Corporation responsibility and ethics

Business, Company

Corporation can be explained as an association of individuals, created by law or under authority of law, having a continuous existence independent of the existences of its members, and powers and liabilities distinct form those of its members. The corporation may exist for the purpose of profit or non profit oriented. By the early 18 century, corporations are owned and control by government authorities. At the late 18 century, the old economic policies and theories are eliminated with the work of Adam Smith and other economists.

And the corporations are transformed from being government affiliated entities to public and private economic entities. The main two ideas behind this transformation was that a business corporation should not be directly tied to any public policies, and the corporation is a by-product of the people's right of association, not a gift from the state. However, with the given freedoms, they still exist within the legal system and considered as legal person, who has morally responsible for their actions. These morale responsibilities are classified as narrow and broader view.

Narrow view primarily concerns for the interest of shareholders, obligation to other stakeholders are evaluated within the range of satisfied demand implied by shareholders. Whereas, broader view mainly concern for the stakeholders with all those affected by the corporation's action, shareholders represent only one set of multiple responsibilities that are weighed in decisions. Though, the specified statements in a question " corporation's obligation to their stakeholders comes before its obligations to the rest of society" were construed narrowly to cover only the shareholders interest.

The main economist who supports the narrow view of corporative responsibilities was Milton Friedman. The Milton Friedman (1970) in an influential article argued that when corporate manager are consideration was given for social responsibilities to influence their decisions, they are violating the obligations to the corporation's owners. He believes that only employees of the corporations have aresponsibilityto meet desired requirements of its owners.

The desired requirements are in most case to maximizing the wealth of the organization. He argues by saying " if we wish we can 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 ownmoneyor time or energy, not the money of his employers or the time and energy he has contracted to devote to their purposes. If these are ' social responsibilities,' they are the social responsibilities of the individual, not the business."

Further Friedman's added " the situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his ' social responsibility,' he is spending his own money, not someone else's. If he wishes to spend his money on such purposes that is his right and I cannot see that there is any objection for doing so. " Friedman's interpretation towards corporative responsibilities are seems too narrow to accept and adopt in today's businessenvironment.

Business Corporation's who stick with those narrow view become a challenge to sustain in a competitive market economy. In today's business environment, public expectations towards the business organizations are high and it becomes a basic requirement for the organization to fulfill those expectations to building positive corporative images and sustainable relation to achieving economic results. To justify my argument I have used narrow and broader view of corporative responsibility theories and some success stories.

2. THE NARROW VIEW OF CORPORATIVE RESPONSIBILITY

The narrow view theorist believes that honoring commitments to shareholders is more valuable than responding to the demands of other stakeholders. Such theories includes; pure marketplace ethics, libertarian marketplace or shareholder theory, and social marketplace ethics. The theories and examples are explained as follow;

2. 1 PURE MARKETPLACE ETHICS

Pure marketplace ethics theory believes that there is no such way to generate money. If it is good in economically than it is good in ethically. When it comes to money there is no right and wrong, everything is ethical. The theory is egoist approach to produce profit, not considered social and environmental initiatives.

2. 2 LIBERTARIAN MARKETPLACE / SHAREHOLDER THEORY

Adam Smith, Milton Fridman, and Friedrich Hayek, are the main economists who follow Libertarian marketplace theory or shareholders ethical theory. The theory suggests what's good ethically is doing well economically within the law. The theory stands that organization made up for the motive of profit, social responsibilities can be handled by non-profit organizations in the area of concern or respective government authorities. Many economists have been criticizing Adam Smith and Milton Fridman argument on social responsibility.

2. 2 SOCIAL MARKETPLACE ETHICS

Shareholder theory and social marketplace ethics theory is very much similar. Unlike shareholder theory, it highlighted the social responsibility in some extent. However, their view in social responsibility as economic wealth that employee get, since the organization is effective to generate profit. They believe that individual employees work hard to get maximum profit for the organization than employees do affect their social welfare. This theory also criticized many economists by questioning what extent does society as a whole benefit when improving employee’s welfare. There is one interesting case “ Coca-Cola and Water Use in India” as the implication of this narrow view.

In March 2004, Coca-Cola company in Karala state in India was shut down because of farmers and community claim that high utilization of water by Coca-Cola crates sever water shortages and polluting the groundwater and soil, this could destroying farms by draining them out completely. There are many allegations against the Coca-Cola Company. Such ashealtheffects, poor environmental consideration, monopolistic business practices, and questionable labour practices.

3. THE BROADER VIEW OF CORPORATIVE RESPONSIBILITY

The broader view theories suggest that aggregated demands of stakeholders are more valuable than honoring commitments to shareholders. Such theories include; shared value theory, stakeholder theory, progressive corporate social responsibility, and sustainability theories. These theories are explained in detail as follow;

3. 1 SHARED VALUE THEORY

Michael Porter and Mark Kramer (2011) proposed Shared value theory, in his theory of corporative responsibility states that the purpose of any business entity is to pursue profits, to do that organization also requires to value social and environmental welfare. When organization pursues wealth it's necessary to engage with the social and environmental. The core vales of this theory isrespectfor laws, regulations and commonly accepted codes for operation, social and environmental welfare hold autonomous value independent of bottom line concern, but are pursued only within the profit making operation, only insofar as they create profit.

Such example of shared values includes Nestle, Nespresso combines a sophisticated espresso machine with single-cup aluminum capsules containing ground coffees from around the world. The product offers quality, convenience and the environmental blight of mountains of spent aluminum pods. To get reliable supply of specialized coffees is extremely challenging for the Nestle. The coffees are grown by small farmers in poor rural areas of Africa and Latin America, who are trapped in a cycle of low productivity, poor quality, and environmental degradation that limits production volume.

To address these issues, Nestle redesigned procurement. It worked intensively with its growers, providing advice on faming practices, guaranteeing bank loans, and helping secure inputs such as plant stock, pesticides, and fertilizers. Nestle established local facilities to measure the quality of the coffee at the point of purchase, which allowed it to pay a premium for better beans directly to the growers and thus improve their incentives. Greater yield per hectare and higher production quality increased growers' incomes, and the environmental impact of farms shrank.

Meanwhile, Nestle's reliable supply of good coffee grew significantly. Shared value was created. Nestle' found a societal need-povertyin rural coffee producing areas and developed a two sided initiative, anti-poverty and improve coffee supply. This theory has some negative and positive point of views, such as the theory accepts that the organization main intention should be increasing profit, and social responsibility implies when organization are profitable.

3. 2 SUSTAINABLE THEORY

John Elkington (1997) in his book of Cannibals with Forks: Triple Bottom line of 21st Century Business. He described that corporative responsibility lies with the stakeholders rather than shareholders. This theory suggests businesses hold three principle obligations to produce sustainable results, which are social, environmental and economic fields. Each of the three values is pursued autonomously and businesses should tabulate and present results for each of the tree categories individually. Economic Sustainability: the traditional accounting concept of profit was eliminated in sustainability theory. In a sustainable framework, the " profit" is considered as the maximum benefit enjoyed by the society as whole.

Social sustainability: Corporative responsibility lies to the fair and beneficial practice towards the labour and the community. The theory highlighted that no individual within the community will be neglected. Economics in a metropolitan area, a reality where all executives are hauling down millions a year ultimately becomes unsustainable when other workers can no longer afford to live near the city and so aren't available to do the supporting work necessary to keep the executives going.

Humanity: political unrest andviolencemay erupt in regions or entire countries where a society's health concentrates in a narrow demographic. (The fair trade movement may be understood as expression or sustainability in both economic and human senses.) Environmental sustainability: Environmental sustainability requires stewardship of our natural surroundings; use balanced by preservation to enable continued use. A brewery dripping industrial waste into the soil fails the test of sustainability when the toxins infiltrate the water table and poison the groundwater the brewery needs to make its beer.

3. 3 CORPORATE SOCIAL RESPONSIBILITY

Archie B. Carroll theory of Corporate Social Responsibility (CSR) highlighted four kinds of social responsibilities. Which are economic viability, compliance, doing right be fair and support community welfare. These corporative responsibilities are considered as values. These four categories are explained as follow. Economic Responsibilities: A narrow view theory suggests that business entities are created primarily for profit motives. CSR suggest business is considered as basic economic unit in the society where its role was to produce goods and services that consumer desired with the acceptable profit.

The old idea of profit motive was changed into a notion of maximum profits. Legal Responsibility: Corporative Social Responsibility theory suggests the business should operate under the legal framework. Ethical Responsibility: Ethical Responsibilities represents ethical norms fairness and justice, ethical responsibilities embrace those activities and practices that are prohibited by societal members even though they are not codified into law. It also includes those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, justice or keeping with the respect or protection of stakeholder’s moral rights. Imperial Sugar Company can be a good example of CSR, the entire company was burn to ground, but the John Sheptor, CEO decided to maintained employees payroll through thereconstructionprocess.

3. 4 STAKEHOLDERS THEORY

The most vital contribution for the broader view of corporation obligation and their ethical responsibilities was highlighted in the Stakeholders theory. The theory suggests businesses are fundamentally obligated to respect the rights and welfare of all those affected by its operations. The obligations are identical in kind, though they may very in degree. The key values of this theory are the welfare of all those individual and organizations affected by the business. (Cardinal stakeholders typically include: shareholders, workers, customers, suppliers and community taken to incorporate broader humanistic and environmental concerns).

The main responsibilities are stakeholders’ interests are acknowledged and respected when making decisions: the interests are weighed alongside and according to the same logic as obligations traditionally associated with shareholders (profit) interests. As opposed to the idea that a business is first an economic entity that operates in society and so acquires broader responsibilities, the idea here is that a business is fundamentally a social and ethical operation, and economic activity is only one facet of its existence. The theory starts with a business and looking out into the world to see what obligations the organization exist, stakeholder theory starts in the world. it recognizes those individuals and groups who will be affected by or affect the company's actions and ask; what are their legitimate claims on the business?

What rights do they have with respect to the company's actions? What kind of responsibilities and obligations can they justifiably impose on the business? One of the most important and well known examples of stakeholder's theory is embedded in theMexicanConstitution. When the indigenous people overthrew the Spaniards and claimed independence in the early 19th century, what they especially detested were the absentee landlords. The Spanish owned the farm lands, but lived in the cities, leaving locals to do the work.

As a response to the indignation, the new constitution stipulated that those who work the land own it. Ownership and control over land, in other words, is not guaranteed through time. Instead, it depends on the extent of ou personal interaction with the soil. Legal ownership would be like that: essentially owned by those who are affected by it. (Note: Contemporary reality has faced modification of the Mexican constitution. Still, in the provinces people are reluctant to rent properties for long terms because courts away from the capital occasionally recognize the original, institutional stipulation.)

4. CONCLUSION

My argument is totally against the statement of “ Corporation’s obligation to their stakeholders comes before its obligations to the rest of society”. I don’t believe corporation obligation comes prior to their stakeholders, because the corporation is exists because of their stakeholders. Without stakeholders support it is difficult to keep up the business. Such example can be Indian Coca-Cola Company.