

The Purpose of Business: Profit Maximization versus Corporate Citizens

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Extended Abstract

The conceptual thought of this paper is to evaluate the “Purpose of Business: Profit Maximization versus Corporate Citizens” in light of Globalization. During the last century mankind has enjoyed the fruits of industrialization followed by great inventions leading into the Information age. These significant changes created dynamic economies around the world. The human race started enjoying the fruits of these changes by having a higher standard of living. However, it has also brought a great disparity among the Nations of the world.

To alleviate such disparities among Nation States adopted different political thought process. These processes are known as Capitalism, Socialism and Communism. The main thrust of these processes was to develop different market economic models so as to uplift the human living conditions. Out of these political thought processes Capitalism brought the highest standard of living but it also created pockets of low income groups and poverty.

As we all know, Capitalism is based upon the “Invisible hand” philosophy; that is let the markets be determined by the forces of demand and supply. These forces determine, “What should be produced?”, “For whom it should be produced?” The answer is simple. Whoever can afford the market price? Simultaneously, it created an incentive to produce those goods which can create greater profits. Hence the question arises “What is the purpose of Business in the current environment?”

Profit Maximization

The Wealth of Nations written by Adam Smith in 1776 developed the philosophy of private property. Historically, the “Rulers” of a country encouraged and financed its subjects to travel abroad and bring wealth for the mother country. They were rewarded with high “Titles” and “Estates”. The Industrial Revolution brought a division in the society. The owners of “Tools of Production” were classified as Capitalists and the other economically dependent as a “working class”. The goal of Capitalistic society was to maximize wealth. As such the “Purpose of Business” became profit maximization.

Every business tries to make profits for itself and its shareholders. The shareholders are like the foundation stones of the company. If their well being is not taken care of, then the company ceases to exist. They are the real owners of the company and not the society. In 1970, economist Dr. Milton Friedman argued that “the sole purpose of a business is to generate profits for its shareholders.” So it can be concluded that the “Profit Maximization” is justified for the risk the investor takes.

Social Responsibility

A company earns huge profits for itself and its shareholders; it also has a social responsibility to contribute to the society in which it exists. It is the society which bestows the rights to do business. A company may try to become a good citizen by “giving” to the society, what it can afford, out of the profit that it makes.

Dr. Theodore Levitt in his article says, “Today’s profits must be merely adequate, not maximum. Business exists to serve the public”. Dr. C.K.Prahlad says, “A business

organization can try to produce and market products at such a reasonable price so as to raise the standard of living of masses, nearly three billion people. If a business concentrates upon the poor as much as it does on the rich, it can help raise the living standards of the poor and the society, a great deal”.

Conclusion

Whatever the case is, it will depend upon businesses’ whether they contribute to the society or make profits for the corporation and the stakeholders. The question that arises here is whether one really has to move from the free-market system where there is government intervention or redefine “Capitalism” as Mr. Bill Gates suggested “A Kinder Capitalism”.

Bibliography

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