

THE UNIVERSITY OF WISCONSIN – MADISON

RESPONSIBLE RICHES:  
THE INTELLECTUAL DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY,  
1920-1960



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Dedication

I dedicate this thesis to all of the people who made it possible.

To my beloved partner, Noah Carrillo, without whose patience and emotional support finishing this thesis would not have been possible. Thank you for putting up with my innumerable late nights sitting at the kitchen table for the last 15 months.

To Professor Dunlavy, who helped me through the most challenging, rigorous academic experience of my life and helping me to see this project through to the end, even when there seemed to be no end in sight.

To all of my friends, who have put up with incessant, annoying Facebook and Twitter updates about my thesis progress, and who still consider themselves my friends even though we haven't hung out since last September when this project began. (Sorry.)

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To my family, for getting me off to a good start in life.

Thank you.

“The great present test of our common humanity is whether it can keep its balance, learn how better to live together with new responsibilities, new problems, and new powers over nature in the midst of an environment whose principal characteristic is change, appallingly rapid change.”

~Wallace B. Donham, Dean, Harvard Business School, July 1927.<sup>1</sup>

Cover photo source: <http://trendsupdates.com/corporate-social-responsibility-csr-simply-good-business/>

## Introduction

Over the last decade, businesses around the world and across many different industries have expressed renewed interest in practices of “corporate social responsibility” (CSR). Most large companies now regularly issue detailed reports communicating to the public the ways in which they promote the broader well-being of society.<sup>2</sup> As a 2009 Time magazine special report about a “responsibility revolution” explained,

corporate America has discovered that social responsibility attracts investment capital as well as consumer loyalty, creating a virtuous circle. With global warming on the minds of many consumers, lots of companies are racing to “outgreen” one another, a competition that is good for their bottom lines as well as the environment’s. The most progressive companies are talking about a triple bottom line—profit, planet, and people—that focuses on how to run a business while trying to improve environmental and worker conditions.<sup>3</sup>

As David Vogel, a contemporary expert on CSR, explained in an October 2008 Forbes Special Report,

we increasingly hear that corporate social responsibility (CSR) has become a business imperative. Newspapers, magazines and books glowingly describe the business benefits of behaving responsibly--and caution managers about the business risks of a poor CSR performance. Executives are repeatedly informed that by demonstrating concern for the environment, human rights, community

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<sup>1</sup> Wallace B. Donham, “The Emerging Profession of Business,” *Harvard Business Review* 5, no. 4 (July 1927): 402.

<sup>2</sup> Examples of these initiatives include Starbucks “Shared Planet,” <http://www.starbucks.com/csr/> McDonald’s “Values in Practice” <http://www.crmcdonalds.com/publish/csr>, Chevron Corporate Responsibility, <http://www.chevron.com/globalissues/corporateresponsibility/2008/>

<sup>3</sup> Richard Stengel, “The Responsibility Revolution,” *Time* (September 21, 2009): 38-39.

development and the welfare of their employees both in the U.S. and abroad, they will make their firms more profitable. Their firms will gain a competitive advantage by appealing to the growing numbers of socially and environmental oriented consumers, investors and employees.<sup>4</sup>

When the term corporate social responsibility first appeared in the New York Times in 1968, its meaning was quite similar. It signified a new, “fashionable” interest on the part of business executives in helping to resolve social problems facing the nation, issues such as racial discrimination, environmental degradation, employee relations, and other issues.<sup>5</sup> Today’s concept of CSR focuses on somewhat different issues— human rights, poverty, and global climate change, for example—but differs little from the concept that first emerged in the late 1960s.

How far back do the roots of business concern about its social responsibilities extend? To what extent and upon which bases did business leaders, economists, and intellectuals agree or disagree about the proper scope of business social involvement? On a basic level, what social purposes were corporations intended to serve, and how did these conceptions of the proper social functions of business and its leaders change during the twentieth century?

This thesis explores the ways in which certain American universities, business intellectuals, and economists contributed toward a changed outlook within much of the business community toward a need to acknowledge the connection between long-term social considerations and the health of their firms. However, different individuals within

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<sup>4</sup> David Vogel, “CSR Doesn’t Pay,” *Forbes* (October 16, 2008), Available online: [http://www.forbes.com/2008/10/16/csr-doesnt-pay-lead-corprespns08-cx\\_dv\\_1016vogel.html](http://www.forbes.com/2008/10/16/csr-doesnt-pay-lead-corprespns08-cx_dv_1016vogel.html)

<sup>5</sup> William D. Smith, “Cherokee Chief Is Phillips Man of Action.” *New York Times* (1857-Current file), American university programs of business education played a tremendous role in promoting business acceptance of a broadened view of its social responsibilities, of beginning to view the long-term health of their firms as inextricably linked with the health of the society in which people lived and worked. October 13, 1968, <http://www.proquest.com.ezproxy.library.wisc.edu/> (accessed July 21, 2009).

these groups expressed a range of viewpoints about the proper relationship between the firm and society as a whole; many argued that such considerations had no place in business-decision making at all. Some issues generated vigorous debate on the basis of general principles, while others reflected fairly broad agreement, with discussions revolving around questions of details and proper implementation. This thesis seeks to flesh out the main points of contention *within* the business community and to understand the main strands of business thought with regard to its broader responsibilities toward their communities and American society as a whole.

Prior studies have explored some aspects of this history, but they do not explore in sufficient detail the intellectual debates within the business community that gave rise to the movement for corporate social responsibility. The most thorough study is that of historian Morrell Heald, who chronicles the development of specific programs of corporate responsibility from 1900 to 1960. He shows how business executives at large firms like U.S. Steel, International Harvester, and A.T.&T. began to engage in programs such as sustained philanthropic giving to community chests, the creation of employee welfare programs, and the creation of company foundations. His treatise, *The Social Responsibilities of Business*, provides an excellent overview of this history, discussing many of the arguments put forth in favor of an increased social role for business. However, with his detailed attention to practices and programs of social responsibility, Heald's analysis does not adequately discuss the countervailing intellectual forces that worked in opposition to this development.<sup>6</sup> As a result, one gains little sense of the debates out of which CSR grew.

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<sup>6</sup> Morrell Heald, *The Social Responsibilities of Business: Company and Community, 1900-1960*, 2<sup>nd</sup> ed, (New Brunswick: Transaction Publishers, 1988).

Other authors provide useful analyses of the roots of CSR in specific periods, but they do not place the movement's intellectual roots in a broader timeframe. Historian Kim McQuaid, for example, shows how World War I, management theories of the 1920s, the Great Depression, the New Deal, and mobilization for World War II all promoted a closer collaboration among business and government leaders to solve these crises.<sup>7</sup> This established a broader role for business leaders in managing broad, complex problems of public and government concern, rather than focusing only upon the operation of their firms. As a result of this institutionalization of a broader public role during the Great Depression and World War II, a public expectation emerged that business continue to play a larger role in solving national problems during the postwar period. In a similar vein, historian Roland Marchand discussed the development of an expanded view of the proper boundaries for corporate activity during the 1930s that came about as a result of the Great Depression. Businessmen at firms like General Electric, Johns-Manville, and J.P. Morgan and Company began to see themselves as "trustees" of the broader social welfare and slowly enlarged their "spheres" of influence in politics, society, and culture.<sup>8</sup> Professor Bert Spector locates the roots of an expanded, post-WWII conception of business responsibilities in the Cold War, in which business firms strove to align business interests with a defense of the free market against communism and the welfare state. He argues that a pervasive "Cold War ideology" motivated businessmen to uphold "free market capitalism" against communism and the welfare state through activities like better relations between workers and management, hiring more persons of color, promoting international

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<sup>7</sup> Kim McQuaid, "Corporate Liberalism in the American Business Community," *The Business History Review* 52, no. 3 (Autumn, 1978): 350.

<sup>8</sup> Roland Marchand, "Where Lie the Boundaries of the Corporation? Explorations in 'Corporate Responsibility' in the 1930s," *Business and Economic History* 26, no. 1 (Fall 1997): 80-100.

development, and supporting a robust world trade. This “Cold War ideology” strongly influenced the development of ideas of corporate responsibilities during the late 1940s and 1950s.<sup>9</sup>

Other authors have sought to explore the general development of ideology in American business, but without reference to the development of social responsibility more specifically. Such discussions of ideology provide important context for understanding the development of business intellectual thought from the mid-nineteenth to the mid-twentieth centuries, but they do not provide any details about the intellectual development of CSR itself. Writing in 1976, historian Alfred Thimm surveyed business ideologies from the period 1880-1914, showing that with the transition from “industrial” to “finance” capitalism, an ideology of “dynamic individualism” gave way to the “collectivism of corporate bureaucracy” as professional managers began to head large firms.<sup>10</sup> Thimm does not explicitly explore the development of corporate social responsibility, but this broader managerial shift away from strong individualism toward a broader view of managerial responsibilities during the post-World War II era certainly powered the business community’s debates from the late 1940s through the 1960s over whether firms should actively work to solve broad social problems and concerns.

Along these same lines of inquiry, the authors of *The American Business Creed*, published in 1956, attempt to isolate and explain how strains within this “business creed” changed during the first half of the twentieth century, as part of a broad shift from classical ideology toward a “managerial” one. These strains included individualism, materialism and

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<sup>9</sup> Bert Spector, “Business Responsibilities in a Divided World: The Cold War Roots of the Corporate Social Responsibility Movement,” *Enterprise and Society* 9, no. 2 (June 1, 2008): 314-336.

<sup>10</sup> Alfred L. Thimm, *Business Ideologies in the Reform-Progressive Era, 1880-1914* (University: University of Alabama Press, 1976), 142.

productivity, practical realism, hostility toward government, social change and progress, optimism, and competition.<sup>11</sup> Although this study is not an historical one, it contributes toward an understanding of how a shift away from strict individualism during the early twentieth century resulted in an overall displacement of moral responsibility from individual businesspeople onto the corporation and its activities writ large.

Also helpful on the context in which corporate social responsibility emerged is historian Kim Phillips-Fein's study of the modern conservative movement in the United States back to the Cold War, showing how one ideological strand within the business community exerted strong influence on their public relations activities during a specific window of time. During the Cold War, many ideologically conservative businessmen opposed to the New Deal actively engaged in anti-union public relations campaigns, bombarded workers with anti-union propaganda, and organized their interests with groups like the American Enterprise Association in order to ensure the dominance of business managers over unions and the growing welfare state.<sup>12</sup> This analysis suggests that, at least for some businesspeople, increased corporate involvement in social issues and public affairs was a negative, even cynical undertaking designed to prevent interference by government or organized labor in business decision-making.

This thesis builds upon this literature in order to understand the ways in which the views of American business scholars, economists, and other prominent business leaders developed and diverged over the course of the twentieth century. The pages of the *Harvard Business Review*, founded in 1922, present a rich source of debates within the business

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<sup>11</sup> Francis X. Sutton, Seymour E. Harris, Carl Kaysen, and James Tobin, *The American Business Creed* (Cambridge: Harvard University Press, 1956), 251-269.

<sup>12</sup> Kim Phillips-Fein, "Top-Down Revolution: Businessmen, Intellectuals, and Politicians Against the New Deal, 1945-1964," *Enterprise and Society* 7, no. 4 (December 1, 2006): 686-694.



community regarding the proper role for the corporation in society. Also during the 1920s, a number of authors sought to codify a new set of business ethics for the emerging profession of business, and these texts provide valuable insight into how the growth of corporations led to the development of codes of professional ethics designed to help businesspeople align their commercial activities with the norms and expectations of the nation as a whole. To understand the development of these debates from the 1930s and beyond, this thesis utilizes a wide array of books, journal articles, and other publications in order to demonstrate how this conversation over corporate social responsibility evolved over the course of a half-century. In their writings and public statements, these individuals also battled over whether business executives bore and responsibility for promoting the broader social welfare in the first place. Large corporations assumed an unprecedented dominance over American economic life during the twentieth century. The task of this thesis is to help one understand how businesspeople themselves grappled with this tremendous surge in their importance.

The first chapter of this thesis explores how the consolidation of American heavy industry during the first great merger wave of the 1890s resulted in a “managerial revolution,” of a strong shift in the selection, training, and responsibilities of business leaders. Forward-looking leaders, such as Owen Young and Wallace Donham of the Harvard Business School, argued for a strong role for the universities in helping business leaders to renegotiate their relationships with workers, shareholders, government, and the public at large in order to successfully overcome a changing operating environment for business. Many business leaders spoke openly during the 1920s of a desire to professionalize business management and imbue managers with a high regard for ethical conduct and an

attitude of service toward their stakeholders. These efforts encountered some resistance. New views of broadened business responsibility, of ideas “trusteeship” and “corporate statesmanship,” contradicted established laissez-faire, social Darwinist attitudes within the business community about competition, self-interest, and the “survival of the fittest.” Lastly, during the 1920s, business leaders debated whether or not practices of “welfare capitalism,” programs providing services to employees and their communities, reflect tensions over the proper relationship of the firm toward society as a whole.

Chapter two discusses the ways in which the Great Depression and the mobilization for World War II firmly entrenched America’s largest industrial firms as major players in working alongside government to help solve growing challenges facing the country. The Great Depression and the creation of the welfare state by the New Deal, promoted the realization that in order to avoid government and union intrusion into business decision-making, firms needed to engage in pro-active public relations policies to improve the public’s opinion both of individual firms and of the “free enterprise” system as a whole. Growing programs of philanthropy contradicted conventional legal restrictions on the use of company money, but these rules began to change during the 1930s in response to a great, unmet need for charitable giving during the Depression. In 1932, influential economists A.A. Berle Jr. and J. Merrick Dodd began to argue that the consolidation of industry had resulted in a separation between ownership and control of capital that had created new pressures for businesses to organize their activities according to the public interest. World War II revived flagging public esteem for big business and the GI Bill of Rights created a new generation of business managers educated in university programs of business education, designed from the beginning to promote engagement with issues of

ethical business conduct. With American victory over the Depression and fascism, many thinkers sought to chart a new course forward for business.

The third chapter of this thesis discusses the continued development of broadened ideas of “corporate social responsibility” during the 1950s and 1960s and the sharp divisions that such ideas produced among business intellectuals. Debates over these issues tended to revolve around four factors: the principals to whom management owed responsibility, whether the burden for responsible behavior rested with individuals or firms as a whole, the proper level of government involvement in economic life, and the potential negative impacts of granting too much discretion over social affairs to business leaders. By 1960, minimal consensus existed as to what constituted “socially responsible” business activity, apart from ensuring a minimum level of profitability to ensure the firm’s survival.

Overall, this thesis demonstrates that the intellectual development of a broadened social role for business resulted from multifaceted debates over whether business as a profession could be self-policing and the groups to whom business management were ultimately to be held responsible. Even when these debates might have seemed to take the form of two-sided, yes-or-no debates in public debates, a thorough examination of this discussion reveals competing strains of thought, and of competing visions of the most effective means toward common visions of national prosperity. A broadened social role for business in addressing public problems resulted from the professionalization of business enterprise beginning in the 1920s, the unique problems of the Great Depression and the mobilization for World War II, and vigorous postwar intellectual debates about the nature of business leadership.

## Chapter 1.

### **The Managerial Revolution: Industrialization, Education, and Welfare Capitalism.**

Beginning in the 1890s, the American economy underwent a period of tremendous concentration of economic power in the hands of large horizontally and vertically integrated firms. After the Civil War, improvements in transportation, communication, and the development of a single national currency had created opportunities for large industrial firms to leverage economies of scale by selling their manufactured goods around the country.<sup>13</sup> The great depression of the 1890s initiated a vast merger movement in American heavy industry. As a result, local factories operated by local businessmen increasingly became the property of vast monopolistic firms like U.S. Steel, Standard Oil, and International Harvester. For workers, control of their lives within the workplace left local communities toward far-off central offices, controlled by business executives who they did not know.<sup>14</sup> As a result, American workers and consumers became increasingly dependent upon wise and efficient decision-making by the business leaders who stood at the controls of these vast enterprises.

The 1920s represent a crucial decade in the history of corporate social responsibility as a result of systematic efforts to professionalize business management, to create a body of standardized knowledge and practice from which all business leaders could work more effectively in the management of their firms. These efforts integrated the know-how of an older generation of business people, acquired through experience, with

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<sup>13</sup> See Mansel G. Blackford and K. Austin Kerr. *Business Enterprise in American History*, 3<sup>rd</sup> ed. (Boston: Houghton Mifflin, 1994), 103-165.

<sup>14</sup> David Brody, *Workers in Industrial America* (New York: Oxford University Press, 1982), 8.

the growing body of management literature that applied new techniques of scientific management and quantitative analysis to all kinds of business issues. In hierarchically organized firms producing goods for a nation-wide market, the decisions of business leaders had come to carry much more significance than one made by a local merchant. The head of a large firm could have a tremendous impact, for better or for worse, upon the firm itself, its owners and employees, and the public as a whole.

The introduction of techniques of scientific management into the workplace radically changed the relationship of laborers toward their work. Rather than allow workers to apply individual craft knowledge toward better production, new techniques of scientific management de-skilled work in order to increase productive efficiency and place full responsibility for achieving a necessary level of production in the hands of management. As Historian David Brody described, factory workers “became the servant of the machine that performed the actual work or, if he did the endlessly repetitive jobs on the assembly line, he became himself a part of the machine.”<sup>15</sup>

This transformation of labor increased the required level of experience and technical knowledge that business managers required in order to manage their firms and compete successfully. Successful management became less a matter of selecting the perfect candidate for the job and more a matter of selecting leaders trained in these new methods of managing the firm. Writing in 1919, industrial efficiency expert Frederick Winslow Taylor observed that in the past, a common belief had prevailed that

‘captains of industry are born, not made’; and the theory has been that if one could get the right man, methods could be safely left to him. In the future it will be appreciated that our leaders must be trained right as well as born right, and that no great man can (with the old system of personnel management) hope to compete

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<sup>15</sup> Brody, 6.

with a number of ordinary men who have been properly organized so as efficiently to cooperate. In the past the man has been first; in the future the system must be first.<sup>16</sup>

Thus, according to Taylor, these new, teachable techniques of management shifted the requirements of business success from an emphasis upon individual effort, talent, and success toward a systems-oriented, collective effort in which managers bore responsibility for successfully integrating the sum of individual labors into a successful whole. Writing in *Harvard Business Review* in 1927, C.S. Duncan, an industrial efficiency consultant, argued that the introduction of efficient production techniques and their widespread implementation across the economy “contributed most conspicuously in placing the industry of the United States at the forefront of the world in productive effectiveness.”<sup>17</sup> The implementation of these new techniques of industrial efficiency contributed not only toward a company’s financial standing; it held the potential to raise America’s economic profile with regard to the entire world.

During the late nineteenth century, how did businesspeople respond to such elevated economic and social importance, and what did they see as the proper relationship between their firms and society at large? To some, the late nineteenth century was the heyday of unbridled “free enterprise,” of a dynamic economic order in which the “invisible hand” of the marketplace maximized the public welfare when all individuals pursued their own self-interest.<sup>18</sup> However, Adam Smith’s conception of classical economics assumed conditions of perfect competition in which individuals competed on a level field. In spite of

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<sup>16</sup> Frederick W. Taylor, *The Principles of Scientific Management* (New York: Harper & Brothers, 1919), 6-7.

<sup>17</sup> C.S. Duncan, “New Elements in American Business Efficiency,” *Harvard Business Review* 5, no. 3 (April 1927): 280.

<sup>18</sup> Alfred L. Thimm, *Business Ideologies in the Reform-Progressive Era, 1880-1914* (University: University of Alabama Press, 1976), 52, 58-79.

this, many business executives argued that the size of corporations did not matter, because they had achieved their position and wealth through by successfully destroying business rivals of weaker character and ability. Traditionally, according to A. Hamilton Church, an industrial economist, business people rose to positions of leadership

by a natural process of survival of the fittest. They were men who had succeeded above the average in 'picking up' such details of business as they met with in the ordinary course of their duties. Today the case is far different. The tendency is to raise the qualifications required for important executive positions, until it has come about that business administration has practically developed into a definite profession.<sup>19</sup>

By the 1920s, American business had worked to conquer American frontier and propelled the nation toward a bright future with ever-rising heights of material prosperity.<sup>20</sup> This system of production legitimated itself in the eyes of many Americans because even the poorest Americans became able to consume a wider range of manufactured goods at lower prices as a result of the American system of limited government and free enterprise.<sup>21</sup>

In order for business to continue to meet the demands of the future, some business leaders began to argue that business needed to be professionalized. For the sake of the long-term health of firms, communities, and the prestige of business as a profession, new professional standards for training and ethics were developed. This was not a seamless transition, as business leaders debated whether firsthand experience or deliberate training constituted the best preparation for future business leadership. Additionally, business leaders during the 1920s debated the most effective means to balance the interests of labor, management, and capital, applying new methods of scientific management, while

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<sup>19</sup> A. Hamilton Church, *The Making of An Executive* (New York: D. Appleton and Company, 1923), 1.

<sup>20</sup> Alfred L. Thimm, *Business Ideologies in the Reform-Progressive Era, 1880-1914* (University: University of Alabama Press, 1976), 52, 58-79.

<sup>21</sup> Francis X. Sutton, Seymour E. Harris, Carl Kaysen, and James Tobin, *The American Business Creed* (Cambridge: Harvard University Press, 1956), 19-33.

also seeking to improve the quality of the conditions in which their employees lived and worked. They sought to reinvent the profession of business management to adapt to a changing environment.

In 1918, Enoch B. Gowin, a Professor of Commerce at New York University, wrote *The Selection and Training of the Business Executive*, in which he synthesized best practices designed to successfully find and develop competent business leaders capable of handling the growing complexities and challenges of business management. He argued that more careful selection and cultivation of business leadership was required, because a firm lacking effective leadership “invariably suffers a diminution of its productivity, if not the cessation in bankruptcy of its career as a going concern.”<sup>22</sup> To Gowin, the decline or bankruptcy of the firm was a matter of public consequence due to the “distinct service” that managers performed in “securing for the owners satisfactory dividends, for the workers better wages and working conditions, and for the consumer a superior commodity at lower cost.”<sup>23</sup> Better selection and training of business leaders directly served the public’s interest in having competent business leadership in order for owners, workers, and consumers to enjoy the direct benefits of business success.

For an older generation of business leaders, education for business leadership had been one of experience gained through firsthand experience and collaboration with other established business people. Different venues for acquiring necessary experience included serving as an assistant to a higher official and conferences, which provided avenues for “intensive study, group criticism, and constructive effort” that allowed for the pooling of

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<sup>22</sup> Enoch Burton Gowin, *The Selection and Training of the Business Executive* (New York: MacMillan Company, 1918), 1.

<sup>23</sup> Ibid.



experience and for individuals to acquire broader knowledge of successful business practices.<sup>24</sup> “Study clubs” within organizations provided another avenue for business people to come together and discuss more effective ways to go about their work.<sup>25</sup> Through these different venues, individuals could enter into the world of business and acquire know-how from their peers through a kind of natural selection in which the best ideas and the best leaders slowly worked their way to the top.

By the early 1920s, the world of business and the world at large had become too complex and the pace of change too rapid for business leaders to rely upon experience alone to guide their decisions and the direction of their firms. These decentralized, experience-based mechanisms for the training of business leaders would continue to be important into the future, but more needed to be done to ensure that up-and-coming business leaders possessed sufficient knowledge of changing business practices to successfully run their companies. By 1923, according to Church, business leaders had to be familiar with not “only with broad or practical results, but also with the infinitely small influences and conditions that go to build up results of all kinds, both successful and unsuccessful.”<sup>26</sup> Successful managers had to be professionals educated in new techniques of management, capable of working in increasingly complex environments.

University programs of business education took on a central role in transforming the training of future business leaders from an incremental education based on experience toward a broad education designed to empower business people to become innovative leaders within their firms, their communities, and the nation as a whole. University and

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<sup>24</sup> Gowin, 130, 141.

<sup>25</sup> Gowin, 141.

<sup>26</sup> A. Hamilton Church, *The Making of An Executive* (New York: D. Appleton and Company, 1923), 4-5.

business leaders sought to use these programs to create common ethical standards for business practice, to spread these values among the business community, and to promote engagement with the needs of the broader public.

The Harvard Business School, founded in 1908, played a defining role in this new professionalization of business management during the 1920s. Leaders at the school like Dean Wallace B. Donham sought to figure out how to change business *from within* in order to make it more effective and responsible in its relations with society as a whole. In a series of speeches and articles, he established that a need existed for university programs of business education to transform the profession of business management. Speaking in 1927, he argued that

the business group must accept and discharge the responsibilities which go with its power if the present economic order is to persist. History shows us very clearly what may happen if a particular important group fails to meet its responsibilities. France learned that during its revolution. Russia has learned it more recently. There is a close analogy between the position of the governing class in the earlier, simple societies and that of the business group in our present complex social organization. Positions of power must carry with them a sense of trusteeship. New situations must be dealt with in a spirit of trusteeship.<sup>27</sup>

In a separate article, he continued to argue for a broadened scope of business responsibility for its activities, stating in strong terms that

unless more of our business leaders learn to exercise their powers and responsibilities with a definitely increased sense of responsibility toward other groups in the community, unless without great lapse of time there is through the initiative of such men an important socializing of business, our civilization may well head for one of its periods of decline.<sup>28</sup>

For Donham, university programs of business education represented a vital mechanism for changing the profession of business in order to bring about this exercise of increased

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<sup>27</sup> Wallace B. Donham, "The Emerging Profession of Business," *Harvard Business Review* 5, no. 4 (July 1927): 404-405.

<sup>28</sup> Wallace B. Donham, "The Social Significance of Business," *Harvard Business Review* 5, no. 4 (July 1927): 406.

responsibility. He considered “education in our collegiate schools of business” to be “one of the most promising approaches to securing a more rapid balance between scientific developments and social control.”<sup>29</sup> The Harvard Business School, and other university programs of business education, could provide “the intellectual training needed to handle current problems with a wider knowledge of business than is now typically possessed by men who have secured their training within industry.”<sup>30</sup> Thus, Donham explicitly wanted to see a shift toward greater formal business education in the training of future business leaders, considering this superior to more traditional methods for acquiring this training, such as described earlier by Gowin and Church. This training held the potential to produce leaders capable of working more effectively in serving the interests of both the firm and the public more broadly.

Through university programs of business education, leaders like Donham sought to remake the minds of individual people in order to better prepare them for positions of leadership. However, during the late 1920s, other business leaders argued for greater efforts to restructure the profession of business management as a whole in order to promote the broader interests of American society, to encourage a new assumption of responsibility for promoting the interests of the public as a whole. In a dedication address of new campus buildings at the Harvard Business School in July 1927, prominent industrialist Owen D. Young, chairman of the Radio Corporation of America (RCA), urged a new generation of business leaders to develop new ethical standards for conduct and transform the practice of business management into a formal, respected profession. This had become necessary, in his view, because the increase in scale and complexity of

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<sup>29</sup> Ibid, 417.

<sup>30</sup> Ibid, 418.

business operations had drastically changed the ability of average people to police the activities of business.

In a word, the widening area of business and the highly specialized character of the goods outstripped all local sanctions and tended to leave the individual free from restraints except those of the law. Now the law is not a satisfactory censor. It functions in the clear light of wrong doing—things so wrong that the community must protect itself against them. Set over against the law on the opposite side is the clear light of right doing—things which are so generally appealing to the conscience of all that no mistake could be made no matter how complicated the business. The area of difficulty for business lies in the penumbra between the two. When business was simple and local, it was fairly easy for local public opinion to penetrate the shadowed area. When business became complicated and widespread, it was in this area that all restraints were removed. It was in this shadowed space that troublesome practices were born.<sup>31</sup>

In order for business to retain its autonomy and prestige, to shine a light onto the shadowy ethical spaces between what was illegal and what was simply unethical, business as a nascent profession had begun to police its own activities through trade associations and codes of conduct.<sup>32</sup> It is unclear whether the formation of these organizations actually worked effectively resulted in better ethical decision-making. However, for Young, they were, at the very least, an important symbol of the birth of business management as a distinct, formal profession. As a result, business managers had come to be considered

trustees of the whole undertaking, whose responsibility is to see to it on the one side that the invested capital is safe and that its return is adequate and continuous; and on the other side that competent and conscientious men are found to do the work and that their job is safe and their earnings are adequate and continuous. Managers may not be able to realize that ideal for capital or labor. It is a great advance, however, for us to have formulated that objective and to be striving toward that goal.<sup>33</sup>

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<sup>31</sup> Owen D. Young, "Dedication Address," *Harvard Business Review* 5, no. 4 (July 1927): 389.

<sup>32</sup> See John Richardson, "Business Policing Itself Through Better Business Bureaus," *Harvard Business Review* 9, no. 1 (October 1930): 69-77.

<sup>33</sup> Owen D. Young, "Dedication Address," *Harvard Business Review* 5, no. 4 (July 1927): 392.

In a broad 1931 study of university programs of business education, *University Education for Business*, its authors, a sociologist and industrial economist, reflected upon the new roles played by university programs in the education of business leaders. For them, these programs were about much more than teaching them how to simply run their businesses more effectively and make more money. Rather, the universities “would be derelict in the discharge of their responsibilities unless they placed primary emphasis upon these broader ethical responsibilities rather than upon the mere technique of money getting.” Going even further, they felt that ethics needed to be included in all aspects of business education to the point that students acquire “an instinctive or intuitive appreciation of what constitutes fair and honorable dealing between management and the groups to which it owes responsibility—capital, labor, and the public.”<sup>34</sup> For business executives to cooperate with the schools in the development of their curricula promised to elevate the status of business as a profession and “assist in the discovery of capacity throughout the community,” identifying potential business talent. Doing so helped to provide “actual meaning to equality of opportunity” by giving aspiring young people the tools and training necessary to succeed in the world of business.<sup>35</sup> In this sense, the development of these programs benefited corporations themselves, the communities in which they operated, and the health of the country’s ideals by giving young people greater opportunities to improve themselves by using their talents toward a career in business.

Debates over practices of “welfare capitalism” during the 1920s demonstrate how competing intellectual conceptions of the best relationship between business and society

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<sup>34</sup> James H.S. Bossard and J. Frederic Dewhurst, *University Education for Business: A Study of Existing Needs and Practices* (Philadelphia: University of Pennsylvania, 1931), 14-15.

<sup>35</sup> Abbott Payton Usher, “The Influence of Business on American National Life,” *Harvard Business Review* 2, no. 3 (April 1924): 265-266. See also Bossard Dewhurst

coalesced into a common outlook for the future. Since the rise of the early “factory towns” at Lowell, Massachusetts during the 1820s and 1830s, many employers had found it necessary to provide quality working conditions, adequate housing, as well as religious, social, and intellectual resources for the personal enrichment of workers. Examples of these kinds of programs included the construction of schools, libraries, hospitals, community centers, and other facilities that helped workers and their communities as a whole.<sup>36</sup> Providing these services allowed employers to attract workers from the surrounding countryside and to provide for their basic needs for shelter, education, health, and social life. Such programs resulted from a practical need to attract factory labor, to shape individual character to promote productivity, and an ideological impulse to prevent America from experiencing the same kinds of poverty and unrest associated with industrialization in Europe. These kinds of services enhanced both the personal well being of workers and their families as well as their productivity within the workplace.<sup>37</sup>

Programs of welfare capitalism reached the height of their popularity during the mid-1920s, with firms spending an average of \$27 per worker per year, or two percent of the average industrial wage earner’s income.<sup>38</sup> To some promoters of these programs, providing such services to employees represented an effective way to enhance employee productivity and to help discourage unionization by promoting more cooperative relations between managers and labor. More importantly, however, programs of welfare capitalism represented an assumption by employers of responsibility for the broad well being of their

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<sup>36</sup> Stuart D. Brandes, *American Welfare Capitalism: 1880-1940* (Chicago and London: University of Chicago Press, 1976).

<sup>37</sup> Morrell Heald, *The Social Responsibilities of Business: Company and Community, 1900-1960* (New Brunswick, Transaction Publishers, 1988), 3-7.

<sup>38</sup> Brandes, 27-29.

employees both on and off the factory floor.<sup>39</sup> In May 1929, Charles Schwab, president of Bethlehem Steel, argued before the American Iron and Steel Institute that they possessed “a real trusteeship” for the welfare of many families. Above all, however, they sought “the welfare, progress, and happiness of our people.”<sup>40</sup>

Some businesspeople, however, referencing Frederick Winslow Taylor’s techniques of scientific management, criticized practices of welfare capitalism and other efforts to use company funds to benefit society. Henry Ford, for example, believed that the size of one’s profits indicated the level of service performed for the community; increasing productive efficiency and lowering prices promised a rising standard of living for the American people.<sup>41</sup> Taylor himself called welfare capitalism “a joke.”<sup>42</sup> With scientific management, Taylor’s techniques broke specific tasks down into their simplest elements using time-motion studies, then managers instructed employees as to the most efficient methods for going about their work. Then, managers could establish a piece rate to motivate workers to produce a specific level of output. Increasing productivity in such a manner promised to help firms become more competitive against their rivals, leading to greater profits for the firm and higher wages for workers than under the old system. In addition, this could be accomplished, in theory, without expensive employee welfare schemes.<sup>43</sup>

This debate between scientific management versus welfare capitalism reflected disagreement about the ends necessary to accomplish a common goal shared by both sides—a rising standard of living and a more prosperous, comfortable future for the

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<sup>39</sup> David Brody, *Workers in Industrial America: Essays on the 20<sup>th</sup> Century Struggle* (New York: Oxford University Press, 1981), 61.

<sup>40</sup> Ibid, 61; *Iron Age* (February 2, 1922): 356.

<sup>41</sup> Heald, 88-89.

<sup>42</sup> Brandes, 36; Daniel Nelson and Stuart Campbell, “Taylorism Versus Welfare Work in American Industry: H.L. Gantt and the Bancrofts,” *Business History Review* 46, no. 1 (Spring 1972): 5.

<sup>43</sup> Brandes, 36.

American people. Additionally, both of these conceptions left employers in a position of authority over their workers and communities, whether it was the paternalism of welfare capitalism or the heavy-handed regulation of worker activity through scientific management. In addition, both sides hoped to alleviate any disagreements in order to avoid labor disputes. Back in 1911, Taylor himself eloquently described his vision for America should his principles of scientific management be put in place on a broad scale. This general adoption

would readily in the future double the productivity of the average man engaged in industrial work. Think of what this means to the whole country. Think of the increase, both in the necessities and luxuries of life, which becomes available for the whole country, of the possibility of shortening the hours of labor when this is desirable, and of the increased opportunities for education, culture, and recreation which this implies. But while the whole world would profit by this increase in production, the manufacturer and the workman will be far more interest in the especial local gain that comes to them and to the people immediately around them. Scientific management will mean, for the employers and the workmen who adopt it—and particularly for those who adopt it first—the elimination of almost all causes for dispute and disagreement between them.<sup>44</sup>

Thus, for Taylor, scientific management did not imply the dehumanization of labor, or viewing workers in purely mechanical terms. Quite the contrary—he considered the introduction of his techniques to represent a path for progress for management, labor, and the country as a whole by allowing all groups to become more productive and thus acquire a higher standard of living.

Whatever the intentions of his work and the vision that Taylor may have had for the future, by the mid-1920s, many different business people pushed back against the mechanization and deskilling of labor that had come to leave labor alienated. According to Lee K. Frankel and Alexander Fleischer, Third Vice President and Assistant Secretary of the

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<sup>44</sup> Frederick W. Taylor, *Principles of Scientific Management* (New York: Harper & Brothers, 1919), 142.



Metropolitan Life Insurance Company, wrote in 1923 that as a result of Taylorist management techniques

the worker lost his individuality and became essentially an adjunct to the machine, easily procurable, easily replaceable, and apparently requiring little consideration or thought. The growth in the size of the business unit of necessity destroyed the personal relation between employer and employe [sic]. This separation contributed to the easy and common belief of the manufacturer that he could overlook the effect of work and working conditions on his employees.<sup>45</sup>

Many argued that in order to foster stable industrial relations, business leaders needed to regard workers—as well as investors, suppliers, and customers—as flesh and blood human beings living within a specific social context that does not cease to exist when a worker walks onto the factory floor. Many writings of business leaders and intellectuals during the 1920s reflect a desire to focus on the “human factors” in industry, to establish more harmonious industrial relations between managers and labor for the benefit of both and the community at large. Such sentiments lay at the heart of concepts of “trusteeship” advocated by leaders like Owen Young.<sup>46</sup> Practices of “welfare capitalism” had long reflected a broad view of community life in which healthy communities contributed to the financial health of companies.

In 1923, Whiting Williams, a prominent consultant on labor relations and personnel management, argued for a greater emphasis on improving the relationship between labor and management by seeing workers within their unique, individual social contexts as human beings. To do otherwise denied them the chance to reach their fullest potential as workers and citizens. In his view, a job was more than an income; the quality and importance of one’s job helped to determine a worker’s position in the community.

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<sup>45</sup> Lee K. Frankel and Alexander Fleischer, *The Human Factor in Industry* (New York: Macmillan, 1920), 1.

<sup>46</sup> Owen D. Young, “Dedication Address,” *Harvard Business Review* 5, no. 4 (July 1927): 392.

Employers needed to remember that “in the working world every man earns his right to think well of himself as a person among other persons, and establishes his own and his family’s standing and social rating in his community, less by the earning power than by the nature and importance of his job.”<sup>47</sup> Thus, when labor became deskilled through scientific management and workers lost a certain feeling of dignity, employers had failed to recognize that “the problem of effective relations with the worker inside the factory cannot be successfully separated from the whole problem of general social relations outside.”<sup>48</sup> Thus, for Williams, in managing industrial relations and seeking to improve productive efficiency, management bore the responsibility for providing a satisfying work environment for workers if they sought to promote harmonious industrial relations.

Lee K. Frankel and Alexander Fleischer, leaders in the Metropolitan Life Insurance Company, and Sam A. Lewisohn, an industrial relations consultant, agreed with this assessment. Lewisohn argued that “because the whole mental and emotional personality of the worker is molded by what takes place in the factory...It is the starting point in any attempt to improve toward a harmonious national existence.”<sup>49</sup> For Frankel and Fleischer, this constituted one of the main lines of argument in favor of employee welfare programs, as some employers recognized the manner in which “all the community facilities surrounding an individual...play a part in the attitude of the individual toward his life and his work.”<sup>50</sup> Along these same lines, Willard E. Hotchkiss, executive director of the National Industrial Federation of Clothing Manufacturers (1920-1925) argued that even though

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<sup>47</sup> Whiting Williams, “A Theory of Industrial Conduct and Leadership,” *Harvard Business Review* 1, no. 3 (April 1923): 325.

<sup>48</sup> *Ibid.*, 326.

<sup>49</sup> Sam A. Lewisohn, *The New Leadership in Industry* (New York: E.P. Dutton & Company, 1926), 228.

<sup>50</sup> Lee K. Frankel and Alexander Fleischer, *The Human Factor in Industry* (New York: Macmillan, 1926), 228.

special training was vital for effective management, it was even more important that one “analyze the human forces in industry” and wield this understanding to manage workplace policy and relations, instead of relying on “impulse or tradition.”<sup>51</sup> All of this reflected a desire to combat a perception that an inherent tension existed between the workings of big business and the promotion of the best interests of society as a whole. Taylorites and welfare capitalists all desired better relations between workers and management, but disagreed about the best way to expend the firm’s resources to realize this goal.

It is important to recognize that only America’s largest industrial firms could afford to implement expensive programs of welfare capitalism in the first place. According to historian David Brody, a 1929 survey of employers revealed that industrial relations departments, the essential administrative base for expansive programs of welfare capitalism, existed in 6.5% of companies with fewer than 500 employees, 30% of companies employing between 500 and 2,000 employees, and 50% of companies with over 2,000 employees.<sup>52</sup> Thus, for many employers, the best they could hope for was to run a profitable, growing business that enabled them to pay good wages to their workers with which to support their families and slowly improve their standard of living. They could not afford expensive programs like profit-sharing, group insurance, mutual aid associations, pension plans, stock ownership plans, or savings and loan facilities.<sup>53</sup>

Overall, the professionalization of business management promoted a perception of business managers of themselves as a distinct professional class with social responsibilities that came with such a status. The promotion of a more organic, humanistic view of the

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<sup>51</sup> Willard E. Hotchkiss, “Industrial Relations Management,” *Harvard Business Review* 1, no. 4 (July 1923): 450.

<sup>52</sup> Brody, 59.

<sup>53</sup> Ibid.

relationships between management and workers and other groups in society promised both to elevate the social standing of individual businessmen, helping to persuade the public that managers were by nature ethical, upstanding citizens who could both make a profit while contributing fairly to the development of individual workers and the communities in which firms operated. As “trustees” of the public welfare, business leaders could promote harmonious social relations and an environment of steadily growing profits for firms and a steadily growing standard of living for society at large. By reforming the practices of business management and changing the way that businesspeople saw themselves with regard to society as a whole, society could become better off without disruption of managerial control over their firms by unions, government, or other groups. These authors, in effect, did not promote any radically new idea about the social responsibilities of business management. Instead, they sought to promote a broad mindset that simply sought to help businesspeople understand that their firms did not operate in isolation; rather, they operated within a complex social world that needed to be understood rather than ignored in order for their businesses to prosper in the long-run.

## Chapter 2.

### The Depression

During the 1920s, the emerging concept of “trusteeship” had meant a balancing of the interests of capital, labor, customers, suppliers, and the public at large. Those leaders who sought to professionalize business management envisioned a future in which business leaders could promote economic and social progress through an ethical, balanced approach toward harmonizing these different interests, acting as impartial servants of the public good. The descent of the world economy into the Great Depression beginning after the stock market crash in 1929 thoroughly disrupted this vision. This prolonged economic crisis and the rise of the welfare state heightened ideological tensions within the business community over the proper solution to the crisis and about the proper role for the corporation within the broader social fabric. The 1930s witnessed sharper, much more polarized debates within the business community than had taken place during the much more stable economic and political climate of the 1920s. Because corporations embodied concentrated wealth in an economic environment of tremendous scarcity, business leaders, economists, and other figures began to call upon large firms to assume a broader view of their social responsibilities to the public beyond the claims of immediate stakeholders to the firm like workers, suppliers, creditors, and stockholders. However, strong countercurrents pushed back against this broadened vision, arguing for a narrower, more classical view of corporate management focused solely on enhancing shareholder returns. Ultimately, by the end of the 1930s, fault lines had formed between different segments of the American business community regarding the desirability of New Deal policies and the

growth of federal government power, the expansion of business social involvements to alleviate social ills, and the best way to deal with the rapid expansion of union power during the decade.

The onset of the Great Depression and its accompanying social unrest contributed to a widespread suspicion of business, large profits, and the economic system as a whole. In 1930, many conservative businessmen, adhering to classical economic theories about the natural existence of economic upturns and downturns, strenuously predicted an economic turnaround, arguing that the country had survived many economic downturns before and that this one would resolve itself no differently. These included presidents of both the National Association of Manufacturers and the U.S. Chamber of Commerce, as well as an array of other business leaders. In their view, recovery was inevitable, so the state needed to abstain from doing anything to hold back the recovery. They considered unemployment insurance and other government programs to be particularly menacing, because they undermined the moral fabric of society and led people away from the self-reliance, thrift, and patience that they felt was sorely needed. The insistence of leading business executives that the country's economic collapse would ultimately prove self-correcting drew strong resentment from broad segments of the public. Their insistence that a recovery would soon be on its way clashed with the daily experience of millions of Americans of unemployment and increasing desperation with no end to the turmoil in sight.<sup>54</sup>

Although many conservative business people continued to reject government regulation of the economy, others embraced such interventions as desirable and necessary. Government planning of economic activity, for many, represented a necessary and

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<sup>54</sup> Arthur M. Schlesinger, *The Crisis of the Old Order: The Age of Roosevelt 1919-1933* (New York: History Book Club, 2002), 177-181.

desirable means of bringing about an end to the downturn in the short-run, and the preservation of the American way of life in the long run. In 1931, President Nicholas Murray Butler of Columbia University, Dean Wallace B. Donham of the Harvard Business School, and Paul Mazur of Lehman Brothers all lamented the lack of planning in the American economic system. They considered it desirable for the federal government to formulate long-term economic plans for economic stability and full employment, because this was far preferable to the collapse of American capitalism as a whole.<sup>55</sup>

For Dean Wallace B. Donham of Harvard Business School, an expansion of government responsibility for economic planning meant that American business leaders also needed to assume a broader view of their responsibilities to the public as the heads of their enterprises. Within their areas of responsibility, he wondered in 1931,

how can we as business men, within the areas for which we are responsible, best meet the needs of the American people, most nearly approximate supplying their wants, maintain profits, handle problems of unemployment, face the Russian challenge, and at the same time aid Europe and continue most the cause of International Peace?<sup>56</sup>

Clearly, Donham concerned himself with far more than just short-term profits or the needs of shareholders. Rather, he presented such a broad view of business social involvement as a crucial step for defending the American way of life. He believed strongly that “capitalism and capital can be defended only by constructive programs based on the consideration of social responsibility rather than by a series of rear-guard engagements where capital is successively fighting to hold one specific point after another.”<sup>57</sup> For business leaders to

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<sup>55</sup> Arthur M. Schlesinger, *The Crisis of the Old Order: The Age of Roosevelt 1919-1933* (New York: History Book Club, 2002), 181.

<sup>56</sup> Wallace B. Donham, “Can American Business Meet the Present Emergency?” *Harvard Business Review* 9, no. 3 (April 1931): 258.

<sup>57</sup> *Ibid*, 268.

stand by and argue that automatic mechanisms would bring about an economic recovery, that government and business should go about business as usual, meant an abdication of responsibility for preserving the system of “free enterprise” that so many business leaders of the time seemed to cherish. By 1931, relying on blind market forces for an economic recovery was not working. Many problems required “governmental action for their sound solution, and the plans of business must fit in with the plans of government.”<sup>58</sup>

Writing in apocalyptic, yet hopeful language, Donham argued that

we must have a general plan for American business and behind that plan a sound social philosophy, or we shall through unconscious mistakes in the use of our power destroy Western civilization. It is my belief that the only hope for Western civilization centers in the ability and leadership of American business, in the recognition of fields in which government action is necessary to secure sound results, and in the capacity to make and carry out a major plan conceived in the largest terms by men of the highest ability and social objectives.<sup>59</sup>

In this view, American business leaders could not possibly justify concerning themselves with just the activities on their firms, when the survival of Western civilization itself was at stake. Business leaders could not simply wait for a recovery to occur. Business had to become an active partner with government in finding solutions to these perilous threats to Western civilization as a whole.

In 1932, three prominent intellectuals engaged in a crucial debate: did American corporations have not only an ethical or moral responsibility, but a tangible legal responsibility to serve the public interest? These studies disagreed about the legal/economic rationale for such an expansion of a firm’s legal responsibilities to the public, but ultimately both of these studies laid a strong intellectual foundation and

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<sup>58</sup> Ibid, 263.

<sup>59</sup> Wallace B. Donham, “Can American Business Meet the Present Emergency?” *Harvard Business Review* 9, no. 3 (April 1931): 258.



rationale for managers desiring to use the power of their firms to help alleviate pressing social problems.

In *The Modern Corporation and Private Property*, authors Adolf A. Berle and Gardiner C. Means, a lawyer and an economist, argued that a revolution in the nature of property relations over the previous half-century had fundamentally altered the basic obligations of corporations toward society as a whole. Increasingly, corporate management had come to possess increasingly autonomous control over the funds of growing numbers of functionally anonymous shareholders who could no longer secure effective control over the use of their investments. As a result of the tremendous growth in the economic power acquired by the managers of America's largest corporations,

there may be said to have evolved a "corporate system"—as there was once a feudal system—which has attracted to itself a combination of attributes and powers, and has attained a degree of prominence entitling it to be dealt with as a major social institution.<sup>60</sup>

This change in the nature of property relations meant that classical economic laws, in which the invisible hand guided self-interested actors toward a socially beneficial outcome, no longer applied. Adam Smith's ideas of "private property, private enterprise, individual initiative, the profit motive, wealth, competition," the intellectual pillars for classical economic theory as a whole, had "ceased to be accurate" and thus became misleading "in describing modern enterprise as carried on by the great corporations."<sup>61</sup> As a result of their new lack of accountability, corporate management, they argued, should be legally compelled to act in line with the public interest by carrying out their responsibilities

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<sup>60</sup> A.A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1932), 1.

<sup>61</sup> A.A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1932), 345.

toward stockholders, workers, consumers, and government.<sup>62</sup> These changes in the nature of private property relations and this lack of accountability, they maintained,

cleared the way for the claims of a group far wider than either the owners or the control. They have placed the community in a position to demand that the modern corporation serve not alone the owners or the control but all society. This alternative offers a wholly new concept of corporate activity. Neither the claims of ownership nor those of control can stand against the paramount interests of the community. The present claims of both contending parties new in the field have been weakened by the developments described in this book. It remains only for the claims of the community to be put forward with clarity and force. Rigid enforcement of property rights as a temporary protection against plundering by control would not stand in the way of the modification of these rights in the interest of other groups. When a convincing system of community obligations is worked out and is generally accepted, in that moment the passive property right of today must yield before the larger interest of society. Should the corporate leaders, for example, set forth a program comprising fair wages, security to employees, reasonable service to their public, and stabilization of business, all of which would divert a portion of the profits from the owners of passive property, and should the community generally accept such a scheme as a logical and human solution of industrial difficulties, the interests of passive property owners would have to give way.<sup>63</sup>

Effectively, Berle and Means sought to establish a legal basis for concept of “trusteeship,” of business management acting as impartial promoters of the interests of a broad range of interested groups. However, during the 1920s, individual business leaders themselves advanced this concept as a voluntary assumption of ethical conduct that had to take place in order for business management to become a respected profession in the public eye.

Berle and Means took this concept further, arguing that

it seems essential if the corporate system is to survive,--that the ‘control’ of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity.<sup>64</sup>

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<sup>62</sup> Ibid, 6.

<sup>63</sup> Ibid, 355-356.

<sup>64</sup> Ibid.

Berle and Means's passionate case for greater public control of the allocation of corporate profits did not go unchallenged. In 1932, law professor J. Merrick Dodd published a response in the *Harvard Law Review* that directly addressed the question of the legal obligations of corporations to engage in activities considered by the public to be "socially responsible."<sup>65</sup> Dodd argued that even though corporate management had become more autonomous from shareholder control, such changes "in no way alter the theory that the sole function of directors and other corporate managers is to seek to obtain the maximum amount of profits for the stockholders as owners of the enterprise."<sup>66</sup> Certainly, public opinion had moved in the direction of viewing corporations as economic institutions vested with both "a social service as well as a profit-making function."<sup>67</sup> But, this did not mean that the public had a legal basis to force firms to fulfill a social service function, because "that the duty of the managers is to employ the funds of the corporate institution which they manage solely for the purposes of their institution is indisputable. That that purpose, both factually and legally, is maximum stockholder profit has commonly been assumed by lawyers."<sup>68</sup>

The most important difference between Berle & Means and Dodd's contentions was that Berle & Means argument depended on the idea that the authority of corporation management were powers in trust held on behalf of shareholders, whereas Dodd argued that such powers were held in trust on behalf of the *institution*, of the corporation as an enduring entity. Although their legal responsibility was to act on the basis of shareholder

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<sup>66</sup> E. Merrick Dodd, Jr. "For Whom Are Corporate Managers Trustees?" *Harvard Law Review* 45, no. 7 (May 1932): 1152.

<sup>67</sup> *Ibid*, 1148.

<sup>68</sup> *Ibid*, 1161.

interests alone, if the institution itself did not endure, Dodd argued, fulfilling that obligation depended on maximizing the longevity and long-term welfare of the firm itself. As a consequence, he concluded, donations to local charities, for example, could be justified if such an action either provided some long-term advantage to the firm (i.e. public goodwill), or if business people, as professionals, were carrying out a widely shared professional responsibility.<sup>69</sup>

Dodd established a basis for a broader scope of managerial social responsibility that is highly significant in its implications. First, his conclusions left managers with room to voluntarily expand their company's social involvements in a manner consistent with public expectations for ethical conduct, so long as this served a long-term company interest. Second, it did not have the same implications of direct public control of private enterprise as Berle and Means' conclusion. Third, it recognized the importance of codes of professional ethics in encouraging business leaders to become involved and contribute financially toward public and community affairs. They could abide by their conscience and fulfill a desire to serve the public without coercion by government and without detracting from their obligations to shareholders.

Thus, these two studies two different visions of how the crisis of the Great Depression led these two authors toward two different conceptions of the legal obligations of corporations toward society. Berle and Means offered a vision in which public demands, as decided through politics, could not possibly be relegated below the interests of shareholders. This contrasts with Dodd's conclusion that serving a broader public interest

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<sup>69</sup> Ibid, 1159-1161.

was in certain instances justifiable, so long as it served the long-term interests of the firm or the profession of business management as a whole.

By 1935, a majority of the public seemed to have accepted the idea that government should work actively to provide for the needs of Americans. In a 1935 *Fortune* poll, 75% agreed with the proposition that government should see to it that “every man who wants to work has a job.”<sup>70</sup> With the quest for economic security having become a priority for the American public, even many conservatives, Dodd reported, had come to believe that management needed to concern itself with providing economic security for their workers and the community at large.<sup>71</sup>

For American business leaders, the Great Depression represented a period of both challenge and opportunity, a time in which old ideas were undermined by the hard realities of persistent economic inactivity in spite of faith and hopes that such problems would resolve themselves by the natural workings of the market. At the same time, it presented new opportunities for business leaders to take an active hand by formulating plans and strategies to help resolve these problems. Yet, the intransigence of many business leaders about the need for bold government action in the face of the economic crisis tarnished the image of business in the public eye. Writing in 1940, looking back upon the change in the public’s view of businesspeople over the decade, Lewis H. Brown, President of the Johns-Manville Corporation, believed that

too often the present-day industrialist is portrayed as a sort of antediluvian survival—a stubborn, self-centered, tight-fisted, supreme individualist, with a mind hermetically sealed against everything unrelated to his own immediate interests.

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<sup>70</sup> Roland Marchand, “Where Lie the Boundaries of the Corporation? Explorations in “Corporate Responsibility” in the 1930s,” *Business and Economic History* 26, no. 1 (Fall 1997): 81; *Fortune* 12 (July 1935): 67.

<sup>71</sup> Dodd, 1152,

Acclaim for contributions to the nation's material advancement is no longer accorded him. Rather, he finds himself viewed with such suspicion and distrust that, increasingly, every phase of his business activities has come to be threatened with regulation and policing by government.<sup>72</sup>

Even after all glimmers of a natural recovery had seemed to pass, certain segments of the American business community still bitterly resented the expansion of the welfare state, considering it a sign of the impending socialization of American institutions.

By the end of the 1930s, however, most business executives had broadened their sphere of community involvement in order to defend the legitimacy of their firms and the free enterprise system as a whole. Firms such as General Electric, Western Electric, Johns-Manville, and J.P. Morgan and Company created public relations departments in order to track public opinion, influence popular culture, educate the public about the importance of business to national prosperity, and create new programs to link firms with their local communities.<sup>73</sup> This represented a broad effort to shape public opinion, as the creation of company public relations departments created new avenues for positive communication with the public.<sup>74</sup> In 1934, John J. Raskob, a former General Motors director and founding member of the American Liberty League, believed that it was time that "some organization should come up with a plan for getting across to the people "the value of encouraging people to work; encouraging people to get rich; showing the fallacy of communism."<sup>75</sup> Thus, businesspeople of varying ideological persuasions argued for greater engagement and communication with the public.

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<sup>72</sup> Lewis H. Brown, "New Objectives of Management," in *The New Outlook in Business*, ed. Bronson Batchelor (New York: Harper & Brothers, 1940), 92.

<sup>73</sup> Marchand, 80-96.

<sup>74</sup> Heald, 117-202.

<sup>75</sup> George Wolfskill, *The Revolt of the Conservatives: A History of the American Liberty League* (Boston: Houghton Mifflin, 1962), 24.

For the time being, advocates for broadened corporate engagement with the public interest had prevailed, to the extent that business management around the country tended to share a broad sense of obligation to help renew economic security for Americans. In 1940, management consultant Bronson Batchelor collected a series of writings from twenty business leaders in order to show that a “new outlook” had emerged within the ranks of America’s business leaders as a result of the tremendous changes brought about by the economic crisis. According to Batchelor, the world had changed and

that American industry stands at one of history’s great epochal dividing points is increasingly recognized within industry itself. The decisions which must be taken in the years immediately ahead are irrevocable. Industry’s place in the new social order now in process of formation will be fixed by the vision of its present leadership and, secondly, by the acceptance of the greatly enlarged social responsibilities which, unexpectedly and precipitately, have been thrust upon business as the inevitable accompaniment of an era of change.<sup>76</sup>

Thus, according to Batchelor, business leaders assumed new responsibilities that were effectively thrust upon them as a result of the circumstances of the period, rather than by a systemic effort within the business community to expand their range of public involvement voluntarily.

The events of the Great Depression cemented the importance of the concept of “trusteeship,” of business managers working to arbitrate the interests of different groups with claims upon the firm’s returns. In 1940, Lewis Brown, President of the Johns-Manville corporation, argued that the broadened social outlook of business leaders was the natural result of the evolution of a complex society. Instead of representing the single interest of shareholders, management now functioned “on the basis of a *trusteeship* which endeavors to maintain, between four basic interlocking groups, a proper balance of equity. Today the

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<sup>76</sup> Bronson Batchelor, *The New Outlook in Business* (New York: Harper & Brothers, 1940), 5.

executive head of every business is accountable not only to his stockholders, but to the members of his working organization, to his customers, and to the public.”<sup>77</sup>

Yet, other business people continued to push back against a broadening of the social responsibilities of business. A number of business writers during the late 1930s stressed the importance of focusing on profits as the most important test of a firm’s contribution to the country’s broader welfare. Bronson Batchelor argued that unless firms chose investments on the basis of profitability, “these limited capital funds could be quickly frozen up in unproductive undertakings, as might readily be the case if a social objective alone decided how the funds were to be used.”<sup>78</sup> Likewise, Paul G. Hoffman, President of the Studebaker corporation, argued that as “social instruments,” firms provided the greatest good through “social benefits such as a greatly increased leisure, progressively higher living standards, or an expanding employee purchasing power.”<sup>79</sup> Those social benefits resulted from the firm’s profit-oriented business activities, rather than from an attitude of benevolence toward society. The argument that business had a responsibility to place the needs of the public ahead of the financial interests of the firm and its stockholders resulted, in his view, from an erroneous conception of the corporation as a social instrument. It seemed to him that

enlightened self-interest rather than benevolence should be the impelling motive in every relationship between the corporation, on the one hand, and its employees, neighbors, and customers, on the other. After all, it is the job of a corporation to make money for its stockholders. And it so happens that it is good business to be humane and that decency pays dividends.

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<sup>77</sup> Lewis H. Brown, “New Objectives of Management,” in Bronson Batchelor, *The New Outlook in Business* (New York: Harper & Brothers, 1940), 95.

<sup>78</sup> Bronson Batchelor, *The New Outlook in Business*, 7.

<sup>79</sup> Paul G. Hoffman, “The Corporation as a Social Instrument,” in Bronson Batchelor, *The New Outlook in Business* (New York: Harper & Brothers, 1940), 107.



Enlightened self-interest manifests a different attitude—that of trusteeship. Management motivated by it deals frankly with employees, pays the highest possible wages, and promotes the self-interest of the workman as an inseparable part of sound planning rather than in the discharge of an implied social obligation<sup>80</sup>

Thus, for management to take an attitude of trusteeship toward the community was not the result of benevolence, but rather the recognition that it was good business, a part of effective management.

During the 1930s, in short, divisions within the business community emerged over the desirability of a vast expansion of government responsibility for providing economic security for the American public. Conservative businessmen argued in forceful terms for government nonintervention in the economy, as well as for a vision of corporate responsibility oriented strictly toward the interests of shareholders. However, as the economic downturn continued to worsen, some members of the business community began to argue that business should take on a broader view of its civic obligations. Instead of focusing solely on short-term profits, businesspeople needed to work actively with government to provide economic security for Americans. During the 1930s, big business worked hard to shape American public opinion and cultivate more favorable attitudes toward business through public relations programs and greater levels of philanthropic giving. Ultimately, American business leaders would play a tremendous role in mobilizing the American economy for World War II, a role that highlighted the importance of business in solving problems of broad national consequence.

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<sup>80</sup> Ibid, 107-109.

### Chapter 3.

## World War II and Postwar Debates.

Once World War II put an end to the Great Depression, American corporations took on renewed social prestige. Business had helped to mobilize the economy for wartime production, an effort that demonstrated the country's capacity to out-produce and out-compete the country's external foes. Leading managers from firms across many industries served the federal government as "dollar-a-year men," offering their industry-specific knowledge to help mobilize the nation's industrial capital for wartime production.<sup>81</sup> Even companies that produced consumer goods, rather than military equipment, touted their own wartime sacrifices to the public, seeking to associate themselves with the mobilization against foreign enemies.<sup>82</sup> The mobilization for wartime production provided a twofold stimulus to the economy. First, it gave mature industrial firms new orders to fill to meet the direct needs of wartime production in industries like petroleum, chemicals, electronics, and aviation. Second, wartime research and development efforts led to the development of new products, processes, and firms.<sup>83</sup> World War II finally brought the Great Depression to an end, laid the groundwork for a postwar economic boom, and helped to establish the

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<sup>81</sup> John W. Snyder, "St. Louis Banker Heads the Defense Plant Corporation, 1940-1944" in *Major Problems in American Business History: Documents and Essays*, eds. Regina L. Blasczyk and Philip B. Scranton (Boston: Houghton Mifflin, 2006), 351-352.

<sup>82</sup> Bert Spector, "Business Responsibilities in a Divided World: The Cold War Roots of the Corporate Social Responsibility Movement," *Enterprise and Society* 9, no. 2 (June 1, 2008): 317; Roland Merchand, *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business* (Berkeley: University of California Press, 1998), 320.

<sup>83</sup> Michael A. Bernstein, "Why the Great Depression Was Great," in *Major Problems in American Business History: Documents and Essays*, eds. Regina L. Blasczyk and Philip B. Scranton (Boston: Houghton Mifflin, 2006), 360-361.

corporation as one of the defining institutions of American life. Writing in 1946, Peter Drucker, a prominent management consultant,

realized as a result of the war that the large corporation had become first in importance. The miracle of conversion to war-production was clearly wrought by the large corporation.<sup>84</sup>

In the decades after World War II, with the return of economic growth and expanding prosperity, the social role played by corporations continued to expand as well. However, this did not take place simply as an extension of the involvement established during the years of economic depression and war. The return to prosperity gave business leaders a chance to define the social role of the corporation within a more stable context than during the years of crisis from 1929-1945. Rather than reacting to circumstances, many now sought to provide a positive vision for the best way for American business to contribute to the emerging postwar order.

Prior analyses of business opinion in this period regarding corporate social responsibilities have tended to oversimplify the complexities of these debates. Cold War ideological divisions certainly influenced the development of a concept of broadened social responsibility. However, this was not a simple two-way struggle between free-market conservatives and Keynesian liberals, as presented by some historians.<sup>85</sup> The writings of prominent businesspeople and economists from the late 1940s through the 1960s reveals a complex array of arguments based on differing views about a number of different variables that did not fit neatly within a single ideological category. Understanding these different

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<sup>84</sup> Peter F. Drucker, *Concept of the Corporation* (New York: John Day Company, 1946), 8.

<sup>85</sup> See Kim Phillips-Fein, "Top-Down Revolution: Businessmen, Intellectuals, and Politicians Against the New Deal, 1945-1964," *Enterprise and Society* 7, no. 4 (December 2006): 686-694; Burt Spector, "Business Responsibilities in A Divided World: The Cold War Roots of the Corporate Social Responsibility Movement," *Enterprise and Society* 9, no. 2 (June 1, 2008): 314-336.

variables is vital for understanding the intellectual development of ideas of a broadened definition of corporate social responsibility after World War II, because as a social institution, the corporation was not looked at in isolation. Rather, it was one source of power alongside government, organized labor, and the myriad social, community, and national organizations constituting civil society, all driving the dynamism of American social life.<sup>86</sup> An individual's view toward a broadened vision of corporate social responsibilities cannot be fully understood without considering their views of these other institutions.

The main points of debate were four in number. First, businesspeople and economists disagreed about the principals to whom management ultimately owed responsibility, such as shareholders, the firm itself as an institution, or in some way to the public at large. Second, they varied in where the onus of a broadened sense of social responsibility rested, on individuals or upon the firm as a whole. Many writers argued for greater engagement by individual business leaders as independent citizens both serving their firms and engaging in public affairs. During the early 1950s, however, a recognition of the rapidly growing power and influence of corporations led to calls for firms as a whole to become more socially responsible toward the public at large. Third, business leaders disagreed about the proper level of government involvement in regulating the economy; understanding individual positions toward "big government" are important for understanding their views of "big business." Fourth, they varied in their views toward the concentration of power in the hands of business management in the first place. Did

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<sup>86</sup> For example, Donald David wrote "We all know that our sprawling and dynamic society is no simple matter. It is made up of the utmost diversity of human beings and social groupings subject to strains, tensions, and frustrations in their mutual relations." Donald K. David, "Business Responsibilities in an Uncertain World," *Harvard Business Review* 27, no. 3 (Supplement to May 1949 edition), 6-7.

corporate management represent an enlightened technocracy managing the country's means of production, or did they have the potential to become a tyrannical force over society and undermine individual liberties? Some writers on both the political right and left stood against the concentration of economic and political power in the hands of either "big business" or "big government," arguing instead for a return to a more individualistic approach to public affairs.

In 1946, Peter Drucker, one of the country's foremost management consultants, completed a landmark study of General Motors in which he sought to find a position for the corporation in the emerging postwar economic order. He concluded that the corporation had become the "representative social institution" of American society.<sup>87</sup> As such, the corporation itself, as an enduring institution whose survival predicated serving the interests even of stockholders, became the sole focus of management responsibilities. Instead of serving "transitory" short-term interests, business leaders had to be willing to sacrifice "the individual rights of shareholders, creditors, workers, and in the last analysis, even of consumers" in order to accomplish the end goal of the firm's survival as "an efficient organization of human efforts to the common end of most economical production."<sup>88</sup>

Drucker's conclusion represents a shift away from earlier conceptions of management responsibility. The demands of traditional stakeholders—stockholders, employees, consumers, and all others—in Drucker's view, had to be subordinated to the long-term needs of the corporation as a vital social institution unto itself. Without the firm, none of these other interests could be satisfied. This went further than traditional,

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<sup>87</sup> Peter F. Drucker, *Concept of the Corporation* (New York: John Day Company, 1946), 5.

<sup>88</sup> *Ibid*, 21, 40.

stockholder-focused analyses of management responsibility, like that of J. Merrick Dodd, for example, who argued in 1932 that “the sole function of directors and other corporate managers is to seek to obtain the maximum amount of profits for the stockholders as owners of the enterprise.”<sup>89</sup> Business leaders needed to engage their efforts in the production and distribution of goods and services. By doing so, the firm as an institution best carried out its social obligations, improving the welfare of society by providing for its material needs.

For Drucker, production was the firm’s primary responsibility to society. To suggest that corporations needed to engage in some extra level of social responsibility in addition to their roles as efficient producers of material goods meant giving up the claim for the superiority of the free enterprise system over socialist and communistic alternatives. To Drucker, though he was a Keynesian, he believed that to blur the lines separating the distinct responsibilities of business and government constituted a dangerous trend. In a market economy, businesses needed to allocate their resources in a manner designed to maximize the firm’s long-term profitability. To demand of managers that they enact “out of ‘social consciousness,’ policies which run counter to the interests of his corporation is rather ludicrous.”<sup>90</sup> A free enterprise economy could not survive by asking firms or their managers to promote social well being by throwing away the firm’s resources in the service of interests unrelated to the firm’s long-term financial survival. Instead, government needed to structure the marketplace in such a way that a corporation could

fulfill automatically its social obligations in the very act of seeking its own best self-interest. An industrial society based on the corporation can only function if the

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<sup>89</sup> E. Merrick Dodd, Jr. “For Whom Are Corporate Managers Trustees?” *Harvard Law Review* 45, no. 7 (May 1932): 1152.

<sup>90</sup> *Ibid*, 16.

corporation contributes to social stability and to the achievement of the social aims independent of the good will or the social consciousness of individual corporation management. In the ideal society even a Simon Legree, whatever the blackness of his heart, cannot help but to promote social ends either because it is in his interest to do so or because he is integrated into society as to be able to act only in the interest of society.<sup>91</sup>

He believed that it was unreasonable to ask businesses to engage in altruistic, philanthropic activities that had nothing to do with their core interest in making money. Corporations contributed best toward the well being of society when the government established an economic structure in which even the greediest business people, focusing solely on profits, still acted in the interest of society regardless of their intentions.

A strong federal government played an essential role in ensuring that self-interested business activity benefited society. Even though Drucker considered it unreasonable to ask firms to sacrifice their finances for the sake of unrelated social concerns, he considered government an important mechanism for addressing issues and concerns of broader social and political concern. This was vital, because ultimately, the long-term survival of corporations could not be separated from the welfare of the society in which business operated. Such issues included well-known collective action problems such as the building of “internal improvements,” national defense, maintaining domestic order, and other areas traditionally considered the responsibility of government.<sup>92</sup> Most importantly, Drucker was a Keynesian who argued in strong terms for government to implement an effective policy of “full employment” in order to prevent the onset of another Great Depression. The economic chaos of the 1930s demonstrated “that the traditional counsel to let the economy cure itself

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<sup>91</sup> Ibid, 16-17.

<sup>92</sup> Ibid, 255-256.

has become irrelevant.”<sup>93</sup> Should economic disaster return to America, political leaders would have a strong motivation to seize the nation’s productive capital, bringing the “free enterprise” system to an end, in order to arrest the disintegration of the social fabric.<sup>94</sup>

Drucker did not argue that the individual pursuit of profit inevitably benefited all, but in the American context, he believed, this was the best system for a society committed to a belief in “the desirability of economic progress.” For corporate managers to rely on the profit motive for decision-making constituted “the most efficient and the simplest mechanism for the conversion of individual drives into social purpose and action given the conditions and beliefs of *our* society.”<sup>95</sup> Overall, in his view, corporations and the federal government each occupied distinct spheres of responsibility, which was essential for the preservation of the American system against socialism. Essentially private business decisions had to be made on the basis of profit; the responsibility of government was to provide an environment of economic stability to prevent private economic decisions from being shifted onto government, from allowing socialism to take root in America. For management to engage in policies out of “social consciousness” inappropriately violated the separation of economic and political power between corporations and the government that was vital for prosperity to continue.

A mood of uncertainty prevailed over the American business community by the late 1940s, as businesspeople and the country itself sought to understand their emerging roles in the postwar world. The nuclearization of the Soviet Union and the perceived spread of communist and socialist ideals around the world seemed to challenge the most basic values

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<sup>93</sup> Ibid, 266.

<sup>94</sup> Ibid, 284.

<sup>95</sup> Ibid, 240. Emphasis original.



of American society.<sup>96</sup> As a result, some began to call upon business managers to engage in this struggle as a part of their professional obligations to the free enterprise society that had made their success possible. In May 1949, Donald K. David, Dean of the Harvard Business School, wrote that the country had become engaged in “a war between opposing ideals, opposing ways of life; the outcome of which will determine how men are to live together and the purposes for which they live.”<sup>97</sup> In this struggle between “democracy and totalitarianism,” David believed that businesspeople held special talents that made them especially valuable for American society amidst its long struggle against totalitarianism. These talents included the ability to bring people together into productive, successful organizations and to take calculated risks in the face of uncertainty.<sup>98</sup> In order for America’s free enterprise system to prevail, he believed, business leaders possessed distinct responsibilities. First, they had to run successful businesses in order to help provide the nation with goods and services. Second, they needed to turn their organizations into a “good society” in which individuals felt satisfied and fulfilled through their contributions to the firm’s mission. Third, they needed to bring their knowledge and talents into the public sphere by participating “constructively in the broader affairs of the community and nation.”<sup>99</sup>

David’s writing reflects an individualized view of managerial responsibility, in which individual business professionals held a unique role in solving problems of pressing

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<sup>96</sup> Donald K. David, “Business Responsibilities in an Uncertain World,” *Harvard Business Review* 27, no. 3 (Supplement to May 1949 edition), 1.; See also Spector, “Business Responsibilities in a Divided World: The Cold War Roots of the Corporate Social Responsibility Movement,” *Enterprise and Society* 9, no. 2 (June 1, 2008): 314-319.

<sup>97</sup> Donald K. David, “Business Responsibilities in an Uncertain World,” *Harvard Business Review* 27, no. 3 (Supplement to May 1949 edition), 1.

<sup>98</sup> *Ibid*, 3.

<sup>99</sup> *Ibid*, 4.

national concern. As individual citizens, they held responsibilities toward their firms, as well as toward the country as a whole. Most important was their responsibility to run their businesses effectively, because unless they did so, it was “unrealistic to assume that the business leader can discharge any other responsibility if he fails in this, his foremost job.”<sup>100</sup> If they failed to do so effectively, the free enterprise system would fail. Broadly speaking, David’s call for greater social engagement by American business leaders and his emphasis upon individual initiative, industrial productivity, and enlightened civic engagement embodied an important strain of business thought regarding an expanded view of business responsibility during the late 1940s. By 1949, a “Cold War ideology” had achieved widespread consensus and many prominent figures sought to mobilize all of American society against the spread of socialism and communism at home and abroad.<sup>101</sup> Statements by Drucker, David, and others about the importance of the Cold War struggle reflected this consensus that individual businesspeople, as civic leaders, had a responsibility to participate in this mobilization.

This call for business leaders to enlist their themselves and their firms in this Cold War struggle was consistent with the conception of business managers as “trustees” that had been build up over the course of the previous two decades. Clarence Francis, chairman of the board of General Foods Corporation, adhered in 1948 to the conception of businesspeople as “trustees in recognition of the claims of employees, investors, consumers, and government,” trying to keep these interests in balance and to make sure

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<sup>100</sup> Ibid, 4.

<sup>101</sup> Bert Spector, “Business Responsibilities in a Divided World: The Cold War Roots of the Corporate Social Responsibility Movement,” *Enterprise and Society* 9, no. 2 (June 1, 2008): 317-319; See also Arthur Schlesinger, *The Vital Center* (Boston: Houghton Mifflin, 1949).

that each got their fair share of industry's gains.<sup>102</sup> In 1948, he detailed seven specific obligations that business leaders held toward the public as a whole. Those obligations are condensed as follows:

- (1) Firms needed to run at adequate profit and hold their own in fair competition against other businesses.
- (2) Firms had to continuously improve productivity and growth in order to provide jobs, reward investors, attract capital, and provide more and better goods and services to the public at decreasing cost.
- (3) Employees had to be treated as the firm's greatest assets; improving their value was a material advantage and moral obligation.
- (4) Management needed to "deal fairly with customers, competitors, and vendors, advertise truthfully, fulfill its commitments, cooperate with other management in the betterment of business as a whole, and oppose any artificial restriction that may limit production, fix prices, or restrain trade."
- (5) The future of the American economic system depended on the confidence, good will, and understanding of the people. Therefore, business leadership had to make itself a responsible part of the human community by participating in worthy activities locally and nationally.
- (6) Business was obligated to answer the attacks of those who sought to undermine American freedom under democratic capitalism.
- (7) Because business leadership was nothing less than a public trust, it had to offer a message of courage and hope to all people and build an economically strong America to lead other nations to lasting prosperity, freedom, and peace.<sup>103</sup>

In fulfilling these commitments, business leaders would serve the long-run interests of their firms. All be justified in terms of the firm's long-run self-interest. Each of these points focus on a specific interest group or issue of broader business concern. Overall, the areas that Francis highlighted were consistent with earlier conceptions of "trusteeship." By seeking to balance the interests of diverse stakeholders, managers also worked to preserve the long-term financial interests of their companies. Yet, these points also reflected a fairly

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<sup>102</sup> Clarence Francis, "Businessmen's Responsibilities to the Public," in Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), 8; See also Harry A. Bullis, "Management's Responsibilities to Stockholders," in Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), 60.

<sup>103</sup> Clarence Francis, "Businessmen's Responsibilities to the Public," in Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), 10-12; See also Howard R. Bowen, *Social Responsibilities of the Businessman* (New York: Harper & Brothers, 1953), 54-68.

broad concern with the health of American society as a whole, particularly with regard to promoting a strong America and a vigorous system of “free enterprise.” Francis did not directly address the question of the proper role of government in regulating the economy, though he briefly warned against state ownership of enterprise, which led to turn Americans into “the political and social as well as the economic servant of the state.”<sup>104</sup>

For many business leaders during the late 1940s, the acceptance of a broadened scope of management responsibility toward society was essential for the long-term health of firms and the country as a whole. Failing to accept these responsibilities meant, at best, ceding too much ground to a strong government and, at worst, the death of the free enterprise system and the rise of communism. Harwood Merrill, President of the Harvard Business School Alumni Association, believed that if businesspeople failed to assume broader responsibilities,

then they certainly will be taken over by someone else—by someone antagonistic to business management and to free enterprise, the only system under which business can operate...Either businessmen must accept their responsibilities—or those responsibilities will pass to some other group and businessmen and free enterprise will move out of the picture.<sup>105</sup>

For Senator Ralph E. Flanders from Vermont, taking on broader responsibilities toward society did not mean abandoning the idea that managers companies should behave according to their own self-interest. But, if business people learned

to distinguish between short-sighted selfish interests and long-range selfish interests, then the whole formula still applies and still will work with this simple readjustment of one of its elements. We may still be selfish, but let us be selfish in the long-range view. What harm will be if the disinterested observer finds it difficult to distinguish our selfishness from old-fashioned virtue?”<sup>106</sup>

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<sup>104</sup> Ibid, 9.

<sup>105</sup> Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), vi.

<sup>106</sup> Ralph E. Flanders, “Businessmen’s Responsibilities to Government,” in Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), 38-39.

Thus far, all of these stated responsibilities did not conflict with the long-term profitability, survival, and efficient operation of the industrial firm. Yet, if every individual firm still sought its own advantage in long-run, though aspiring toward broader goals, was the pursuit of long-term self-interest enough to create a better society?

In the early 1950s, others argued that the individual pursuit of long-run self-interest was not sufficient and that serving the public meant serving more than the sum of individual interest groups. In 1951, Frank W. Abrams, chairman of the Standard Oil Company of New Jersey, argued that business leaders had become accountable to a broadly defined “public interest.” He believed that

The job of professional management, as I see it, is to conduct the affairs of the enterprise in its charge in such a way as to maintain an equitable and workable balance among the claims of the various directly interested groups. Business firms are man-made instruments of society. They can be made to achieve their greatest social usefulness—and thus their future can be best assured—when management succeeds in finding a harmonious balance among the claims of the various interested groups: the stockholders, employees, customers, and the public at large. But management’s responsibility, in the broadest sense, extends beyond the search for a balance among respective claims. Management, as a good citizen, and because it cannot properly function in an acrimonious and contentious atmosphere, has the positive duty to work for peaceful relations and understanding among men—for a restoration of faith of men in each other in all walks of life.<sup>107</sup>

Business leaders, as “able, intelligent, informed men,” had

a responsibility to the nation, as well as to their businesses, to re-establish themselves in the public mind as objective thinkers and seekers of the public interest. It is entirely proper that they should do this, because in the long run the public interest corresponds with the basic interests of their individual businesses.<sup>108</sup>

Likewise, Howard R. Bowen, writing a study on business ethics for the National Council of Churches in 1953, believed that

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<sup>107</sup> Frank W. Abrams, “Management’s Responsibilities in a Complex World,” *Harvard Business Review* 29, no. 3 (May 1951): 30

<sup>108</sup> *Ibid.*, 32.

on one thing we can be definite. The unrivaled freedom of economic decision-making for millions of private businessmen, which characterizes our free enterprise system, can be justified not if it is good merely for the owners and managers of enterprises, but only if it is good for our entire society. We can support freedom and private control of enterprise only if it is conducive to the general welfare by advancing progress, promoting a high standard of living, contributing to economic justice, etc. We judge its success or failure in the public interest. When we consider proposals for its modification, we do so with the public interest in mind. Business, like government, is basically “of the people, by the people, and for the people.”<sup>109</sup>

Bowen expressed a practical recognition of the expanded power of the federal government over the economy and its ability to force corporations to behave in a manner consistent with the “public interest” as expressed through public policy. If business failed to accept a broadened range of responsibility, greater governmental control threatened to establish full government control over economic life. In response, business management needed to seriously consider a broadened scope of social responsibilities as an alternative to “detailed and comprehensive direction of the economy by the state.”<sup>110</sup>

A.A. Berle, Jr., economist and coauthor of the landmark 1932 study *The Modern Corporation and Private Property*, argued in 1954 that the acceptance by business leaders of the responsibility to provide for the broader interests of the public constituted a “revolution” in economic affairs. American capitalism had “been given the power and the means of more or less planned economy, in which decisions are or at least can be taken in the light of their probable effect on the whole community.”<sup>111</sup> This had resulted from a growing independence of large multinational firms like General Electric or General Motors from the judgments of financial markets. Rather than having to justify all actions before investors, Berle noted, company decisions were increasingly being checked and reviewed

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<sup>109</sup> Howard R. Bowen, *Social Responsibilities of the Businessman* (New York: Harper & Brothers, 1953), 5.

<sup>110</sup> Howard R. Bowen, *Social Responsibilities of the Businessman* (New York: Harper & Brothers, 1953), 27.

<sup>111</sup> Adolf A. Berle, Jr. *The 20<sup>th</sup> Century Capitalist Revolution* (New York: Harcourt, Brace and Company, 1954), 35.

“chiefly by the conscience of its directors and managers.”<sup>112</sup> In line with his 1932 argument, he believed that shareholders could no longer provide an adequate check against improper management behavior. Instead of having to focus on the interest of shareholders in increased short-term profits, managers could now take “a longer term view of the company well-being and [could] afford to take long-term risks with capital.”<sup>113</sup> According to Berle, simply allowing businesspeople to exercise broader discretion with company funds was insufficient to ensure the promotion of the public interest. Ultimately, in his view, politics was the forum in which the definition of the “public interest” was to be decided, because

in American thought, an economic system, like a political government, is made for men. If it denies rights of men to life as they understand life, or to liberty as they understand that, or to property, whatever modern property shall turn out to be, the community gathers itself for a kind of revolt whose results are unforeseeable. Power of any organization, corporate or governmental, is always subject to judgment by that criterion; and the political effects of community judgments are apt, in the long run, to be decisive.”<sup>114</sup>

Thus, as he argued back in 1932, the public held the ultimate authority to force businesses to act in line with their definition of the public interest as determined through their representative institutions. Corporations held such powers over the economy because that kind of autonomy was decided by the broader public to be in its interest. Should that have ceased to be the case, then the public, whose judgments were “decisive” in the long-run, also had the power to reduce their autonomy.<sup>115</sup>

Conservative business people adhering to traditional conceptions of managerial and company responsibilities argued that corporate management should not attempt to serve

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<sup>112</sup> Ibid, 167.

<sup>113</sup> Ibid, 168.

<sup>114</sup> Adolf A. Berle, Jr. *The 20<sup>th</sup> Century Capitalist Revolution* (New York: Harcourt, Brace and Company, 1954), 114-115.

<sup>115</sup> Ibid.

any kind of broad public interest, because this did not serve the long-term interests of either the firm or society as a whole.

In 1953, Howard Bowen summarized several important arguments that were frequently leveled against a greater assumption of social responsibility by business leaders. First, in a classic collective action problem, competition made efforts to be more socially responsible self-defeating unless all firms were forced to do so simultaneously. Second, efforts to be more socially responsible would raise costs, forcing firms to pass those costs on to consumers in the form of higher prices, damaging the public either through higher prices or lower wages. Third, businessmen were so strongly oriented toward earning profits for the narrow interests of their companies that it was not reasonable to expect them to “see the social implications of their tasks—much less to follow policies directed toward the social interest.”<sup>116</sup> Fourth, for business leaders to take on a higher level of social responsibility threatened to vest them with too much power over society, allowing room for the unintended consequence of a plutocracy developing and wielding unaccountable powers toward American citizens. In this view, for managers to claim they acted as “trustees” serving the public interest simply constituted a self-interested justification for retaining their independence and avoiding public control of their activities, which Berle strongly favored. Lastly, to ask business leaders to concern themselves with remote moral obligations detracted from their “real moral responsibilities, which consist of personal religious duties and compassion and concern for the persons with whom they come into actual contact.”<sup>117</sup> Taken together, these arguments contended that for business leaders to

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<sup>116</sup> Bowen 115. See also Thorstein Veblen, *The Theory of Business Enterprise* (New York: Charles Scribner's Sons, 1904).

<sup>117</sup> Bowen, 122; 107-122.



assume greater “social responsibilities” was in fact irresponsible and threatened to detract from the stability and prosperity of society.

Writing in 1944, economist Friedrich van Hayek argued that corporations could not serve a broadly-defined “general interest” because it was not possible for such an interest to be defined in the first place. He believed that

the “social goal”, or “common purpose”, for which society is to be organized, is usually vaguely described as the “common good”, or the “general welfare”, or the “general interest”. It does not need much reflection to see that these terms have no sufficiently definite meaning to determine a particular course of action. The welfare and happiness of millions cannot be measured on a single scale of less and more. The welfare of a people, like the happiness of a man, depends on a great many things that can be provided in an infinite variety of combinations. To direct all our activities according to a single plan...presupposes, in short, the existence of a complete ethical code in which all the different human values are allotted their due place.<sup>118</sup>

In essence, the interests of millions of distinct individuals could never be reduced into a simply defined “public interest” in a true sense. For government to assert that public policy best served that interest simply “concealed the absence of real agreement” about issues of individual concern. For the welfare state to dictate what constituted the “public interest” distorted the real individual interests of millions of diverse people.<sup>119</sup>

In addition to the inability to define the “public interest,” others argued that American corporations were by design not capable of properly tending to the public interest, even if such an interest could be defined effectively. Writing in 1948, Allen W. Dulles, a lawyer and partner in the firm Sullivan & Cromwell, warned against a broadened view of management responsibility, arguing that private enterprise was not

organized for the purpose of carrying out governmental policy or embarking on purely humanitarian or philanthropic ventures, either in the foreign field or in the

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<sup>118</sup> Friedrich van Hayek, *The Road to Serfdom* (New York: George Routledge & Sons, 1944), 60.

<sup>119</sup> *Ibid*, 64-65.

domestic field, even though the objective may be both righteous and important...The directors of American business are the trustees for the enterprises entrusted to them, not for the nation at large. If business starts to play the part of a "vicarious philanthropist" or becomes the handmaid of the policy maker, it will fail in its primary duty. It may even endanger the sound basis of a domestic economy. Further than that, business in such a role would be crossing over the gap between the totalitarian state where business is merely a function of government and the free state where business stands on its own feet."<sup>120</sup>

For managers to take on responsibilities for social well-being, unchecked, threatened to break down a necessary wall between political and economic power that constituted a necessary condition for maintaining the freedoms that Americans had come to cherish. To do so did not constitute positive change; on the contrary, it held within it the seeds of a radical disruption of the society that such actions were supposed to benefit. Broadened responsibility in the name of the public's well-being, in actuality, threatened to endanger its welfare.

Economist Milton Friedman also agreed with this assessment. Writing in 1958, he argued vociferously against a broadened view of corporate social responsibilities as a threat to the basic pillars of American society. He believed that

if anything is certain to destroy our free society, to undermine its very foundations, it would be a wide-spread acceptance by management of social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine."<sup>121</sup>

Instead, Friedman believed that business managers bore only one social responsibility, 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 free and open competition, without

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<sup>120</sup> Allen W. Dulles, "Responsibilities of Businessmen to the World," in Harwood Merrill, *The Responsibilities of Business Leadership* (Cambridge: Harvard University Press, 1948), 81-82.

<sup>121</sup> "Three Major Factors in Business Management: Leadership, Decision Making, and Social Responsibility," Summary by Walter A. Diehm, *Social Science Reporter Eighth Social Science Seminar*, Mar. 19, 1958.

deception or fraud.”<sup>122</sup> The responsibility of business managers had to be to make as much money for their firms as possible, abiding by the rules of the game, in order to prevent the destruction of “the basic nature and character” of American society.<sup>123</sup>

Dulles and Friedman both expressed a fear that a broadened sphere of corporate responsibilities would blur the line between business and government. Indeed, other authors shared this view and feared the concentration of excess power over society in the hands of either big business or big government. Writing in 1960, Friedrich van Hayek pushed back against the concept of business managers as “trustees” of the interests of the public interest. He argued for a return to an individualistic view of ethics and social welfare. In order to prevent business leaders from acquiring “arbitrary and politically dangerous powers,” business had to return once again to the “old-fashioned” model of managerial responsibilities, “which regards management as the trustee of the stockholders and leaves to the individual stockholder the decision whether any of the proceeds of the activities of the corporation are to be used in the service of higher values.”<sup>124</sup> This also served to help keep control of the economy out of the hands of the federal government, because

The more it comes to be accepted that corporations ought to be directed in the service of specific “public interests,” the more persuasive becomes the contention that, as government is the appointed guardian of the public interest, government should also have the power to tell the corporations what they must do...Unless we believe that the corporations serve the public interest best by devoting their resources to the single aim of securing the largest return in terms of long-run profits, the case for free enterprise breaks down.<sup>125</sup>

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<sup>122</sup> Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 133.

<sup>123</sup> *Ibid*, 136.

<sup>124</sup> Friedrich A. Hayek, “The Corporation in a Democratic Society: in Whose Interest Ought It and Will It Be Run?” in Melvin Anshen and George Leland Bach, eds., *Management and Corporations 1985: A Symposium Held on the Occasion of the Tenth Anniversary of the Graduate School of Industrial Administration, Carnegie Institute of Technology* (New York: McGraw-Hill, 1960), 101.

<sup>125</sup> *Ibid*, 116.

Thus, business leaders had to abandon any concept of a broadened scope of social obligations in order to preserve the institutions of a free society against encroachment by either “big government” or “big business.”

Writing in 1958, Theodore Levitt, an economist and professor at the Harvard Business School, also feared that a broadened conception of business responsibilities dangerously entrusted too much power over society in the hands of business managers. Rather than promoting affirming social responsibility’s “tyranny of fad and fancy,” business leaders needed to “exhume the apparently antique notion that the business of business is profits; that virtue lies in the vigorous, undiluted assertion of the corporation’s profit-making function.”<sup>126</sup> Certainly, practices of corporate social responsibility may have begun as an effort to survive the attacks of “politicians and professional detractors” from business activities, but unless firms returned to the business of profit-making, dangerous consequences loomed for society. The proliferation of employee welfare programs and firms’

serpentine involvement in community, government, charitable, and educational affairs, its prodigious currying of political and public favor through hundreds of peripheral preoccupations, all these well-intended but insidious contrivances are greasing the rails for our collective descent into a social order that would be as repugnant to the corporations themselves...The corporation would eventually invest itself with all-embracing duties, obligations, and finally powers—ministering to the whole man and molding him and society in the image of the corporation’s narrow ambitions and essentially unsocial needs.<sup>127</sup>

Like Friedman, Dulles, and van Hayek, Levitt feared that concentrating too much power in the hands of business managers threatened to undermine the fundamental character of society, resulting in unitary control of political and economic affairs by a unitary,

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<sup>126</sup> Theodore Levitt, “The Dangers of Social Responsibility,” *Harvard Business Review* (Sept.-Oct. 1958): 42.

<sup>127</sup> *Ibid.*, 44.

corporatist state. Attempting to promote a general “public interest” represented an existential threat to the welfare of the society that such assertions were intended to serve.

By the early 1960s, debates over a broadened business commitment to social responsibility were by no means settled. In the face of this strong assault upon programs of social responsibility, others continued to argue that business held distinct responsibilities for helping to create a more just, equitable society as a distinct responsibility of business management. In July 1961, the authors of the *Harvard Business Review* published a study entitled “How Ethical Are Businessmen?” in which they found that a vast majority of businesspeople supported the basic concepts of managers acting as trustees, balancing the various demands of stockholders, employees, customers, etc. Their respondents indicated that they regarded

untempered profit maximization as immoral—agreeing with the thesis advanced recently by Professor Robert N. Anthony. Five out of every six executives in our survey reacted affirmatively to this paraphrase of his view: “For corporation executives to act in the interest of shareholders alone, and not also in the interest of employees and consumers, is unethical.”<sup>128</sup>

Robert M. Hutchins, a former chancellor of the University of Chicago, argued for business engagement with broader issues of concern to the public as essential if no other solution could be devised:

If it becomes clear that the mindless mechanism of the market and the night-watchman state are inadequate to produce a just economy, the answer is not that we cannot think of anything better, but that we must. If it becomes clear that the state of technology and the state of the economy require governmental planning, then we must try to discover a way of planning that directs technology and the economy to the common good and that obtains the maximum value that can be obtained from individual initiative.<sup>129</sup>

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<sup>128</sup> John J. Brennan, Jr, James J. Valtz, John B. Shallenberger, and Vincent P. Stanton, “How Ethical Are Businessmen?” *Harvard Business Review* (July-August 1961): 10.

<sup>129</sup> Robert M. Hutchins, “The Corporation and Education, Ethics, and Power” in Melvin Anshen and George Leland Bach, eds., *Management and Corporations 1985: A Symposium Held on the Occasion of the*

Thus, by 1960, one can see clear divisions among business intellectuals over the proper relationship of business to society, with different authors expressing often irreconcilable claims about the potential for a broadened sense of business responsibility to improve society and make the world a better place, on one hand, and the potential for such actions to concentrate power in the hands of corporations, the state, or a corporatist fusion of the two, threatening the ultimate destruction of the foundations of America's free society. Not only did these authors disagree about whether or not firms should attempt to promote the "public interest"; some, like Hayek, disagreed that a broad public interest even existed and that only market forces could produce the best outcome in a society with millions of people with diverse preferences.<sup>130</sup>

By the early 1960s, American firms had deepened their social commitments more than ever, yet the intellectual foundations for such involvements remained deeply contested amidst unresolved, irreconcilable philosophical disagreements over the ideal relationship between business and society. Robert A. Gordon, an economist, summarized this state of affairs, stating that

although the diffusion of corporate ownership has centered economic power in the hands of more or less professional managers, there is no clear agreement as to the objectives toward which this power should be exercised, nor has society developed an effective machinery whereby these business leaders be held accountable for the attainment of such goals as are agreed on. In an economic world that lacks the automatic regulation which the classical economists' conception of perfect competition was supposed to provide, the business executive must try to reconcile a range of partially conflicting goals—those of his stockholders, his workers, his customers, his colleagues, and himself, not to mention some vague conception of the public welfare as a whole. Our legal institutions offer little help (indeed to some extent they are an anachronism); and government regulation often confuses as

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*Tenth Anniversary of the Graduate School of Industrial Administration, Carnegie Institute of Technology* (New York: McGraw-Hill, 1960), 193-194.

<sup>130</sup> Friedrich van Hayek, *The Road to Serfdom* (New York: George Routledge & Sons, 1944), 60.

much as it clarifies the issues. In this welter of conflicting claims, it is not much exaggeration to say that the business leader inevitably has to play at being God. His help comes chiefly from three sources: the need to earn some minimum level of profits, direct pressure from particular interest groups, and what Berle has called the “public consensus.” It is no wonder that lawyers worry about the “legitimacy” of the power that rests in the hands of corporate management.”<sup>131</sup>

Overall, writings about social responsibility from the 1940s through the 1960s reflected the legacies of the professionalization of management that began in earnest during the 1920s, as well as the economic and political transformations produced by a decade and a half of depression and war. During these years, American firms increasingly institutionalized a broadened scope of community obligations in order to uphold their perceived long-term interests, balanced with a sense of ethical conduct, cast against the backdrop of an uncertain future. Increasingly, activists arguing for the greater exercise of business responsibility shifted those calls from individual business leaders onto the activities of firms as entities unto themselves. There existed no firm consensus and no clear moment that shook business leaders to action in favor of socially engaged actions to accomplish goals like preserve the natural environment, promoting human rights, investing profits in local communities, and seeking to maximize the total well-being of employees at home and abroad. By the end of the 1960s, more firms had institutionalized programs of broadened responsibility, yet intellectual countercurrents against this development were strong as well. Broadly, these debates reflect a swiftly changing world in which business intellectuals, as prominent citizens with influence over the community, sought to present a positive vision for how corporations could best serve the interests of the public. On a practical level, most writers seem to have expressed a desire to find a middle ground, to

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<sup>131</sup> Robert A. Gordon, *Business Leadership in the Large Corporation* (Berkeley: Brookings Institution, 1966), xv-xvi.

engage growing public demands for enlightened business leadership, with the practical need to provide for long-term firm survival through wise stewardship of company funds.



## Chapter 4.

### Conclusion.

From the 1920s through the early 1960s, American corporations broadened their responsibilities from providing for the interests of stockholders, customers and employees, toward broader engagement with issues concerning the “public interest.” A broadened social role for business in addressing public problems resulted from the professionalization of business enterprise beginning in the 1920s, the unique problems of the Great Depression and the mobilization for World War II, and vigorous postwar intellectual debates about the nature of business leadership. By 1960, a majority of businesspeople accepted the idea that it was unethical to work only to advance the interests of stockholders.<sup>132</sup> Yet, although a popular idea, the idea of “corporate social responsibility” saw strong opposition. In 1970, Milton Friedman published a classic article in the *New York Times* magazine entitled “The Social Responsibility of Business Is To Increase Its Profits” that directly attacked this popular consensus.<sup>133</sup>

After the turn of the twentieth century, with a separation of shareholder and management control, the concentration of economic power in the hands of large, nationwide corporations placed corporate management in a special position of influence over American life. Decision-makers operating at the top of complex organizations operating in local areas spread across the country, sought to reconcile the short-term and long-term interests of their firms, as they saw it, with the need to respond to demands that business

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<sup>132</sup> John J. Brennan, Jr, James J. Valtz, John B. Shallenberger, and Vincent P. Stanton, “How Ethical Are Businessmen?” *Harvard Business Review* (July-August 1961): 10.

<sup>133</sup> Milton Friedman, “The Social Responsibility of Business Is To Increase Its Profits,” *New York Times Magazine* (September 13, 1970).

help solve problems of broad public concern. They earned acclaim for the promotion of the nation's material standard of living, for the mass production of an ever-expanding array of goods and services that helped people to live fuller, more satisfying lives. On the other hand, they also garnered contempt, with discontented groups arguing that the blind pursuit of higher profits meant that workers did not earn fair wages, that firms extracted profits at the expense of society as a whole. With society holding such conflicted views of business, how could business leaders respond to public expectations for ethical conduct, while also promoting the continued financial success of their enterprises? From the perspective of those upset with the powers held by company management, how could they be prevented from exercising that power in a manner detrimental to the social welfare?

Sustained efforts to professionalize business management during the 1920s reflected recognition by some leaders, like Wallace B. Donham and Owen D. Young, that American business could succeed in the long-term only if the public believed that business managers could be trusted to maximize the welfare of as many people as possible, while minimizing any possible damage. Most importantly, business needed to become esteemed as a profession practicing its arts on an elevated ethical plane, adhering to a strong code of ethics, such as the Hippocratic Oath sworn by doctors. To put it simply, these reformers considered it necessary to change the practice of business management to bring it line with the reality of large, complex organizations that held real power over American life. For managers to become "trustees" of the interests of both labor and capital, to act as referees between these competing interests, implied that they could rise above the fray of the real conflicts of interest between the two and produce a superior outcome in the public eye

than could be had by only looking out for the profits of shareholders. In this view, they could provide a good living for workers and adequate financial returns for investors.

The onset of the Great Depression provided fertile ground for the seeds of a broader conception of corporate responsibilities to take root. When the economy failed to recover on its own, as predicted by classical economic theories and espoused by many conservative business leaders, the New Deal provided a chance for business to revive its sagging public image by collaborating with government to help create and implement broad solutions to tamp down unemployment, restart the country's economic engine, and once again revive growing prosperity for all. Later, collaborating with the federal government to mobilize American's industrial base for wartime production, American business leaders took on the stature of statesmen, working with the country's political leadership to defend the country against fearsome enemies across many continents. The success of the American war effort, a partnership between business and government, legitimated the idea of corporations engaging their resources to help deal with problems of broad public concern, of *planning* economic activities according to the demands of a broad public interest (national defense). By 1945, business leadership had helped the country to emerge from the throes of a decade and a half of crisis.

This broadening of the social horizons of the corporation took place in response to the extraordinary upheavals caused by the Depression. All the while, many business leaders and economists had argued against New Deal efforts to stimulate the economy, against deliberate economic planning in favor of an individualistic conception of a "free enterprise" economy where government activity only served to disrupt the workings of the "invisible hand" of the marketplace. With an end to the crisis, many such voices began to

argue for a rollback of the powers of government, for business leaders to return to the business of producing goods and services for the public, at decreasing cost, in order to profit their shareholders. Especially from 1950 onward, Hayek and Friedman argued that only a strictly profit-centric view of the appropriate activities for company engagement reflected a fear of the consequences of vesting too much power in the hands of big business, at the expense of individual liberty and society as a whole. Others, like A. A. Berle, believed that no social institution could exist that did not conform to the values and expectations of society and that if necessary, government could compel business to behave in socially desirable ways.<sup>134</sup>

Thus, the history of debates over a broadened view of the social responsibilities of corporations represents a struggle of values and ideology in which no clear victor had emerged by 1960. The most vigorous debates over the proper social role for business took place in the postwar era, in which Americans experienced an era of peace and prosperity that had been entirely unknown to previous generations.<sup>135</sup> Businesspeople, economists, academics, and everyday people engaged in multifaceted debates that reflected variable opinions about the (1) the primary stakeholders to which business had to be held accountable, (2) whether the concentration of economic power in the hands of corporations represented a threat to democracy, (3) whether a broad “public interest” could adequately be defined and enforced, and (4) whether this enforcement, if possible, gave government too much power over society. This history is one of multitudes of business professionals seeking to reconcile the practical demands of running a large, profit-

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<sup>134</sup> Adolf A. Berle, Jr. *The 20<sup>th</sup> Century Capitalist Revolution* (New York: Harcourt, Brace and Company, 1954), 114-115.

<sup>135</sup> For an interesting read on this subject, read Lizabeth Cohen’s *A Consumer’s Republic: The Politics of Mass Consumption in Postwar America* (New York: Vintage Books, 2004).

oriented enterprise with their own personal and professional values. Individuals from different upbringings, with diverging views about the best amount of government power, of individual initiative, of competing visions of how American society could best evolve to adapt to the demands of the future.

The history of corporate social responsibility represents a rich topic for future study; there are a variety of different areas of interest that this thesis did not address. First, this thesis did not attempt to address the issue of the legality of using corporate contributions for philanthropic purposes and other legal factors that surely exerted tremendous influence upon how ideas of corporate responsibility evolved. Second, understanding how these ideas evolved would be much better understood through a detailed examination of how the writings of specific, prominent business leaders changed over time. Third, creating case studies of specific firms and how they created, changed, or eliminated various programs and practices toward employees, customers, and other groups, and documentation of their motivations for doing so, could also add a great deal to the work presented here. Broadly, it is the hope of the author to have at the very least outlined some of the basic elements of the progression of debates over the broadening of corporate social responsibility in a manner sufficient to provide a starting point for other brave students to brave the thicket of this story in order to uncover the rich treasures of understanding hidden within.

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