

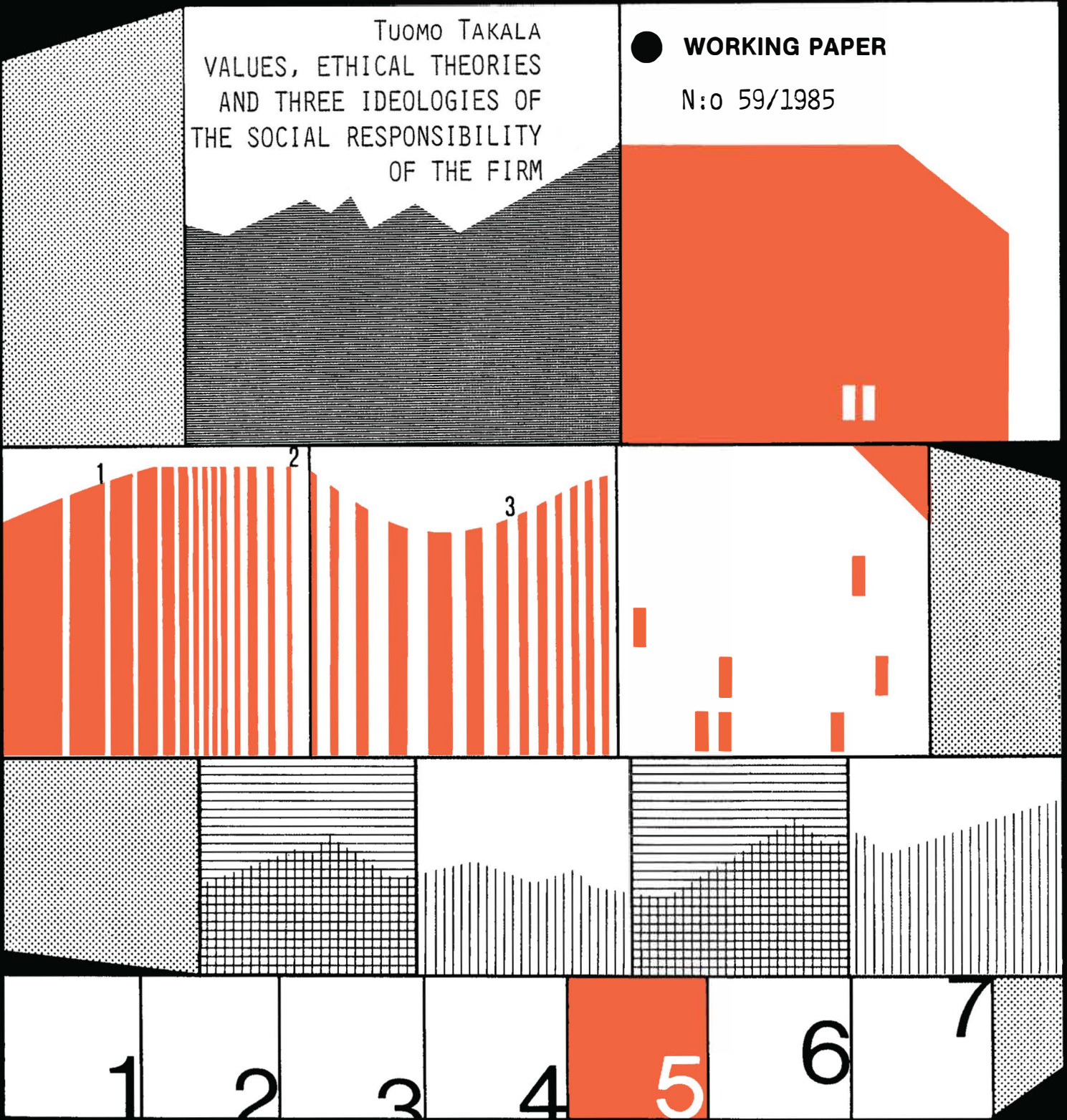
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AND MANAGEMENT

TUOMO TAKALA
VALUES, ETHICAL THEORIES
AND THREE IDEOLOGIES OF
THE SOCIAL RESPONSIBILITY
OF THE FIRM

● WORKING PAPER

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VALUES, ETHICAL THEORIES AND THREE IDEOLOGIES OF THE SOCIAL RESPONSIBILITY OF THE FIRM

The article in question touches upon one of the central topics in business ethics, the social responsibility of the firm. My aim is to present different ideologies of the social responsibility of the firm and examine some value themes including in them. I suggest that we can distinguish three such ideologies: the traditional ideology, the modern ideology and (what is new in the S.R. debate) the alternative or "green" ideology.

I try to show that the traditional and modern ideology are based on lower values compared with the alternative ideology. I propose that the modern and traditional ideology are based on the utilitarian, teleological, moral philosophy whereas the alternative ideology is based chiefly on the deontological tradition. To sum up: the main point of this article is to try to prove that the alternative ideology is the most moral. The second aim is to give new perspective to the social responsibility debate.

INTRODUCTION

The present paper is intended to combine theories of ethics, questions of value, and the implicit, normative rules directing the activities of enterprises with a discussion of the social responsibilities of enterprises.

It is a fact that different hierarchies of values are prevalent at different times in enterprises and, on the other hand in society. It can well be assumed, that a greater stress was laid on pure economical values in the

beginning of the 20th century than is the case at the present time. The values prevalent in the society around the enterprises have also undergone changes. Demands are beginning to be made to enterprises in form of legislation as well as the change in the public opinion to consider other factors apart from their own economical aims. The fast expanding legislation is a typical example (Kettunen & Marjosola 1978).

A change in values can be thematized as a concept, which is at the present moment widely discussed. This concept is the social responsibility of firms. This term can be defined as to include the relationship between enterprises and the society at all levels. A firm is responsible to groups connected with it and to the society as a whole. The most traditional and perhaps the strongest connected group have been the employees of the firm. In the course of years, however, new groups have constituted themselves to demand responsibility from firms, such as consumers, environmentalists etc. It has been found that during the 1970's the interest towards such questions has increased considerably, the social responsibility of firms began to be explicitly discussed (Näsi 1982). In the 80's also the social responsibility of firms has often been discussed, eg. In the summer of 1984 made the meeting of the Club of Rome the following statement: "The values of enterprises are outdated. Enterprises must find their place among the different structures of society while at the same time retaining their basic economical function, which is the transformation of labour into products. Firms must understand their social responsibility. The scale of values which emphasizes size and competition is outdated" (Helsingin Sanomat 13.7.1982).

1. VALUES

1.1. Values and culture

Values are matters, which concern our everyday-life. At the same time they are the basic motives underlying our actions. We strive for something, because it is in one way or another valuable to us. Thus, values can be considered to express the hierarchy of our needs, which show themselves in situations of personal choice.

Culture is closely connected with values. The achievements of our culture express the things which we value. These values can be of a different nature; vital, hedonistic, aesthetic, cognitive. These include different shades and they have been different at different times, among different people, nations and cultures, above all, they have differed as regards their level. Our present values differ greatly from what people valued in the Middle ages. At that time the church was the dominant institution and religious values governed people's lives.

Ultimately each individual has his own individual ethos of values. This is also the case with different cultural institutions, eg. firms can have their own corporate culture which has developed as a product of the prevalent social culture. On the other hand, the corporate culture reflects back onto the values of the society and thus in turn causes others to set values in an order corresponding to its own.

The different premises of this paper as regards values are as follows

there exist things, which appear to us as valuable in themselves and some things appear more valuable than others

- that there are different orders of values
- that there exists a hierarchy of values where aesthetic, cognitive, religious, and complex values are higher than hedonistic and vital values.

The classification of values will be more closely discussed below. The classification in question will be used when value elements contained in different corporate ideologies are investigated.

1.2. Classification of values

Values can be classified according to different criteria. The axiology used here has been put forward by Erik Ahlman and is based on a division by the Edmund Spranger (Ahlman 1939).

- 1) Hedonistic values, where sensory pleasure is taken to be the most valuable factor. Hedonistic values are generally taken to represent the lowest order of values. Hedonistic values are acceptable insofar as they are connected with higher values eg. aesthetic ones. "We do not live in order to eat but eat in order to live."
- 2) Vital values, where life itself is taken to be a value as such. Vital values are important since the very experiencing of other values presupposes the existence of life.
- 3) Aesthetic values. The various arts constitute the realization of these values in a culture.
- 4) Cognitive values. Science and philosophy serve to support and actualize cognitive values, as well as

all that is needed for the exercising of science: concepts, theories and systems. The truth is also an important concept. The realization of these values aims at the increase of knowledge, this is considered to be a value as such. The increase of knowledge also creates the potential for changing the world.

- 5) Religious values. Dogms and cults are a realization of these values, as are religious groupings.

The following are so-called complex values (values, which presuppose the existence of other values) based on the above values:

- a) social values: These appear in the form of human kindness and philanthropy. Education is also largely based on social values. The socially valuable can only exist, if there exist other values independent from it, the realization of which for individuals is furthered by social assistance.
- b) power values: Within a culture, power expresses itself mainly in the political life, eg. knowledge may be only a means for the achievement of power values. The value of national independent is a power value.
- c) justice values: A striving for justice is a value as such. Justice values also presuppose the existence of other values, for justice can only be discussed as regards something valuable being divided or dividing itself between different subjects.
- d) ethical values: These are personal values. They do not demonstrate themselves in the form of cultural entities in the same sense as do aesthetic and other values that have been discussed. That which expresses ethical values also expresses some other value at the same time.

2. THEORIES OF ETHICS

The term theories of ethics, as used in this paper, refers to

- a) Teleological theories, represented by utilitarianism
- b) Deontological theories, represented by Immanuel Kant's ethical position

2.1. Utilitarianism "the philosophy of Great National Product"

The teleological theories of ethics are characterized by an emphasis on the consequences of certain deeds and practices. Thus, the moral value of deeds or practices is determined solely and purely by the consequences caused by them. The concepts of duty and will are secondary as compared to consequences. For this reason these theories are called consequence-ethical theories.

As is well known, the most famous utilitarian moral philosophers are Jeremy Bentham and John Stuart Mill. Jeremy Bentham represented the so-called hedonistic utilitarianism, which emphasized the value of pleasure as such: An individual attempts rationally to maximize the amount of pleasure. Bentham further developed the so-called hedonic calculus (Bentham 1789). In order to measure the magnitude of a pleasure or pain or to compare one pleasure or pain with another we must consider certain properties that the pleasure or pain has considered on its own. These are its intensity, its duration, its certainty, its propinquity, fecundity and purity and its extent.

These seven are dimensions of pleasure and pain and Bentham says that in estimating the tendency of an action we

must first take an account of the value of each pleasure and pain that it will produce and then balance the sum of pleasure against the sum of pain. John Stuart Mill was a follower of Bentham as a developer of the utilitarian theory. He denied Bentham's contention that pleasure and pain could be mechanically calculated, and submitted, that there existed other independent values apart from pleasure (Mill 1863). Thus, he represented idealistic utilitarianism. Even to this day, however, utilitarianism has retained its characteristic emphasis on utility. The directive of a utilitarian is this: An action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any act the agent could have performed in its place. Utility in this sense signifies material good, which is measured by the Great National Product. As Quinton points out: " it does not therefore endorse unqualified enlargement of the Gross National Product, although GNP is no doubt the most accessible measure of the total stock of utility produced by a social economic system" (Quinton 1973). Thus, utilitarianism appears to be a theory based on an emphasis on economical values. Applying Ahlman's theory of values, we can argue, that economical values are a category of values within hedonistic ones. The concept of utility lies at the core of economical values. Utility is, however, essentially a value of means, and it is valuable only in proportion to the amount of pleasure that can be achieved by it. Utility may, in a secondary sense, appear to be the ultimate motive for human action, and in this sense it may seem like an independent category of value. It is not, however, a value as such, as pleasure undeniably is. It is possible to ultimately motivate action by its production sensory pleasure, but not by its "producing utility".

If the above reasoning is accepted, it can be stated that utilitarianism shows itself to ultimately support material values. This conclusion makes arguable the contention that utilitarianism on its own could constitute a sufficient moral theory for "a genuinely moralistic ideology" concerning the social responsibility of the firm. Consequently we must rely on deontological positions, which emphasize duty and will to be able to construct a sufficiently genuine moralistic basic theory for the social responsibility of the firm.

It is also evident that utilitarianism fails to consider the non-material qualities included in life. It remains "a philosophy of National Product" and is unable to produce activity which would express higher values. Utilitarianism cannot motivate people to actions which would be valuable as such, it expresses poiesis-type of action where the aim is a product or result (poiesis) which is separate from the act itself (Aristotle 1984)

2.2. Kant's ethics - a philosophy of "the quality of life"

Immanuel Kant expressed the general principles of his ethical position in his work "Kritik der Praktischen Vernunft". His ethical theory is completely deontological, the consequences of an act do not determine the moral value of the act, but an act is moral only if it is committed out of good will. "Wherein can lie this value, if not in the will which is directed towards the desired outcome of acts. It can only lie on the principle of will, without regard to the motives which may be realized by such an act" (Kant 1785).

On the other hand, when we are acting on the basis of a feeling or an instinct, our deed does not have a moral

value, even if the consequences would be identical as compared with an act committed out of duty.

Kant submits that people are rational beings and therefore we possess the ability to reflect on our actions. This quality places upon people the duty to act in accordance with the way required by the categorical imperative. "Always act according to the maxim where you can hope that the maxim would become a general law. This can be expressed in another way: Always act only in such a way that you do not consider yourself or other beings just as means to an end but as an aim as such." (Kant, 1785)

Kant's approach puts constraints on utilitarianism in this respect, since the above principle can be considered to have been violated, if utilitarian goals are aimed for. Utilitarianism considers individual happiness to be only a means in furthering the total happiness in society, which nowadays is commonly measured by the Great National Product. Kant's ethics, on the other hand, could act as a basic philosophy for thinking that stresses the quality of life. In doing this, the quality of life can be dealt with through two different aspects:

- 1) Well-being. This includes the satisfying of needs connected with the relationships between people, an individual and the society, as well as man and nature.
- 2) Happiness, which includes subjective feelings and experiences about relationships with people, nature and society (Allardt 1976).

When these two aspects are emphasized, the stress of values will shift also in economical activity from the lower values to the higher ones. At the same time a transfer will be made from the striving for standard

of living to different ways of realizing one's individual potential, from "having" to "loving" and "being".

Action, which aims for the quality of life, stresses the higher values, which were eg. aesthetic, cognitive, social and justice values. A corporate philosophy based on Kant would present us with the following maxim: "We must act in the corporate life in such a way that we organize corporate activity in accordance with principles which express higher values."

On practical terms this would mean corporate activity having goals apart from the profit motive, and even at its cost, which further the quality of life.

This requirement can be made to those involved in corporate activity, since they are rational beings possessing a moral sense.

Thus, the corporate activity striving for the quality of life will approach the type of activity described by Aristotle by the concept of praxis. A person involved in corporate activity no longer experiences, that the value of his actions is measured purely on the grounds of results ensuing from them, but, instead, the activity possesses a value all its own. At the same time, the social motive also gains a central position in corporate activity.

This type of corporate activity is practiced by for instance certain kinds of co-operational enterprises, which base their ideology on helping the developing countries, alleviating social problems et cetera.

To sum up: I have submitted, that Kant's ethics, as opposed to utilitarianism, can function as a basic

- 2) Views supporting wider social responsibility, or the modern ideology of corporate social responsibility
- 3) Views supporting a very wide social responsibility, or the so-called "alternative" or moralistic ideology

Each one of these views comprises their special features, which also serve to differentiate between the different ideologies. Some of these are:

- Profit. Views concerning the profit motive in relation to general social good. A central point is, whether the profit motive is seen as an end in itself, or as means to something else (for instance social good). The owners of the enterprise and the management. The central point is whom the management is seen as being responsible to, owners or also other connected groups.
- The state and corporate activity. View as to the relation on the functions of the state as related to enterprises.
- Law and responsibility. Views concerning firms and social responsibility in the case of explicit social obligations. The significant point here is whether an enterprise should accept social responsibilities beyond those stated in the law and what is the relationship of this task with the profit motive.
- The motive for acting, when the enterprise is fulfilling its economical and social functions. The motives given for undertaking social responsibilities are a central issue:
 - a) Teleological ethic: Motive secondary, consequences primary in evaluating actions.
 - b) Deontological ethic: The motive of action primarily used for evaluation, results secondary. A wish to do right is central.

The above points contain the general principles, on the basis of which it is possible to define the characteristic

philosophy for a new corporate ideology. Acting in accordance with this philosophy means that corporate activity must be organized according to principles aimed at an improvement in the quality of life. Corporate activity would then change from being activity aimed at the satisfaction of the lower needs to be more in accordance with praxis-type of activity.

3. THE THREE IDEOLOGIES CONCERNING THE SOCIAL RESPONSIBILITY OF FIRMS

The above chapters have been dealing with values, different theories of ethics as an expression of values, and the basic philosophy of corporate activity, based on values, which would further the quality of life. All these themes will combine in this chapter under one of the main concepts of this paper; which is the social responsibility of firms.

A lot has been written on the social responsibility of firms. The writers agree on one point at least, namely on the concept being open to many interpretations. It is difficult to define exactly what this area comprises. The need for a definition has, however, been stressed by many researchers for some time, for example, one of the central themes of the meeting of the Club of Rome in Helsinki in 1984 was whether the values of enterprises are outdated.

On grounds of initial research I have come to the conclusion that it is possible to form three ideologies concerning the social responsibility of firms.

They are:

- 1) Views supporting limited social responsibility, or traditional and fundamentalistic views

features of different corporate ideologies in more detail.

The traditional or fundamentalistic ideologies, which support a limited social responsibility, contain the idea that an enterprise is taking social responsibility when its code of behaviour is: "When an enterprise is acting purely in order to maximize its profits, this automatically causes the maximal good for the society as a whole" (Friedman 1962). Jacopy calls this the classical market model:

"The classical market model did not contemplate involvement by the firm in the solution of social problems, in the sense that we now understand it. Guided by the rule of profit maximation the enterprise was considered to have discharged its responsibilities to society if it efficiently met market demands for its products. Such essentially was the view of business social responsibility up through the initial decades of 20th century" (Jacopy 1972).

The social responsibility of a firm as seen according to this way of thought is well described in the following quote: "This position, which I shall call 'the minimalist theory of social responsibility', is this: If business executives are said to have social responsibility at all, it is responsibility merely to meet their fiduciary obligations to the shareholders of a firm in conformity with the laws and regulations of federal state, and local governments. Beyond this, executives have no added social responsibilities which they are required to meet. From this point of view, then, by producing a healthy return to shareholders such executives meet the sole important responsibility of their profession and they provide significant benefits to consumer, worker and the

wider society" (Brummer 1983). The traditional ideology of the social responsibility of the firm in a way does not deny the existence of a social responsibility, but explains that only the maximal profit motive without social obligations guarantees the best utilitarian good for the firm as well as the society as a whole. A firm may even be called irresponsible, if it accepts social obligations which jeopardise or make more difficult the gain of profit. The ideological background for this can be found in the thoughts of Adam Smith, liberalism and individualism. Petit calls the central thought of this way of thinking "the Profit Ethic" (Petit 1967). One of the most influential modern economical theorists, Milton Friedman, is a strong supporter of this way of thought... "there is one and only one social responsibility of the 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" (Friedman 1962). While acting according to this principle, an empirically verifiable interdependence can be assumed to exist between efficiency, the maximization of profit and the welfare of society (Kettunen 1981). A positive correlation is then always assumed to exist between the maximization of the profit (= the aim of the firm) and an increase in the utilitarian good of the society.

Views supporting a wider social responsibility of firms, or the modern ideology of social responsibility of firms, emphasizes the idea that a firm must undertake social tasks which are not explicitly stipulated by the law. A firm will thus undertake social obligations, or activities, which do not increase its immediate profit. The profit motive has, however, generally been considered primary when considering the function of the firm.

Schreuder states: "In the mean time other business goals have been recognized such as continuity, growth, increasing the market share of the value of the firm. But profit is, of course, a derivative of these goals and has remained ultimate criterion in business actions" (Schreuder 1978) Another important feature of this ideology is the demand to accept social obligations beyond those stated in law. The law is needed to ensure a certain minimal level of responsibility in the activities of the firm. The laws guarantee the minimum of social responsibility that a firm must undertake. If business procedures or some other informal set of norms is ethically too underdeveloped, the law must state the limits of minimum responsibility.

Many researchers have attempted to define analytically some mutually exclusive conceptual forms of responsibility required from business. Holmes, for instance, defines the different alternatives as follows:

- 1) Corporations ought not to assume social responsibilities
- 2) Corporations may (but aren't obligated to) assume social responsibilities:
 - a) When doing so is consistent with profit maximization, or
 - b) Even at the cost of profit maximization
- 3) Corporations ought to assume social responsibilities,
 - a) When doing so is consistent with profit maximization
 - b) Even at the cost of profit maximization (Holmes 1979)

Position 1 will then correspond to the classical or fundamentalistic ideology as regards the social responsibility of firms. Position 2 represents the modern activity in accordance with the long-term benefits of the business, socially responsible activity is seen as voluntary without exterior sanctions. Of these, position 2a clearly expresses the long term benefit of the firm and the maximization of profit as coinciding. Position 2b allows

for social activity at the cost of decreased profit. In doing this, the motive of the activity must, however, be the firm's own advantage. Position 3 contains a stronger moral compulsion than the previous point, an ethical maxim according to which the firm must act. There is an obvious modality of "having to" involved, which, in accordance with ethics emphasizing duty, requires the firm to act in a socially responsible way.

Significant features can thus be defined as the emphasis on teleological, or consequence ethical motive for action, and the stress laid on the long term advantage of the firm, or egoistic motive.

The above ideas could be stated as follows:

"When an enterprise is acting in a socially responsible way, e.g. accepting social responsibilities beyond those stated in the law this causes the firm to gain the greatest possible profit."

The third ideology concerning the social responsibility of firms, which I shall call the alternative ideology, lays more emphasis than the previous ones on the ethical nature of business activity. It is best described by position 3b defined by Holmes. A firm must accept social obligations even when this is not consistent with profit motive. Thus, striving for profit and its maximization are seen as secondary as compared to other aims emphasizing welfare and happiness.

As will be understood from the above, it is important that this type of business activity is undertaken for some definite good cause. The motive of activity will then gain primary importance and also the scale of values often differs from that applied in connection with the above described ideologies, e.g. the higher independent

values will gain a primary importance as compared to the lower motives for action.

A good example of this type of activity is provided by certain types of co-operational enterprises. The economical scientist, Alfred Marshall, stated already in 1889 that the difference between the co-operative movement and other economical organizations lies in that co-operative ideal subjects economical functions to ethical aims (Laidlaw 1981). Another promoter of such "soft" business activity has been E.F. Schumacher, who has put forward various alternative business models to ordinary "capitalistic" enterprises (Schumacher 1973).

The social responsibility of firms can be seen as an ever-expanding circle or sphere where the narrowest possible responsibility, the maximization of profit, represents the most egotistic view. The widest sphere is the concept of responsibility that embraces the benefit of humanity as a whole. The moralistic ideology in question represents this view, which considers the requirements of all connected groups. In business activity, profit motive is no longer considered to be the primary goal, but the basis of activity is the realization of certain, basic humanistic values. Thus, altruistic motivation is approached.

This type of enterprises, which function on the basis of some deontological maxim, have a strong ideological basis. Each individual working for the firm must feel a strong commitment to the principal aims for the organization not to collapse.

The motto of this type of ideology might be: "the principal aim in the functioning of the enterprise is to act in accordance with factors stressing the quality of life

on the basis of generally accepted complex moral values." The activity of the firm and its survival are meaningful only insofar as the firm is able to serve higher values and general good.

4. FINAL REMARKS

I have presented in the article concerned, three ideologies of the social responsibility of the firm. Two of them, the traditional and modern ideologies, have been taken up for discussion in many articles and books, After all, the third ideology, which doesn't prefer the egotistic self-interest motive in practising business, is very actual in the eighties. The firms or co-ops functioning according to this ideology generally are small and are based on the very ideal foundation. The business actions practising by them often are smallscale-business. F.e.g. there are firms, which sell all kinds of commodities produced in development countries and then send the profit wholly to the producer. Good examples are also communes of different types, which produce commodities respecting certain ethical rules and send earned profit to people starving in Africa. It is very difficult to estimate how those firms will succeed in the future. On the other hand it is very propable that they will change into "ordinary" businessfirms, if the ideals of people working in them crash down and on the other hand the danger of bankruptcy is very evident. In the most positive case they are surviving and creating new potential for change in the society.

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