven years, and eight years. Increases are projected for the
number of persons to attend high school for one to three years: from
less than 20 million in 1960 to over 27 million in 1980 (Series B
projection). A large increase is projected of persons completing one to
three years of college, from over eight million to over 13 million; and
the number completing four years of college is projected nearly to
double.

Gains have also been experienced in the numbers of persons
receiving master's and doctor's degrees. Table II presents earned
degrees by level of degree, awarded in the United States from 1940 to
1960. Between 1940 and 1960, the number of bachelor's and first
professional degrees more than doubled, while the number of second-level
and doctoral degrees about tripled.

Measured in terms of these data alone, American consumers are
better educated than ever before, and further advances are expected.
Business managers can expect better informed and more alert consumers in
TABLE II

EARNED DEGREES CONFERRED BY LEVEL OF DEGREE,
UNITED STATES, 1940-1960

<table>
<thead>
<tr>
<th>Academic Year Ending</th>
<th>Total</th>
<th>Bachelor's and First Professional Degree^</th>
<th>Second-Level Degree^</th>
<th>Doctoral</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>213,521</td>
<td>186,500</td>
<td>26,731</td>
<td>3,290</td>
</tr>
<tr>
<td>1942</td>
<td>213,491</td>
<td>185,346</td>
<td>24,648</td>
<td>3,497</td>
</tr>
<tr>
<td>1944</td>
<td>141,582</td>
<td>125,863</td>
<td>13,414</td>
<td>2,305</td>
</tr>
<tr>
<td>1946</td>
<td>157,349</td>
<td>136,174</td>
<td>19,209</td>
<td>1,966</td>
</tr>
<tr>
<td>1948^a</td>
<td>318,749</td>
<td>272,144</td>
<td>42,417</td>
<td>4,188</td>
</tr>
<tr>
<td>1950</td>
<td>498,586</td>
<td>433,734</td>
<td>58,219</td>
<td>6,633</td>
</tr>
<tr>
<td>1952</td>
<td>403,194</td>
<td>331,924</td>
<td>63,587</td>
<td>7,683</td>
</tr>
<tr>
<td>1954</td>
<td>358,699</td>
<td>292,880</td>
<td>56,823</td>
<td>8,996</td>
</tr>
<tr>
<td>1956</td>
<td>379,641</td>
<td>311,298</td>
<td>59,440</td>
<td>8,903</td>
</tr>
<tr>
<td>1960</td>
<td>479,215</td>
<td>394,889</td>
<td>74,497</td>
<td>9,829</td>
</tr>
</tbody>
</table>

^aData beginning with 1948 include Alaska, Hawaii, and Puerto Rico.

^Includes bachelor of arts, bachelor of science, and such first professional degrees as M.D., LL.B., D.D.S., and B.D. Also includes certain master's degrees when they constitute the first professional degree in their respective fields.

^Includes degrees beyond the bachelor's or first professional level, but below the doctorate. Does not include such degrees as Master of Library Science, Master of Social Work, Master of Business Administration, etc., when these constitute first professional degree.

the future. Not only is it becoming more difficult, because of increased consumer understanding, for unscrupulous businessmen to hoodwink consumers, but faulty practices are sooner discovered and broadcast, resulting in consumer retaliation in the market place. For the good of both business and consumers, managers must recognize consumers as informed and capable of retaliation.

**Informative value of advertising.** Advertising has been defined as "any paid form of nonpersonal presentation of ideas, goods, or services by an identified sponsor." The primary purpose of this presentation (including all the effort preceding the actual display of the advertisement) is to "sell" these ideas, goods, or services, either for some monetary compensation or by convincing the public of the desirability of some idea, such as a political platform.

In accomplishing this objective, advertising serves to inform consumers in a number of ways. First, advertising helps consumers understand how certain goods or services can satisfy wants. If this is not accomplished, no goods or services could be sold, and the advertising might just as well be discontinued. Second, advertising announces the existence and characteristics of new or different goods or services, a most important function in the economy of the United States which yields such a large number and variety of new products each year. Third, through advertising, consumers are made aware of the availability of goods

---

and services: locations of sellers, prices, terms, conveniences, open hours, and assortments. Fourth, advertising informs consumers of the personality or store image of the seller in terms of the characteristics of the consumers. Consumers learn the stores and goods which reflect their own personalities and which result in maximum satisfaction. One has only to reflect on the natural utilization of newspapers and the yellow page section of telephone directories to be convinced of the informative value of advertising in all the respects mentioned above. Finally, advertising helps make possible the mass media, with all their informative impact.

Not all advertising is designed to be informative in the sense of providing factual data on location, price, or specifications. Much advertising is intended to be persuasive or merely to serve as a reminder. Even these types of advertising could be termed informative in certain respects, such as helping the consumer decide which brand to purchase and making the decision-making process shorter.

There is some criticism of advertising for not providing more factual information, but if the primary purpose of advertising (to sell) is recalled, much of this criticism is misplaced. Even so, improvement is still needed. The argument is advanced that managers are forced to select those advertising campaigns or individual advertisements which are known or felt to be most productive in terms of sales, without regard to usefulness to consumers. Some discretion, however, remains to be exercised. Where feasible, advertising which helps consumers to buy wisely should be selected.
Managers should hold as part of their philosophy that advertising must serve to benefit consumers wherever possible. Consumers are observant enough to discern such efforts, to appreciate them, and to have confidence in the advertising which results. Assuming a useful product, long-run benefit to the firm with such an advertising philosophy could be expected.

Changing consumer purchasing power. Consumers not only are becoming better educated and informed, they are also increasing their purchasing power. Consumers with more money to spend may at first glance seem easier to please, since the purchases beyond the necessities are not so vital. But an increasing portion of income is spent for those products and services which are not absolutely required or forced, and in the purchase of the additional items, consumers exercise considerable discretion and are able to pick and choose. The end result is that consumers seem harder to please at the same time that there is increased competition among alternative purchases, to say nothing of significant encouragement to save the extra income entirely. This is an additional reason why managers of business firms must devote primary attention to consumers and their needs.

Various measures of the increased purchasing power of United States consumers may be used. Gross national product is the total goods and services produced in the United States. National income is the total income from all sources including employee compensation, corporate profits, and other income. Personal income is the income received from wages, salaries, dividends, rent interest, business and professions,
social security, and farming. Disposable personal income is that which is left after tax and nontax payments, and which is available for personal consumption expenditures and savings.

Table III indicates the changes which have taken place in the above items between 1950 and 1963, both in current and constant (1954) dollars, on a per capita basis. Practically every subsequent year represents an increase over the preceding year, even in terms of constant dollars; that is, current dollars adjusted by a price index. In terms of 1954 dollars, per capita disposable personal income increased from $1,523 in 1950, to $1,873 in 1963, almost a 23 per cent increase in 13 years. Personal consumption expenditures increased over 21 per cent (in 1954 dollars) in the same span of time. Consumers are earning and spending more.

Another meaningful way of indicating the increasing purchasing power of U.S. consumers is to show how families and unrelated individuals are climbing to higher income levels. Table IV portrays several income levels and indicates what per cent of the families and unrelated individuals were in each income level from 1947 to 1962. To make for more accurate comparisons, data are presented in constant (1962) dollars.

Several interesting observations can be made. In general, the per cent of families and unrelated individuals in lower income levels declined, while the per cent of families and unrelated individuals in the higher income levels increased. In 1947, 32 per cent of the total number of families had incomes of under $3,000, and in 1962, only 20 per cent of the families had such low incomes. Only 11 per cent of families had
TABLE III

PER CAPITA INCOME AND PRODUCT FOR SELECTED ITEMS IN CURRENT AND CONSTANT 
(1954) DOLLARS: 1950 to 1963

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Dollars</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross National Product</td>
<td>1,876</td>
<td>2,405</td>
<td>2,553</td>
<td>2,726</td>
<td>2,782</td>
<td>2,820</td>
<td>2,974</td>
<td>3,091</td>
</tr>
<tr>
<td>National Income</td>
<td>1,595</td>
<td>1,998</td>
<td>2,110</td>
<td>2,262</td>
<td>2,294</td>
<td>2,319</td>
<td>2,431</td>
<td>2,527</td>
</tr>
<tr>
<td>Personal Income</td>
<td>1,506</td>
<td>1,877</td>
<td>2,069</td>
<td>2,168</td>
<td>2,221</td>
<td>2,272</td>
<td>2,369</td>
<td>2,446</td>
</tr>
<tr>
<td>Disposable Personal Income</td>
<td>1,369</td>
<td>1,661</td>
<td>1,826</td>
<td>1,904</td>
<td>1,937</td>
<td>1,983</td>
<td>2,060</td>
<td>2,126</td>
</tr>
<tr>
<td>Personal Consumption Expenditures</td>
<td>1,286</td>
<td>1,555</td>
<td>1,684</td>
<td>1,771</td>
<td>1,817</td>
<td>1,833</td>
<td>1,904</td>
<td>1,971</td>
</tr>
<tr>
<td><strong>Constant (1954) Dollars</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross National Product</td>
<td>2,097</td>
<td>2,376</td>
<td>2,304</td>
<td>2,420</td>
<td>2,436</td>
<td>2,437</td>
<td>2,544</td>
<td>2,604</td>
</tr>
<tr>
<td>Disposable Personal Income</td>
<td>1,523</td>
<td>1,654</td>
<td>1,701</td>
<td>1,755</td>
<td>1,759</td>
<td>1,786</td>
<td>1,841</td>
<td>1,873</td>
</tr>
<tr>
<td>Personal Consumption Expenditures</td>
<td>1,430</td>
<td>1,549</td>
<td>1,569</td>
<td>1,632</td>
<td>1,650</td>
<td>1,651</td>
<td>1,702</td>
<td>1,737</td>
</tr>
</tbody>
</table>

*Beginning 1960, includes Alaska and Hawaii.

<table>
<thead>
<tr>
<th>Item and Year</th>
<th>Total</th>
<th>Under $3,000</th>
<th>$3,000 to $4,999</th>
<th>$5,000 to $6,999</th>
<th>$7,000 to $9,999</th>
<th>$10,000 to $14,999</th>
<th>$15,000 and over</th>
<th>Median Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Families</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>100</td>
<td>32</td>
<td>32</td>
<td>18</td>
<td>11</td>
<td>7</td>
<td></td>
<td>$4,117</td>
</tr>
<tr>
<td>1950</td>
<td>100</td>
<td>32</td>
<td>31</td>
<td>19</td>
<td>12</td>
<td>7</td>
<td>6</td>
<td>4,188</td>
</tr>
<tr>
<td>1955</td>
<td>100</td>
<td>25</td>
<td>25</td>
<td>24</td>
<td>17</td>
<td>1</td>
<td>7</td>
<td>5,004</td>
</tr>
<tr>
<td>1959*</td>
<td>100</td>
<td>22</td>
<td>21</td>
<td>23</td>
<td>20</td>
<td>10</td>
<td>4</td>
<td>5,631</td>
</tr>
<tr>
<td>1960</td>
<td>100</td>
<td>21</td>
<td>20</td>
<td>23</td>
<td>21</td>
<td>11</td>
<td>4</td>
<td>5,759</td>
</tr>
<tr>
<td>1961</td>
<td>100</td>
<td>21</td>
<td>20</td>
<td>22</td>
<td>21</td>
<td>11</td>
<td>5</td>
<td>5,820</td>
</tr>
<tr>
<td>1962</td>
<td>100</td>
<td>20</td>
<td>19</td>
<td>22</td>
<td>21</td>
<td>13</td>
<td>5</td>
<td>5,956</td>
</tr>
<tr>
<td><strong>Unrelated Individuals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>100</td>
<td>78</td>
<td>16</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
<td>1,366</td>
</tr>
<tr>
<td>1950</td>
<td>100</td>
<td>75</td>
<td>19</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
<td>1,385</td>
</tr>
<tr>
<td>1955</td>
<td>100</td>
<td>72</td>
<td>19</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
<td>1,497</td>
</tr>
<tr>
<td>1959*</td>
<td>100</td>
<td>69</td>
<td>18</td>
<td>11</td>
<td>1</td>
<td></td>
<td></td>
<td>1,649</td>
</tr>
<tr>
<td>1960</td>
<td>100</td>
<td>67</td>
<td>19</td>
<td>13</td>
<td>1</td>
<td></td>
<td></td>
<td>1,786</td>
</tr>
<tr>
<td>1961</td>
<td>100</td>
<td>66</td>
<td>17</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td></td>
<td>1,792</td>
</tr>
<tr>
<td>1962</td>
<td>100</td>
<td>66</td>
<td>16</td>
<td>15</td>
<td>2</td>
<td>1</td>
<td></td>
<td>1,753</td>
</tr>
</tbody>
</table>

*Beginning 1959, includes Alaska and Hawaii.

incomes of from $7,000 to $9,999 in 1947, but by 1962 this per cent had increased to 21. Two income classifications were combined in the table for unrelated individuals, $5,000-$6,999 and $7,000-$9,999. The per cent of unrelated individuals who had incomes in these two levels combined was four in 1947, but this had increased to 15 per cent in 1962.

Table IV also indicates the increase in median income from 1947 to 1962, from $4,117 to $5,956 for families, and from $1,366 to $1,753 for unrelated individuals. The median income for unrelated individuals actually decreased from $1,792 in 1961 to $1,753 in 1962, but all other years showed increases.

Through consumer credit, also, consumers have seen their purchasing power increased. Since World War II, consumer credit has expanded by many times. Many factors have contributed to the greatly increased use of consumer credit. Some of these factors are: (1) increase in real income experienced by Americans, (2) more leisure time, (3) better education, (4) more people living in their own homes, (5) pent-up demand following World War II, (6) higher prices, (7) increased ownership of durables, particularly automobiles, and (8) changes in the credit system, itself, such as: (a) use of installment credit in automobile purchases, (b) easier terms on conventional loans, (c) expansion of installment credit to soft goods and services, (d) development of revolving credit plans, (e) development of charge-account banking plans, (f) use of bank check-credit plans, and (g) extension of personal loans.
to finance education, travel, and other services.\(^9\)

The extent of the increase in consumer credit can be seen by making reference to Table V, which indicates the volume of consumer credit by major types from 1940 to 1962. In the 20-year period, 1940-1960, consumer credit increased by more than six times, from over eight billion dollars at the end of 1940 to over 56 billion dollars at the end of 1960. By far the greatest increase was due to the expansion of installment credit.

With increased real income and the opportunity to utilize eased credit, consumers are in a most enviable position. Inflation and unemployment continue to be problems, but consumers in general are in better condition, financially, than ever before. Managers must feel themselves somewhat responsible for this achievement and for continuation of the trend.

**Consumer cooperation.** Consumers may organize, own, and operate voluntary associations for the purpose of fulfilling their needs for goods and services. The first well-founded consumer cooperative society was the Rochdale Society of Equitable Pioneers, formed in Rochdale, England, in 1844. The basic principles upon which this organization was founded are: (1) open membership, (2) democratic control, (3) sale at prevailing prices, (4) patronage dividends, (5) limited interest on capital investment, (6) sales for cash, and (7) educational activities.

TABLE V

VOLUME OF CONSUMER CREDIT BY MAJOR TYPES: 1940-1962

(Millions of Dollars)

<table>
<thead>
<tr>
<th>End of Year</th>
<th>Total Consumer Credit</th>
<th>Installment Credit</th>
<th>Single Payment Loans</th>
<th>Charge Account</th>
<th>Service Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>8,338</td>
<td>5,514</td>
<td>800</td>
<td>1,471</td>
<td>553</td>
</tr>
<tr>
<td>1945</td>
<td>5,665</td>
<td>2,462</td>
<td>746</td>
<td>1,612</td>
<td>845</td>
</tr>
<tr>
<td>1947</td>
<td>11,570</td>
<td>6,695</td>
<td>1,356</td>
<td>2,353</td>
<td>1,166</td>
</tr>
<tr>
<td>1950</td>
<td>21,395</td>
<td>14,703</td>
<td>1,821</td>
<td>3,291</td>
<td>1,580</td>
</tr>
<tr>
<td>1955</td>
<td>38,830</td>
<td>28,906</td>
<td>3,002</td>
<td>4,795</td>
<td>2,127</td>
</tr>
<tr>
<td>1959*</td>
<td>51,542</td>
<td>39,245</td>
<td>4,129</td>
<td>5,104</td>
<td>3,064</td>
</tr>
<tr>
<td>1960</td>
<td>56,028</td>
<td>42,832</td>
<td>4,507</td>
<td>5,329</td>
<td>3,360</td>
</tr>
<tr>
<td>1961</td>
<td>57,678</td>
<td>43,527</td>
<td>5,136</td>
<td>5,324</td>
<td>3,691</td>
</tr>
<tr>
<td>1962</td>
<td>63,458</td>
<td>48,243</td>
<td>5,579</td>
<td>5,642</td>
<td>3,994</td>
</tr>
</tbody>
</table>

*Beginning January and August, 1959, includes Alaska and Hawaii, respectively.

Though consumer cooperatives have experienced some success in Britain and certain other countries, their growth and importance in the United States has not been very significant. They are mentioned here more for their potential threat to managers of conventional business firms. Were other types of business organizations to begin to operate in a seriously questionable manner, consumer cooperatives could assume much greater importance than they presently have. The reporting activities of Consumers' Research and Consumers' Union could also greatly expand under certain conditions, such as an increase in the desire for independent reports on product specifications and characteristics.

III. SPECIAL CONSIDERATIONS

Legislation Protecting Consumers

State and Federal laws establish minimum standards of conduct for business managers. In general, the laws represent the wishes of the majority, at least at the time the laws were first passed. Justice is done through adherence to and enforcement of the laws.

Business managers, particularly managers of large enterprises because of their influence in setting the example, have the responsibilities of understanding and abiding by the laws and of influencing the passage of fair laws and the repeal of unfair laws. At times, understanding or abiding by certain laws or provisions seems impossible, but where a choice is open, adherence to the law is expected. There are some instances concerning the law where a definitive answer of what is or is not legal does not exist; in such instances, decisions have to be
reached one way or another. Such decisions must be fair ones, and may be reached by a good understanding of the background and purpose of the law in question.

The laws under consideration here protect consumers in two ways: (1) by providing a legal framework to ensure proper functioning of the competitive economic process, and (2) by controlling deceptive competitive acts or practices.10

Selected Federal regulations protecting consumers. A rather large number of laws protecting consumers have been passed. Some of these acts are listed below, along with major provisions in some instances, in chronological order. This outline should indicate the minimum performance expected of business managers.

1890 - Sherman Antitrust Act
Prohibits monopolies or attempts to monopolize, and prohibits deceptive practices which injure a competitor or the consumer.

1906 - Pure Food and Drug Act
Prohibits the adulteration and misbranding of foods and drugs in interstate commerce.

1907 - Meat Inspection Act

1914 - Clayton Act
Prevents price discrimination, tying contracts, and exclusive dealing arrangements where the effect might be substantially to lessen competition or tend to create a monopoly.

1914 - Federal Trade Commission Act
Established the Federal Trade Commission, which was given control over laws affecting unfair methods of competition.

---

1916 - Revenue Act

1918 - Webb-Pomerene Export Trade Act
   Exempts voluntary trade associations from the
   Sherman Act.

1920 - Merchant Marine Act

1921 - Packers and Stockyards Act

1922 - Capper-Volstead Act

1926 - Cooperative Marketing Act

1930 - Tariff Act
   Declares unlawful unfair methods of competition and
   unfair acts in the importation of articles where the effect
   or tendency is to destroy or substantially injure an
   industry or to restrain or monopolize trade.

1932 - McGuire-Keogh Fair Trade Enabling Act
   Permits nonsigner provisions of state fair trade laws.

1933 - Securities Act of 1933
   Protects potential investors against deceptions
   involved in new issues of corporate securities.

1933 - Banking Act

1933 - Agricultural Marketing Agreement Act

1934 - Fisherman's Collective Marketing Act

1934 - Sea Food Act

1934 - Securities and Exchange Act
   Established the Securities and Exchange Commission.
   Stock Exchanges, dealers and brokers, and listed securities
   are required to be registered. Prohibits market pools,
   wash sales, and the dissemination of false and misleading
   information.

1935 - Federal Alcohol Administration Act

1936 - Robinson-Patman Act
   Declares it unlawful to discriminate in price between
   different purchasers of like grade and quality, where the
   effect of such discrimination may be substantially to lessen
   competition or tend to create a monopoly or injure
competition with the person who knowingly grants or
receives the benefits of such discrimination or with
customers of either of them.

1937 - Miller-Tydings Act
    Enables a firm in one state to fair-trade its products
in other states with fair-trade laws.

1938 - Wheeler-Lea Amendment to the Federal Trade Commission Act
    Outlaws unfair or deceptive acts or practices in
commerce. Enables the Federal Trade Commission to file
cases without proof that competition has been affected.

1938 - Food, Drug, and Cosmetic Act
    Prohibits the shipment of unsanitary and poisonous
food products, and requires testing of drugs.

1938 - Malony Act
    Regulates trading in over-the-counter security markets.

1938 - Chandler Bankruptcy Act

1939 - Wool Products Labeling Act
    Requires that labels show the kind and percentage of
each type of wool used in the product.

1939 - Public Utility Holding Company Act

1939 - Trust Indenture Act

1940 - Investment Companies and Investment Advisers Act

1945 - McCarran Act

1946 - Lanham Trademark Act
    Controls trademarks which are deceptive, immoral, or
scandalous; which have been obtained fraudulently; or which
are in violation of other provisions of the act.

1948 - Antiracketeering Act

1950 - Celler-Kefauver Amendment to the Clayton Act
    Declares illegal the acquisition of assets and stock
where the effect may be to lessen competition or tend to
create a monopoly.

1951 - Fur Products Labeling Act
1952 - McGuire Act
Permits a manufacturer in interstate commerce to agree with one retailer on the retail price, and all other retailers who receive proper notification are also bound to sell at that price.

1953 - Flammable Fabrics Act

1957 - Poultry Products Inspection Act

1958 - Textile Fiber Products Identification Act

1958 - Automobile Information Disclosure Act

1958 - Federal Aviation Act

1958 - Food Additives Act

1960 - Federal Hazardous Substances Labeling Act

1962 - Amendment to the Food, Drug, and Cosmetic Act
States that a new drug may not be marketed if the proposed labeling is false or misleading in any particular. Requires labeling to keep current with new evidence concerning the drug, and that complete information be included on the label in easily read type.

State regulations protecting consumers. There are a number of state acts or other regulations protecting consumers which should be mentioned. Since similar acts were passed in different states at varying dates, the acts cannot be listed in a meaningful chronological sequence. Therefore, there is no particular significance in the order in which these state regulations are listed:

1. Constitutional provisions against trusts or monopolies are present in about half the states.

2. There are laws against combinations, conspiracies, or restraints of trade.

3. Uniform Sales Acts standardize the laws dealing with the sale of goods.
4. **Printers' Ink Statutes**, found in most states, prevent statements in advertising which are untrue, deceptive, or misleading.

5. **Resale Price Maintenance Laws** (Fair Trade Laws) allow producers to specify the resale price of their goods.

6. **Unfair Trade Practices Acts** regulate prices at which retailers may sell and regulate other activities.

7. **Green River Ordinances** prohibit door-to-door selling.

8. **Blue Laws** prohibit selling on Sunday.

9. **Trading Stamp Laws** prohibit or restrict the use of trading stamps.

These Federal and state regulations, in prescribing legal standards of conduct, give a sense of direction to business behavior. Threat of further regulation stimulates managers to avoid activities which would tend to bring on such legislation, and to engage in those activities, such as self-regulation, which would obviate the need for more restrictions. Managers do have choices, in regulating themselves or making themselves subject to further government regulation. Not only might the external regulation be unsuited to the needs of the business, but even the most fair regulations are sometimes difficult to comply with, because of numerous reports to governmental agencies, troublesome provisions, and varying court interpretations. Managers should conduct their business activities in such ways as truly to represent the best interests of consumers; this will result in maximum long-run benefit for business, as well.

Law applies only in those areas where it can be enforced. Many activities which are not covered by laws are nevertheless undesirable from the standpoint of society, and laws certainly do not ensure optimal behavior. Difficulties naturally arise in interpreting managerial
responsibility in these grey areas of business activities. The remainder of this chapter will treat selected problems relating to managers and consumers.

Advertising

Business managers inherently represent all business through their advertising. Advertising may be the closest contact with particular business firms that consumers have. Buying decisions are based on advertising. Advertising helps make the various media possible. Over $13 billion was spent for advertising in 1963.

The conclusion was reached earlier in this chapter that advertising should be made as informative as possible, and still sell. Statements made in advertising should be entirely truthful. Misleading statements, half-truths, and obvious falsehoods should be avoided. When negative aspects of a product, such as a poisonous nature, are not generally known, these undesirable qualities should be included in the advertising.

Advertisers sometimes have the opportunity to influence the editorial content of media. This temptation should be strictly avoided. Such activities, while unethical to start with, are sure to be found out by the public. The result would be the loss of confidence in the editorial independence and veracity of the media.

Though taste is in many respects an individual matter, there are more numerous instances in which taste represents a collective question. At least two major questions have to be answered. One is should advertising be so directed as to avoid offending the sensibilities of at
least most people? The answer is, yes. No advertising appeal which uses questionable content is so vastly superior that a more tasteful alternative is not available.

The other major question concerning taste in advertising is: to what extent are advertisers responsible for improving the aesthetic, moral, or utilitarian value of television programs sponsored? Deciding what the responsibilities of all others are in this regard would be helpful, if it were possible. Even a limited analysis reveals that sponsors do have some influence, and this influence would appear to be well directed if applied to increasing the aesthetic, moral, or utilitarian value of programs when a choice is available. This does not mean that advertisers should sponsor television programs which no one watches just because the programs are tasteful.

Innovation

American consumers seem to have a considerable appetite for new and different products. Business firms are quite active in satisfying this appetite. A great proportion of the products sold, say, in 1964, was not even in existence five or ten years ago. Similarly, the products to be sold by a firm ten years from now may not now even be conceived. The American people seem to want new and different products, but they do not know which ones. As a result, perhaps nine out of ten new products never return a profit.

Considerable sums of money, private and public, are devoted to research and development. New products result, some useful, some not so useful. But some improvement seems warranted. The emphasis in product
changes, for instance, should be on improvements in quality and/or style or reductions in cost rather than useless gimmicks designed only to increase sales in the short run. Improved manufacturing processes are encouraged where they reduce costs, but not where they result in significant quality deterioration. Planned physical obsolescence, wherever it exists, has no justification at all because it would result in misallocation of consumer resources contrary to their desires. New "cures" which are no better than useless "cures" already established are not warranted. More consumer research, to determine what consumers are like and what products they want, should be undertaken to make better decisions on the products to be produced.

IV. SUMMARY

The conclusion has been developed in this chapter that business managers must regard their primary purpose as being the satisfaction of consumer wants. Taking advantage of consumers for the sake of a short-run gain is, indeed, shortsighted. Consumers have little difficulty in recognizing and remembering mistakes, if not before, at least after, they are made. The marketing concept has been presented as a close approximation to the attitude managers should take toward consumers. This attitude does not mean abandonment of the profit motive; instead, its adoption should result in greater profits in the long run.

Placing the consumer in a dominant role aids decision making in hard-to-decide cases. Matters can be analyzed within this framework. If, for instance, a furniture retailer is aware that the upholstery on a certain chair is subject to being permanently stained by coffee, what
action should he take? Consumers would not generally be aware of the existence of such a material and should be allowed to purchase a chair upholstered with it only with this knowledge. Several actions by the retailer might be undertaken. Such material might not be used at all. Salesmen might be cautioned to point out this negative feature to customers before final sale is made. Advertising claims should not include a statement to the effect that the material is easy to clean. A warning tag might be attached to each product upholstered with this material. Other questions can be analyzed in a similar manner.

Another public with which managers must deal is the employees of the firm. The next chapter explores managers' responsibilities to employees.
Employees constitute a major group to which managers are socially responsible. The approach used in this chapter to explore the nature of the responsibilities is to select several of the most interesting areas for treatment. First, the needs of employees are enumerated and possible means of meeting these needs are provided. Second, legislation concerning the relationship between employers and employees is outlined. Third, one section treats the attitude managers might take toward labor unions and the establishment of a satisfactory working relationship between the two groups. Finally, a section is devoted to the problem created by technological change as exemplified by automation, and possible remedies are suggested.

I. MANAGERS AND EMPLOYEE NEEDS

The needs of employees of corporations are the needs of all Americans, including managers of those corporations. Managers, however, make the decisions which determine the satisfaction of the needs of their subordinates, as well as satisfaction of their own needs. Managers also have better opportunities to satisfy certain of their needs than do employees. In many respects and to a large degree, it is to their superiors at work that employees must look for need satisfaction.
Employee Needs

What specific needs do employees have? Many lists have been suggested, but there is no really "complete" list. McGregor has presented a group of simplified generalizations about motivation, in which he describes several basic needs: (1) physiological, (2) safety, (3) social, (4) egoistic, and (5) self-fulfillment. These needs are organized in a hierarchy of importance beginning with the physiological needs at the lowest level. The higher needs assume importance only as the lower needs are relatively satisfied. Each of these needs will be identified briefly, and possibilities for satisfaction by management will be indicated.

Physiological needs. The physiological needs include hunger, rest, sex, exercise, shelter, and protection from the elements. These needs generally can be isolated; each is relatively independent of the others. Other needs may be channeled through the physiological needs; for instance, a person may conclude that he is hungry, though he is really only nervous. Physiological needs are the most prepotent of all needs. If any one of these needs is not satisfied, all efforts of the individual will be bent to the satisfaction of that need. When all the physiological needs are met, other needs emerge as dominant. Once a need is satisfied it is no longer a need; that is, it no longer serves to motivate behavior. The physiological needs are first in the hierarchy of basic needs.
Safety needs. At the next higher level are the safety needs. The employee needs to feel free from fear of danger, threat, and deprivation. If the individual feels threatened or dependent he may also desire security. There is a definite preference for the familiar over the unfamiliar, the known over the unknown. As the physiological needs are met to an increasing degree, the safety needs increase in dominance. There is no sudden shift; the importance of the more basic physiological needs shades into the safety needs as the former are satisfied.

Social needs. As the physiological and safety needs are met, there emerge the needs for love and affection and belongingness. The thwarting of these needs is a basic cause of maladjustment. The needs involve both the giving and receiving of love and feeling accepted by the group.

Egoistic needs. Still higher in the hierarchy of needs are the egoistic needs. Employees need self-esteem and the esteem of others, soundly based on real capacity and achievement. Two subdivisions of these needs are: (1) the desire for strength, achievement, adequacy, confidence, independence, and freedom; and (2) reputation or prestige, recognition, attention, importance, and appreciation.

Self-fulfillment. At the top of the need hierarchy is the need for self-fulfillment, accomplishing one's potential for doing whatever one does. This may be called the desire for self-fulfillment.¹

How do managers motivate their subordinates by meeting these needs? Money is one tool, being especially useful in fulfilling physiological and safety needs. The need to give and receive love, to belong, can be met only indirectly with money; the more basic needs are satisfied first so that the person can devote more attention to the higher needs. Financial success is one measure of status and achievement, so money is one way of satisfying egoistic needs, not only by the amount of income which a person receives, but also by what that income will purchase. Money is useful in meeting the need of self-fulfillment only to the extent that it meets more basic needs, thus removing barriers to the achievement of self-fulfillment.\textsuperscript{2} Money, then, is only one means of satisfying employee needs, albeit a very important one.

Employees desire job security. How security may be provided is a complex question, but two things managers can do to increase job security of employees are to regularize the amount of work to be done and find work for employees displaced by such developments as automation. Employees like approval of their supervisors. Approval creates a feeling of emotional security. Status is an important need of employees, being especially significant to some people. Employees may seek prestige and respect from others, higher socio-economic positions, and status symbols in their work. Managers establish many of the status distinctions at work and must treat employees as they expect to be treated at that particular level of status. The esteem needs are partially met through

recognition. Through recognition, the employee realizes that he is appreciated; moreover, recognition indicates his rate of progress. Praise, pay increases, promotions, work assignments, and certificates and plaques all are methods of recognition which may be used by managers. Job enlargement overcomes excessive specialization of work and makes work more interesting, increasing job satisfaction and morale. Job rotation also reduces boredom. Rest periods relieve boredom and give employees something to look forward to. Breaking up production into batches or runs creates larger units of accomplishment, which provide a sense of making real progress. Participation in making decisions is welcomed by many employees. Participation may be accomplished through democratic supervision, multiple management, and other means. Employees like to feel that they are members of a team, and that they must cooperate with each other in order to be most successful. Managers may help build this team spirit by establishing small work groups requiring face-to-face communication. Friendships and a common goal bind the group together. Competition may satisfy the needs of some employees in certain positions. Certainly, competition is widely used as a motivation in selling positions. Where teamwork is required, however, competition within the team may actually be harmful. Managers must use competition carefully as a motivational device.⁵

Summary. Managers may make conscious efforts toward meeting these

needs with little, if any, sacrifice of company profits. In most
instances, the satisfaction of employee needs will probably serve to
enhance the profit position of the firm, at least in the long run. The
next section of this chapter outlines legislation requiring managers to
take certain actions with respect to employees.

II. LEGISLATION

An employee is covered either by a collective bargaining agreement
or a private contract with his employer. If by a private contract, the
employee has recourse through the courts if the employer violates the
terms of the contract. Where a private contract is involved, the employee
should see to it that all terms and conditions are clearly stated,
preferably in writing.

A collective bargaining agreement may be somewhat easier to
enforce in a specific instance because of the concentrated economic
power of the union, especially with regard to the union's ultimate weapon,
the strike.

Various legislation has been passed establishing the legal
relationship between the employee and his employer. Most of this legisla-
tion is concerned with organized labor. The purposes and/or provisions
of certain federal acts are outlined below. The data given are not
intended to be comprehensive, but should be indicative of the nature of
the legislation.

1864 - Alien Contract Labor Act

Employers were permitted to contract with foreign
workers to bring them to the United States.
1890 - Sherman Anti-Trust Act
Declared illegal a contract, combination, or conspiracy
in restraint of trade or which tended to monopolize trade.
It is a moot question whether the law was intended to apply
to organized labor. The courts at first applied the law to
unions.

1898 - The Erdman Act
Provided for mediation of railroad labor problems.
Outlawed "yellow dog" contracts (this provision declared
invalid in 1908 by the Supreme Court).

1913 - Newlands Act
Established a board of mediation and conciliation to
deal with railroad labor disputes.

1914 - Clayton Act
Supposedly exempted unions from the anti-trust laws.
Since it did not greatly limit the use of injunctions against
unions, the act provided little protection to unions.

1916 - Adamson Act
Provided for an eight-hour day and time-and-a half for
overtime for operating crews on interstate railroads.

1916 - Keating-Owen Act
Prohibited child labor on products in interstate commerce.
Declared unconstitutional in 1918.

1926 - Railway Labor Act
Upheld the right of railroad employees to organize and
bargain collectively. Banned closed-shop agreements and
"yellow-dog" contracts. National Mediation Board was to step
in when a dispute could not be settled.

1931 - Davis-Bacon Act
Provided for an eight-hour day and payment of prevailing
wages for employees on certain government contracts.

1932 - Anti-Injunction Act (Norris-La Guardia)
Established the right of workers to organize into unions
for collective bargaining. Limited the use of injunctions
against unions; federal injunctions could no longer be issued
on: union membership, "yellow-dog" contracts, strikes,
boycotts, picketing, and payment of strike benefits. Opened
the way for sympathy strikes, stranger picketing, and
secondary boycotts.

1933 - National Employment System Act
Established the United States Employment Service.
1933 - National Industrial Recovery Act
Included provisions favorable to labor. Declared unconstitutional by the Supreme Court in 1935, but more provisions were included in the Wagner Act (1935).

1935 - National Labor Relations Act (Wagner Act)
1. Section 7 stated that "employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in concerted activities for the purpose of collective bargaining or other mutual aid or protection."
2. Employers were forbidden to engage in certain "unfair labor practices."
3. The National Labor Relations Board was established.

1935 - Social Security Act
Established a cooperative federal-state system of unemployment compensation, established a tax for old-age and survivor's insurance, and established a grant-in-aid program to states to assist in certain areas of relief.

1936 - Public Contracts Act (Walsh-Healey)
1. Covers workers of firms manufacturing, assembling, handling, or shipping goods on United States government accounts in excess of $10,000.
2. Requires an eight-hour day and a forty-hour week, with wages not lower than the prevailing rate.
3. Limits employment to males over 16 and females over 18.
4. Companies are required to maintain sanitary and non-hazardous working conditions.

1938 - Fair Labor Standards Act
1. Covers employees engaged in the production of goods for interstate and foreign commerce.
2. Established maximum hours (40) per week, above which must be paid time-and-a-half.
3. Established a minimum hourly wage.
4. Restricted employment of minors, and required credit for proper amount of working time, including waiting for repairs.

1946 - Employment Act of 1946
The government is declared responsible for full employment. Established the Council of Economic Advisors to recommend to the President measures to avoid or limit economic fluctuations.
1947 - Labor Management Relations Act (Taft-Hartley)

1. Designed to establish a balance of power between unions and employers, to protect individual employees and employers against the power of unions, and to regulate and restrict the activities of unions.

2. Indicated employer unfair labor practices:
   a. Interfering with, restraining, or coercing employees in the exercise of their right to organize and bargain collectively.
   b. Dominating or interfering with the union.
   c. Discriminating in regard to hire or tenure against a union member.
   d. Discharging or discriminating against an employee who testifies under the act.
   e. Refusing to bargain in good faith with the union.
   f. Entering into "hot cargo" contracts.

3. Indicated union unfair labor practices:
   a. Restraining or coercing employees to join a union.
   b. Causing or attempting to cause the employer to discriminate against an employee in order to encourage or discourage union membership.
   c. Refusing to bargain in good faith with the employer.
   d. Requiring an employer or self-employed person to join a union, engaging in secondary boycotts, forcing an employer to bargain with one union when another union is already the certified bargaining agent, and forcing the employer to assign particular work to employees in one union rather than to employees in another union.
   e. Charging excessive or discriminating initiation fees.
   f. Causing an employer to pay for services not performed (featherbedding).

4. Excluded supervisors from consideration as employees. Professionals are considered employees, but they are not necessarily included in the same bargaining unit as all other employees.

5. Employers were given more freedom to express their views.

6. Established procedures for handling national emergency disputes.

1959 - Labor-Management Reporting and Disclosure Act (Landrum-Griffin)

1. Purposes of the Act are to eliminate racketeering in the labor movement and to regulate the relations between labor and management affecting the balance of economic power between the two segments.
2. Certain persons such as Communists are prohibited to hold union officers or fill union-paid jobs.
3. Trusteeships are supervised and restricted.
4. Prohibits picketing to force an employer to recognize a union or to compel its employees to join a union.
5. Prohibits illegal secondary boycotts and hot cargo agreements.
6. State courts or state mediation boards may act in any labor dispute which the NLRB refuses to consider.
7. Establishes a "bill of rights" for union members.
8. Unions must file reports with the Secretary of Labor and the union membership.

1963 - Equal Pay Act
Prohibits discrimination in wages based on sex for employees covered under the Fair Labor Standards Act.

1964 - Civil Rights Act, Title VII
Employers, labor unions, and employment agencies are required to treat all persons without regard to their race, color, religion, sex, or national origin. This treatment must be given in all phases of employment, including hiring, promotion, firing, apprenticeship and other training programs, and job assignments.

Summary. These laws have had numerous and significant effects on business managers. Various laws have promoted or restricted labor union formation and activity, for instance. Management's authority has been reduced or altered in a considerable number of areas. Managers need to be conversant with the various laws as well as with current interpretations. In addition, attention must be devoted to meeting the requirements of present laws and to influencing future legislation. Chapter VI will include a discussion of the political role of business managers. Labor unions, with which most of the above-mentioned laws deal, present particular problems for managers, and will be considered in the next section.
III. MANAGERS AND LABOR UNIONS

Labor unions are another group with which managers of many companies must interact. Unions present a heterogeneous face, for unions vary considerably in objectives and methods of operation. Taken together, the influence of unions is very significant in the United States. Excluding agricultural workers, about one-fourth of the labor force in the United States belongs to unions. Union membership varies according to the industry, occupation, and geographic region.

Before considering the proper attitude of managers toward labor unions, it would be useful to trace the development of unions in the United States and to examine workers' reasons for joining or rejecting unions.

Union Development

The first unions in America were formed by skilled craftsmen in the 1790's and early 1800's to protect themselves against wage cuts and to maintain acceptable conditions of employment. These unions remained weak throughout the nineteenth century, though the Knights of Labor had a peak membership of 700,000 in the mid-1880's. The American Federation of Labor was organized in 1886, but was not very effective in that century. The judiciary restrained unions until the 1930's through the criminal-conspiracy doctrine, the illegal-purpose doctrine, and the labor injunction.

During World War I, unions grew in membership because of the high employment conditions. Following the war, however, unions declined in
membership until the Great Depression. Various measures of employers were successful in combatting unions, especially when combined with inadequate union leadership, and, later, the depression conditions.

From the mid-1930's until 1947, unions experienced rapid growth. The Norris-La Guardia Act of 1932 limited the use of restraining orders and injunctions against unions. The National Labor Relations Act of 1935 was a primary cause of union success during this period. The Act recognized unions as a legitimate institution and prohibited employers from engaging in certain activities which would have discouraged union formation and growth. Employees were provided a satisfactory method of voting on whether or not to have a union. The development of the Congress of Industrial Organizations (begun in 1935), World War II, and a public and administration generally favorable to organized labor all contributed significantly to union growth during the period, 1935-1947.

Union membership as a per cent of the total labor force has remained about the same from 1947 until the present time. Union growth has, in this sense, leveled off. The Labor-Management Relations Act of 1947 served effectively to limit the power of unions. Employees not already formed into unions were, in many instances, harder to organize, such as the white collar workers and many in the South. Public opinion has swung to the other side, opposing unions. Corruption in some unions and strikes have hurt the union image.

**Motivation to Join or Reject Unions**

There can be no definitive and simple answers given to the question why workers join or reject unions. For one thing, human
motivation is exceedingly complex. A whole range of motivations may exist in varying degrees at any one time. Also, environmental pressures are constantly shifting, pulling or pushing workers in first one direction then another. Still, examination of some specific motivations which may be dominant at one time or another will be helpful in understanding why workers join or reject unions.

Motivation to join unions. Economic motives are probably foremost in reasons for joining unions: higher wages, shorter hours, and greater economic security. But there may be other reasons. Some workers may join unions to redress grievances against their foremen or the company. Becoming a union member may cause a worker to gain respect in the eyes of his fellow workers. Being part of a union allows workers to have a say in things that affect them.4

Outside pressures may also help to cause workers to become union members. Fellow workers may strongly influence an employee, either to join or reject unions. There is a powerful urge to be accepted by the group, to belong, and to go along with others. Certain union security provisions also tend to require union membership: the union shop, maintenance of membership, and checkoff.5

Workers may be motivated to join unions because they want to be able to communicate their aims, feelings, and ideas to others. They may


5Ibid., p. 185.
feel that with the union there will be less favoritism and discrimination. Cultural factors may work either way, but if a worker's parents and neighbors have always belonged to unions there will be a strong tendency for the worker to belong, also. Recreational and social activities provide an added attraction for some workers. Finally, workers may join unions because they seek an outlet when advancement in the company is blocked. A worker may improve his position through the union, perhaps because of an improved bargaining position or by being elected to a union office.  

Motivation to reject unions. Since most workers do not belong to unions, there must be powerful forces operating against union membership. Part of the reason lies in the fact that some people simply lack reasons for joining unions; they consider their wages adequate, their working conditions satisfactory, and their other needs reasonably well met. Some employees tend to identify themselves more closely with management and thus to shun unions: white collar, technical, and professional employees. Professional employees also have their own associations which perform many union functions, and these professionals regard union membership as below their status. Many employees distrust unions and what they stand for. They may feel that the union stands for collectivism, socialism, or the welfare state. Some workers feel that the union stands in opposition to free enterprise and to individual freedom and

---

initiative. Also, workers see that the public suffers when strikes occur in some companies or industries.  

Attitude of Managers Toward Unions

Because of the varied nature of unions, general statements about what the attitude of managers toward unions should be are difficult to make. One union might be very belligerent, while another is quite "reasonable." It may not be too much to say, however, that many unions have matured and become more stable and that a satisfactory working relationship can be established with them. The following suggestions assume this kind of union; adaptations may be appropriate where less "ideal" unions exist.

Accept unions. Unions appear to be here to stay. Laws protect them, many employees support them, and they have considerable economic power to force employers to do their bidding. Unions even provide employers with certain benefits. Managers must accept unions as an institution and recognize collective bargaining as a satisfactory means of handling employment relationships.

Human relations. Where it did not otherwise exist, unions require that managers recognize the importance of the needs and wants of employees through a sound human relations program. Such a program has been accomplished in some companies as a natural development in the

---

7Ibid., pp. 73-74.
improvement of operations, in other companies to prevent the formation of unions, and in still others to weaken union effectiveness.

Consultation. The law requires managers to consult with unions on certain matters. The more desirable condition exists when managers also consult with unions on certain matters not required by law, such as what to do with employees displaced by technological change.

Communications. Managers should keep the union fully and accurately informed on all matters which concern them. It is only in this way that mutual trust and respect can be established. The union may be utilized as a means of communication with the employees. To attempt to short-circuit the union and communicate directly with the members may have the unfortunate result of setting up competing means of communication with employees, leading eventually to name-calling and distortions.

Grievances. Grievances should not simply be "handled" and forgotten. From them, managers need to learn not to repeat mistakes of the past. Managers can also learn how to prevent similar problems in the future.\(^8\)

Political nature. Unions are formed to represent the interests of the membership, not to make profits for the company, not to promote the industry of which the firm is a part, and not to further the capitalistic system or to please the general public. Union officials occupy political

\(^8\)Ibid., pp. 97-98.
positions and must be responsive to the wishes of the union members who elected them. Managers should understand the nature of the union, which explains why labor leaders at times must push for advantages in which they personally do not believe. It may prove desirable for managers to allow union officials to make certain strong statements unchallenged, or even for managers to yield certain points, simply to allow the union officials an apparent victory—all for the purpose of sustaining a stable and reasonable union leadership.

**Proposals.** Proposals presented by managers to unions should be backed solidly by research and should be the best solution to the problem at hand. Prior consultation with the union in arriving at the proposal should help to convince the union of its appropriateness. Generally, the proposal should not be adjusted so as to leave room for bargaining. Otherwise, each side will resort to making exaggerated requests, knowing that the required figures will be scaled up or down regardless of their merit.

**Opposition.** Managers should oppose union activities which tend to undermine the economic system or which are otherwise contrary to the public interest. A manager may not assume that what is harmful to his company is thereby necessarily harmful to the economy; that is, a manager should keep his arguments separated. Objecting to a union activity which is detrimental to the continued success of the company has adequate justification in and of itself.
Summary. Employees have formed labor unions for many reasons, all the way from economic bargaining with employers to supporting candidates for political offices. Employees also derive certain social satisfactions from participating in an organization of their own creation, and which exists solely for their own interests. Managers must stand ready to recognize unions as a desirable institution, understand unions, and work with unions toward satisfactory solutions to problems in which both groups have legitimate interests. One of these problems is how to approach automation. The next section analyzes the nature, effects, and implications of automation.

IV. MANAGERS AND AUTOMATION

This section will attempt to answer these questions: (1) What is the nature and significance of automation? (2) What are some personnel problems and benefits created by automation? (3) What may managers do to soften automation's impact on employees?

Nature and significance of automation. Automation has been defined many ways. As a word, automation was probably coined by D. S. Harder of the Ford Motor Company in 1946. Automation is sometimes viewed as synonymous with mechanization. Or, automation may be taken to mean technological change. Killingsworth regards automation as "mechanization which emphasizes automatic control; also, mechanization of computation,

Baldwin and Shultz state that three developments together embrace nearly everything in automation: (1) continuous automatic production, (2) control devices which operate through feed-back, and (3) general- and special-purpose computing machines.

Automatic control was used by the Romans to operate temple doors. Jacquard used punched cards to control needle selection in his loom in the early eighteenth century. Evans built a fully automatic grist mill in 1784. Babbage developed the "difference engine" which produced logarithmic tables in 1812. These and other early applications indicate that automation is not entirely new. Automation as it is known today does involve advanced mechanization and the use of computers. Automation in this sense has developed rapidly since around 1950, resulting in the frequent conclusion that automation is "new."

Automation is only one form of technological change. The Industrial Revolution was mainly concerned with the physical handling of products, the substitution of machines for muscular energy. Automation is viewed as a revolution—evolution may be a more accurate expression—in the control of machines and the processing of information, the substitution of mechanical and particularly electronic devices for mental processes.

---

10 Ibid.

Automation, as a form of technological change, is desirable and inevitable. Viewing the economy in its entirety, automation means economic progress. The rate of economic progress of the United States is slower than some think it could be; President Kennedy viewed the lag as a major economic problem. Economic progress comes from an increase in productivity through some form of technological change, that is, more output with the same input of labor, or the same output with less input of labor. Automation reduces the amount of labor required, and is thus seen as a means to economic progress. But the labor released must be put to good use elsewhere. The problem has been expressed this way:

This, then, is the twin problem of technological change: simultaneously to accelerate labor-displacing change, and correspondingly accelerate the reabsorption of the displaced resources, while at the same time preserving price stability and an equitable distribution of income.\(^1\)\(^2\)

The fear that automation is causing displacement and unemployment is very real to those being displaced or losing their jobs. It is also very real to those individuals who could have obtained jobs, but now find machines doing the work. Generally speaking, however, the fears of automation in this regard have probably been overstated. Unemployment has more basic causes than automation: (1) the migration of people from rural to urban areas, (2) the large numbers of relatively unskilled youths entering the labor markets, (3) market shifts for products and firms, and (4) economic fluctuations. Automation has, without doubt, caused some unemployment and displacement. Various estimates have been

made, but little certainty may be attached to them. Many companies have been able to automate without laying off anyone, but others have not been so fortunate. The Bureau of Labor Statistics estimates that some 200,000 workers a year will be displaced by automation.\textsuperscript{13}

**Employee problems and benefits of automation.** Automation has created or aggravated several problems with employees. Foremost, perhaps, are employee fears of automation: (1) they are afraid of losing their jobs, (2) they believe that their wages may be cut, (3) they have an instinctive fear of the large machine installations, (4) they tend to be resistant to change, and (5) they may feel an inability to perform the new tasks required of them.\textsuperscript{14}

The employee may feel that he is being considered in the same light as a machine—an inefficient one, at that. Also, it is the machine which sets the pace and controls the quality of the product. The operator regulates the machine, and his connection with the product itself is only indirect.

Communications assume greatly increased significance during the planning and installation of automated equipment. Rumors spread quickly and are especially detrimental because of widespread and sometimes unreasonable fears of automation. Ignorance of what is going on is almost certain to lower morale and perhaps productivity.


\textsuperscript{14}National Association of Manufacturers, The Challenge of Automation (New York: National Association of Manufacturers, undated), pp. 5-6.
The administration of wages and salaries comes in for altered attention. Incentives are more difficult to apply, because it is the group which must act together as a team, rather than each individual performing separately. As a result, group incentives may be more appropriate than individual incentives. Jobs in automated activities are quite difficult to compare with non-automated activities. Employees may expect higher pay because of the expensive equipment under their care, no matter what changes occur in skills required.

While some employees are upgraded during the process of automating, some are downgraded. This change creates the question of whether or not the pay of the employees downgraded should be decreased. Morale may be lowered in either case because of the downgrading.

Many employees will need training or retraining. Selection of those suited for the education effort and conduct of the training itself are additional problems. Older employees may not be able or willing to learn new skills. There is also the possibility of losing valuable retirement or other benefits from being laid off, or because the employee is unwilling to transfer to another location. These benefits, including seniority, may be sacrificed if an employee has to go to work for another company.

Automation frequently allows machines to be used for repetitive tasks which were boring to employees. Thus, boring and tiring work has been reduced in some instances. However, operating the control knobs on automated equipment may be interesting for a while, only to become much less of a challenge after familiarity with the machine is established.
Computers have the effect of downgrading certain employees to key punch operators. On the old equipment, the employee rested when there was a breakdown. With automated equipment, the employee relaxes when everything is operating smoothly and is under considerable pressure when the equipment is not working properly.

The above are some of the employee problems created by automation. Employees enjoy some benefits, also. Already mentioned have been a possible relief from boredom, the satisfaction derived from manipulating a large and expensive piece of equipment, and, in some instances, increased pay. In addition, working conditions are improved: surroundings are safer and cleaner. Job enlargement may well result from automation, with a consequent wider perspective to be gained by the employee. Since automation requires teamwork and cooperation, employees may derive satisfaction from operating as a valuable member of a team.

**Actions of managers to lessen impact.** The process of automating can be extremely painful to employees. Deep-seated fears may be aroused, and more tangible hardships may also result. Time itself works to allow managers to take sufficient steps to reduce harmful effects of automation on employees; it takes time—perhaps years—to automate a plant.

During the planning stage, during installation and during operation of automated equipment, managers can, by taking some of the actions listed below, soften the impact of automation. The list is not all-inclusive, but it is fairly indicative of reasonable steps. Some
recommendations which have been suggested are not here included (such as passing on to the employees all the savings from automation).

1. Select from present employees those who can learn to operate the new equipment, train them in its operation, and put them to work in the new position. In some instances, upgrading is in order. Utilize available talent wherever possible, and to the fullest extent. Where appropriate, use training personnel of manufacturers of the new equipment.

2. Retain present employees in present job classifications if any of the original positions remain necessary.

3. If any present employees are not suited to the new positions or are not presently needed in the new positions, transfer them elsewhere in the same division or to other divisions within the same company.

4. In all stages of automating, from planning to operating, work closely with any labor unions involved. Attempt to arrive at mutually satisfactory solutions.

5. Communicate: (a) early, (b) completely, (c) with union officials and all employees, and (d) honestly.

6. Some companies issue a "statement of intent," which states that no one is to lose his job, there will be no reductions in pay, transfers will be effected where appropriate, and training and retraining will be undertaken where necessary.

7. Explain to all concerned the need for automating, including the providing of positions for some in preference to none at all, as when the competition puts the company out of business.
8. Enumerate the advantages of automation to individuals: upgrading, safety, cleanliness, and job enlargement.

9. Where present employees must be downgraded, maintain their original rate of pay, perhaps for a specified period, such as for six months.

10. Train or retrain supervisors early. Place additional emphasis on human relations skills. Make certain that the supervisors are convinced of the desirability of automating.

11. Make no false statements, especially concerning the advantages of automation, and do not minimize the effects on employees. Face the issue squarely.

12. While changing over to automated operations, maintain some employee traditions to support morale.

13. Plan carefully for smooth transition to automation and to reduce the number of "bugs" in the new system.

14. Provide advance notice of changes so as to allow maximum time for adjustments.

15. Encourage appropriate participation in planning the automated system. Employees frequently make helpful suggestions and profit from a sense of participation.

16. Do not forget employees in non-automated departments, who may sense a lower status or feel that they are forgotten.

17. Consider the adoption of the guaranteed annual wage.

18. Provide severance pay to employees who cannot adapt or who are not otherwise needed any longer.
19. Time installation of automated equipment with business upswings.

20. Consider early retirement of older workers displaced by automation.

21. Invest more funds in research activities concerned with personnel problems resulting from automation.

V. SUMMARY

Managers have many opportunities to help subordinates meet their basic needs: physiological, safety, social, egoistic, and self-fulfillment. Helping to meet these needs may motivate employees to meet company objectives; in fact, the conclusion that both sets of objectives may be attained simultaneously would seem to be a desirable attitude on the part of managers. A contrary attitude would stress the attainment of company objectives no matter what the human cost. But this attitude would have managers ignore the considerable influence that they have on meeting employee needs.

Legal requirements have affected business managers in many respects, but particularly in labor-management relations. Managers need to be familiar with the laws which affect them, including an understanding of what the laws are attempting to accomplish as well as current interpretations. Managers have a direct interest in molding future legislation.

Where unions are involved (and elsewhere) abiding by the law is not enough. Unions need to be recognized as a desirable institution, the
collective representative of the employees. Managers need an understanding of the nature of unions, why workers join or reject unions, and how best to work with unions in solving problems of mutual interest. A reasonable balance of power needs to be maintained, else one party will become dominant over the other. Internal restraint is felt to be preferable to externally imposed restraint and cooperation preferable to coercion.

Automation has created or at least aggravated a number of problems with employees. Automating certain operations or plants is so necessary that the question is not whether to automate but how. If the decision is to automate, consideration must be given to measures designed to lessen the unfavorable impact on employees. In general, managers should utilize available talent to the fullest extent and provide for smooth transition to the automated processes with the lowest possible human cost. Several other areas of managerial responsibility have been selected for inclusion in Chapter VI.
CHAPTER VI

SELECTED AREAS OF MANAGEMENT RESPONSIBILITY

This chapter includes an analysis of management responsibility in four selected areas. First, the role of managers in politics is examined. Second, the importance of ethical business behavior is stressed. Third, an attempt is made to show the relationship between business and religion. Finally, the place of the corporation in philanthropy is studied.

I. MANAGERS AND POLITICS

This section will attempt to answer several questions of importance to business managers. What accounts for the increased interest by business managers in politics? What are some types of political activity in which a company might engage? Why do some individuals object to management participation in politics? The conclusion is reached that managers may feel free to engage in political activity, but the precise nature of their participation will depend upon the circumstances.

Managers of business firms have always engaged in political activities; their participation is not new. For many years in the United States, managers have represented business interests by personal participation in politics, through trade associations, by testifying before congressional and other committees, by lobbying for contracts, and by other means.
Increased interest in politics. The last few years, however, have seen an increased interest and participation by businessmen in politics. This new emphasis takes many forms, but some of the most notable differences from preceding periods are the openness of the movement, the dedication of its leading advocates, and the definite stands on controversial issues which some individual managers and business firms have been willing to take. Managers have gone on public record as favoring or opposing political candidates and proposed legislation, for example. Some of the increased intensity of effort has been indicated by a follow-up survey made by Greyser in 1964 of a similar survey of businessmen made by Fenn in 1959. The later survey showed considerable increase in interest and activity in politics in 1964 over 1959.

Political programs. Varied programs have been adopted by different firms, ranging from all-out campaigns to merely encouraging employees to vote. A few examples of possible political activities include:

1. Urge employees to register and vote.
2. Support organizations designed to foster a favorable political climate for business.
3. Help formulate trade association policy on government issues.

---


4. Participate in organizations designed to improve efficiency of government operations.

5. Urge employees to participate actively in campaigns.

6. Urge executives to serve as city officials.

7. Take stands on political issues.

8. Encourage and facilitate campaign contributions by employees.

9. Bring candidates into the plant to meet employees.

10. Have top management make talks on significant issues.

11. Include articles on current political issues in the house organ.

12. Allow time off for employees to work on campaigns.

13. Consider political activities in promotion.

14. Send letters to employees, dealers, and stockholders stating management's views.

15. Have executives make contacts with Senators and Representatives in each electoral district.³

Some companies have held seminars on political matters for company top and middle executives. Executives have been loaned to government for varying lengths of time, in some instances with full pay. Other employees have been granted leaves of absence when elected to full-time public offices. Business frequently performs research on issues of a public nature and presents its findings and views before government committees and officials. Valuable advisory services have been provided office holders. Increased emphasis is placed on these and similar

³Greyser, op. cit., p. 177.
activities at the grass-roots level. Expectations are for even wider involvement in the future.

**Reasons for Political Activity**

Why do managers of business corporations feel the need to engage in such activities? Not all managers are so inclined, of course, and there are wide variations in intensity of dedication. Reasons for expanded activity also vary, but some of the reasons executives give are: (1) improve business-government relations, (2) offset union power, (3) increase efficiency of government, (4) reap individual rewards, and (5) meet social responsibilities.

**Improve business-government relations.** Business is inseparable from government in the United States. Corporate income and other business taxes are a major means of financial support of state and federal governments. Changes in labor-management relations over the years have made the relationship between business and government a highly complex one. Monetary policy of the government, through control of the money supply and credit, is another important area of influence. Fiscal policy affects business concerns in many ways. Local, regional, and state governmental actions have far-reaching influences on business expansion and growth. Governmental involvement with business in research and development has raised difficult questions, such as conflicts of interest.
Finally, there are the extensive purchases by the government from business of almost every possible manufactured product.4

Control of business by government through the medium of laws, regulations, and court interpretations has also been a powerful force causing managers to be more active in politics. Congress seems to have few restraints to legislate controls of business activity. Congress and the executive branch seem to be disposed more and more to create new agencies for further control of business activity or to expand jurisdiction of existing ones. Political activity must be the major restraint on legislation. Managers of business firms must be active politically, must attempt to sway majority opinion, and must create a favorable climate for business.5

These arguments add up to a convincing case for business to engage in politics. Where interests are so directly involved in such a complex manner, to ignore the problem would hardly seem possible. Business managers are almost forced to take political action on those issues which affect nearly every facet of business.

Offset union power. A reason frequently advanced for greater political activity is that business must become stronger politically to offset the recently increased political power of labor unions. Union

---


officials point out that unions are becoming more active and powerful in politics, and this has been true. Their power, however, is easily exaggerated. Union presidents do not merely snap their fingers and have all the union members vote one way. Many members do not vote at all, and those who do vote, may vote for the opposition. Recent Democratic Congresses, which are supposed to be representative of labor, have not until recently passed legislation completely against business interests. The present Congress, it must be pointed out, has not been hesitant to consider and pass legislation espoused by organized labor and opposed by business interests. That this can be attributed to increased union power is uncertain.

Unions have increased their political power. That the apex has been reached is open to question. Certainly organized labor presents a strong front on the political scene. There is nothing morally wrong with business attempting to offset this power. In fact, the democratic process requires that each interest represent its own case to the best of its ability so that a satisfactory balance may be struck.

**Increase efficiency of government.** Business managers frequently may bring effective knowledge and ability to government positions, or pass on useful ideas and information to government officials or committees. Effective business managers are not automatically equally effective politicians, but there is much carry-over. Ability to organize, to direct, and to control is needed in government as well as business.

Much of the information presented to investigating committees is gathered by business. Some of the data is biased in favor of business,
but on the whole is invaluable as additional information on which to base decisions.

Increasing the efficiency of government reacts favorably on business and society in general. Business firms benefit from better use of tax money and perhaps lower taxes and through a better climate in which to operate. The continued success of the democratic form of government is essential to the capitalistic form of economy. Only a far-sighted view can determine that it may be necessary temporarily to cripple a particular business firm by borrowing some capable executive long enough to be of significant assistance to government. Senator Barry Goldwater put it this way:

Businessmen have always been reluctant to get into politics, because they're afraid it might cost them a little bit, because they're afraid they might lose a customer--because they're afraid they might lose some business. I think they're now beginning to realize that the business they're going to lose is their own. As a result, they are getting interested in politics more and more, especially the younger ones.6

Reap individual rewards. Returns to business managers engaged in political activities vary with the circumstances. For instance, even though a particular political activity may be very educational and rewarding personally, promotion in the company may be hindered. Such activity might be highly praised in another company.

Managers in politics may derive certain satisfactions similar to those enjoyed by career politicians. Status, a sense of participation,

a feeling of belonging, an attitude of being on the inside, a feeling of getting something done, and power—any one or a combination of these rewards may accrue to the business manager in politics.

A survey of businessmen in the Philadelphia metropolitan area conducted by the University of Pennsylvania in cooperation with the Committee for Economic Development turned up an interesting result. Businessmen were asked what effect there would be on the business career of a young man who became politically active. Only 31 out of 124 felt that such activity would be helpful to a career in the company, while 47 felt there would be no effect, 26 felt there would be a hindering effect, and 20 did not know.\(^7\)

Business managers have traditionally been associated with the Republican party. An executive actively supporting the Democrats may find promotion a little slower in coming and may be discriminated against in any number of subtle ways. Perhaps in many companies it is easier to be politically active as a Republican than as a Democrat.\(^8\)

The Harvard Business School Club of Washington, D. C., conducted a survey a few years ago of businessmen in government. Seventy per cent of the businessmen felt that their government experience had made them better business executives. The businessmen in government objected to the reduction in pay, "red tape," length of absence from business, lack

\(^7\)Lenhart and Schriftgiesser, \textit{op. cit.}, p. 39.

\(^8\)G. Mennen Williams, "Can Businessmen be Democrats?" \textit{Harvard Business Review}, XXXVI (March-April, 1958), 103.
of on-the-job indoctrination, conflicts of interest, and unrestrained criticism, especially from legislative bodies.\footnote{9}

On balance, it can probably be said that managers have the opportunity of improving their skills as managers through government service. The effects on advancement within the company will depend upon the attitude the particular business takes toward political activity on the part of its executives.

Meet social responsibilities. Some—there is no way of knowing how much—of the business manager's activity in politics results from a sense of social responsibility, either alone or in conjunction with other motives. This participation is akin to other socially responsible actions, such as charitable contributions, support of community activities, and financial support of education, all of which derive from the notion that managers of business corporations have responsibilities in these areas.

Thomas R. Reid, Civic and Governmental Affairs Manager, Ford Motor Co., states:

We feel that many persons have a right to know where our company stands on public issues that affect it. We feel that we have a responsibility to point out the effect of proposed governmental actions on the company and its ability to operate successfully.\footnote{10}

Not only the providing of information, but also the taking of positive action is justified by a sense of social responsibility. The


trusteeship concept is developed by Thomson, who says:

Participation of a businessman in public affairs begins just where the participation of anyone else begins, with the fact that he is a citizen. He is not disenfranchised because he is a businessman. He is not relieved of any of the privileges or responsibilities of citizenship. Rather, because of his position in his organization, he is often the trustee of the properties and interests of many fellow citizens.11

This argument has considerable merit. A weakness exists in that managers of the larger, modern corporations may not be the duly elected representatives of the several groups the managers are supposed to represent, even of the stockholders. Someone has even suggested that, before managers take political action, they should get the vote of stockholders to determine what their wishes really are.

The people of the United States have been strong adherents of extensive and complete education, not only to extend technical and scientific knowledge and to make capabilities more widespread, but also to strengthen the political and economic systems. One evidence that this belief has been successful is the relatively long time that the United States has existed as a growing and prosperous nation. Many managers believe that they have a responsibility to inform citizens about political issues so that actions will be taken to defend the system. Assuming that the information presented is factual and complete, the idea is sound. Dr. Claude Robinson of Opinion Research Corporation, says:

It can be determined that when you take the ideologies of people with different information levels, you always find that the ideologies swing to the right as the facts are clearer in

people's minds . . . . It doesn't make any difference what income groups or what age groups or what educational groups they are: that basic principle holds. The more people know about the capitalistic system, the more they believe in it.

Thus, managers have some real reasons to believe they have a social responsibility to engage in politics. When one considers these and all the above-mentioned reasons for political participation, a strong case is made for such participation. If businessmen do not support—financially and otherwise—politicians with the proper interests, then the underworld, the favor-seekers, and the special interests will help elect politicians who may not represent the best interests of business and society. 12

Objections to Political Activity

Despite the favorable arguments for political participation by business managers, and despite the recent increases in political activities, many objections have been raised, as exemplified by those of Maremont, 13 Levitt, 14 and Reagan. 15

Maremont objects to business being in politics at all, but his objections seem to be of the particular manner of participation. He


points out that, while the areas where business and government coincide have been expanding, the interest of business is still much more narrow than that of the government. While this is true, it overlooks the fact that business's view is only one, and that labor, agriculture, and other views are being effectively stated.

Maremont raises several questions for management, including, "Will not the employees who belong to different organizations, unions, or political parties develop a profound antagonism for the corporation's political activities?" The answer depends on what the activities are. If the activities include coercion, slanted presentations or plain deceptions, or other invasion of individual rights, then there will be objections. The individual, Maremont believes, is deprived of his rights and relieved of his duties, when corporations enter politics. 16

Even if one believed the individual had been exercising his rights on a large scale, this hardly seems a valid complaint. Again, it is a question of what political activities the company engages in. If the activity is failure to promote an executive who votes for the opposition, then there is validity to the objection.

Certain of Levitt's objections to corporate political activity are more convincing. For one thing, Levitt believes that business cannot sustain an active political interest among supervisors and managers. At the local political levels, the work is too unattractive for sustained interest. This may be the reason why little is being heard about business

16 Maremont, loc. cit.
in politics today. Levitt also questions if business, once it got superior political power, would ever be satisfied. He believes that compromises would still have to be reached, and business would have the unpleasant task of being all things to all people. Lastly, political activity would mean sacrifice of some profits.\(^{17}\) The question of profit maximization as a business objective has already been discussed.

Reagan has concluded that there are seven major propositions underlying business in politics, each of which is to some degree suspect:

1. The interests of corporations are (always) the interests of society; therefore, corporate managers should be trustees for society.

2. Business is at present in a dangerous state of political helplessness.

3. The primary purpose of getting into politics is to put the unions in their place.

4. Business ability is directly translatable into political ability.

5. Electoral activity is the only route to political influence.

6. What works for the labor goose also works for the corporate gander.

7. The corporation can restrict its participation to the issue it selects.\(^{18}\)

\(^{17}\)Levitt, loc. cit.

\(^{18}\)Reagan, loc. cit.
The first objection has already been answered above. The second objection would be a good one if managers really believed it. What is believed is that participation should become more extensive and overt. The third objection is based on the assumption that unions have little political power. Their gains at the present time would indicate that they do have considerable power. The fourth objection assumes that the knowledges and skills of the executive are more narrow than those of the politician. There are some differences, but studies have shown businessmen to be quite successful in government; it is usually the businessman's dissatisfaction with the government which caused him to leave its service. The fifth proposition is not likely believed by any intelligent business manager. Reagan's discussion of the sixth proposition merely points out the fact that labor leaders get their authority through elections, while business managers may not. The seventh proposition is of little significance; business managers would not be expected to take positions and actions on all political issues, nor would they.

**Summary**

Business managers, both as individuals and corporate representatives, have as much right to engage in political activities as labor unions or farmers or anyone else. Corporations must avoid violating the Corrupt Practices Act through making direct contributions to political parties, but there are many other political activities in which representatives of the business may legally participate. It is impossible to recommend a political program that would be universally appropriate for all business firms, because of the widely varying situations. Managers
can feel free to engage in politics, generally so long as they are honest and aboveboard and do not impinge on the rights of others. A better understanding of ethics in business would also be of considerable help.

II. MANAGERS AND BUSINESS ETHICS

There has long been a need by business managers for guidance in questions involving business ethics. Ethics constitute one of the grey areas in business behavior; that is, answers are not always clear. This section will be devoted to several topics related to business ethics. A definition of ethics will be advanced. The origin, scope, and need for business ethics will be discussed. Efforts to ensure ethical conduct will be examined, and an attempt will be made to show the relationship of ethics to profits. Finally, examples of specific codes of ethics will be presented.

Ethics defined. One of the dictionary definitions of ethics is "the science of moral values and duties; the study of ideal human character, actions, and ends." Another is: "moral principles, quality, or practice." A text defines ethics as "the study and philosophy of human conduct with emphasis on the determination of right and wrong." Webster's gives the definition of ethical as "conforming to professional


standards of conduct." A proposed definition of ethics for the purpose of this study is:

Ethics are the standards of conduct, based on some concept of right and wrong, established at a given point in time.

**Related terms.** Morality is a related term often equated with ethics. Morality refers to the degree of conformity to the established ethics, but this fine distinction has little meaning in a time when the two terms are so often used interchangeably. "Ethics" is derived from the Greek *ethos* which has a connotation of rightness, including reason and foresight in human conduct. "Morals" is derived from the Latin *mores*, and represents the minimum restriction on man's ethical or moral conduct. Law is concerned not with man's entire being or conduct, but only with overt acts which affect others:

It (law) not only confines itself to controlling the outward acts of men; it limits itself to those particular acts of man to man which can be regulated by the public authority, which it has proved practicable to regulate in accordance with uniform rules applicable to all alike and in equal degree. . . . It does not assume to be the guardians of men's characters, it only stands with a whip for those who give overt proof of bad character in their dealings with their fellow-men.  

**Origin of ethics.** Ethical concepts were held at least as far back as recorded history. The ancient Egyptians left written records of

---


ethical concepts. The Code of Hammurabi included ethical principles.

Christian religion has been the forerunner of most of modern business ethics. But various non-theological philosophies have also added to present concepts of ethics. The teachings of Jesus laid the foundations for much of modern ethical codes of conduct. Socrates, Plato, and Aristotle made contributions. St. Thomas Aquinas, Descartes, Hegel, Locke, and Kant all contributed to present thinking on ethical matters.

Scope of ethics. The ethics practiced by business managers affects their business firms and society as a whole. Ethical questions arise in every function of the business and in relations with all persons who are affected, directly or indirectly, by the business. Pricing, advertising, hiring, planning, financing, and accounting are but a few examples of business activities which are directly concerned with ethics. The determination of what shall be the ultimate objective of a business firm is at least partly an ethical issue.


25 Ibid., p. 47.


Ethical guides. Managers have some guidance in resolving ethical questions but, it would appear, not nearly enough. There are various codes of ethics which have been published, some examples of which will be indicated later in this section. There are various religious doctrines which are of help to some business managers. Laws provide a minimum standard of conduct. Many business firms have policy statements which include attitudes toward ethics. The practices of other managers in similar situations frequently provide good examples of ethical behavior. Each manager has what may be called his personal ethic, his concept of what is right and wrong.

Need for understanding ethics. That these guides are insufficient may be understood by referring to the plentiful literature on the question of ethics. Business managers are continually seeking guides to help solve ethical questions. Perhaps no final answers are available. Perhaps to move to the ideal in a short time is impossible. There may be some conflicts between what is considered to be ethical behavior and the attainment of certain corporate goals, at least in the short run. Some managers feel that they can hardly behave in an ideally ethical manner if their competitors do not. Also, beliefs of what is ethical in this time may change in the future as such beliefs have changed in the past.

Other evidence of the need for a better understanding is found in the unethical practices followed by some business managers. Ignorance of what is or is not ethical, misunderstanding of the situation, and intentional behavior are all to blame. Unethical practices are easy to observe: misleading advertisements, short weights, nepotism, conflicts
of interest, inadequate disclosure, and many others. It would be
difficult to say whether business in general is more or less ethical
than it was 50 years ago. Whatever the tendency, there is considerable
room for improvement.

Ensuring ethical conduct. The complexity of the business system
complicates the consideration of ethical questions. Managers must be
aware that consumers are better informed today than ever before, and
many consumers are quick to take corrective action when they discern
unethical practices. Better business bureaus are very active in some
cities in restraining unethical behavior. Not least, the government in
all its forms and at all levels has exhibited a willingness to pass
legislation and institute controls where necessary to ensure ethical
business activity.

Business managers must see that ethical behavior is one of their
responsibilities. The practice of good ethics is desirable from the
standpoints of the individuals concerned, the business firm, and
society. If managers do not attempt to learn and to do what is right,
then someone, most likely the government, will decide for them what to
do. Modern business could not function if there were not confidence in
others. A good example of the necessity for confidence is in the
extension of credit.

Ethics and profits. Considerable attention has already been
devoted to the function of profits in American business. Profits are the
main motivating force for economic activity. Do profits and ethics
conflict? There is probably more mutuality than conflict in the two expressions. In the long run, it is the ethical business which will continue to exist and make profits. The sacrifice of good ethics in order to make a larger profit is a short-run type decision. There are instances where unethical practices will yield larger profits, but such action cannot continue for any great length of time. Public indignation, once the act is discovered, makes unethical practices unwise economically, to say nothing of being illegal or in violation of the manager's conscience.

**Improving ethics in business.** The vast majority of business conduct in the United States has been ethical. Many business firms have made conscious efforts to improve their ethical standards and to improve business ethics generally. A business manager may be encouraged to do some or all of the following things to improve business ethics:

1. Re-examine his religious beliefs.
2. Participate in seminars on ethical issues.
3. Read some of the ample literature on business ethics.
4. Participate in the drafting of a sincere code of ethics:
   a. For himself
   b. For the particular business function (e.g., pricing)
   c. For the firm
   d. For the industry
5. Assure top management support in the improvement of business ethics.
6. Abide by whatever codes are adopted.

**Codes of ethics.** Codes of ethics have been prepared in many different areas. Some are general, and others quite specific. Large organizations may have several codes, each applying to a different activity. Church doctrines provide much background for codes of ethics. One example is taken from the *Methodist Discipline*:

We believe that God is Father of all peoples and races, that Jesus Christ is his Son, that all men are brothers, and that man is of infinite worth as a child of God.

We believe that "the earth is the Lord's, and the fullness thereof." Our own capacities and all we possess are gifts of the Creator, and should be held and used in stewardship to him.

We believe that a Christian society is essential to the full nurture of a Christian person.

We believe that sin, both individual and social, stands under the judgment of God, and that the grace of God in Christ is available for redemption in all areas of life as we seek in penitence and obedience to do his holy will.

We believe that all persons have supreme value in the sight of God, and ought to be so regarded by us. We test all institutions and practices by their effect upon persons. Personality is oppressed in many parts of the world, and we seek its emancipation and those things which will enrich and redeem it. Since Jesus died for the redemption of human life, we believe we should live to help save man from sin and from every influence which would harm or destroy him.28

It may be seen from this type of statement how church doctrines serve as a foundation upon which ethical codes may be built. For instance, the belief that all men are brothers may lead to inclusion in a specific code for non-discrimination among races, creeds, or color in employment or

---

advancement. Other religions have notions about what is ethical and unethical in business. The Jewish beliefs are quite specific, and date from far back in history.29

The National Association of Better Business Bureaus has formulated a 10-point Fair Trade Code, which has been widely adopted and published:

(1) Serve the public with honest values.
(2) Tell the truth about what is offered.
(3) Tell the truth in a forthright manner so its significance may be understood by the trusting as well as the analytical.
(4) Tell customers what they want to know—what they have a right to know and ought to know about what is offered so that they may buy wisely and obtain the maximum satisfaction from their purchases.
(5) Be prepared and willing to make good as promised and without quibble on any guarantee offered.
(6) Be sure that the normal use of merchandise or services offered will not be hazardous to public health or life.
(7) Reveal material facts, the deceptive concealment of which might cause consumers to be misled.
(8) Advertise and sell merchandise or service on its merits and refrain from attacking your competitors or reflecting unfairly upon their products, services, or methods of doing business.
(9) If testimonials are used, use only those of competent witnesses who are sincere and honest in what they say about what you sell.
(10) Avoid all tricky devices and schemes such as deceitful trade-in allowances, fictitious list prices, false and exaggerated comparative prices, bait advertising, misleading free offers, fake sales and similar practices which prey upon human ignorance and gullibility.30

This Better Business Bureau Code applies to selling in general.

29See, for example, Philip S. Gershon, "The Jewish Approach to Business Ethics, in Towle, op. cit., pp. 117-130.

An example of a rather specific code is the Television Code of the National Association of Broadcasters. Shown below is part of the section on advertising:

**Presentation of Advertising**

1. Ever mindful of the role of television as a guest in the home, a television broadcaster should exercise unceasing care to supervise the form in which advertising material is presented over his facilities. Since television is a developing medium, involving methods and techniques distinct from those of radio, it may be desirable from time to time to review and revise the presently suggested practices:

   a) Advertising messages should be presented with courtesy and good taste; disturbing or annoying material should be avoided; every effort should be made to keep the advertising message in harmony with the content and general tone of the program in which it appears.

   b) A sponsor's advertising messages should be confined within the framework of the sponsor's program structure. A television broadcaster should avoid the use of commercial announcements which are divorced from the program either by preceding the introduction of the program (as in the case of so-called "cow-catcher" announcements) or by following the apparent sign-off of the program (as in the case of so-called "trailer" announcements). To this end, the program itself should be announced and clearly identified, both audio and video, before the sponsor's advertising material is first used, and should be signed off, both audio and video, after the sponsor's advertising material is last used.

   c) Advertising copy should contain no claims intended to disparage competitors, competing products, or other industries, professions or institutions.

   d) Since advertising by television is a dynamic technique, a television broadcaster should keep under surveillance new advertising devices so that the spirit and purpose of these standards are fulfilled.

   e) Television broadcasters should exercise the utmost care and discrimination with regard to advertising material, including content, placement and presentation, near or adjacent to programs designed for children. No considerations of expediency should be permitted to impinge upon the vital responsibility towards children and adolescents, which is inherent in television, and which must be recognized and accepted by all advertisers employing television.

   f) Television advertisers should be encouraged to devote portions of their allotted advertising messages and program time to the support of worthy causes in the public interest in keeping with the highest ideals of the free competitive system.
g) A charge for television time to churches and religious bodies is not recommended.31

A final example is a personal code of ethics drafted by a businessman. A purchasing agent or personnel manager might formulate a somewhat different code, peculiar to his own function. The example shown here was written by an accountant, but does not apply solely to accounting:

I believe in American business.
I believe the American enterprise system offers the best opportunity for individual progress, the greatest incentive to personal development, and the strongest protection to democratic ideals of any economic system in the world today.
I believe in the private ownership of capital.
I believe that, under conditions of fair competition, the profit motive is the most effective force in stimulating innovation and efficiency in business operations.
I believe that a number of interests contribute directly to the success of the American enterprise system and that equity requires that increases in the productivity of the system be shared among these interests.
I believe that each individual who benefits from the American enterprise system has an obligation to work for its improvement, and that he likewise has an obligation to refrain from any action that would reduce or restrict the most effective operations of this system.
I recognize that the frailties of man and the temptations to which he is subject may interfere with the most effective functioning of a system of free enterprise and that constraints directed at the selfish few are required for the protection of all.
I believe that high ideals and self control on the part of each individual constitute the most desirable form of constraint but accept the imposition of group controls where necessary.
Believing these things, I pledge myself:
To recognize the interest of all free men in a strong American economy;
To pursue vigorously, within the bounds of the law and moral propriety, a fair and reasonable profit for the enterprise with which I am affiliated;

To compete fairly and without recourse to conspiracy, intimidation, or other anti-social behavior;
To refrain from any action that reduces competition, innovation, freedom, or efficiency in the American business system;
To seek out, praise, and support those tendencies, activities, and individuals who defend and encourage competition, innovation, freedom, or efficiency;
To apply high standards in my personal life in order to reflect credit on the business system I represent.\textsuperscript{32}

III. MANAGERS AND RELIGION

Another question of some concern to many business managers is the role of religion in business and the effect of business on religion. One such influence has already been demonstrated and that is how church doctrines may underpin codes of ethics. The relationships between business and religion, the economic system and the religious order, and managers and religion are complicated and have not lent themselves to definitive statements. A few of the most reasonable observations will be mentioned here.

\textit{Separation of business and religion.} "Business is business, and religion is religion," sums up the thinking of many persons. They see business as the activity of men six days a week and religion one day a week, two unrelated endeavors. Some even divide people into two groups, businessmen and those persons who make religious activities their full-time concern. Objectives of religion and business are likewise viewed as incompatible, or, at the very best not necessarily

coincidental. The conclusion is that the two considerations, business and religion, must be kept separate.

Such a conclusion does not seem to be justified. The moral fabric of a nation is composed of all its elements, and business institutions are a major part. The influence of business in the United States is far-reaching in many areas, including religion. More than half the population belong to churches. The church has been concerned with business activities from the earliest settlements in America. Religious convictions have held considerable sway in business decisions from the earliest times. It is true that religion is old and the modern business system is new, but the two should not be separated.

Christianity and capitalism. Religion and capitalism have been criticized because Christianity has been used to defend capitalism. The church has acted as a front group, the argument goes, because churches reflect capitalistic thinking in order to retain the financial support of a relatively few businessmen. These criticisms are unjustified because most churches receive their main contributions from many small contributors. The only alternative to support of this type would be church support by the government which would generally be conceded to be worse.

---


Christianity is not the religion of capitalism alone. Presumably other economic systems could operate reasonably well under Christianity. They have in the past. But the relationship of Christianity and capitalism is more satisfactory than any other combination. Consider the four objectives of an economic system listed by Bach:

1. A higher standard of living for all.
2. Economic security and freedom.
3. Production in accordance with consumer demands.
4. An equitable distribution of income.\(^{35}\)

Religion has much broader goals, including the non-economic as well as the economic. Only if the non-economic goals of religion conflicted with the economic would Christianity and capitalism be in opposition, and only if there were another economic system more in concert with Christianity should capitalism be thrown over. Actually, human welfare, the goal of religion, is advanced more under capitalism than under any other system:

Because the free-enterprise system produces greater economic progress than would be possible under any other economic system known at the present, it is doing more to advance the broader goals of Christianity than could any other existing arrangement.\(^{36}\)

**Managers and religion.** Managers, like other people, are not motivated by material gain only. The founders of American industrial enterprises were also motivated by a desire to make more goods and services available to all people. Profits have also been viewed as a


\(^{36}\)Campbell, *op. cit.* , p. 43.
means of advancing the public good through reinvestment or for educational or charitable purposes. American industrial management has been concerned with good employee relations. Attention has been given to the welfare of others.\textsuperscript{37} Managers have always been concerned with matters other than material gain, though they have not always admitted it.

Managers have the need for religious convictions, both for their own good and the welfare of others. Ohmann sees these "skyhooks" as a primary concern of the manager for the following reasons:

1. For the individual the job is the center of life, and its values must be in harmony with the rest of life if he is to be a whole and healthy personality.
2. This is an industrial society, and its values tend to become those of the entire culture.
3. The public is insisting that business leaders are in fact responsible for the general social welfare . . .
4. Even if the administrator insists on a narrow definition of his function as merely the production of goods and services as efficiently as possible, it is nevertheless essential that he take these intangibles into account since they are the real secrets of motivating an organization.
5. . . . The administrator needs a better set of "skyhooks" himself if he is to carry his ever-increasing load of responsibility without cracking up.\textsuperscript{38}

The first reason listed above may not be entirely correct. There is a considerable conviction among some writers that work is not the center of man's life, at least in many types of jobs. Many workers look to leisure activities to take up most of their energies; hobbies may be


substituted for jobs as a means of real satisfaction. Still, an improvement in the rewards developed from the work situation would be desirable, because "... the hobby cannot give the complete sense of growth, the sense of striving towards a meaningful goal, that can be found in one's life work."^40

Considering the other reasons listed by Ohmann, one can say that the values of the industrial society have become those of the culture of Americans to a large extent. It seems doubtful that the "public" is insisting very much that the business leaders are the ones responsible for the general social welfare; more likely, citizens are expecting this of government. It is for just this reason, however, that business must consider taking on more responsibility: to keep the government from doing it. Motivation, it is generally agreed, does include more than mere tangible goals and rewards. Each person needs a sense of direction, a reason for being, if he is to bear up under pressure and fulfill his potential.

The individual manager is of particular importance in a society such as that of the United States:

He (the administrator) interprets or crystallizes the values and objectives for his group. He sets the climate within which these values either do or do not become working realities. He must define the goals and purposes of his group in larger and more meaningful perspective. He integrates the smaller, selfish goals of


40Ibid., p. 130.
individuals into larger, more social and spiritual objectives for
the group. He provides the wisdom without which the people
perish. Conflicts are resolved by relating the immediate to the
long-range and more enduring values. In fact, we might say that
integrative function is the core of the administrator's
contribution.\textsuperscript{41}

Conclusion. Managers are concerned with religion. Religion and
business are not two separate worlds. There are many connections between
business and religion, and one may not be understood without considering
the other. Many managers may find that a philosophy which includes
religious convictions contributes to the development of lasting values.
Without this purpose, a manager may not be considered a whole man.

Probably no philosophy would be equally satisfactory for two
managers. Each manager must develop his own philosophy in light of his
experience and knowledge. Each, however, can learn from others. Much
can be gained from the exchange of ideas. And the influence of a manager
with such a philosophy will be felt by all with whom he relates.

IV. MANAGERS AND BUSINESS PHILANTHROPY

The last special area selected for inclusion in this chapter is
business philanthropy. This section will (1) briefly trace the develop-
ment of American business philanthropy, (2) explore the arguments
favoring and opposing the idea that corporations have the responsibility
of making philanthropic contributions, (3) describe recent trends in
philanthropy, and (4) suggest some guides for corporate philanthropy.

\textsuperscript{41}Ibid., p. 8.
Particular attention will be given to the needs of education.

Philanthropy defined. Philanthropy is defined by Webster's New Collegiate Dictionary as "love for mankind; good will to all men." Eells defines philanthropy as the spirit of active good will to one's fellow man, and is demonstrated by material efforts to promote his welfare in body and soul. The usual meaning of corporate philanthropy is contributions (mainly monetary) to some worthy cause, and this is the meaning adopted for this section. This definition makes no assumptions as to the motive behind the contribution.

Development. American philanthropy, according to European records, existed as far back as the acts of the Indians of the Bahama Islands who greeted Columbus at his first landfall in the New World. These Indians gave freely whatever was asked of them. Among early philanthropists in America were John Winthrop (1588-1649), William Penn (1644-1718), Cotton Mather (1663-1728), and Benjamin Franklin (1706-1790). More recent influences on philanthropy were two world wars and a "police action," a Great Depression, tax laws, and the development of an industrial economy. During World War I, the relief fund established by Herbert Hoover to relieve suffering caused by the occupation of Belgium

---


by Germany attracted world-wide attention and support. The Great Depression dried up private sources of donations, causing action to allow tax deductions for corporate donations. The Internal Revenue Act of 1936 allows corporations to deduct from taxable income contributions for educational, scientific, and welfare purposes up to a total of not more than five per cent of net earnings before taxes. Income tax provisions of World War II and the Korean Conflict encouraged corporate donations. America has developed an industrial economy, in which business corporations have become such influences that their actions cannot be judged in isolation from the whole society; corporations, whether they like it or not, are expected to make philanthropic contributions.

The five per cent provision of the Internal Revenue Act of 1936 has been particularly instrumental in fostering corporate philanthropy. Assuming an income tax rate of 50 per cent, each dollar the corporation donates costs the corporation only 50 cents, because the other 50 cents would have gone to the government in the form of income taxes. At higher tax rates, which have at times been in effect, the cost to the corporation is even less. Many corporate managers have felt that they could do more for the company and the public for the dollar expended in this fashion than through the payment of more income taxes. The effect has been to encourage corporate philanthropy.

One noteworthy tool of corporate philanthropy is the great and lesser philanthropic foundations, numbering in the thousands, established for various reasons by individuals or companies. Some foundations were
established to avoid losing control of a corporation: voting stock is donated to the foundation, the prior owner is elected to the board of the foundation, and the now-director continues to vote the stock. Donations to foundations have been made to avoid the payment of inheritance taxes. Other donations have been made to avoid payment of income taxes. Still others have been made for altruistic purposes, with no other motives in mind.

Foundations are of various sizes and are established with various objectives. One definition is that:

A foundation may be defined as a nongovernmental, nonprofit organization having a principal fund of its own, managed by its own trustees or directors, and established to maintain or aid social, educational, charitable, religious, or other activities serving the common welfare.44

The Ford Foundation, established in 1936 by Henry Ford and Edsel Ford, states its purposes this way:

The Ford Foundation is a private, nonprofit institution whose purpose is to serve the public welfare. It seeks to strengthen American society by identifying problems of national importance and by underwriting efforts—by institutions, talented individuals, and communities—toward their solution. The foundation grants funds for experimental, demonstration, and developmental programs designed to achieve advances within its fields of interest.45

The total of grants approved and of expenditures on projects administered by the foundation in the fiscal year 1964 was $234,903,971.46

---


46Ibid., p. 73.
Foundations permit more efficient philanthropic operations. Through the use of foundations with accumulated assets, donations can be maintained at a steady level despite ups and downs in earnings. Administration of the philanthropic program is improved. And the foundation is in a position to discover and apply the best methods of using available resources in an equitable manner in all areas. 47

Reasons for corporate philanthropy. Corporate managers have strong motives for engaging in philanthropy. No doubt many managers feel a moral obligation to make contributions from corporate funds, much as they would from their own pockets. Perhaps more universally accepted (or, at least, admitted) is the conclusion that the corporation's interest in community activities and conditions is so direct that the corporation must help support and improve projects wherever appropriate. The "community" may be as narrow as a village or as broad as the nation or the world, depending on the scope of the company. It is from the community whence comes manpower and customers and the opportunity to continue to operate the business firms in a profitable manner. Also, if community activities are not supported by voluntary, private contributions, the government will collect just that much more taxes. The corporation would then have nothing to say about how the funds would be spent.

The obligation is not unlimited. Managers are not expected to

dole out corporate funds in any and all directions. Companies receive many requests for donations, but refusing most requests does not necessarily disgrace the corporation in the eyes of the public. For example, in May of 1961, Owens-Illinois Glass Co. received 189 requests for donations.° Ralph Cordiner sets the limit like this:

Regardless of how generous their motives may be, managers or directors have no legal right to distribute the share owner's money with lavish and irresponsible hand in order to satisfy some vaguely conceived public obligation. . . . The company collects money from its customers, at competitive prices, in return for products and services. All this money is in turn redistributed to employees, share owners, suppliers, and others in proportion to their respective contribution to the company's results. To the degree that education and other community activities contribute to the success of the company and the society in which it operates, they should and do receive a share of the proceeds.49

Money is not the only commodity which managers can contribute. In many instances, managers can provide the leadership necessary for success. The manager has certain competencies of value in handling civic problems due to his position, experience, and skills as a businessman. The manager also has a long time perspective, enabling him to visualize results from present labors which may not materialize for several years. Such contributions may actually be more useful than money.50

Objections to corporate philanthropy. Various objections have been raised to corporate philanthropy. One objection is that the money

---


donated belongs to the stockholders and should not be given away without their approval. Apparently, however, stockholders do not feel that the contributions made thus far are excessive because of the lack of complaints. Another objection is that contributions are made for the sake of public relations, to cover up undesirable activities in other respects. This effort, if true, would be rather futile, because socially undesirable actions are usually found out and publicized. Also, donations would be more useful to the public than, say, institutional advertising to create a favorable public image. A last objection is that if business wants to contribute something, the action should be taken through some impartial agency, such as the government. The answer here is that the government or whatever other agency may be used would tend to suffer the usual ailments of a strong, centralized organization: red tape, sameness of view, and inertia; private, voluntary contributions would continue to be characterized by diversity and flexibility, with an approximate balance among the needs of the various philanthropies.

Gifts to education. Education is the leading beneficiary of corporate gift-giving. Corporations now donate about 17 per cent of private, voluntary contributions to higher education. Yet only about three per cent of corporations have an educational aid program, and 64 companies are contributing one-fourth of the total corporate aid to education.\footnote{Sylvia Porter, "American Business in Debt to Colleges," (Baton Rouge) \textit{Morning Advocate}, November 20, 1963.}
Why are corporations interested in donating money to higher education? Here are six reasons:

1. Business needs the products of higher education: new knowledge, educated manpower, and improvement in the social, economic, and political climate for business.

2. Educational institutions must be kept in touch with economic realities. Business firms spend as much as a third of the formal education expenditures for on-the-job training.

3. Business can demonstrate the advantages of voluntary, private assistance to higher education, as opposed to massive federal aid.

4. By making contributions, additional taxes are avoided.

5. The self-examination entailed in an intelligent contribution program is useful to the business, including such activities as manpower studies, kinds of education utilized by employees, and projections of professional and scientific needs.

6. The new learning resulting from business itself needs to be fed back to and assimilated by the formal institutions of higher learning to prevent isolation and obsolescence.52

A conservative estimate of total annual income needed by colleges and universities will be $9 billion in 1970. Voluntary contributions to this income will amount to about $2 billion.53 One estimate of


53 Ibid., p. 20.
industry's "fair share" of this voluntary contribution is 25 per cent, or $500 million in 1970. These figures represent the magnitude of the problem now facing business managers. The present level of giving is about 17 per cent, which, at the same level, would result in a shortage of some $160 million in 1970, if one considers the $500 million as the desired objective. The alternative to voluntary contributions appears to be to have the government provide the support, financed by higher taxes.

Trends in corporate philanthropy. The legality of corporate philanthropy has already been discussed (Chapter II). Common law would have the corporation operated solely in the current interest of the stockholders, but recent interpretation and public opinion seem to approve of corporate philanthropy of at least a limited amount, especially where benefit to the corporation can be demonstrated. A claim that corporate philanthropy is illegal is not a very strong claim today.

Some corporations have found it desirable to establish a written policy regarding philanthropy. Executives are expected to be familiar with and follow this policy. Requests for contributions which do not meet the specifications outlined in the policy are politely refused with a minimum of hard feelings.

Authority to make decisions on donations is sometimes delegated to a committee, department, or individual in the company. This delegation allows philanthropy to proceed in an organized, consistent, and

---

54 Porter, loc. cit.
fair manner. If requests for donations were dealt with only as they arose and by different individuals within the firm, much of the force of a coordinated philanthropic program would be lost.

Philanthropies and their coordinating agencies have been active in studying and adopting uniform and comparable accounting standards for financial reports. Before adoption of such standards, corporations had difficulty comparing one philanthropy with another and in evaluating results from donations made. Comparability and consistency in reporting should encourage efficiency in operation of the philanthropies and enable corporations to donate their money where it will do the most good.

Guides to corporate philanthropy. Once a corporation decides to make contributions, certain guides may be helpful in executing a gift-giving program. From these guides, managers may select those most appropriate to the particular firm; it is not proposed that any one firm could or should follow these guides to the letter:

1. A policy on philanthropy should be adopted.
   a. The policy should be written.
   b. The policy should be prepared, supported, and communicated by top management.
   c. The policy should state which projects or types of projects are to be supported.
   d. The policy should express the reasons for making contributions. One reason might be, "To assure an adequate supply of educated manpower."
2. Evaluation must follow contributions. The corporation must be able to measure the success of the project supported, both to improve future philanthropic efforts and to justify contributions.

3. Contributions should probably be publicized for the public relations value. Caution should be observed, however, because the public may get the idea that the donations were made solely for the public relations value.

4. Most contributions should benefit the corporation and society, at least in the long run.

5. Authority to make decisions on contributions should reside in one place in a company, and adequate staffing and other support should be given to the person(s) who makes the decisions.

6. Rather than give a small donation to each of many projects, the company probably should concentrate enough of its donations in a relatively few recipients for optimum effect.

7. A company should consider the desirability of establishing a philanthropic foundation. The merits of such an organization have been discussed above.

**Summary.** Corporate philanthropy, to the extent it has existed, appears to be within the law and accepted by stockholders and the general public. It would be difficult to believe otherwise than that society has derived benefit from these philanthropic endeavors. The business firms themselves and their managers have also received benefits of one kind or another: better educated employees, avoidance of taxes, improved public relations, and the satisfaction of giving.
CHAPTER VII

SUMMARY AND CONCLUSIONS

The determination of social responsibilities is one of the most basic decisions a manager must reach. Practically all business functions are affected, directly or indirectly. The decision involving social responsibility lends purpose to the manager and his firm and helps to justify and ensure their continued success. Moreover, many lesser considerations hinge on this basic decision. The very purpose of the firm is one of the issues involved. Many individuals and groups are affected by the decision, as are the economic, political, and social systems. The issues raised do not lend themselves to precise analysis and unassailable answers, but solutions, however tentative, are imperative.

Social responsibility is the obligation of business managers, however determined, to the various elements of society—stockholders, customers, employees, the government, and others—to perform adequately with respect to these elements. The responsibility does not necessarily exist at the sacrifice of profits of the firm. Within the firm it is the manager who acts with authority, and it is with the responsibility of the manager that this study was concerned.

The major findings of the study are organized in this summary according to the major hypothesis and the three collateral hypotheses. Because of the close relationships between the various findings, certain
conclusions might just as logically be included in another section from that chosen. Where this possibility exists, the writer has placed the finding in the section most in accord with the original intent of the investigation.

MAJOR HYPOTHESIS

The major hypothesis of this study is that:

The changing internal and external environment of business has caused business managers to assume and profess certain social responsibilities.

One of the most significant changes has been in the legal relationship of managers and stockholders.

Legal relationships of managers and stockholders. Managers of a corporation are legally the representatives of the stockholders. The stockholders elect the board of directors, which in turn appoints the officers of the corporation. In simplest terms, the law historically required that the board of directors and its officers conduct the corporation in the best interests of the stockholders, which was generally taken to mean maximizing profits and following a somewhat generous dividend policy. The interests of other groups were assumed to be represented by some other agency, perhaps by law, the government, or labor unions. This legal concept has come to be modified so that boards of directors have some leeway with regard to the earning and distribution of profits. The wishes of the stockholders are still the most important consideration, but managers are allowed to exercise considerable judgment as to what are the best interests of the corporation. Less than a maximum
profit may be earned and all profits need not be distributed as dividends. The effect has been to permit legally the meeting of certain social responsibilities even at the expense of earning and distributing profits.

Management as a profession. The degree to which management assumes the attributes of a profession affects the attitude which managers hold toward social responsibilities and, consequently, actions taken toward fulfilling those responsibilities. This study considered the requirements for a profession and indicated signs that management has a tendency toward becoming a profession. Among these signs are: (1) increasingly high levels of education required by managers, (2) a growing body of management literature, (3) frequent stress on the service aspect of business operations, and (4) the several trade and public service organizations which bring business managers together in a manner similar to formal professional associations.

There are, however, certain forces operating against the professionalization of management. Among them are: (1) continued examples of managers who concentrate on profits while failing to recognize service to the public as the basic purpose of economic activity, (2) the lack of recognized standards of qualification or performance and licensing provisions, (3) no strong, central professional association, (4) the lack of a common code of ethics, and (5) the number, geographic dispersion, and diverse types of managers.

The net result is that management is not likely to become a profession in the near future, though it has assumed certain of a
profession's attributes. As it does, a more favorable attitude toward social responsibility will exist, especially with regard to stressing service as the primary objective of business enterprise with a consequent lessening of the emphasis on profit maximization.

**Philosophy of management.** A management philosophy should be a carefully considered and justified system of motivating beliefs, concepts, and principles, and understandings which is held by an individual manager, by a particular business institution, or by managers in general, and upon which all actions taken by managers in solving problems are based. Such a mature philosophy is needed by managers in resolving the issues confronting them, including social responsibilities. The philosophy arrived at will find uses in many areas, particularly the areas of employee and public relations. A well-designed philosophy may help serve to: (1) develop better managers and to improve the quality of the process of managing; (2) defend the free enterprise system; (3) justify the continued existence of a particular business and to promote its success; and (4) benefit society. The conscious effort by many managers in recent years to arrive at a satisfactory philosophy of management would seem to favor the acceptance and meeting of social responsibilities.

**Role of the profit motive.** Profits are defined as the excess of returns over costs as conceived by the businessman. Profits are the fundamental criterion in measuring the desirability of alternative courses of action, an incentive to perform economic functions, and a measure of
business efficiency. Thus, profits play a vital and dynamic role in the
economy of the United States.

The profit motive is the prime mover of economic activity in the
United States. While recognizing other goals, economic analysis usually
assumes that profit maximization is the objective of business firms.
This objective, in an economy of near perfect competition, is also
generally assumed to result in maximum welfare for society. This study
has reaffirmed the dominance of the profit motive, but has shown that
profit maximization is not necessarily the sole objective of a business
firm.

Goal of satisfactory profits. While profits are the dominant
business motivation, it has been shown that the more likely profit
objective is to "satisfice" rather than to maximize. Alternate business
and personal objectives channel manager activity away from profit
maximization. In addition, certain obstacles to profit maximization
arise at higher levels of profitability. The very complexity of business
operations is seen as a hindering factor to profit maximization. Failure
to intend to achieve or actually achieve profit maximization opens the
way to meeting certain social responsibilities which would be inconsis-
tent with profit maximization.

Balancing of interests. Whether or not one likes the idea,
managers are in the position of having to balance the interests of
stockholders and several other groups: employees, customers, and the
public at large. An opposing conclusion is that managers must maximize
profits for the stockholders and let the other groups take care of
themselves. Many managers have adopted this view in the past. And the
other groups have taken care of themselves to some extent, through
labor unions, restrictive legislation, court decisions, and hostile
public opinion and pressure. A more beneficial attitude is that business
managers have considerable authority and influence concerning the several
groups, and should operate the firm to result in fair and just treatment
to stockholders, customers, employees, and the general public.

Complex environment of the manager. The manager of a business
firm, especially an executive of one of the larger corporations, operates
in an extremely complex environment. The economic system of the United
States has undergone several complicating changes. Among these changes
are: (1) closing of the geographic frontier, (2) population growth
which varies by geographic region, (3) migration of the population from
rural to urban areas, (4) large increase in total population, (5) shift
from an agricultural to an industrial economy, (6) advances in produc­
tion, (7) growth of large-scale business firms with all its consequences,
(8) increased government control, and (9) higher levels of consumer
education and living. In this complicated and complex environment,
managers have become very influential. The determination of their social
responsibilities is seen as particularly significant.

Taken in total, the changes which have been occurring in the
internal and external environment of business seem to have caused
business managers to accept, profess, justify, and meet certain social
responsibilities. The major responsibilities are summarized in the next section.

FIRST COLLATERAL HYPOTHESIS

This hypothesis is stated:

Certain of the social responsibilities that business managers accept may be observed and, to an extent, their rationale may be stated.

Part of this rationale is based on the source of managerial authority.

Source of managerial authority. The authority of managers is most realistically seen as flowing from society. Society, in attempting to operate in an organized fashion, has agreed to certain laws and their enforcement. The state was formed for this purpose, among others. The law of contract and the law of private property allow business firms to be established and employees to be hired. The force of these laws, in addition to the natural behavior of man, is generally sufficient to achieve obedience on the part of the employees. Thus, society allows business firms to operate. If managers of these firms do not exhibit socially responsible behavior, this right may be withdrawn or limited to whatever extent deemed necessary. Managers must be alert to the needs of society, from whence their authority flows. Managers can no longer justify their actions by claiming that the rigors of competition and the countervailing powers of other institutions are sufficient to limit their discretion so that considerations other than profit maximization are unnecessary.
Managers and stockholders. The above summary of the changing legal relationship between managers and stockholders indicates something of the slackening of the requirement that managers represent only the stockholders. The growth of large corporations and the consequent separation of ownership and management has also weakened the relationship of managers to stockholders. In large corporations, stockholders frequently are not very influential in corporate affairs. Great dissatisfaction is usually expressed by selling the stock, but this solution is not sufficient because of the financial loss which may result. A redeeming feature of this maneuver is that if enough stockholders sell their stock financial pressure is brought to bear on the managers. In general, stockholders appear to be satisfied with a dividend policy which provides cash rewards but also allows for company growth. Reasonable safety of investment relative to rate of return is also desired. For intelligent investing, stockholders need to be fully informed. In addition, managers should see that abuses by or to a minority of stockholders do not exist.

Consumers and the marketing concept. Consumers are benefited to the extent that managers recognize consumers as independent arbiters among competing offerings in the market place, and conduct their business firms so as to be responsive to the wishes of consumers. A firm which has adopted the marketing concept is a good example of how a company might best regard the consumer. The marketing concept means the mobilization, utilization, and control of total corporate effort for the purpose of satisfying consumer needs in ways which result in satisfactory
profits for the firm. The consumer is made the focal point of all company activities.

Influence of consumers. Alert, articulate, and financially strong consumers have considerable influence on managers, in their purchasing power, in affecting legislation, and in molding public opinion. An increased consumer influence has resulted from higher educational levels of consumers, informative nature of promotion, increased earnings, and, to a lesser degree, consumer cooperation.

Consumer legislation. Laws establish minimum standards of conduct for business managers. Since laws usually represent the will of the majority, justice is done through adherence to and enforcement of laws. Once a law is passed, managers may be expected to abide by its provisions. In those instances where the law is unclear, managers may seek a better understanding of the background and purpose of the law in question. Managers can also help avoid further restriction by conducting their business activities in such ways as to represent the best interests of consumers, which will result in maximum long-run benefit for the business as well.

Employee needs. In many respects, it is to their superiors at work that employees must look for need satisfaction. Money is only one means of satisfying these needs, being especially useful in meeting physiological and safety needs. Money is also instrumental in fulfilling the esteem needs, though there are additional ways. Social needs and the need for self-fulfillment are aided indirectly by money: money is used
first to satisfy the more basic needs so that more attention may be devoted to the higher needs.

Managers are also concerned with these more specific needs of employees: job security; approval; status; recognition; work of broad scope; freedom from boredom; rest periods; participation in decision-making; cooperation and teamwork; and, in some instances, competition. Managers may make conscious efforts toward meeting these needs with little, if any, sacrifice of company profits. In most instances, the satisfaction of employee needs will probably mean more profitable operations for the firm.

**Employee-employer legislation.** There is a rather involved legal relationship between employers and employees, whether or not a labor union is involved. Most of the legislative acts which have been passed are concerned with organized labor, however. Private contracts of employment exist where no unions are involved. The same responsibilities of managers deemed appropriate for consumer legislation apply here for employer-employee legislation. Managers are responsible for abiding by the laws as they best understand them and for supporting fair legislation and opposing unfair legislation.

**Automation.** Automation, a form of technological change, results in economic progress. The process of automating an activity involves mechanization which emphasizes automatic control; or mechanization of computation, data-processing, and record-keeping. Automation frequently creates or aggravates certain problems of employees. Among these are
displacement, unemployment, wage reductions, resistance to change, and feelings of insecurity and inadequacy. The employee may feel cut off from the product being manufactured, wages and salaries may be more difficult to administer, training and retraining become necessary, and still other problems arise. Some employee benefits may result from automation, including relief from boredom and the attainment of a wider perspective.

Managers may take several actions to reduce the impact of the unfavorable consequences of automation on employees. A few of these are: full utilization of the present work force, transfers where necessary, cooperation with involved labor unions, adequate communication with employees, training and retraining, special emphasis on human relations, careful planning, and employee involvement in the making of certain decisions concerning automation.

Labor unions. Employees in many companies present a new dimension of questions on social responsibility by their formation of labor unions. Unions vary widely as to nature and purpose, but if one assumes a mature and stable union, certain suggestions may lead to a satisfactory working relationship with them. Unions must be accepted as an institution, and collective bargaining must be recognized as a satisfactory means of handling employment relationships. A sound human relations program is necessary to recognize the needs and wants of employees. Unions should be consulted on matters other than those required by law. Managers should keep the union fully informed on all matters which concern them. Managers should learn from grievances so as to prevent similar problems
in the future. The political nature of union positions must be recognized and adjusted to. Management proposals to unions should be backed by unbiased and thorough research. Managers should oppose union activities which tend to undermine the economic system or which are otherwise contrary to the public interest. Managers should work with unions toward satisfactory solutions to problems in which both groups have legitimate interests.

Politics. Managers of business firms are becoming more interested and active in politics. Political activity may take many forms, all the way from simply urging employees to register and vote to allowing executives leave to fill elective offices. Some of the motives for expanded political activities are to improve business-government relations, to offset union power, to increase the efficiency of government, to reap individual rewards, and to meet social responsibilities.

Several objections have been raised to managers in politics: (1) The business view is too narrow, (2) employee resentment may arise, (3) interest in politics cannot be sustained among supervisors and managers, (4) business has an insatiable appetite for political power, and (5) political activity would mean the sacrifice of some profits. These objections seem to be outweighed by the advantages of managers in politics so that political activity by managers is likely to increase in the future.

Ethics. Ethics are the standards of conduct, based on some concept of right and wrong, established at a given point in time. Most
business activities are conducted in an ethical fashion, but there is room for significant improvement. Ethical questions arise in nearly every phase of a firm's operations. Existing guides to ethical behavior seem to be inadequate, or inadequate use of the guides is made. The government, representing the public, attempts to compel ethical conduct; better business bureaus restrain unethical behavior; and informed consumers apply pressure for higher ethical standards. But the most compelling need is for managers themselves to recognize the importance and desirability of good business ethics, codify thinking on ethical questions, and conduct business operations ethically.

Religion. Managers are concerned with religion. Business and religion are not two separate worlds. There are many connections between business and religion, and one may not be understood without considering the other. For long-run success and the development of lasting values, managers need a philosophy which includes religious convictions. Without this purpose, a manager may not be considered a whole man.

Probably no philosophy would be equally satisfactory for two managers. Each manager must develop his own philosophy in light of his experience and knowledge. Each manager, however, can learn from others, for much can be gained from the exchange of ideas. The influence of a manager with such a philosophy will be felt by all with whom he associates.

Philanthropy. Several events have served to encourage corporate philanthropy. Corporations have become so influential in the economy
that they have come to be expected to make philanthropic contributions. Tax laws have allowed limited donations as a business expense, which has the effect of reducing the cost of making a donation by about half. Philanthropic foundations have been established for various reasons, resulting in more formalized philanthropic programs.

Corporations may make philanthropic contributions because managers sense a moral obligation, because they want to limit governmental support of certain activities, or because the firms will reap direct benefits from better education and better community facilities. Support to higher education is one of the most keenly felt obligations.

Some guides which managers may find helpful are: (1) A written policy on philanthropy should be prepared and communicated by top management. (2) Results of contributions should be evaluated. (3) Better public relations will probably result from publicizing contributions. (4) Most contributions should benefit the corporation and society. (5) Authority for contributions should be centralized within a firm. (6) Contributions should be concentrated in only a few areas so that the recipients have enough funds to actually accomplish their purposes. (7) Establishment of a philanthropic foundation may be considered as a means of improving gift-giving programs.

The hypothesis that certain responsibilities may be observed and explained seems to have been established by the study. It was not proved that all business managers have all the responsibilities, nor would such a conclusion seem desirable. One of the reasons for different managers
having different responsibilities is seen in the case of large corporations.

SECOND COLLATERAL HYPOTHESIS

The second collateral hypothesis of this study is that:

Social responsibilities have been assumed to a greater extent by managers of large corporations whose stock ownership is widespread.

With the development of the corporation as the ownership type best suited to large-scale operations has come the separation of ownership and management. In the large corporation, it is usual that any one stockholder or even small group of stockholders has very little voice in the affairs of the corporation. The officers of the large corporation tend to perpetuate themselves in office. The result has been a management not entirely responsive to stockholder wishes. Opportunity then exists for the acceptance of social responsibilities even though the stockholders may not entirely approve.

The type of manager who makes managing his career is more likely to be found in the larger corporation. This study has shown that the manager may not be devoted to profit maximization, and that he may have reasons for engaging in socially responsible activities. The motivation of such a manager is very complex and, in many instances, managers are motivated toward social responsibilities at the same time they feel compelled not to maximize profits.

Large corporations also are more likely to have the financial strength to fulfill responsibilities of a financial nature. This
strength, coupled with their influence in the community, helps cause the public to expect responsible acts from the corporation, such as charitable contributions.

The large corporation is in a position to be able to wait for long-run results from responsible acts, such as financial or other support to education. Less permanent institutions may not exist a sufficient time to reap any rewards and would not, therefore, be as interested in that type of socially responsible behavior. It is also believed that the superior managerial talent found in larger corporations encourages a broader view of the close relationships between business and society, and more readily recognizes mutual responsibilities. One of the most significant relationships is the extent to which managers, in fulfilling social responsibilities, also benefit society.

THIRD COLLATERAL HYPOTHESIS

The third and final collateral hypothesis may be stated:

Given certain goals for society, the adoption of the attitude that business managers have social responsibilities results in benefits for society.

The possible benefits may be evaluated in terms of some scheme of the goals of society. Such a scheme outlines these goals of society:

1. Maximum attainment of each individual's potential.
2. Maximum individual freedom consistent with the requirements of an organized society.
3. Achievement of ever-increasing levels of living.
4. Adherence to the basic tenets of free enterprise while maintaining sufficient flexibility to adapt to changed conditions.
5. Attainment of such economic and military strength as is necessary to maintain world peace or to prevail in world conflict.
6. Progress toward the goals of higher civilizations, including spiritual and human values, equal opportunity, freedom from fear, and social justice.

Several dangers of having managers assume social responsibilities have been expressed. One is that managers would become unduly influential in matters which should not be their primary concern. This influence would not be exerted by popular election. Business managers would not be as unbiased in carrying out their duties in the various areas as would governmental bodies. Less stress would be placed on profits as an incentive for efficient operation; in time, a particular business firm might continue to exist because it was socially responsible and not because it was making a profit.

Most of these dangers, as has been seen, are overstated. The fact that business managers have traditionally been concerned chiefly with profits should not preclude a changing society from calling for increased social responsibilities from managers, especially when more and more managers are becoming aware of specific responsibilities.

Attention was called to those instances in the study when the acceptance of social responsibilities resulted in benefits for society. A partial list of specific instances in which society should be benefited by the acceptance of social responsibilities is summarized as follows:

1. Shaping and abiding by laws.
2. Keeping stockholders informed so that they may invest intelligently.
3. Stressing service as the primary purpose of business.
4. Developing a better understanding of the relationship of business with society.
5. Being willing to adapt to changing conditions.
6. Defending the economic system.
7. Motivating employees by satisfying their needs, particularly their higher needs.
8. Cooperating with and understanding mature labor unions.
9. Lessening the unfavorable impact of automation on employees.
10. Participating in politics to bring about better government.
11. Developing and maintaining high standards of ethical conduct.

Perhaps the meeting of certain responsibilities could be taken too far. Giving all the company's money away or devoting all of one's time to politics might be extremely useful in some cases, but if all business managers took similar action the result would not be desirable. Also, if business managers have social responsibilities, then labor union leaders, governmental officials, and other influential individuals likewise have social responsibilities. Business managers may be instrumental in reminding these other elements of society of their responsibilities.

The need for more widespread consideration of the social responsibilities of business managers can be observed nearly every day, from the misleading advertising of some small retailer in the daily newspaper to price-fixing by executives of the largest corporations. The increasing willingness by government to interfere in matters previously sacred to individual initiative or the workings of competition, especially where necessary, makes consideration more imperative for those objecting to further governmental encroachment. What will the future needs be? It would seem that even greater questions of social responsibility will be asked in the near future. Questions of the conservation of natural resources, water pollution, maintenance of a stable and growing economy, and foreign trade will not be answered easily.
SELECTED BIBLIOGRAPHY

A. BOOKS


B. PERIODICALS


"Company Social Responsibility--Too Much or Not Enough?" The Conference Board Record, I (April, 1964), 7-17.


"The Corporation, the Employee, and Politics; Should Management Encourage Political Activity?" Dun's Review and Modern Industry, LXXXIV (July, 1964), 38 ff.


Doan, Leland I. "Fundamental Role of Business Is To Operate Profitably," Commercial and Financial Chronicle, CLXXXVI (July 18, 1957), 286.


"Is It Good Business for Businessmen to Enter Politics?" Business Management, XXIII (October, 1962), 43 ff.


C. MISCELLANEOUS


 VAN COOK McGRAW, son of Mr. and Mrs. Henry Cecil McGraw, was born in Morganza, Louisiana, on June 15, 1934. He attended public schools of Natchitoches Parish and was graduated from Cloutierville High School in May, 1952. He enrolled in Northwestern State College of Louisiana in June, 1952, and received a Bachelor of Science degree with a major in business administration in May, 1956. From July, 1956, to January, 1957, he was employed as a Management Intern with the United States Civil Service Commission. He served as a second lieutenant in the United States Army from February to August, 1957. He was Instructor in Business Administration at Northwestern State College of Louisiana from September, 1957, to June, 1958. He then enrolled in the Graduate School of that institution and received his Master of Science in Education degree with a major in business in August, 1959. In September, 1959, he began teaching at Northeast Louisiana State College as an Instructor of Business Administration. He enrolled in the Graduate School at Louisiana State University in June, 1960, and attended summer sessions until September, 1962. From that date until May, 1964, he was a graduate student. He was made Assistant Professor of Business Administration at Northeast Louisiana State College in June, 1964. He became Head of the Department of Management and Marketing in September, 1964. He is now a candidate for the Doctor of Philosophy degree in the Department of Management and Marketing at Louisiana State University.
EXAMINATION AND THESIS REPORT

Candidate: Van Cook McGraw

Major Field: Management and Marketing

Title of Thesis: An Analysis of the Social Responsibilities of Business Managers

Approved:

[Signatures]

Major Professor and Chairman

Dean of the Graduate School

EXAMINING COMMITTEE:

[Signatures]

Date of Examination:

January 11, 1966