



Lesson 6:

Do Businesses Have Social Responsibility?

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Students will participate in a simulation and discussion to explore the role businesses can or should have in their communities.

Description of the lesson

Through a short simulation, a primary source discussion, and creating a verbal pitch for a company's board of directors, students consider perspectives related to whether or not businesses have a social responsibility. The simulation specifically uses volunteerism and charitable donations as examples of actions that might be considered social responsibility. Students experience how companies have competing interests in how to use their resources and what benefits and costs are involved with allocating resources to social responsibility.

Economics

This lesson provides a realistic example of how opportunity costs apply to real life business decisions. Marginal thinking plays a role in businesses' decisions on a daily basis in the ways they decide how to allocate an additional dollar, minute, resource, etc. The economic concept of weighing the cost of each decision against the benefit is represented here in broad strokes as students must decide how to allocate precious production minutes.

Ethics

The ethical issue in this lesson revolves around whether businesses are obligated to provide value to society beyond their goods and/or services. Some people believe that businesses have a duty to act in socially responsible ways. Others believe that businesses (corporations in particular) should focus solely on their own existence to chase profits and sustainable business practices. Often, these two goals clash, creating ethical dilemmas for companies.

Objectives:

After completing this lesson students will be able to:

- compare and contrast views on the social responsibility of business.
- evaluate the responsibilities of business.

Standards

[Voluntary National Content Standards in Economics](#)¹

- Standard 1: Scarcity
 - Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.
- Standard 2: Decision Making
 - Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are “all or nothing” decisions.

Concepts

decision-making, opportunity cost, profit

Time Required

45 minutes

Materials Needed

- Pen/pencil, one per student
- Markers or highlighters, one per student
- Examples of local charity work done by businesses (photo of the school scoreboard showing a business sponsor, flier with business sponsors of a local 5K race, etc.)
- Activity 6.1: Production Round Instructions, copied and cut apart into the four different letters so groups of 4-5 students get one set of instructions with minimal duplicates
- Activity 6.2: Production Template, enough copies so that each group of 4-5 students can potentially have as many as 10 if needed
- Activity 6.3: Production Math Template, one per group of 4-5 students
- A 5-minute timer (or phone app or google timer)
- 4 very short children’s books (or 4 copies of one of [these stories](#))
- Candy (Individual M&Ms, starbursts, etc.): enough so that the group C volunteers get a few pieces as a “thank you gift” for volunteering
- Activity 6.4: Two Views on the Social Responsibility of Business, one per student copied front/back
- Assessment 6: Which Direction to Go, one per every 2-3 students

¹ Voluntary National Content Standards in Economics: <https://www.councilforeconed.org/wp-content/uploads/2012/03/voluntary-national-content-standards-2010.pdf>

Preparation

Despite the relatively long materials list, not too much prep is involved in this lesson.

- Make sure you have your copies in the quantities listed in the materials section.
- Display a timer (or use a stopwatch).
- For procedure 1c, you may want to have a couple of examples of local charity work done by businesses ready to go (like the sponsors of the school scoreboard or local 5K, etc.). Add visuals to slide #3.
- On procedure 5b, make sure you know exactly what the students will “clean” and make sure it is prepared each time. Either pre-write some sentences or random drawings stuff on the board or have some trash or recyclables in a box or wadded up paper in a part of the room.

Procedure

1. Begin the lesson by asking the students “What is the role of a business?” (Slide 2) Record some of their responses on the board. *Answers may vary but include: Some students will mention profit or “making money.” Others may mention broader social or environmental goals, such as creating a positive work environment or reducing carbon footprints.* Follow up with further discussion questions like:
 - a. What is **profit**? *Answer: The money that remains after all costs have been paid from the revenues of the business. An advanced class may make the distinction between economic profit and accounting profit, but that is not required for the lesson. Be sure students understand that profit is the incentive for the entrepreneur to take the risk to start the business in the first place.*
 - b. Some people say businesses exist to “serve their community.” What do you think is meant by that? *Answers may vary, but listen for students to make the distinction between serving the community with goods and services that we pay for and serving the community by volunteering and donating. If no one mentions the latter, bring it up and ask the follow-up questions.*
 - c. Which businesses near us do some kind of community service or have sponsored something locally? (Add a visual of your local example to Slide 3) *Answers may vary but include: a community bank or company that donated money to a sports team or their school. Teacher note: You may want to look up a couple of local examples in advance in case students do not immediately think of examples. Be careful that the students don’t confuse corporate community service with service-based non-profits or organizations like Rotary or Kiwanis. The local bank sending someone to speak to a class about money would be an example. It is quite common for businesses to sponsor local 5K races, county fairs, and school seasonal events.*

2. Slides 4-5: Explain that for companies to do volunteering, community service, or sponsorship of community events, they have to use some of their scarce resources. Ask students to recall what **scarcity** is. *Answer: A permanent condition where unlimited wants exceed limited productive resources.* Ask students:
 - a. When resources are dedicated to things like volunteering, donating, in-kind gifts instead of being used for production of goods and services, their next best alternative, what is this next best alternative called? *Answer: Opportunity cost, the next best alternative given up when a choice is made.*
 - b. Have you ever used your scarce income to donate to a cause and if so, why? *Answers will vary, but remind students that even things like buying wrapping paper/popcorn/candles/cookie dough from a friend in chorus or band is a form of donation because you're paying over the market price for the product to help an organization.*
 - c. Why might a company use resources for things like community service instead of increasing production? *Answers may vary but include: Companies often see value in having a positive public image and doing positive things for communities improves that image. Furthermore, sponsoring local events like school functions help support the community AND give brand recognition to the company so it is not always purely altruistic in nature.*
3. Explain that while many companies engage in these activities, people differ on what degree companies are obligated to “give back” to the community and that is the focus of the remainder of the lesson.
4. Tell students they are going to participate in a brief simulation to see how making choices to be more “socially responsible” can impact a business.
5. Divide the class into groups of 4-5 students and give every student in each group one of the company descriptions from Activity 6.1: Production Round Instructions. Students in the groups should read their descriptions silently but not share with students outside of their group/company. There should be at least one A, one B, one C, and one D group. If groups are uneven sizes, the activity will benefit if groups A and D are larger. If more groups are needed you may double any group (although C may be difficult to have more than one). For reference, the groups differ in the following ways:
 - a. Company A has decided to focus solely on production of goods and services. They have no other community involvement.
 - b. Company B has committed to cleaning the local greenspace. At the 2- and 4- minute mark, they must send two volunteers to clean the board (or some similar task).
 - c. Company C has committed to a reading program at the local school system. At the three minute mark the entire group must go to a “school” (corner of the classroom) and read

the children’s book out loud. Importantly, they cannot start until they get the book in their hand.

- d. Company D has committed to donating 20% of their profits to your classroom. At the end of production, the Company D’s CEO will make a big public announcement and conduct a ceremony making the donation.
6. Give each student a marker or highlighter. Hand out one copy of Activity 6.2: Production Template to each student, face down!
7. Read the following instructions to the class (Slides 6-7):
 - a. “In just a moment you will simulate a business producing various shaped widgets. To produce them, you need to NEATLY trace the shape with your marker or highlighter. Only neatly and completely traced items can be sold. Each item you trace can be sold for \$10. If you trace all the items on your sheet you can “order” a new sheet by raising your hand and requesting a delivery. Each piece of paper costs the company \$20, each marker costs \$5 and each worker is getting paid \$10. So, for example, a group of 4 has initial startup costs of \$140. You must follow the instructions on your Company Information Sheet. At this time, please read your Company’s information sheet and decide who is going to Volunteer (if required) or who is the Company’s CEO (if required). If you have any questions, please ask them at this time. I am about to start a 5-minute timer. I will announce each minute as it passes and your company should work according to your Company information. If there are no further questions, you may begin your work NOW.”
8. Start the 5-minute timer. After 1 minute has passed (4 minutes remaining), announce “Company B, it is time to volunteer. Please come to the Greenspace.” The two company B volunteers should meet you at the white erase board, trashcan, or desk. Give them a simple “cleaning” task to do like empty the pencil sharpener, take out the trash, clean the white-erase board etc. They must BOTH complete the task before they can return to work. Once both of them have completed the task, they may return to their desks and resume work.

Teacher note: if you do not have two different tasks/cleaning jobs be sure to re-mess up this area again for procedure 10 at the 3 minute mark (2 minutes remaining).

9. After 2 minutes have passed (3 minutes remaining) announce “Company C, it is time to volunteer. Please go to your schools and read your books.” Each member from Company C should stop what they are doing and go read a Children’s book out loud. They must read the ENTIRE book. When they are finished, they must come see you. Give each member of Company C a piece of candy as a “thank you gift” for coming to read today.
10. After 3 minutes have passed (2 minutes remaining) announce “Company B, it is time to volunteer again. Please report to the Greenspace. Repeat procedure 8.
11. After 5 minutes have passed tell all students to stop tracing, put lids on markers and listen carefully.
12. Give one copy of Activity 6.3: Production Math Template to each group. Project the template and model an example of how it is filled out. (Slides 8,9) All teams should count how many neat and completed shapes they traced. Multiply that number by \$10 as we are going to assume they sell all of them. This is their total revenue. Next, they need to add up all the pieces of paper they used and multiply by \$20, multiply the total number of markers by \$5 and pay each worker \$10. This is their total cost. Finally, have the students calculate their profit by subtracting their total cost from their total revenue.
 - a. Display this formula on the board if students need it:
 - i. Number of shapes x \$10 = Total Revenue
 - ii. Number of sheets of paper x \$20 + Number of Markers x \$5 + Number of workers x \$10 = Total Cost
 - iii. Total Revenue - Total Cost = Profit.
 - b. [If desired, students can use this spreadsheet to enter their information.](#)
13. Slide 10 - Have each group subtract their total cost from total revenue and report their profits out to the class. Record these on the board. Company D has one additional calculation to make. They must also subtract 20% of their profits since they are about to make a donation.
 - a. Donation amount = profit x .2
14. Announce to the class that Company D has something they would like to do. The CEO from company D should come to the front and present you with a “check” (which should just be a piece of paper the student uses to write how much the company is donating, though students can get more creative if they wish). Bring the CEO up to the front of the room and have him/her publicly announce how much money they are donating.

Teacher note: Your role is to greatly upsell this and talk about how wonderful company D is and how you will send all of your friends and family to company D, etc... You may also mention how nice it was for company B to clean up and how you really appreciated company C reading to the class.

15. Slide 11 - Debrief the activity for 7-8 minutes with the following questions:

- a. How do you perceive company D? ***Answers will vary depending on the student's personal expectations of company responsibilities. Some will think what company D did was foolish and wasteful. Others may find it inspiring or may even be jealous that you gave them such high praise.***

- b. How do you perceive company A? ***Answers will vary. Similar to company D, answers will be colored by personal opinions. Company A likely made the most money and the employees might be happy about that initially, but point out that they don't necessarily get to share in those profits. In fact, we're not sure what Company A will do with those profits. They could reinvest them, they could share them with stockholders, or possibly the CEO could pay himself a big bonus!***

- c. Should company A be required or incentivized by the government to behave like B, C, or D? ***Answers will vary and may include: Yes they should have to give back or no it's not the government's responsibility to oversee this.***
Teacher note: Point out that some industries do face such regulatory actions. Banks, under the Community Reinvestment Act, are expected to make certain business decisions to help communities. Community Development Block Grants also usually require some quid-pro-quo, meaning an action that must be taken by the business in return for grant funding. These can usually be done in the normal course of business, but still require resources to be used in less than the most profitable means.

- d. For the volunteers in companies B and C, how did you feel when you were doing your volunteer work? ***Answers may vary but include: stressed because I needed to get back to work, like I was doing something positive, but I don't know if it helped me personally, and I enjoyed it. It felt good helping others and getting away from work for a bit.***
Teacher note: In real life, volunteer opportunities also include things like free t-shirts or goodie bags. In those cases, there may be blurred lines between promoting the cause and self-interest. Point out that often companies create policies and leave time to encourage their employees to volunteer. There's more about this in the extension activity.

16. Slide 12 - Give each student a copy of Activity 6.4: Two Views on Social Responsibility of Business. Tell the students that the authors they are going to read are notable figures in the debate about corporate social responsibility. Milton Friedman won the 1976 Nobel Prize in economic sciences. Kevin Johnson is the president and CEO of Starbucks, a business that has billions of dollars of sales each year. Give students 10-15 minutes to read the articles and write the answers to the questions. To increase engagement, you may want to assign students to read aloud and answer the questions with a partner or in small groups and/or require an active reading strategy. The readings can also be assigned as homework.

Closure

17. When finished, use the answer key included in this lesson plan to discuss answers with students. The answer key includes additional talking points as well.
18. Remind students that scarcity is at the core of this debate. Decisions must be made about how to use scarce resources. Allocating more resources to community activities during the production process may limit profits. Allocating more resources to production may limit social interaction and outreach. Some companies decide to focus on production and then share their profits through donations. This, too, is an allocation that incurs an opportunity cost.
19. Refer back to the very beginning of the lesson and point out that while most companies are not obligated legally to act responsibly or contribute to the community, most choose to at least in some way because the benefits of positive public image outweigh the costs in most cases. The extension activity provides links to several companies and their actions regarding social responsibility so students can compare the companies' efforts

Assessment

20. Provide each student a copy of Assessment 6: Which Direction To Go. Students are to create a pitch (written or verbal) for how a fictional company should allocate resources.
21. In the assessment, you are looking for evidence that they understand that there is a choice involved, how scarcity plays a role in this choice, and the potential consequences of not acting "responsibly." Answers to the discussion questions from the activity are below.

Some sample assessment items:

1. When companies dedicate resources (labor, time, etc.) to things like volunteering, donating to communities, or environmental cleaning instead of production, they are facing which key economic concept?
 - a. Taxation
 - b. Opportunity Cost**
 - c. Average total cost
 - d. Arbitrage
2. Workers, customers, board members, and the community where the business is located can all be considered _____ of a company.
 - a. employees
 - b. suppliers
 - c. shareholders
 - d. stakeholders**

Through our 2030 Environmental Goals, we are working to reduce emissions, use and waste less, lower the impact of our products, build sustainably, and inspire communities to protect the magic of nature together.

Solar Arrays Installed

On Castaway Cay and at Hong Kong Disneyland

New Solar Announced

Including two new 75MW facilities in Florida, expected in 2023

Plastic-free Packaging

Introduced for our line of classic dolls

61% or 80,000+ Tons

Of total Company operational waste diverted from landfill

Sustainable Seafood

Made up 95% of seafood served in our U.S. parks, resorts, and cruise line²

\$120M+ Invested

In community conservation efforts since 1995

3. The image above comes from Disney's 2021 Corporate Social Responsibility Report. Base on the data in this image, you can assume that Disney:
- is only focused on making as much profit as possible.
 - allocates resources to goals other than making profits.**
 - is an environmentally sustainable company.
 - fails to consider other types of responsibility.

Extension

Students may be interested in what real companies (other than Starbucks) are doing in this space. A potential extension activity is to have students compare the following companies (or others they students select) in regards to their public-facing statements about things like sustainability, community involvement, or charitable work.

Delta: <https://www.delta.com/us/en/about-delta/community-engagement/overview>

Chick-Fil-A: <https://www.chick-fil-a.com/about/giving-back>

Merck: <https://www.merck.com/company-overview/responsibility/>

Nintendo: <https://www.nintendo.com/about/csr/>

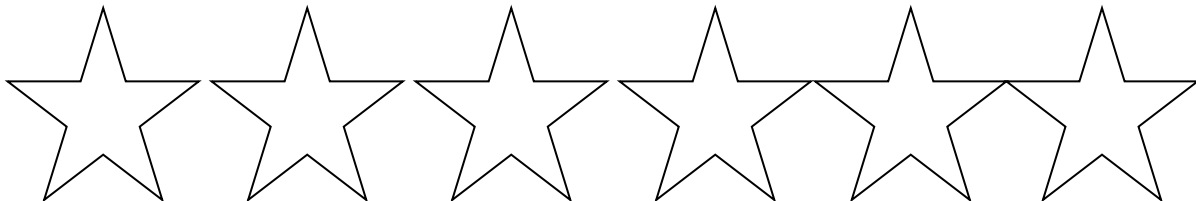
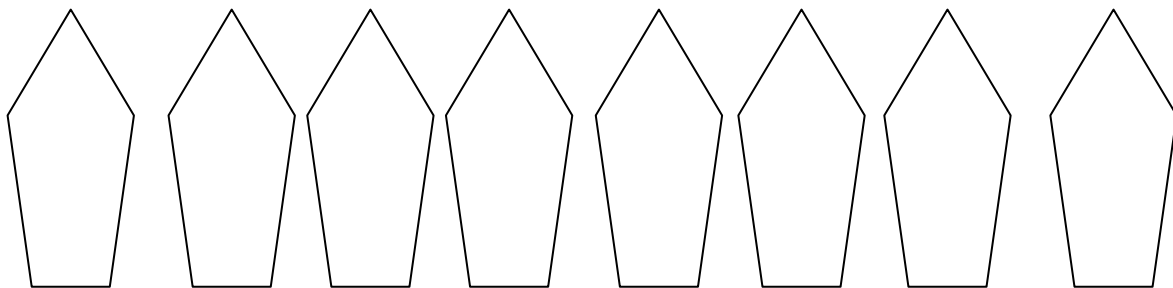
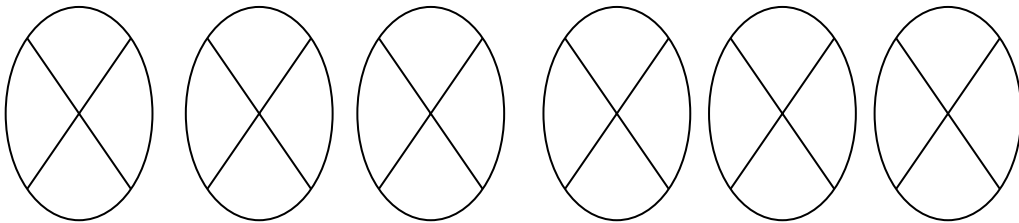
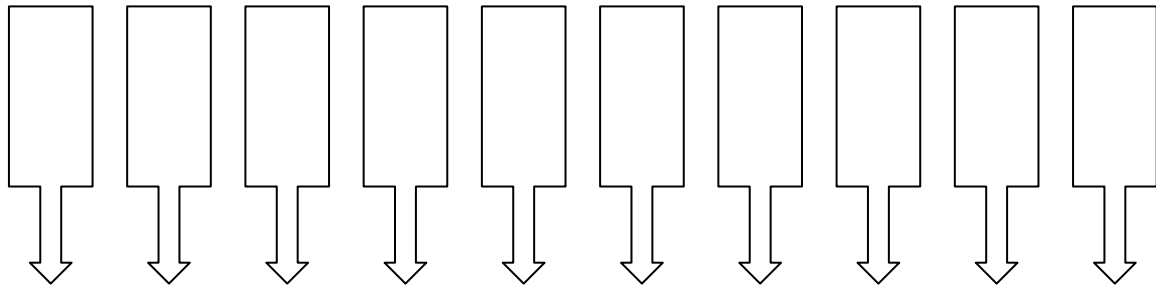
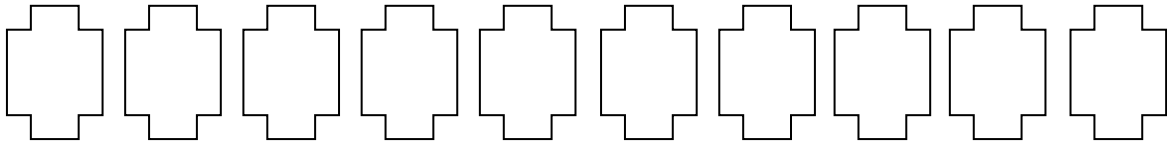
Federal Reserve Bank (Boston): <https://www.bostonfed.org/about-the-boston-fed/corporate-social-responsibility.aspx>

Activity 6.1: Production Round Instructions

Company A	Company B
<p>Your company has decided to focus solely on profits. In your factory is a sign that says, “If you’re not making money, you’re losing money.” Your energy in this round should be dedicated to producing as many products as possible. Focus, work quickly, and don’t make mistakes! No pressure!</p>	<p>Your company has publicly committed to environmental protection. To make good on this commitment, you have decided to send TWO employees to help clean the local greenspace. When prompted, the two employees should get up from the desk and report to the volunteer coordinator (teacher) to get their cleaning assignment. There will be two volunteer opportunities during the simulation.</p>
Company C	Company D
<p>Your company has stressed the importance of giving back to the community through volunteering at local schools. In fact, you have a major volunteer opportunity coming soon and the entire company is participating. When prompted, ALL group members should report to a local elementary school (in one of the corners of the room) to read a complete children’s book out loud. You may not return to the factory until you have completed this task.</p>	<p>Your company recently released a press release that stated you were donating 20% of all profits to a local school. At the end of the production period, you will calculate your profits and then your CEO (one of you in the group) will come to the front of the class to make a presentation to the teacher of the check in the amount you will donate. This is a big deal and something the Board of Directors is expecting you to get right!</p>

Activity 6.2: Production Template

Directions: Using your marker/highlighter, neatly and completely trace each shape below. Each shape you neatly and completely trace you can sell for \$10. This paper cost your company \$20 so be careful with it! You may request another sheet when this one is completed, but it will cost another \$20. If you mess up a shape, you can't sell it. You should just move on to the next one.



Activity 6.3: Production Math Template

Directions: Complete the following table with the numbers from your group. Note: Company D has two additional steps at the bottom

Company Revenue

# of shapes traced and “sold”		Total Revenue
	X \$10 =	

Company Cost

Cost	Your Group’s Data	Price per unit	Cost
Number of Sheets Used		X \$20 =	
Number of Markers		X \$5 =	
Number of employees		X \$10 =	
TOTAL COST=			

Total revenue	Total Cost	Profits
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Company D ONLY:

Profits	Multiply by 20% (.2)	Donation Amount
	X .2 =	

Activity 6.4: Two Views on the Social Responsibility of Business

The Social Responsibility of Business Is to Increase Its Profits (excerpt) By Milton Friedman

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When I hear businessmen speak eloquently about the “social responsibilities of business in a free-enterprise system,” I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned “merely” with profit but also with promoting desirable “social” ends; that business has a “social conscience” and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are — or would be if they or anyone else took them seriously — preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

...What does it mean to say that “business” has responsibilities? Only people can have responsibilities. A corporation is an artificial person and, in this sense, may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

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 the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary [charitable] purpose — for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.

In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them....the criterion of performance is straightforward, and the persons among whom a voluntary contractual arrangement exists are clearly defined.

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily — to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country’s armed forces. If we wish, we may refer to some of these responsibilities as “social responsibilities.” But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are “social responsibilities,” they are the social responsibilities of individuals, not of business The difficulty of exercising “social responsibility” illustrates, of course, the great virtue of private competitive enterprise — it forces people to be responsible for their own actions and makes it difficult for them to “exploit” other people for either selfish or unselfish purposes. They can do good — but only at their own expense.

Starbucks 2020 Global Social Impact Report (excerpt)

By Kevin Johnson

2020 Global Environmental & Social Impact Report, 2020.



Dear Starbucks partners, customers, and stakeholders:

As a company grounded in a mission to inspire and nurture the human spirit, Starbucks has always looked to make positive connections and impact on people and communities around the world. So, 20 years ago, we made a commitment to report transparently and regularly about our efforts to improve economic conditions for coffee farmers, minimize our environmental footprint, make positive contributions to the communities we serve, and create a culture of inclusion, belonging and opportunity for all Starbucks partners (employees).

In this FY20 report, you'll see that even through a historic global pandemic, we remained steadfast in our commitment to people and to the planet. Our goal to make a positive impact on the lives of partners and customers and to give more than we take from the planet is central to the work we do. I'm tremendously proud of all Starbucks partners who prioritized the health and safety of people and showed up for their communities as we navigated COVID-19 together.

By being intentional, transparent and accountable, we are committed to making lasting progress in being a people, planet and profit positive company.

Accordingly, you will see that we have added additional rigor to this work by providing data consistent with the Sustainability Accounting Standards Board (SASB) Environmental, Social and Governance (ESG) reporting standards.

While this report covers the progress we made in FY20, our key areas of focus continue in FY21. Most recently, our partners have seen a substantial wage increase; our renewable energy investments are benefitting our stores and the communities around them; we have set new inclusion and diversity goals and commitments; we committed to invest \$100 million to support small businesses and community development projects in Black, Indigenous and People of Color (BIPOC) neighborhoods; we added another \$50 million to our global coffee farmer fund; and we're doing more each day.

We have a unique opportunity at Starbucks to use our reach and scale to create a better society in many ways, big and small. I have immense gratitude and pride for all Starbucks partners who have worked together through this historic time in service of their communities, creating a third place where we can all find community, acceptance and a sense of belonging.

Now, meeting the ambitious targets set out in this report will take time ... and Starbucks is wholeheartedly committed to these environmental and social goals for the long term. They are core to our mission, they are core to our business and they are core to who we are as Starbucks partners.

Kevin Johnson, President and CEO

Activity 6.4 (Continued)

NAME: _____ **DATE:** _____ **CLASS:** _____

Directions: Read the two perspectives presented on Activity 6.3 and answer the questions below.

1. According to Milton Friedman, what is the responsibility of corporate executives?
2. Beyond making a profit, what ethical responsibilities does Friedman say businesses have to society in general?
3. Does Friedman's emphasis on maximizing corporate profits mean that he is not concerned with the welfare of society?
4. Why does Friedman believe a corporate executive should be socially responsible as an individual but not in his or her corporate role?
5. Who are the stakeholders in Kevin Johnson's conception of the corporation? What ethical duties does the corporation owe to each stakeholder?
6. What motives besides money does Johnson argue are important in understanding human nature? How might these motives be relevant in running a business?
7. Are Johnson's views on the social responsibility of business inconsistent with maximizing profits? Why?

Activity 6.5: ANSWER KEY

NAME: ___KEY_____ DATE: _____ CLASS: _____

Directions: Read the two perspectives presented on Activity 6.3 and answer the questions below.

1. According to Milton Friedman, what is the responsibility of corporate executives?

To conduct the business in accordance with owners' (shareholders') desires, which generally will be to make as much money as possible without violating society's basic rules and ethical customs. While this may not be true for each individual's preference, point out to students that Friedman believes it is their responsibility and, therefore, the thing that should take precedence with company resources.

2. Beyond making a profit, what ethical responsibilities does Friedman say businesses have to society in general?

Friedman believes businesses have no ethical responsibilities to society in general except to follow the rules society expects businesses to follow. Only people can be ethical. People who work for a business owe general ethical duties to society such as being honest with customers and suppliers. However, it is only as a private person, not as an employee, that one has obligations to family, clubs and country.

3. Does Friedman's emphasis on maximizing corporate profits mean that he is not concerned with the welfare of society?

Answers may vary a bit on this, but in general this is NOT true. The search for greater profits causes corporations to reallocate resources from low-value products to high-value products. If a product is earning a large profit, this signals to producers that consumers desire more of it and encourages producers to increase output and satisfy this demand. Profits also create incentives for firms to search for new products, technologies and inventions. Profits are an incentive to produce more efficiently. Competitive markets are dynamic. They meet society's need for efficiency, growth and freedom. Corporate executives benefit society more by responding to market signals than by indulging their own causes with shareholders' money.

4. Why does Friedman believe a corporate executive should be socially responsible as an individual but not in his or her corporate role?

The executive is an agent of the business owner and therefore is responsible only to the goals of the owner. This is the principal-agent system. The owner is the principal, and the executive is the agent. As an individual, the corporate executive has many responsibilities, but in these cases the executive acts as a principal, not an agent.

5. Who are the stakeholders in Kevin Johnson’s conception of the corporation? What ethical duties does the corporation owe to each stakeholder?

The stakeholders can be inferred to be the people he’s talking to in the letter - coffee growers, employees, owner/operators, stockholders, etc. The second part of the question requires students to guess what Johnson believes his company would owe each of these stakeholders. Some suggestions: Customers — honesty, service, reasonable price; Team members (employees) — reasonable pay, honesty, reward, recognition; Shareholders — return on capital, profits; Suppliers — honesty, loyalty, stable business relationship with a fair financial reward; Communities — investing profits in community causes, Environment — stewardship

6. The Starbucks report specifically mentions \$150million used for “social responsibility” purposes. Why are these projects important to Starbucks? How else might this \$150 million have been used?

First, make sure students recognize this a real-life example of opportunity cost! In context, this 2020 report would have come out at a time following the Black Lives Matter movement when corporations nationwide were looking to assure people they were sensitive to BIPOC issues. Furthermore, having a thriving business community is also foundational to Starbucks as more successful businesses in an area mean more customers looking for coffee. Similarly, putting money in the “Global Coffee Farmer Fund” is socially responsible, but also helps support the Starbucks pipeline. As for what it could have been used for, answers may include product research, marketing, paying bonuses to employees, training, purchasing new technology, etc.

7. Are Johnson’s views on the social responsibility of business inconsistent with maximizing profits? Why?

Some of this question overlaps with question 6, but ultimately no - it is not necessarily and either/or proposition. Investing in communities, supporting coffee farmers, treating employees well etc. all can be viewed as socially responsible AND in line with a company’s desire to make profits.

Assessment 6: Which Direction To Go

Directions: You have been hired as a consultant by Hyrule Inc., an internationally recognized company that produces a wide range of hundreds of products from toys to music instruments to board games to high-end collectibles. You were hired to create a pitch to the board of directors that outlines what initiatives you believe the company should focus on in the future. Using what you have learned in this lesson, your own opinion, and any additional research you may want to do, choose 2-3 goals for the company to focus on. Remember, a company has *limited resources*, so make sure your pitch considers that.

ABOUT HYRULE INC.

Hyrule Inc. was founded in 1986 as a small toy company selling action figures that focused on castles and medieval style weapons. Over the years, the company has evolved into a massive conglomerate producing hundreds of products in a wide variety of markets all over the world. Last year's profits were over \$200 million. Some stakeholders have questioned their production methods and there have been some investigations whether Hyrule Inc. is using forced labor in some countries to produce its products, though there is no proof of this. In addition, a former board member tweeted recently that key decision-makers in the company were only focused on profits and ignored key environmental concerns involving some of the company's factories. Hyrule Inc. has been exploring options for selling the brand, so maintaining high profit levels has been a key focus in most of the recent earnings reports. Last year, Hyrule Inc. donated \$1 million to various children's charities - less than 1/10 of what their smaller-sized competitors donated. Recently, several environmental groups have complained that they tried to have a meeting with Hyrule Inc. about improving their packaging to use less plastic, but they never even got an opportunity to speak with the correct department. Hyrule Inc.'s CEO and CFO have been with the company since 1989 and rarely make any public appearances or comments except when required by reporting guidelines.

Consider some of the following initiatives among others (remember scarce resources!) :

Maximizing profits	Reducing carbon footprints	Improving labor policies
Participating in fairtrade	Diversity, equity, and inclusion	Charitable global giving
Policies that benefit the environment	Community/virtual volunteer opportunities	Socially and environmentally conscious investments

Questions to consider for your pitch:

1. Why are you choosing the direction you did for the company? What are the benefits?
2. What are the opportunity costs of your choices?
3. Which stakeholder's perspective were you most considering as you wrote your pitch? Which stakeholders might benefit from your choices? Which stakeholders might not? Explain.

Assessment 6

1. When companies allocate resources (labor, time, etc.) to things like volunteering, donating to communities, or environmental cleaning instead of production, they are facing which key economic concept?
 - a. Taxation
 - b. Opportunity Cost
 - c. Average total cost
 - d. Arbitrage
2. Workers, customers, board members, and the community where the business is located can all be considered _____ of a company.
 - a. employees
 - b. suppliers
 - c. shareholders
 - d. stakeholders



3. The image above comes from Disney's 2021 Corporate Social Responsibility Report. Based on the data in this image, you can assume that Disney:
 - a. is only focused on making as much profit as possible.
 - b. allocates resources to goals other than making profits.
 - c. is an environmentally sustainable company.
 - d. fails to consider other types of responsibility.