

Matthew 25: 31-46 (Also known as *The Judgment*)

“When the Son of man comes in his glory, and all the angels with him, then he will sit on his glorious throne. Before him will be gathered all the nations, and he will separate them one from another as a shepherd separates the sheep from the goats, and he will place the sheep at his right hand, but goats at the left. Then the King will say to those at his right hand, ‘Come, O blessed of my Father, inherit the kingdom prepared for you from the foundation of the world; for I was hungry and you gave me food, I was thirsty and you gave me drink, I was a stranger and you welcomed me, I was naked and you clothed me, I was sick and you visited me, I was in prison and you came to me.’ Then the righteous will answer him, ‘Lord, when did we see thee and give thee drink? And when did we see thee a stranger and welcome thee, or naked and clothe thee? And when did we see thee sick or in prison and visit thee?’ And the King will answer them, ‘Truly, I say to you, as you did it to one of the least of these my brethren, you did it to me.’ Then he will say to those at his left hand, ‘Depart from me, you cursed, into the eternal fire prepared for the devil and his angels; for I was hungry and you gave me no food, I was thirsty and you gave me no drink, I was a stranger and you did not welcome me, naked and you did not clothe me, sick and in prison and you did not visit me.’ Then they also will answer, ‘Lord, when did we see thee hungry or thirsty or a stranger or naked or sick or in prison, and did not minister to thee?’ Then he will answer them, ‘Truly I say to you, as you did it not to one of the least of these, you did it not to me.’ And they will go away into eternal punishment, but the righteous into eternal life.”

The World and Business: A Kinder, Gentler Capitalism?

By Rob Oliver

What is a business?

Building a business enterprise generally begins with an idea for a new product or service, a variant of an existing one, or a new process or method of production or delivery. This new product or service, new method, or variation of present technology presumably fills a need from customers or patrons, and thus the mission of the organization—its reason for existence—is to meet this need. If one has such a mission and an idea and can then assemble sufficient capital from investors, referred to as capitalists, and perhaps borrow additional funds needed such that they can then invest in the assets that enable the enterprise to produce and deliver the product or service, they then have an opportunity to enter into business. Once produced, the enterprise generates revenue from sales, and generates expenses associated with materials and labor inputs, and interest on borrowed funds. Of course taxes must also be paid to governmental units, and principal must be repaid to lenders. Finally, there is contemplated to be enough efficiency in the production and delivery of the product or service such that the enterprise generates net profit and cash flow sufficient to either reinvest in business growth or pay dividends out to the investor capitalists. Thus, key to the definition of a business is the concept and necessity of profits, or return on invested capital. Conceptually then, it can be viewed as very simple. What else is there? What else might there be?

According to the capitalists’ free market school, there is nothing else. The Nobel laureate economist Milton Friedman suggests that “the business of business is business!” Producing profits—nothing else! He postulates that the responsibility of a business is to increase its profits for the first and foremost stakeholder group—the capitalist shareholders, who put resources at risk and faced up to the competition to meet a need in the marketplace. Further, this school of thought would suggest that attempting to attain other social goals in or through a business enterprise would cause its managers to lose their focus on profit maximization. In their book

Free to Choose, Milton and his wife, Rose Friedman, suggest that the marketplace and society are best served by this ardent pursuit of self-interest, and that ultimately the efficiency of the marketplace exchange will sort out and reward the best and most efficient, and allocate valuable but scarce resources where they are needed. Thus, they argue, society in general is best served by this free exchange unfettered and unrestrained by social issues of the day. Indeed, in its purest form, the argument would continue that *any* social intervention upon capitalistic firms that would cause them to shed their free market character would cause them to become socialist organizations and therefore would be detrimental.

Capitalists would point to the failure of most modern forms of socialism and further be supported by the rapid and widespread privatization of much of the production and distribution in the world. Look for instance at some of the largest nation-states in the world—China, India, and the former Soviet Union—and see that socialist models have failed to meet the needs of their people, and that privatization is taking hold and producing jobs, meaningful economic growth, and progress in their societies. Indeed, the Friedmans further their argument that the wonderfully efficient forces of free market allocation of resources coupled with consumers' free rights to choose are underutilized in today's modern economies, and that if, for example, public school systems were run as free market enterprises instead of regulated, socialist entities, they would provide a better quality education at a lower cost than presently is the case. They go on to make arguments for utilities, roadways, and other goods and services that serve peoples' needs using the free market model.

In his book *The World is Flat*, Thomas Friedman (no relation to Milton and Rose) describes his ten “flatteners of the world” and the “triple convergence” that have forever changed patterns of communication, cooperation, and exchange in the world. He provides a detailed discussion about how the rise of hope and optimism for a brighter future is creating a middle class state of mind for many citizens of the world who are now climbing aboard the economic train of capitalism and joining the US, Western Europe, Japan, and Oceania as participants in world economic exchange and progress. Indeed, over 4 billion people in China, India, and the former Soviet Union have been introduced to a market of free exchange and capitalism that has changed prospects for their futures, providing them with meaningful employment and an increase in household income that has been previously impossible in their economies. While those individuals are working at wages that are a fraction of what they would earn in the developed world, they are “rich” in their own cultures, and are eager to participate in this new world economy in new and exciting ways that don't require citizens of these societies to leave their homelands to access opportunities, as was true in their past. Does this then not argue that the world of business can and is meeting the needs of the citizens of the world, including those that have languished in lesser standards of living for generations?

BUT, what about those still left on the side of the tracks, unable to climb aboard the train? What about *the least of them*? What about those in Africa that are *too sick* to participate? Children in the developing world in Africa, India, China, and Latin America are still ten times more likely to die of vaccine-preventable diseases than those of the developed world. Where fully half of the people are affected by disease or malnutrition, you cannot drive the forces of capitalism successfully. What about those that are *too dis-empowered*, that is those that lack the political, economic, or social power to participate? There are still far too many places on this earth where corrupt politicians or tyrannical leaders oppress their own people to line their own pockets, while the rest of the world goes about its business. What about those that are *too frustrated*—we may call them extremists—who feel discriminated against or humiliated or alienated by those on the train and don't feel welcomed or even eager to board the train—some of them would rather blow the train up! How does the model of free market capitalism in its

purest form serve these groups? How are resources allocated efficiently to meet their needs? Or, does the business express simply blast right through their station because it sees no reason to stop.

In his writings Karl Marx was one of the first to glimpse the possibility of the world as a global market, uncomplicated by national boundaries. Marx was capitalism's fiercest critic, and yet he stood in awe of its power to break down barriers and create a worldwide system of production and consumption. But he also warned of capitalism's relentless search for and exploit the lowest cost for production inputs, to the ultimate jeopardy of those least powerful in the world, who in his vision, would rise up in revolution against the oppression of capitalism. It has not happened yet, but we might all agree that there are forces afoot today that are trying a new kind of revolution based on terrorism, and it clearly is having an impact on the social, economic and political structures of the world.

As business exchange has evolved over the years, business entities have grown to become immense enterprises with great economic and political power. Some of the largest corporate organizations dwarf the entire economies of many nations of the world. The gap between those at the highest levels of income and wealth in the world and those at the lowest is getting wider, not narrower. How can business in general, and large and powerful corporate entities specifically, address this reality? How can business address *the least* of the citizens of the world? Presumably amid the objections of the Freidmans and others, the world is asking that business address *more* than their afore-mentioned obligation to the capitalists. Or, is it still acceptable to seek the lowest costs and highest profit margins available in the marketplace and let others address social issues?

If we determine it is within the role of business, how then might these large and powerful organizations respond to the realities of our world? By adopting a STAKEHOLDER view of the firm rather than a SHAREHOLDER view, perhaps profit-making business organizations can consider and respond to issues beyond the traditionally narrow economic, technical and legal requirements of their operations. Stakeholders include *any* group or individual who can affect or is affected by the achievement of a business' objectives. Traditional stakeholder groups include shareholders, customers, employees, and suppliers. Broadening the constituency to include non-traditional groups would then include social groups, environmental groups, communities, and governments. Within both groups is a *unique* group of stakeholders: Managers. Managers are uniquely positioned at the center of stakeholder relationships in that they routinely make decisions on behalf of the firm which then affect all other stakeholders. Perhaps then, the view that holds the most leverage is the view that management of business enterprises must adopt, and directors and shareholders must require and incentivize, a *triple bottom line* that includes economic, social and environmental returns. With these imperatives, businesses can be held accountable to traditional economic returns, impacts on societal objectives, and environmental stewardship. An obvious question is whether this can indeed be accomplished while still successfully attracting needed investment capital to the firm in a market where capital is allocated so directly and efficiently based largely on short term profitability through the capital markets.

Consider the case of Dow Chemical where evidence is clear that long term value and market advantage are possible if management focuses on the triple bottom line effectively. In the 1987 Montreal Protocol, much of the developed world agreed that trichloroethane solvents, a widely used industrial cleaning agent, were detrimental to the world's ozone layer and should be phased out. It was agreed that by the end of 1995, such chemicals should no longer be used in the developed economies of the world, and that some years later its use in developing countries should be discontinued. Management at Dow decided in 1990 to exit the business, and devoted

itself to aggressive research and development of alternatives. In less than three years, four new substitutes were on the market, with the added benefit that the reduced waste and emissions associated with the production of the new products actually saved the company millions of dollars in production costs. Although Dow did not need to exit the TCA business in China until well into the 21st century, Dow managers worked with Chinese businesses and the government to eliminate TCA use in the late 1990's. Dow became the eminent market leader in TCA substitutes in much of the world, especially China, enjoying first mover advantages in competition with other firms. If one postulates as Milton and Rose do that the number one role of management is to create shareholder value, does this example not demonstrate that creating *stakeholder* value on a much larger purview is not necessarily an incongruent objective?

What then are the implications for modern business strategists? We live in an interesting, complex, and sometimes dangerous period of global capitalism. Managers, especially senior and top executives, are a unique group of stakeholders with unique responsibilities and opportunities, and with challenging objectives. At the beginning of this discussion, a simple definition of a business was offered. At the end of the day, business organizations are collections of people intentionally organized by management to achieve certain defined objectives, and to make a profit doing so. Profit is an exceedingly important and honorable objective as it rewards the creativity and ingenuity of individuals and organizations, and also serves as the most efficient capital allocation method known today. Key to this definition is the objective of meeting the needs and wants of people. Individuals make choices, one of which is how to treat their fellow humans inhabiting this earth. Perhaps what is important then is not distracting capitalists from their focus on profitably meeting needs, but to focus on expanding the awareness of needs that must be addressed and then discussing how as individuals and organizations one invests those profits in ways to meet the needs of a global society, especially those of individuals who are left on the side of the tracks for some reason often beyond their control.

The opportunity, and perhaps necessity, is to build a more humane form of capitalism. The failure to do so could actually feed a distrust of free markets and a turning away from political and economic freedom. Perhaps then, there are additional burdens that capitalists must embrace in order to keep free markets as free as possible, while reaching out to invite *the least* of our brethren to board the train of caring, compassion, *and* economic progress.

Sources:

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