Social responsibility in business

Experience, Responsibility

In examining the mission statements of multiple companies, it is apparent that corporations claim to prioritize socialresponsibility. Companies like Whole Foods, Ben &Jerry's, Camano Island Coffee Roasters all actively contribute to different social causes. Even Philip Morris prioritizes " actively [participating] in societal concerns that are relevant to [its] businesses" over generating returns for its stockholders (Philip Morris, 2011). There are many different views on the extent to which corporations should be involved in societal concerns.

The three most prominent are the stockholder theory, the concept of social business, and the stakeholder theory. Of these, the stakeholder theory is the most appropriate. Because corporations are considered to be individuals within our society, they bear a certain amount of responsibility to their fellow citizens, so it is not enough for them to act only in the interest of their stockholders. However, corporations are entitled to earn profits, and therefore cannot be expected to act as purely social businesses.

Consequently, businesses must look for a happy medium within the stakeholder theory, acting in the interests of the stockholders, customers, employees and civil society. Milton Friedman, a major proponent of the stockholder theory, argues that beyond legal compliance, " the social responsibility of business is to increase its profits," meaning corporations hold responsibilities only to their shareholders and the law (Friedman, 1970). One of the main points he addresses is the fact that when a company manager spends the company'smoneyon a social cause, he/she takes away from the maximum possible returns to the stockholders.

In addition to taking from the stockholders, the price of the product may rise, taking away from the consumer, or wages might fall, taking away from the employees. Because of this, the manager " is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other" (Friedman, 1970). Friedman claims taxes are the responsibility of the government and giving the corporation's money to a social cause is a form of taxation without representation. This would be the case if the manager were merely donating the funds to a cause of his/her choosing.

However, Camano Island Coffee Roasters (CICR) supports its own industry by ensuring that they participate in Fair Trade. In addition to participating in Fair Trade, CICR helps the coffee farmers by making sure they own the land they work, as well as helping to keep their children well nourished (Gunter, 2007). By helping the farmers from whom CICR buys its coffee, it ensures that it can use " the top 1% of the available coffee market" (Gunter, 2007). As a result of its acts of altruism, Camano Island Coffee Roasters has been able to ensure a top quality product and consequently has been a very successful corporation.

Friedman's theory is also similar to the " trickle-down" theory. He believes that by maximizing profits, corporations will help the less fortunate by providing better goods and services as well as higher wages. However, like the " trickle-down" theory, the result is the CEOs of corporations make millions of dollars, whereas the lower level employees barely make enough to survive. Ben and Jerry's is a perfect example of a company that does not abide by Friedman'sphilosophy, and yet has been extraordinarily successful.

They manage to provide the highest quality product possible, in addition to paying their employees what they call “ living wage,” making sure the lowest paid employees are still making well above theminimum wage(LEDA article). For Ben and Jerry’s, the tax, as Friedman would call it, is taken from the highest paid employees of the company. An article reviewing Ben and Jerry’s business ethics says: “ Consistent with [their mission for social responsibility], the highest paid employees of Ben & Jerry's would not earn more than seven times more than the lowest paid full-time employees” (LEDA article).

Despite the success of socially responsible corporations, Friedman would argue that these companies would have had greater success if they had focused solely on turning higher profits. Therefore it is critical to consider the possibilities for corporations to act in an unethical manner even when complying with Friedman’s philosophy. When Ford released the Pinto, it was aware of the potential for customers to be killed due to a flaw in the Pinto’s design.

Despite this knowledge, based on a cost-benefit analysis, Ford determined it would be less costly to deal with the law suits brought by people who were injured or killed rather than to recall and fix each car. Ford was well within the legal requirements for car safety at the time and legally sold the Pinto, despite the danger. However, by not considering the consequences of its actions beyond just the financial, Ford was responsible for over fifty deaths (American Decades, 2001). According to Friedman, this decision to value profit over human lives was perfectly ethical. On the other side of the pectrum from the stockholder-oriented philosophy is a new field of business

called social business. By definition, a social business is a non-loss, non-dividend company whose focus is not on profits, but on furthering a social cause (Yunus, 2010). Nobel Peace prize laureate Muhammad Yunus is the founder of this field of corporate social responsibility. In 2006, Yunus collaborated with a Frenchfoodcompany called Danone to launch the first social business, Grameen Danone. Its mission is to provide children in rural Bangladesh with nutrients that are lacking from their diet.

An article on the Danone website says: “ the success of the project will above all be judged on non-financial criteria: the number of direct and indirect jobs created (milk producers, small wholesalers, door to door sellers), improvements to children'shealth, protection of theenvironmentetc…” (Danone, 2011). However, based on the way we currently measure the success of corporations, Grameen Danone would appear to be a very unsuccessful business. Do social businesses and non-profit organizations necessitate a change in the conventional methods of determining the success of a corporation?

It is highly unlikely that many corporations will adopt such a radical method as social business. Therefore, while social businesses should be commended, and even used as inspiration, for their contribution to society, it is more reasonable for corporations to focus on the interests of both their stockholders and community. R. Edward Freeman is one of the founders of the stakeholder theory, which says that companies hold responsibilities to five main groups including shareholders, consumers and the general public.

Unlike social business, Freeman’s stakeholder theory is not meant to be a foil to the stockholder theory, but instead, Freeman argues that the views of

both Friedman and Yunus are just narrower versions of the stakeholder theory (Theoretical and Pedagogical Issues). Freeman says that in modern society businesses must consider multiple stakeholders when making decisions. Whole Foods provides an example of a company which takes into account more than just making profits. Whole Foods purchases its products from local farmers despite the fact that this raises the costs of its goods.

Even though this may hurt its checkbook, Whole Foods is able to sell healthier and higher quality products while also supporting its local community. In addition to performing altruistic acts, many of Whole Foods' customers are loyal because of its ethical methods of doing business (Conversation with John Mackey, 2011). Whole Foods also goes beyond merely making profits by creating trust with its employees. When executing a merger with the company Wild Oats, Whole Foods needed to close down many of the Wild Oats locations because they were in markets where there were already Whole Foods stores located.

However, instead of firing the Wild Oats workers, Whole Foods offered solid job security and alternate positions at the existing Whole Foods locations. In aninterview, in regards to the job security offered to Wild Oats employees, Whole Foods CEO John Mackey said, " First of all, that's the right thing to do, and secondly, if people have a lot ofanxietythat they could lose their jobs, that inhibits their ability to learn and adapt. I feel you've got to offer security if you want to get people to move forward. Otherwise they're too scared. " (John Mackey Interview, 2008)

Not only does this stakeholder approach to business result in societally beneficial actions, but it also leads to more efficient, harder working

employees. However, there are problems with the stakeholder approach to business ethics. Many argue that an adoption of stakeholder theory, over stockholder, would “[undermine] shareholder property rights… and discourage equity investment” (Ethics Gone Wrong, 2000). Advocates of this concept claim that because corporations must cater to the needs of groups other than their shareholders, the “ potential of [the stockholders’] investment… diminishes significantly” (Ethics Gone Wrong, 2000).

Contrary to this idea, investment vehicles like the Calvert Investment Mutual Fund provide “ investment portfolios that integrate two distinct research frameworks: a rigorous review of financial performance, and a thorough assessment of environmental, social and governance performance. ” (Calvert Investments, 2011). The success of the Calvert Mutual Fund provides evidence that even when considering corporations that apply stakeholder-oriented business practices, the value and “ trade-ability” of equity capital does not diminish.

Therefore, even if most corporations adopt a stakeholder-oriented perspective, the effects on the stock market and on equity capital will be much less severe than critics predict. Another issue often addressed by critics of the stakeholder theory is that an adoption of the stakeholder philosophy would result in an increase in self-serving behavior among managers. This is because managers will be able to appeal to the conflicting demands ofdifferent stakeholdersin order to circumvent certain responsibilities, as well as indulge in self-serving behaviors.

Advocates of stockholder-oriented business claim that adopting the stakeholder philosophy will not only multiply the amount of self-serving

managers, but will also make it even more difficult to discipline such behavior. Alexei M. Marcoux, a critic of the stakeholder theory, says, “ Between the ability of managers to justify their self-serving behavior in terms of the balanced pursuit of stakeholder interests… and the protections that a stakeholder-oriented corporate law must afford to managers… theaccountabilityof managers for their actions must necessarily suffer. (Ethics Gone Wrong, 2000). However, if firms are so intent on adhering to a strict ethical code, there will be internal means by which such dishonorable behavior can be disciplined. Furthermore, in the hiring process, firms will ensure that managers will not act in self-serving ways, but instead maintain high ethical standards. Among the various philosophies regarding the social responsibility of businesses there is a spectrum ranging from exclusively profit-oriented to solely serving the community.

However, because corporations are considered individuals within our society, it is incumbent upon them to use their position to achieve a balance between the responsibilities they hold to their shareholders and the responsibilities they hold to the other member of the society. Therefore, corporations should adhere to stakeholder-oriented business ethics. Bibliography: Yunus, Mohammad. Building Social Business. New York, NY: PublicAffairs, 2010. Print. " The Ford Pinto Case. " American Decades. 2001. Encyclopedia. com. 5 May. 2011 . Makower, Joel. " Milton Friedman and the Social Responsibility of Business. " World Changing(2006): n. pag. Web. 5 May 2011. . Marcoux, Alexei. " Business Ethics Gone Wrong. " CATO Institute 22. 3 (2000): n. pag. Web. 5 May 2011. . Hooker, John. " Why Business Ethics?. " (2003): n. pag. Web. 5 May 2011. . Freeman, Edward, Ramakrishna Velamuri, and Brian

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