

Shareholder Theory

Instructions

When doing the reading for this class, there are the two basic kinds of information you need to understand:

1. What are the main points or conclusions that an author accepts with respect to a particular issue?
2. What are the reasons, important considerations, and evidence that lead the author to accept that conclusion?

For our purposes, it is *information of the second sort that will be our primary concern* since our most basic task is to *evaluate the reasons and evidence* that are offered to support accepting one possible position on an issue, rather than another.

Reading

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine*, 32-33, 122-126.

Optional: Heracleous, L., & Lan, L. L. (2010, April). The myth of shareholder capitalism. *Harvard Business Review*, 88(4), 24.

Questions

As you read, keep these questions in mind:

1. Throughout his article, Milton Friedman repeatedly attacks “social responsibility”. Today this is more commonly called corporate social responsibility (CSR). For this class, I will define CSR as a general concern for a business to benefit the social and ecological environment in which it operates.

What examples of social responsibility does Friedman provide to illustrate his points?

2. Friedman says that social responsibility for business is wrong “on two levels: principle and consequences” (p122).

What is his argument that social responsibility is wrong as a matter of principle? What is his argument that it is wrong as a result of its consequences?

3. Friedman also suggests a third problem, namely that even when done to increase profits, social responsibility still “harm[s] the foundations of a free society” (p124).

How does Friedman justify this claim?

4. In contrast to social responsibility, what does Friedman seem to suggest is the purpose of business? What are his arguments justifying this purpose?

(Note that one of Friedman’s arguments is based on the idea that management is *legally* obligated to maximize profits for shareholders. While many in business believe this claim is obvious, it is surprisingly controversial, as the article by Loizos Heracleous and Luh Luh Lan argues.)

To answer these questions you will have to reflect critically on what you have read and possibly re-read important passages.

Although I strongly suggest that you write out brief answers to these questions, you do not have to turn in written responses. You do, however, need to be prepared to speak intelligently about these issues at our next class meeting.