The case for social responsibility essay

Business, Company

Introduction

Many companies engage in corporate social responsibility engaging in charitable acts. There has been focused attention on this topic. Milton Friedman suggested that corporate social responsibility applies only to the shareholders of the company. Other parties should not be considered. The managers should only concentrate on maximising shareholder's wealth and ensure the firm constantly makes profits. This concept goes against the widely held view that a company should practice social responsibility to several stakeholders such as the customers, employees, suppliers and the local communities. The concept proposed by Milton is known as the Shareholder Concept of social responsibility while the common view held view of social responsibility is known as the Stakeholder Concept. I believe that the correct practice of social responsibility is the stakeholder concept principles and will show the reasons for my belief.

Thesis Statement: The stakeholder concept of corporate social responsibility is the superior and only practical guideline for a company to act morally and ethically.

The Case for the Stakeholder Concept of Corporate Social Responsibility.

The stakeholder approach in corporate social responsibility has been contested by Philip R. P. Coelho, James E. McClure, and John A. Spry. I will begin by discussing the arguments put forward by these scholars. I will then counter these arguments and put forward the case for stakeholder concept for corporate social responsibility. These men support the concept put forward by Milton Friedman which states that the social responsibility of a company extends only to the shareholders. As long as the company makes profits by adhering to legally acceptable practices and has honest and fair policies then it can be said to be socially responsible (Coelho, McClure & Spry, 2003).

The supporters of this concept argue that concentrating on profit-making is the bedrock of capitalism. To mix this objective with others is confusing and makes a company practice socialism. In the world today the economic system that has survived and thriving is a capitalist economy where competition is high. The socialist economies have failed. They further argue that there is no limiting definition on the term stakeholder. It includes non-human entities making the stakeholder theory even broader. The proponents of the shareholder paradigm like the single-mindedness of this definition of corporate social responsibility. With the stakeholder concept there are different ways of being socially responsible. There are so many stakeholders they have to be divided into two: primary and secondary stakeholders. Another argument put forward is if a company is a legal entity and not a human being how can it have moral and ethical obligations? The company only has its legal obligation in conducting its business. When the company concentrates on profit-making alone the country does benefit in several ways.

With efficiency, the customers have access to cheaper and more varied products. Due to the increased efficiency fewer resources are used in production of goods and services leading to excess resources being used somewhere else. The competitors have to be more efficient and innovative in order to survive in the market place. The suppliers are subjected to benchmarks and standards in the quality of materials they supply. The shareholders get higher profits from the company and invest in more production of goods and services. The other argument against the stakeholder definition of corporate social responsibility is that the managers of an organisation will become corrupt.

The act of giving to charitable donations may not necessarily be in the best interests of the stakeholders. The managers and executives may have ulterior motives known only to them for giving to certain charities or functions. The issue becomes then what is the motive for doing the charity work? If the managers do it with the intention of increasing the shareholder value then it is corporate social responsibility. If the reasons are selfish then it is not corporate social responsibility. In fact the managers would be engaging in unethical practices. Where the managerial reasons are selfish it can be said the managers are diverting shareholder’s funds to unworthy causes. Another argument put forward is that when the managers do not fully concentrate on increasing profits, it generates chaos and confusion. The stakeholder mentality has been deemed to increase managerial chaos. What is the weighting factor in determining which stakeholder’s interests should be considered more? Which stakeholder should be considered more in times of conflict? These decisions are left to the manager who can become very confused. The shareholder should always be the primary beneficiary so that the firm maintains order and consistency in managerial decision making.

These scholars argue that concentrating on charity serves the public less than if the firm had concentrated on making profits and ensuring efficient production of goods and services. The scholars of the shareholders mentality are shocked by the popularity of the stakeholder mentality. This is because of the managerial corruption and chaos that arises when implementing this definition of corporate social responsibility. It further aggravates the shareholder and manager problem or the principal and agency dilemma in the firm.

Giving the manager such decisions of corporate social responsibility can cause him to easily take advantage of the shareholders. Another reason of the popularity of the stakeholder concept as argued by these scholars is individual selfishness. A school that stresses the stakeholder concept to students is more likely to receive more funding than other schools that do not speak on the topic much. The schools support the stakeholder concept and ensure it is taught and discussed in order to receive higher funding or sponsorship. Since the shareholder concept does not draw funds from managers then it is not widely taught or discussed in school. With all these arguments put forward these scholars argue that the stakeholder concept is superior and the best. All these viewpoints are faulty. Fredrick Post has highlighted several principles that counter the arguments put forward by these scholars supporting the shareholder concept. These principles show the superiority of the stakeholder concept clearly. The stockholder or shareholder theory is a minority concept. Friedman advocated for it but very few scholars supported the theory and with good cause.

It is true that the law does place a fiduciary duty on the managers to make profit and increase the shareholder's wealth. However limiting the definition of social responsibility to legal obligations is not the best approach. The law itself may be immoral thus moral and ethical obligations are not met (Post, 2003) As much as capitalism has succeeded where socialism failed in the 1990's; there are flaws in a free market economy which the law has stepped in to address. These flaws include unfair competition due to lack of information, barriers to entry into markets

and improper market power due to too few sellers and buyers. Thus the social responsibility question should be asked in three aspects. Is the business profitable? Is it legal and is it ethical? Relying on the law assumes that the law can somehow cause managers to behave in an ethical manner. As past experience has shown this has not been possible due to the weaknesses and loopholes in the law. First of all one can break the law and will not be found out. The fines and penalties for irresponsible behavior are usually so low that it does not always serve as a deterrent to discourage the corrupt manager. Furthermore the manager is insulated and shielded by the company which will end up paying the fines and penalties. At times the laws and regulations are so complex that companies are confused when implementing them. Enacting laws is a process that is heavily influenced by special interest groups and the enforcement of the law is usually such a haphazard process that the managers have a belief they will not be caught.

With such weaknesses in the law managers should make decisions based on the law alone. The law just represents the basic or minimum moral obligations and not a benchmark or standard. Secondly, the shareholders are not really owners of the business the way a person owns private property. They are simply investors or beneficiaries. The main decision making power rests with the managers. The proponents of the shareholder concept want shareholders to be given primacy in corporate social responsibility since they do not have special contracts that protect them like the supplier and employee contracts. This is really a fallacy.

They do need any kind of special protection since they are the ones with the power to appoint the managers. They may also choose to sell their shares in the company and concentrate in another company. There is no contract between the managers and shareholders stating that they are the primary people to be considered in the business. Shareholders change any time on sale and purchases of shares so there is no explicit contract. Thirdly the managers represent a legal entity which is the company, not the shareholders. Just because a shareholder owns stock does not mean that he should get to be considered first. Moreover the way he uses his possession should be in such a way others are not negatively impacted. Shareholders can sell their stocks anytime while the employees and managers are really dependent on their jobs as jobs are scarce. The shareholder theory requires the management to consider all the stakeholders and consider all their interests, not sacrificing one's interests for the sake of the shareholder. The managers are to make decisions through negotiating with all the stakeholders. It may be difficult to serve all the stakeholders completely at all times but the managers should be able to reconcile the stakeholder's differences so that the firm survives.

Management acts as a mediator and an arbitrator. There is therefore no managerial corruption, confusion or chaos. It had also been argued that the supporters of the Stakeholder Concept do not have an absolute definition of stakeholder thus the theory becomes complicated. This is not true. The stakeholder is defined as a person with a moral legal claim on the company to have their interests considered.

With this clear definition, there is no confusion about the moral and social responsibility of the company. It has also been argued that by considering the stakeholder’s opinions too much presupposes that company outsiders know more about what is best for the company more than the business owners. This argument is defective since in the stakeholder theory it is the managers who make decisions and have the negotiating power. On the principle of concentration on profit-making alone, economic considerations should not be ultimate guiding factor in ethical decision making. The managers need to consider the long-term growth and survival of the company. It may earn million dollar profits however in the long run immoral decisions that the company made in the past could be publicly uncovered. Once the reputation of a company is ruined it is extremely difficult to regain the public confidence. Most companies have to be dissolved and the owners start from scratch to build a new company. In pursuing economic considerations many companies have lost it all. We have the Enron and WorldCom scandals managers pursued their own selfish interests resulting to many people losing their jobs.

The economic value of people's retirement funds greatly reduced in value. The managers disregarded the interests of any other group and concentrated only on themselves. In summary the company should be managed for the benefit of its stakeholders namely the customers, suppliers, employees, local communities and owners.

Conclusion

Critically looking at both sides of this debate I do consider the stakeholder superior and the principles are weightier than the shareholder concept principles. Companies should participate in projects that go beyond them in taking care of the people around them in order to act truly in a moral and ethical manner.

References:

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