

From there to here: 50 years of thinking on the social responsibility of business

Milton Friedman's pathbreaking essay on corporate purpose was published on September 13, 1970. How much has management thinking evolved?



It has now been 50 years since economist Milton Friedman asked and answered a fundamental question: What is the role of business in society?

Friedman's stance was plain: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits." That view has long influenced management thinking, corporate governance, and strategic moves. But more recently, many leaders have sought to expand that definition to consider all the stakeholders who stand to gain—or lose—from organizations' decisions.

In 2019, Business Roundtable released a new "Statement on the purpose of a corporation," signed by 181 CEOs who committed to lead their companies for the benefit of all stakeholders—customers, employees, suppliers, communities, and shareholders. The statement outlined a modern standard for corporate responsibility.

On the 50th anniversary of Friedman's landmark definition, we look at how the conversation on corporate purpose has evolved.

The pre-1970 conversation

Even before Friedman's essay published, the social responsibility of business was a topic of discussion. McKinsey, for example, was part of the early conversation about corporate purpose, which centered on the idea of improving performance and a belief that healthier corporations meant a healthier society. The firm's earliest formal expression of its objectives spoke of the value of "advancing the profitability and welfare of American business and hence the welfare of the country as a whole" (1937).

The discussion of corporations' role in society continued to unfold in the 1950s and 1960s, when Columbia University and McKinsey presented a lecture series in which executives discussed the challenges of large organizations. Many of those talks became books that addressed the issues Friedman would soon take on.

Friedman's seminal 1970 essay

On September 13, 1970, when Friedman published his landmark piece, "The social responsibility of business is to increase its profits," in the *New York Times*, he wrote:

In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom.

Like many businesses and thinkers, McKinsey has grappled with such ideas over the years. A 1971 statement of the firm's goals highlights the role of profitability but acknowledges that it isn't the sole social responsibility of business; consultants can also "do worthwhile things for society as well as to earn substantial financial rewards."

Marvin Bower—McKinsey's managing director from 1950 to 1967, who remained a vocal leader even after stepping down—also continued to emphasize the importance of enduring business values, which could be translated into societal as well as business impact:

Outside the service for which we are compensated, each of us has an opportunity, through the firm, to serve the society of which [we are] a part. Our knowledge of the problem-solving process enables us to contribute disproportionately to the welfare of our communities.

The 1980s and 1990s: An expanded global view

Management attention started to go global in the 1980s. The business world examined how Japanese companies in particular were revolutionizing

manufacturing to compete against once-dominant Western players. Political and social changes were also afoot, and the shift toward globalization took hold.

McKinsey managing director Fred Gluck (1988–94) called on the firm to raise its sights and expand its horizons:

Beginning with a memo not two weeks before the Berlin Wall came down, he urged his partners to expand their vision beyond their usual business clients. As the world's best problem solvers, he argued, McKinsey should aspire to advise national and world leaders on global issues like poverty, European integration, and the environment. It should help design and implement the reforms that were certain to follow in the wake of the revolutions unfolding in Eastern Europe, the Soviet Union, and Asia. Though not universally shared, Gluck's call to action struck a chord with many firm leaders. . . . They were being challenged to help change the world.

The McKinsey Global Institute was founded in this era, looking to generate fresh insights through serious research that integrated the disciplines of economics and management. And although work continued to prize financial impact for clients, the thinking around future impact continued to expand.

The 2000s and 2010s: A focus on longer-term, inclusive growth

Technological advances may have facilitated globalization, but the dot-com crash of the early 2000s and ensuing changes—to say nothing of the global financial crisis of 2008—brought discussion on the social responsibility of business into the zeitgeist.

In a 2006 interview, McKinsey's former London office manager Peter Foy reflected:

I have real misgivings about the way that [business] changed. Because the minute the world . . . changed from building great companies and keeping shareholders happy to serving shareholders on a quarterly

delivery, wealth-creation basis . . . you changed everything in the business system. The motivation of the CEO, and the organization, and the time you spend on it all.

The conversations also entered the realm of public ideas. One particularly powerful statement in the March 2011 *Harvard Business Review* article “Capitalism for the long term,” penned by McKinsey managing partner Dominic Barton, called for business-led reform to go beyond quarterly capitalism:

This shift is not just about persistently thinking and acting with a next-generation view—although that's a key part of it. It's about rewiring the fundamental ways we govern, manage, and lead corporations. It's also about changing how we view business's value and its role in society.

Barton later helped found the not-for-profit Focusing Capital on the Long Term, which encourages long-term investing and business decision making.

Additionally, the *McKinsey Quarterly* marked its 50-year anniversary with a special edition on the future of management. One key theme: Corporate longevity and a long-term view of performance.

2019, the Business Roundtable statement, and what lies ahead

On August 19, 2019, the Business Roundtable issued its latest statement on the purpose of a corporation:

Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth. While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders.

The statement was endorsed by 181 CEOs (along with McKinsey global managing partner Kevin Sneader), each committing to leading their companies for the benefit of all stakeholders—customers, employees, suppliers, communities, and shareholders.

Echoes of that statement continue to resonate today, even as leaders navigate crises and contemplate the next normal beyond coronavirus. As Marc Goedhart and Tim Koller note in “The value of value creation”: “Long-term value creation can—and should—take into account the interests of all stakeholders.” And Sneader and his coauthors

underscore it as a top-management ethos in a new article on the CEO moment:

[The] COVID-19 pandemic has laid bare the profound interconnectedness between businesses and the broader world in which they operate. . . . Employees, customers, and stakeholders expect a CEO to articulate where the company stands on critical issues.

To explore more management thinking through the eras, see the online version of this article on [McKinsey.com](https://www.mckinsey.com).

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