The true universal business theory

The three approaches, stakeholder, shareholder, and market failure approach, may seem as if they are all good approaches in business and will output ideal outcomes. However, in reality, the three approaches have their own characteristics and methods in order to deal with certain events and guide the corporation in how it ought to act (MIT Sloan Management Review, 2003). In addition, some of the actions that some of these approaches suggest may not align with some of the moral obligations that we as a society believe in. Therefore, one can conclude that one of the three approaches will be better than the other. In this essay, I will argue that the stakeholder approach best accounts for moral obligations of businesses and should be the universal approach that every business should follow in order to produce the best moral outcomes, publicity and long-term profits.

Before we begin and prove that the stakeholder approach is the victor amongst the three, we need to first understand what are the characteristics, history, and pros and cons of each approach is. To begin, the shareholder approach utilizes normative claims, (MIT Sloan Management Review, 2003) and in text is defined as a method to increase value by following the three policies: " one being to enhance the firm's earnings, second to increase the market value and its shares, and third to increase the amount or frequency of each dividend." (BusinessDictionary. com, 2018). To summarize, the stakeholder approach follows one main rule, the managers must make sure that the shareholders always come first and that every action made within the company is authorized by the shareholders. (MIT Sloan Management Review, 2003) This approach was first supported and argued by Milton Friedman a famous influential American Economist who thought that it was morally okay to put shareholders in the number one priority. However, over the years constant debates regarding this approach and Milton Friedman points occurred. Yes, this approach has been claimed to be great in the perspective of the shareholder within the corporation, but for the other individuals it was the complete opposite. In addition, this approach has also been supported by Milton Friedman's seven points of argument. For example, Friedman states that the primary responsibility of the corporate manager is to conduct business practices according to the shareholder's desires and maximize profits. (Class 4)

Even though, there is considerable amount of points to support the shareholder approach, it violates a number of theories. For instance, Kant's theory of humanity, because of how the approach is structured, it treats other workers within the corporation as a means not an end. Therefore, showcasing that nobody is important except for the shareholders, and that other stakeholders are just a liability and " tool". Which then leads to Mulligan's theory, Mulligan, explains how the stakeholder's trust is threatened and is futile to the company's image. (Class 4). Not only that, but the CEO of GE, Jack Welch who used to be the tycoon and " master" of the shareholder theory back in 1981 to 2001 states that this principle is the " Worlds Dumbest Idea" (Forbes, 2017). Welch also states that if anyone were to go forward and use this approach as their business model will end up violating corporate responsibilites and will never have the ability to achieve long term profits goals. Professors from Harvard Business School, Joseph L. Bower and Lynn S, also mentions that maximizing the shareholder values and goals is an error at the heart of corporation (Harvard Business Review, 2017). With these oppositions, it is without doubt that the shareholder approach is a selfish and unrealistic approach to implement in any corporation’s business model.

On the other hand, like the shareholder approach, the market failure approach is also a theory that no businesses should follow. The reason being is because of how this theory is structured. The market failure approach by definition, is the allocation of goods and services in a free market where it is not efficient, which usually leads to net social welfare loss. (BusinessDictionary. com, 2018). To sum it up, the market failure approach is a concept where corporations take an advantage of others in a free market situation, and by preforming this action it puts many individuals in one of two cases, incurring too many costs or receiving too few benefits. (Investopedia, 2018) The market failure approach was created after the stakeholder and shareholder approach. And like the shareholder approach, Friedman thought that this approach was also morally okay and correlates with the shareholder approach. Friedman thought that by taking advantage of the market failures within a free market system it will help boost profits for shareholders as long as deception is not involved and in the end lead to beneficial outcomes. (Class 6) However, a famous professor from University of Toronto named Joseph Heath was the first to articulate Friedman’s theory and think otherwise. Heath began by stating that by performing this action, it takes advantage of individuals and cannot be executed because it puts others worse off. Heath makes a statement that say yes, it is morally okay for managers to pursue profit but should not abuse market failures in doing so. In addition, the market failure approach is not a sustainable approach due to the fact many regulations and laws do not allow this theory to thrive. Numerous companies out there, such as Underwrites Laboratories LLC, Moody's and Standard & Pours and the government are constantly monitoring and stopping possible market failure loop holes that corporations could use to gain profits. (Investopedia, 2018) Therefore, market failure events such as pollution abuse are constantly being solve with tort lawsuits, where the polluters are suffering through fines and opportunity costs. (Investopedia, 2018) With no flexibility and the violation of numerous moral obligations, the market failure approach does not best account for any business practices.

The stakeholder approach, unlike the shareholder and market failure approach is different. By definition, the stakeholder approach is defined as the maximization of interests of all stakeholders. (BusinessDictionary. com, 2018) Additionally, the duty of the stakeholder approach is also to consider individuals and constituencies that either contribute voluntarily or involuntarily to the cooperation. (MIT Sloan Review, 2003). Like the shareholder approach, the stakeholder approach also utilizes normative claims. R. Freeman a famous philosopher in the 1980s, was the first individual to promote this theory, he utilized a thesis stating that managers have a fiduciary obligation to promote the best interest of other individuals. (Class 5). The stakeholder approach as Freeman states also supports many moral theories such as Kant's theory of humanity. " That is, each of these stakeholder groups has a right not to be treated as a means to some end." (class 5) Despite all this, the only main flaws that the stakeholder approach has are ranking which interests to consider and categorizing which stakeholders are narrow or wide. Besides these flaws, the shareholder approach is near perfect and will help any cooperation in building loyalty, care and trust. For instance, Coca-Cola has been utilizing this approach for decades, and are constantly working closely and providing benefits for many of their stake holders such as consumers, employees, bottling partners, and trade groups. (Coca-Cola Company, 2017) By utilizing this method, Coca-Cola has been able to achieve their long-term sustainability goals and have been consistently ranked the number one soft drink in America and have the highest number of loyal customers in the soda industry. (Coca-Cola Company, 2017) (NBCNews, 2011)

As stated previously, the stakeholder approach best accounts for moral obligations of businesses and should be the universal approach that every business should follow in order to produce the best moral outcomes, publicity and long-term profits. The reason being is because the other two approaches, shareholder approach and market failure approach do not produce the most reasonable outcomes. For example, the recent Facebook Scandal where 87 million user’s data were affected and stolen. (The Guardian, 2018) In this event, it is without doubt that Mark Zuckerberg worked under the radar and utilized the market failure and shareholder approach to increase profits for shareholders by 49% totaling to 40 billion in 2017 and supported different events such as the Trump campaign in 2016 and the sale of personal data to Cambridge Analytica. (TheHill, 2018) However, by going about with this business tactic, Mark Zuckerberg clearly suffered an extensive amount of problems and challenges. One being the 500, 000 pounds fine, the violation of the Data Protection Act, and most importantly the loss of trust from billions of users. (TheGuardian, 2018). All these problems could have been avoided if Mark Zuckerberg utilized the stakeholder approach. If Mark Zuckerberg considered the interests of all his stakeholder and did not simply just think of profit, Facebook will not be in the " hole" it is in right now. In addition, Facebook would not lose the trust of its billions of users, be fined and continuously monitored by the government, and not have its stock price plummet by 20% (NASDAQ, 2018) (Figure 1), but instead retain and continue to be the top social media platform in the world. (Big commerce, 2018) All in all, the stakeholder approach is clearly the victor amongst the three approaches since it produces the most positive outcomes, and should be the only universal approach used in business practices.