



Ethical Reading Webinar

What is a 'social purpose'?

Does your firm have one? And if not, should it?

Speaker: Professor Emma Borg,
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Ethical Reading

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What is Ethical Reading?

- ❖ Ethical Reading is a new not-for-profit social enterprise
- ❖ Our mission is to help embed ethics into the way we live and work in Reading.
- ❖ **We want to Inspire, Educate & Collaborate**
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- ❖ We are comprised of 20 volunteers
- ❖ Ethical Cities Movement



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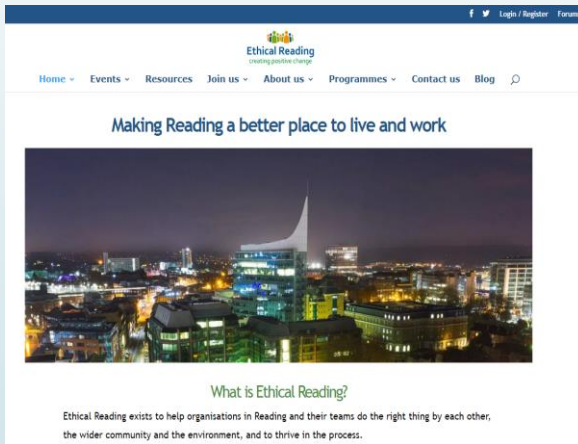


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Emma Borg

- ❖ I'm a Professor of Philosophy at the University of Reading, Director of the Reading Centre for Cognition Research, and an Associate Research Fellow on the British Academy 'Future of the Corporation' programme.
- ❖ My research concerns reasons for action and what companies might owe to society, together with research on the nature of communication.
- ❖ My email is e.g.n.borg@reading.ac.uk – feel free to email me if you have any questions about today's session.



The purpose of organisations?

- ❖ People don't usually ask what the purpose of their organization is, but I'm going to suggest that it is actually an important question.
- ❖ I work for a university, so I'd state my organization's purpose in terms of:
 - ❖ Furthering the frontiers of knowledge and understanding.
 - ❖ Educating and inspiring the next generation.
- ❖ Public sector, NGOs, charities, etc, plausibly exist to fulfil a **social purpose** (aiming to benefit society in some way).
- ❖ But what about private sector organisations? Do they have a social purpose too?

Why does your organisation exist?



To produce goods or services which make a profit

- ❖ Any firm which doesn't make a profit (or hold out the promise of profit) is unlikely to survive for long in a free market.
- ❖ And of course making a profit isn't entirely divorced from the provision of social goods.
- ❖ For instance, making a profit involves a firm doing things that clearly benefit society, such as providing society with the goods and services that it needs (at competitive prices set by a free market), purchasing goods and services from others, providing jobs for workers, and paying tax to governments.
- ❖ So are these 'secondary benefits' the full extent of the social purpose of business?



Yes: Milton Friedman

“What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that **he is to act in some way that is not in the interest of his employers.** For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment.”

--- *The New York Times Magazine*, 1970.



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The only corporate social responsibility a company has is to maximize its profits.

— *Milton Friedman* —

AZ QUOTES

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Profit maximization as sole purpose?

1. Almost all sectors have been rocked by **scandals** revealing systemic poor behaviour (financial crisis, PPI, emissions scandal, data protection, MP expenses, Boeing/FAA).
 - ❖ If your firm has an exclusive focus on profitability it will tolerate behaviour that fundamentally undermines public trust in business, and thus social cohesion.
2. Furthermore, if a firm has only profit maximization (within the constraints of the law) as its aim, it is **unlikely to thrive**, due to damage to relations with stakeholders, the public and the state.
 - ❖ An exclusive focus on profit leads to short-term decision making rather than long-term sustainability.
 - ❖ (1) & (2) have led many to agree that the culture in business needs to be about more than just profit. The additional element is often understood in terms of *Corporate Social Responsibility (CSR)*.



Corporate Social Responsibility

- ❖ Whatever size firm you work for, it's likely to have organised joint fund-raising activities or helped staff to volunteer at charitable events, etc.
- ❖ Standardly, CSR activity takes the form of direct philanthropic giving (financial or in kind).
- ❖ The economic benefit to firms of balancing profit with corporate social responsibility has been stressed by many:
 - ❖ E.g. research showed that the '100 best companies to work for in America' beat the profitability of their peers by 2-3% per year between 1984-2009 (Alex Edmans, <https://www.youtube.com/watch?v=Z5KZhm19EOo>).
 - ❖ Lots of research to show that investment in ethical companies pays off (e.g. see work by Andreas Hoepner).
- ❖ But is CSR the answer to balancing the profit motive and social benefit?



The problems with CSR

1. CSR activities are too isolated from a firm's core activities.
 - ❖ Support of charities, volunteering, etc, doesn't connect sufficiently with the day-to-day business of employees.
 - ❖ It is too often just window-dressing.
 2. CSR sets up an unwanted dichotomy between voluntary and mandatory actions, with the dictates of regulation being mandatory and the softer issues of social capital being entirely optional.
 3. Connected to this, CSR is entirely self-regulated (firms self-report on their CSR activities, with no real checks on performance).
- ❖ What is needed is a notion of doing social good that is connected to an organisation's core activities – this is the notion of a **social purpose**.



Do private sector firms have a social purpose?

- ❖ As a philosopher, I think so:
- ❖ Many philosophers (e.g. Hobbes, Locke, Rousseau, Rawls) have argued that the core relationships between individuals and the state take the form of a contract (e.g. we agree to give up some freedoms in return for the benefits of living in a law-governed society).
- ❖ I think we should understand the relationship between private sector business and society in the same way:
 1. Businesses agree to supply society with things that it needs or wants (at competitive prices fixed by a free market).
 2. Society agrees to supply things to business, such as an educated workforce, health care for employees, a functioning transport system, protection in law (including limited liability for corporations), a customer base, etc.
- ❖ But as a society we should *only* enter into a contract with firms that agree to act in line with the needs of society.
- ❖ The contractual basis of the relationship between business and society generates **a social purpose** for private sector firms.



Do private sector firms have a social purpose?

- ❖ As a business person, you ought to think so:
- ❖ Having a clear social purpose improves staff engagement, creativity, and well-being; all these impact on productivity and performance.

“Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.”

-- Larry Fink, CEO of BlackRock Asset Management.

January 2019 letter to CEOs.





So, why does your organisation exist?

To maximise profit whilst acting within the law and in line with its social purpose.

- ❖ Some aspects of social purpose are general; e.g. all firms might be required not to act so as to aggressively minimise their tax liabilities.
- ❖ However, other aspects of social purpose will be specific to an organisation's core operations (the model is *pro bono* legal work).
- ❖ So, financial firms might face a particular requirement to improve customers' financial literacy, big emitters like power companies might have CO₂ reduction (rather than CO₂ neutrality) as part of their social purpose, firms with a very local footprint might have improving local employability or transport as part of their social purpose.

Case Study: *Anna's Apps*

- ❖ Anna launches an IT start-up.
- ❖ At first, she employs just 2 people, but within the first year it rises to 5.
- ❖ As a busy new company everyone is fully occupied with their day-to-day job of making the firm a success.
- ❖ No one has time to think about the purpose of *Anna's Apps*.
- ❖ **Why should Anna find time for defining her company's purpose?**
- ❖ **What could/should she do to try and embed the firm's purpose?**





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- ❖ **THANK YOU** for joining us today!

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