**Be socially responsible or perish!**

**Why 21st century business leaders need to be both economically and socially responsible?**

The American Economist, Milton Friedman famously argued in the 1960s and 1970s (see his book – *capitalism and freedom, published by the University of Chicago Press in 1962* and *his 1970 New York Times Magazine article, vol. 13, pp.32-33*)that:

“…*the social responsibility of business is to increase its profit*”

Specifically, Friedman argued that the main objective of business leaders, such as finance directors and CEOs should be to make as much money as possible for their owners, whilst operating within the law. Friedman made a number of arguments in support of his view. For example, he argued that by maximising profit, a firm will invariably be contributing to, and performing, its social responsibilities, if indeed it had any at all, in many ways, including creating jobs, providing essential goods and services, and paying more taxes. Similarly, Friedman argued that even if the corporation has social responsibilities, managers were ill-placed to identify the most urgent needs of society and therefore, any investments by business leaders may be misplaced. Managers may, for example, be biased in their choices – they may invest in issues that they are personally interested in or benefit from rather than those that society actually needs. Additionally and by contrast, government collects taxes, and therefore, it is not only the primary responsibility of the government to identify and meet the social needs of society, but they are also better placed to do so effectively and efficiently through political campaigns and elections. Consequently, Friedman argued that a business has no social responsibilities beyond complying with the law, such as faithfully paying its fair share of taxes.

Nevertheless, I note that Friedman’s view was largely a reflection of the now increasingly discredited Anglo-American shareholder model (common in the UK, US and the commonwealth) of the corporation in the 1960s that is underpinned by the concept of ‘shareholder primacy’. The concept of ‘shareholder primacy’ implies that the corporation exists first and foremost to serve the needs of its shareholders, and that the interests of any other stakeholders, if any, such as bankers/financiers, customers, employees, environment and society, and governments are secondary. Indeed and in contrast to the ‘shareholder model’, the stakeholder model (Continental European model, common in Germany and Japan) suggests that the corporation must be run to maximise the benefits of all stakeholders (such as employees, environment and government) of the firm of which shareholders are only one of them.

In this article, I explain why the shareholder model in general, and Friedman’s view regarding corporate social responsibility (CSR) in particular, is wrong, and therefore needs to be rejected in favour of the more feasible Continental European stakeholder model by 21st century business leaders. First, Friedman’s view of government does not always hold, especially in developing countries. Specifically, due to the often relatively limited resources, governments cannot simply do everything, and that there will be something for businesses to contribute to for society, especially in developing countries, such as education, housing, healthcare, water and environmental pollution. Second and more importantly, although governments collect taxes, in the context of weak and ineffective government, reminiscent of governments in developing countries, such taxes are not often used for the purposes for which they have been collected. The World Bank and other economic bodies, for example, report regularly that large amounts of taxes are siphoned by corrupt public officials and dictatorial regimes, especially in developing countries. Third, in some cases (developing countries), business leaders often connive with corrupt politicians and public officials by paying smaller bribes in lieu of paying larger taxes to the government, whilst in others (developed countries), business leaders usually employ complex and doggy tax schemes to avoid paying taxes with numerous available examples. Further, in failed states, such as war torn countries, there are often simply no governments to provide the needs of society. Thus, due to these apparent market failures and imperfections, in practice, responsible businesses will have a role to play in fulfilling some form of social responsibility.

Noticeably, much of Friedman’s views on CSR is that it erroneously assumed that the fulfilment of a business social responsibility is distinct from the long-term sustainability of that business. Far from this, a business relies and is strongly interdependent on other stakeholders in order to be sustainable. For example, some scholars have suggested that a business is made up of social groups in which each group can be considered as providing the business with an essential resource (contributions) and in exchange expect their interests to be advanced (inducements). In this case, shareholders provide funds to the business and in return, they expect higher profits. Bankers/creditors offer loans to the business and in exchange, they expect their interests/loans to be paid back on time. Business leaders and workers offer their time/skills to the business and in exchange, they expect their wages and salaries to be paid on time. Customers pay fair price and in exchange, they expect to receive safe and high quality goods, products and/or services. Local communities provide the business with location/local amenities and in return, they expect the company to better their quality of life, and this has been suggested to be the case for all reasonable conceivable stakeholders of the firm, such as governments. Hence, businesses and communities are intertwined, and arguably without the contributions of the other stakeholders of the firm, any business is likely to collapse.

Indeed, there are clear benefits to business leaders and companies that behave in a socially responsible manner. For example, companies who take good care of the environment by pursuing ethical and green policies, such as cutting greenhouse gas emissions can reduce their energy costs and risk exposures, but also improve their corporate goodwill, image and reputation. Such businesses can, for instance, attract the best labour force and executives in the future to work for them. More importantly, many years of research has shown that socially responsible companies are valued higher than their counterparts that are not, meaning that being socially responsible can be good way of increasing corporate profits. For instance, in my own research (please see here: [10.1016/j.intacc.2016.04.006](http://dx.doi.org/10.1016/j.intacc.2016.04.006), [10.1111/corg.12026](http://dx.doi.org/10.1111/corg.12026) and [10.1111/j.1467-8683.2011.00891.x](http://dx.doi.org/10.1111/j.1467-8683.2011.00891.x)), I found that companies that care about and contribute to social causes, such as supporting HIV/aids employees/patients in Africa generally, and South Africa in particular, were valued much higher than those that did not. And the need for business leaders and corporations to be socially responsible is, arguably, more pronounced in the 21st century than never before, with major social and environmental challenges, such as global warming and climate change dangerously looming.

Therefore and in my view, the question is not whether modern businesses have social responsibilities or not to fulfill, but rather what types of business ethics, principles and skills set that modern business leaders may require in order to be both economically and socially responsible? First modern business leaders need to be committed to the principles of accountability, discipline, fairness, honesty, integrity, responsibility, social responsibility and transparency. This means that business leaders do not only need to serve as good stewards of the firm by demonstrating accountability, transparency and responsibility to their shareholders, but also showing ethical, fairness and social responsibility to the broader stakeholders of the business, such as the customers, employees, environment and government.

To be successful at pursuing efficient and effective management that does not only maximises financial value for shareholders, but also environmental and social value for other stakeholders of the firm, 21st century business leaders, especially finance directors will need to have multifaceted set of hard and soft skills. For example, business leaders that can be both economically and socially responsible may need to have contemporary skills in handling and processing big data, IT and technology along with critical thinking and questioning skills. Furthermore and more importantly, multi-disciplinary skills that draw on knowledge from a wide range of areas, such as archaeology, biology, development, engineering, history, geography, philosophy and politics in addition to the traditional accounting, business, economics, finance, law and management skills will be central to the capacity of business leaders to maintain long-term sustainable business operations that maximise both financial and social value. This also has major implications for the design and delivery of 21st century business education – a move from a business alone focused studies to multidisciplinary studies that allow future business leaders to be exposed to and learn from different disciplines that will equip them with both strong economic and social skills.

In conclusion, modern business leaders and public corporations will ultimately need to have to seriously embrace their social responsibilities or perish!

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