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Business' Social Responsibility Does Not Entitle Society to Profit.

Much is being said today about Finance sector management violating the "social contract" in their over-leveraging and under-priced risk. What does that mean?

For some, social contract means that business exists solely to provide a valuable service to society and society has the right to take control of any business that fails to provide such. I read a comment recently from someone quoting Peter Drucker in an attempt to make the point that businesses don't exist for their own sake, but to provide valuable service to society. But the part of the comment that made me think was the assertion that "when short-term opportunism proves toxic society has no choice but to take corrective steps...and the [Finance Sector] has clearly shown that self-responsible governance isn't workable."

After reading that, I became very interested in exactly what Peter Drucker had to say about that balance between the purpose of business and its social responsibility.

In *Management: Tasks, Responsibilities, Practices*, Drucker explains that managers have three tasks in business. Those primary tasks are (1) economic performance, (2) make work productive and the worker achieving, and (3) managing social impacts and social responsibilities.

Drucker carefully explains that "business management must always, in every decision and action, put economic performance first" because businesses existence can only be justified by economic performance. Regarding social responsibility, Drucker says, "none of our institutions exists by itself and is an end in itself. Every one is an organ of society and exists for the sake of society. Business is no exception. Free enterprise cannot be justified as being good for business. It can be justified only as being good for society."

There are four important things here that, if understood and followed, will result in society's continued benefit from capitalism.

First, economic performance justifies the existence of a business, not its social responsibility. However, any business that hopes

society using its products and services, must never forget to survive and benefit from that it exists within a community. A community it needs to both operate its business and profit successfully.

Second, free enterprise is justified because it is good for society. The justification of our free-market system rests in its benefit for society, not just for business. But, just because free enterprise is justified by its benefit to society, this does not mean the government has moral authority to interfere with business. Government has a role here, but in America, the extent of governments reach is determined by the will of the people. Let us be prudent in how much reach we grant, however necessary it might be in these times.

Third, a private business belongs to its owners/shareholders not the general public. (Now, of course, the exception is when in fact the business is owned by government) The idea that society is justified in taking "corrective steps" to control a private business is dangerous for free enterprise, and therefore, dangerous for society who ultimately benefits from the free market system. If a private business is not being a responsible neighbor, employer or provider of valuable products and service they will go out of business. And, such businesses whose leadership fail at economic performance, productivity and managing its social impact should be allowed to go out of business.

Fourth, whatever social responsibility a business has, that responsibility does not entitle society to its profits. Society should benefit from the quantity and quality of products and services of the business. Society should benefit from the jobs and tax revenue a business generates. But, society is not entitled to the existence of or the revenue from an enterprise.

The social contact between business and society comes down to personal and institutional accountability. Being responsible and acting with a sense of duty toward others is essential to free enterprise and its benefits to society.



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