Why Business Leaders Are Profit Motivated Rather than Socially Motivated: The Role of Business Education

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ABSTRACT

The public perceives that business leaders make decisions only to maximize profits. Much of the public believes this behavior is wrong. This article examines the role of business college curricula in creating a profit maximizing, organizationally-centered decision making process rather than a socially responsible, human-centered view. It is asserted that a human-centered view is necessary. To achieve this, an alternative characterization of business is proposed that aims at sustainable organizational performance and places social responsibility on investors as well as on managers.

Keywords: Business school curricula; Corporate social responsibility; Human World View; Organizational World View; Profit maximizing models; Sustainable organizational performance

THE PROBLEM

Twenty-first century business decision makers are often accused of considering only profits, while twentieth century decision makers also considered the needs of at least employees and the community. Many observers are upset about this. They wish to return to “the good old days” when business leaders were expected to be “pillars of the community.” It seems the modern leader will instead be chastised for considering any variable other than stockholder profitability – usually short-term at that.

The provocative question is, why have times changed? Why is the modern decision maker so “self-centered?” We believe there are two basic reasons: 1) they are forced to be, and, 2) they choose to be. Decision makers in competitive economies are theoretically forced by Adam Smith’s (1937) “invisible hand” to consider only profits. Ironically, Smith, himself, was a strong believer in the social responsibilities of business. He clearly recognized that business must actively serve the community. So did the mid-20th century scions of industry. Bowen (1953) laid out fundamental arguments for social responsibility, asserting that managers had expectations to go beyond profit maximizing. Further, Heald (1957, 1970) both advocated this corporate focus and provided evidence of businesses’ attention to social responsibility during the first half of the century. The twin ideas of profitability and social responsibility have been thought to be compatible in the past. Why are contemporary decision makers forced to feel differently now? We believe it is largely because highly visible publically traded companies are often controlled by institutional investors who do not feel they can be or should be held responsible to others in any human-valued, as contrasted to economically-valued, way.

We, however, are more interested in the second reason; that is, decision makers choose this path. Why do contemporary decision makers not choose to feel responsible to anyone other than stockholders? We believe that a major contributory factor is the widespread acceptance of Milton Friedman’s (1970) contention that “the (only) responsibility of business is to maximize profits.” With an aside that Friedman rationalizes that maximized profit-making is the best contribution business can make to the overall community good, enough people do not believe him to require further assessment of his premise. Our concern is that the people who run businesses overwhelmingly think profit maximization is the optimal way to run an economy. Why are they so convinced? As professors of business administration, we believe a major contributory factor is what we teach in business schools.
In the remainder of this paper, we present our arguments in eight sections as follows: how we got to where we are; current state of values in MBA education; why human values should be taught; who makes the decision - managers or financiers; a plan for implementation; is the Human-centered Worldview (HWV) model doable; where do we go from here; and conclusions.

HOW WE GOT TO WHERE WE ARE

The musical Oklahoma! states, “The farmer and the cowman should be friends.” But they are not. Neither are business scholars who solely advocate profitability and those who advocate a broader sense of corporate responsibility. Their positions are in enduring, profound disagreement and are likely to remain that way. They confound the prescription of business school curricula.

All agree that American businesses must be responsible for profits. Whether businesses must be responsible for anything more is the subject of debate. Proponents of the narrow view of business responsibility concern themselves only with financial investors. Proponents of the wider view of business concern themselves also with employees, society and nature. Business practitioners, scholars, and students are divided on this matter, but predominantly favor the narrow view. Many outside these three groups do not.

In a perfect world, we could have it all. In the real world, we may not be able to. In many instances, the socially responsible decision is not profitable. Decision makers are often forced to make tough choices between profits, people, and the planet. All agree that business programs should prepare graduates to make those choices. There is not agreement, however, on what those choices should be. Research on the relationship between profit and social responsibility has yielded mixed results, varying from a positive relationship to a negative relationship to no relationship (Griffin & Mahon, 1997; Margolis & Walsh, 2001).

This article examines competing models of responsibility and assesses why the conflicting positions inherently cannot be compromised or accommodated. Giacalone and Thompson (2006) categorized two ways of thinking about corporate responsibility: Organization-centered Worldview (OWV) and Human-centered Worldview (HWV). A worldview can be described as beliefs concerning desirable versus undesirable behaviors, objects, experiences, and relationships (Koltko-Rivera, 2004). We use these two worldviews to examine the state of business decisions and the role business schools play in these views.

Much has been made of 21st century changes in the way business is conducted. In the view of many, institutional investors, outsourcing, and global competition have allegedly clarified and limited the purpose of business to the OWV model of maximization of shareholder wealth, often in the shortest of runs. Contemporary business education, particularly of MBAs, allegedly exacerbates this perspective by focusing disproportionately on stockholder wealth models, promoting economics and finance at the expense of management, sociology, psychology, and philosophy.

The OWV model presumes that business and its study are the exclusive province and concern of the business community. In this model it is business that alone shall judge its appropriateness and success. In OWV mode, business can and has become exclusively self-interested. It is reminded of this periodically by actors outside the model imposing new rules on the game. Government and societal interests often come into conflict with profitability. Critics argue that an academic focus that doesn’t account for this responsibility ill prepares future decision makers and can potentially damage society.

Business students of the mid-20th century were heavily indoctrinated with HWV-oriented education. They were exposed to and likely even experienced the social causes of discrimination reduction, employee rights, workplace safety, and pension reform. Following Bowen’s (1953) and Heald’s (1957, 1970) assertions, employers often expected managers to be “pillars of the community.” It wasn’t doubted that business had a social obligation beyond profit maximization. Now it is.

With the relative stability of the 1980’s, business was not as scrutinized as it had been, resulting in a massive change in perspective. Turning inside itself for assessment, the mantra of “greed is good” became not only acceptable but also inspiring, and profits-only decision making reigned. The results were quickly and spectacularly bad. The Enron and World Com collapses shook the public’s confidence. The problem was exacerbated by the public’s
awareness that executive compensation packages grew astronomically while working wages remained stagnant or diminished. Payroll-reducing CEOs such as Jack Welch and “Chainsaw” Al Dunlop graced the covers of national business magazines to mixed but largely favorable reviews, which cited them as necessary saviors.

Making heroes of such leaders was not lost on business students. They learned that the ruthless pursuit of the bottom line was both appropriate and necessary. The pursuit of social responsibility based on morality and concern for others, however, was seen as quaint, outdated, and inappropriate. These outcomes distressed those advocating HWV.

Calls for reform began almost immediately. Business programs were asked to turn out more principled leaders. Teaching social responsibility became fashionable. Unfortunately, it was ineffective. Adding an ethics or corporate social responsibility course to the curriculum could satisfy the auditors but it clearly did not feed the bulldog. While cries for improvement continued, progress did not follow. A sense of cynicism and fatalism became widespread. The moral fervor of previous generations was thought by many to be unrealistic and inappropriate and, worse yet, not worth trying. This view was widely held in the business community, among some students, and among some scholars of strategic management.

Proponents of the HWV argue that the doctrine of “social contract” has long been established, even if it is now seldom referenced and is perhaps in danger of being forgotten in the business literature. The social contract deems that all institutions, including business, exist for and must act to benefit society as a whole. It is, most decidedly, not the other way around despite the attitude and behavior of some business people. Any model of business analysis that does not include this concern is, according to proponents of HWV, incomplete. Any model that focuses exclusively on stockholder wealth would be an example. Without someone sounding a warning call, the potential amoral and self-interested analysis of the disciplines of economics and finance can lead to very anti-social outcomes that have to be rectified by outside intervention.

For those who doubt the above assertion, we cite the American experience that permitted slavery; poverty level wages; union oppression; workplace hazards; age, gender and religious discrimination; retirement shortfalls; and environmental degradation as examples. All of these issues have been addressed and steps to remedy them have been taken. Only the most craven would argue these changes were not necessary and beneficial. Yet the OWV business community, acting in its self-defined interest, opposed all. This is not acceptable to the believers in HWV.

CURRENT STATE OF VALUES IN MBA EDUCATION

Research on the values of MBAs is discouraging. Graduate business students have been shown to be less ethical than undergraduates (Parsa & Lankford, 1999). Further, MBA students score lower on moral reasoning than graduate students in law, medicine, and other majors (Davis, 1997). And most revealing and relevant to our argument, MBAs score lower upon graduation than upon admission (Davis, 1997). These are sobering facts. Nationwide, MBA students become less, not more, ethical as they pursue their studies. How is that possible? It certainly cannot be intended. In spite of calls for greater academic attention to ethics, ground is lost, not gained, while pursuing the MBA. The answer must lie within how we go about teaching business. Our main accrediting agency, AACSB, requires demonstration that ethics be addressed in the curriculum. Many schools devote a course, or a portion of the course, to the topic. Others spread coverage throughout the curriculum. Certainly, many additional faculty choose to address ethical issues beyond strict requirements to do so. Yet students become less ethical during the process. The culprit may well be in what we teach when we are not specifically teaching ethics. We may be teaching “un-ethics” or “non-ethics” the great majority of the time.

How does this happen? When MBA students are admitted they are certainly not a random sample of the population as a whole. Presumably, they are disproportionately supportive of profit maximizing and high on personal ambition. Although this may indicate a beginning above-average commitment to values labeled by some as unethical, it does not account for such values becoming more pronounced during an MBA program, particularly in the face of AACSB intentions to the contrary.

Part of the problem may lie in the composition of the AACSB template. While preaching ethics, the design may, in fact, promote amorality. By the estimation of many lay critics, MBA programs are inappropriately top heavy with
quantitative methods to the exclusion of humanities and social sciences. Curricula that emphasize mathematical
equations that do not account for personal feelings could be expected to exacerbate this effect. If students are assigned
to keep producing analyses that depersonalize or do not account for human feelings, it should be expected that they may
become more insensitive as they progress through their programs. Overall, the MBA education teaches the students that
virtually every aspect of their actions is essentially economic (Ghoshal, 2005; Pfeffer, 2005). In addition to AACSB
requirements, the history of the more quantitative departments having more power in business schools also contributes
to this focus.

Students began with whomever they were; they morphed into experts in impersonal decision making. It shouldn’t
be surprising that their ethics become lower because of this process. Because of the de-emphasis on human moral
obligations, students may be learning either not to care or that caring is “not part of the equation.” It is exactly the
practice of this philosophy, of course, that results in societal dismay and in the need to regulate business.

WHY HUMAN VALUES SHOULD BE TAUGHT

Ideology is a critical part of professional education (Trank & Rynes, 2003). Moreover, there are two possible
compelling reasons to teach human values: 1) they help promote a better bottom line; or, 2) they do not, but they should
be taught anyway for the benefit of others, particularly society as a whole. The first case is, of course, easy. There is no
disagreement associated with doing good that results in doing well. Every decision maker who would perceive such an
outcome would elect it and much of the current values-based education attempts to create that perception. Unfortunately,
the proof of this result is spotty at best and it certainly is not universally believed by decision makers who intentionally
choose outcomes considered by many to be unethical. This paper does not assert that corporate social responsibility is
universally good business. It examines instead the second reason, that business students be taught they are obligated to
behave socially responsibly even when it is not immediately and directly profitable.

How can such a Pollyanna-ish position be defended? Actually, one could concoct convoluted reasoning that
argues that cost is ultimately reduced by taking a preemptive strike that avoids regulation, but such reasoning really
reverts to the previous position. HWV-based corporate social responsibility is only controversial if one asks that
decision be made for reasons other than profit maximization. HWV asks that. It calls for educators to continue to
advocate concern for issues beyond profit maximization because they are morally right. That is it. The category exists
and they argue that socially-responsible decisions should, in fact, must, be taught.

Recognizing that MBA education alone cannot be expected to raise greatly the level of business ethics does not
excuse the obligation to try. To facilitate this outcome, HWV proponents believe creating an MBA curriculum
addressing the responsibilities of business cannot be left solely to the interests of business as happens in stockholder
wealth models. They advocate a more widely-defined sense of responsibility based on a new mantra of MBAs – “You
also work for society, not just for business.”

Making this work would, of course, require substantial coverage of and support for positions representing the
needs of society when they conflict with those of business. There are many subjects and multiple methods to promote
greater social responsibility enhancement, but the “breakthrough” concept is to justify behavior that is not required be
cost effective. This aim is seriously foolish and naïve in the eyes of some, perhaps many, within both the business world
and in colleges of business. That does not make it wrong.

WHO MAKES THE DECISIONS – MANAGERS OR FINANCIERS?

In the twentieth century, prominent American business leaders were thought to exercise wisdom based on a
combined understanding of business success and social responsibility. Leadership values were inculcated in classes in
management departments. Financial responsibilities were the number one, but not exclusive, component of decision
making. It was perceived that businesses were led by individuals who imparted their values, including concern for
others. While this was obviously not universally true, it was a model many were trained to follow.
In current times, business leaders are greatly constrained in applying human values to decisions because institutional investors control decisions and appear not to care. Finance and economics have trumped management as the disciplines guiding decision making – with bad results. Their impersonal, amoral models of business responsibility lead not only to not caring but to believing caring is inappropriate and a violation of fiduciary responsibility. The world of business leadership may be populated by decent people; however, they are forced to make indecent decisions. It seems that institutional investors have “tied the hands” of managers who might have been more human centered.

To counteract this undesirable outcome, it is necessary to change the values of investors. Since all decisions are ultimately made by humans, even if they use impersonal models, it should be possible to educate those decision makers to a broader sense of responsibility. That would require reconstructing the components of investment decision making values. This would require finance educators to espouse a HWV; so far, that outcome has not been embraced.

A PLAN FOR IMPLEMENTATION

Which values should be promoted? How should they be implemented? There is much room for variance on these topics but one recommendation is that Sustainable Organizational Performance (SOP) be promoted. SOP is grounded in three areas of concern: 1) economic success; 2) corporate social responsibility (CSR); and 3) concern for the natural environment. This formula requires concern for stockholders, employees, customers, society, and the planet. These are all areas in which business leaders have large, often unfavorable, impact. No one questions the concern for economic success; the others are more controversial.

In the HWV-based framework, leaders would be taught to concern themselves with the needs and interests of all who are impacted by their decisions. It is unacceptable to say, “I deliberately made you worse off because I am not obligated to consider you in my pursuit of a better bottom line.” Decision makers cannot always make all affected parties happy all of the time, but they certainly will not come close if they do not aim at it. At one level, moving jobs and closing plants may have arguable effects on good and bad, right and wrong. More clearly, planetary destruction for individualized gain that hurts society as a whole is always wrong.

Proponents of HWV believe that decision-making leaders should be obligated to show respect to others and attempt to provide security, even if that must mean preparing for replacement employment. These concerns are specified because it is apparent that contemporary decision makers often feel that the maximization of the bottom line specifically requires them not to consider such matters.

Within the SOP framework, economic success takes care of itself; CSR addresses concern for employees, customers, government, and society; and concern for the natural environment prevents business from externalizing costs to unrepresented or powerless parties. In their book, The Aspen Institute for Social Innovation Through Business (2001) provides a framework for introducing these concerns into the values of MBA students. It provides a curriculum that imbues SOP principles throughout. Proponents of HWV generally endorse its framework.

IS THE HWV MODEL DOABLE?

For advocates of HWV, even if a broadened perspective of concern and responsibility is successfully achieved, a huge problem is then presented: how to implement it. In past times, organizational leaders could choose to “do things the right way.” In fact, they were expected to do so. Now they aren’t, at least not if their company is publically traded and controlled by institutional investors. While the number of executives with personal values may not have diminished precipitously, their opportunity to express themselves has. Institutional investors are typically concerned about nothing other than the return on their investment. Stories of shipping jobs overseas and closing profitable plants are legion. While an executive of a former generation may have “stayed the course,” his or her contemporary counterpart will not be permitted to reflect any concern other than economic.

Another constraint on implementation is the dilemma presented by competition in the marketplace. If 19 out of 20 organizational leaders practiced humanitarian concern and one did not, and concern were expensive to implement, eventually the others would lose market share to the less-principled competitor. Truly, in some small situations, this
may be tolerated but it won’t be in any volume large enough to come to the attention of institutional investors. And institutional investors, unfortunately, are known for their attentiveness.

The problem is exacerbated by a lack of enforceable cultural boundaries. Even if students in American MBA programs could be incented to use value-based decision making that relied on “fair” wages and working conditions, it is virtually impossible to regulate commercial practices beyond our political borders. The attraction of low wages and substandard working conditions can provide off-shore savings that may be impossible to resist or to compete against. Furthermore, even if Americans could agree on the proper relationship between employers, employees, customers, and society, there is no assurance other cultures would. Attempts to apply “universal” principles and rights are more notable in their failure than in their application.

These constraints are prodigious. For HWV advocates, they almost make it not worth trying. But not quite. It is obvious principled leaders cannot control world circumstances or the nature of competition. But, to a large degree, they can control themselves. One can ask that they do so individually and collectively. This has been asked for before and abided by before. The difference now is the perceived inability of decision makers to choose principled choices because of institutional investors. The obvious solution is to also imbue institutional investors with principled HWV values. There is no compelling reason why this cannot be done. There is nothing about institutional investors that merits a free ride from responsibility. Their desire to profit maximize is no more compelling or deserving than anyone else’s. Arguably, they should be held to the same responsibilities as all other players.

WHERE DO WE GO FROM HERE?

“Sometimes you have to do something just because it’s the right thing to do.”

We used to hear that comment a lot. Now we do not. Many hope that we will hear it again in the future. The reason this sentiment fell out of favor is it was perceived to cost more money. In short, economics trumped all other considerations. While economics has always been important in the developed world, its exclusive focus is a relatively recent event. Presuming that exclusive pursuit of the bottom line truly leads to greater economic prosperity, it is fair, actually, it is necessary, to ask whether that is what we want. As recently as the mid-20th century we exhibited simultaneous concern for both economics and people. The result: perceived prosperity and perceived happiness. No one paying attention in that era thought that mainstream America was struggling without sufficient material goods. We were not then and we are not now. The need for goods and services is clearly self-generated. We don’t need to venerate economics absolutely. We do not really need more stuff. We need more employment, dignity, and opportunity for all, not just the educated elite.

It is possible to argue that the pursuit of stuff is more necessary than the attainment of it because of its effect on the growth of the economy. While we cannot justify an increased standard of living as a goal, pursuing it can provide both jobs and purpose for all people at all levels. Promoting economics and marketing produces more stuff than we truly need. Promoting values both produces enough stuff and exhibits concern for people. A brilliant potential model for such an economy is proposed in Hawken’s (1993) seminal work on sustainability, The Ecology of Commerce.

Which model is preferable is a fair question for society to ask. Currently, the question has largely been resolved by business and business schools as economics über alles. Many people “outside the system” believe that is a poor choice. Alternatively, it can be argued that a humanly-tempered prosperity is a worthy and appropriate goal. It is possible to have both. We have done so before but can only do so again if we resurrect a concern for domestic employment and security as components of a full prosperity. Revising the business curriculum and emphasis would be a start.

How do we pick one model? Do we have to? Can we have both? We can’t have both if we accept only the rules of business. If we concern ourselves exclusively with profit we clearly negate concern for human values. If we accept human values, we potentially negate the profit-only model. It is possible to pick one over the other but it is not possible to compromise or accommodate them both – at least, not within the rules of business. The way out of this conundrum is to resurrect the social contract and acknowledge that business graduates are not exclusively servants of business. They are also servants of society. Their attendant responsibilities cannot be ignored out of self-defined self-interest.
Business curricula that intentionally, or even unintentionally, as commonly happens, create this outcome are incomplete. This realization is not easily reached, however, in the business world – even among business professors. That is why it is imperative that business students and business education providers must jointly recognize the demands and needs of all affected constituencies and respond appropriately. Failing to recognize this has historically been proven to result in such great dissatisfaction in society that legal regulations have been imposed that significantly limit the choices of decision makers. We recommend revising business school curricula from profits-only models to a focus in all disciplines on sustainable organizational performance.

CONCLUSION

An exclusive focus on profitability cannot be assumed to meet the needs of society in the future – nor has it in the past, nor does it now. One source of this narrow characterization is the values imparted in decision makers by mainstream business college curricula, both directly to graduates and by extension to others. A proposed first step to alleviate the commonly held views of business students is to revise the business school curricula from a preponderant focus on profits to include focus on sustainable organizational performance. To achieve this focus in curriculum is a relatively controllable task. Faculty would have to want it and do it. Extending the changed values to behavior is much more difficult. Decisions are now made in situations where personal values and intentions must be conformed to the agenda of institutional investors. The focus for effective change must reside in the future on financiers as well as managers. We perceive this change can come relatively easily to managers. The focus in the present must be on changing what current and future financiers perceive as their responsibilities. One starting point can be the business college classroom. Over time, a new generation of decision makers may exhibit a needed broader sense of responsibility.

REFERENCES