

The shareholder's wealth

Business



The firm's responsibility fall within pure economic terms in the definition. Friedman (1990) conceptualised the maximization of the shareholder's wealth as the solitary aim and duty of a properly run firm. However, according to Wartick & Cochran, (1985) any resources of the firm useful on social responsibility are usually at the expense of the shareholders. There have been arguments against the idea put forward by Friedman in his allegiance to oppose the issue and viability of the corporate social responsibility.

These arguments have been about the role business play in society. Businesses have been trying to turn the corporate social responsibility into a profit making issue. There is a tendency to believe that the issues surrounding CSR are what bars businesses from performing to their perfection. This, in turn, cripples the economy. Friedman boldly moulded the movement against the corporate social responsibility.

He believed that the businesses that talked the way of the corporate social responsibility were indeed unwitting but manipulated puppets of intellectual forces that had been undermining the foundations of the free society within the past decades (Friedman, 1970). He believed that businesses lack an ability to assume responsibilities, but this is left to the individuals. Since the same individuals get hiring to perform in the businesses, then they tend to please their managers by trying to maximize profits. However, he accepts that an individual may have other perceived responsibilities out of business. He goes ahead to assert that an individual is at liberty to consider the responsibilities as social responsibilities, but bearing in mind that he is acting like a principal and not an agent.

He is spending his own resources, as opposed to the employers. In case these are social responsibilities, then they are for the individual and not the business. Friedman tries to personify the business as individual businesspersons. The business employees ought to be solely motivated to attain their goals and create profits for the owners of the business. Friedman does not view it as a complex venture with several individuals who work towards a common goal.

It looks to me that Friedman believes there is no place for individuals who are socially conscious in the free market. This method or view of Friedman is indeed invalid in the current business situations. He forgets the main character of social responsibility, which is will the will of the public. He presents the business in a factual manner where employees gear up towards working for the good of the owner of the business. The public, on the other hand, views the company as an entity where in case an individual makes a mistake then it would lead to a social error in judgment. The public will judge the whole company but not an individual.

Corporate social responsibility has created tremendously significant positive difference in the profits to companies. Negative policies may cripple the economy of the country (Friedman, 1970). This continues to receive profound analysis, and it is due to this perspective that it is secure to conclude that companies are no longer viewed as economic units (Sharfman, 1992). There seems to be an accord that corporations serve different groups of interest and stakeholders whose membership relates to each other and the welfare of which are interdependent (Nash, 1990). Such an understanding may compel the firms to act in a socially responsible manner <https://assignbuster.com/the-shareholders-wealth/>

regardless of their driving force (Sen, 1993). With these views, divergent hypotheses considering the connection between social responsibility and the economic performance of corporations emerge.

Ullmann (1985), postulates that where the relationship between social responsibility and profitability is purely economic in view, it has negative effects. By the use of compelled appraisals to probe the relationship linking corporate responsibility and the economic performance, Aupperle, Carroll, and Hatfield (1985) fail to show any relationship linking CEO attitudes concerning social responsibility and the profitability of the firm. Others are proponents of a positive relationship between social responsibility and corporate performance. Alexander and Buchholz (1978) and Metzger et al. (1993) assert that socially sensitive management is in a better position to acquire skills that are essential to achieve better financial gains. Optimally, social responsibility and financial performance has a positive relationship.

(Ullmann, 1985) However, asserts that far from this, social responsibility and the corresponding resource apportionment affect performance dismally.

There are scores of scholars, who concur that the social responsibility of corporations produces constructive performance. In a study by Markowitz's (1972), reveal that there is a positive relationship on the stock price where social performance receives high applicability. There is also an indication that where a company is managing the age of its assets there is a weak link it is the social responsibility and financial performance (Cochran and Wood, 1984). Outcomes of Sturdivant and Ginter's (1977) confirm that best managements of firms, show more liberal attitudes, which are convergent with social and economic performance.

The Fortune Reputation data was useful in studying the corporate responsibility and performance linkage. McGuire, Sundgren and Schneeweis, (1988) indicate that preceding performance has strongly linkage to social responsibility, other than successive performance. Simerly (1992) established that the firms that rank high on business social responsibility have elevated returns than those low ranking companies. It is evident that prior studies relay inconsistent evidence on the link between social and economic returns. This could be because the studies used extensive contrasting methods based on prejudiced self-reports of answerable performance. It is in this consideration that the current endeavour does not measure social responsibility and corporate performance.

It focuses on determining the effect of responsibility on the growth of a small business. It analyzes a survey that seeks to verify consumer insight on the small business enterprise. Interviews extraction is from managers of top participants from small companies and sale data collected. Margolis and Walsh (2002), assert that one hundred and twenty two study publications between 1971 and 2001, empirically studied the relationship that existed between corporate social responsibility and economic performance. Narver in 1971 published the first study, where the empirical examination of the CRS and financial performance link consist of two types essentially.

The first method uses a methodology assessing short-run economic impression (abnormal returns) when the company takes part in acts which are socially responsible or those that are irresponsible. These studies have produced an array of mixed outcomes. Wright and Ferris (1997) realized a negative link; Posnikoff (1997) on the other hand, concluded that there is a

<https://assignbuster.com/the-shareholders-wealth/>

positive link, whilst Welch and Wazzan (1999) did not get any linkage between CRS and financial outcome. Similarly, McWilliams and Siegel (1997) realized an inconsistency between CRS and the short run financial returns. In the second study, a relation between particular measure of Corporate social performance (CSP) and those of the long-term financial returns, by use of accounting or profitability fiscal measures is examined.

Some studies that survey the relationship involving social responsibility and performance that is based on accounting measures result in mixed results. According to Cochran and Wood (1984), there is a correspondence between social responsibility and financial performance subsequent to control of the age of the firm's assets. Aupperle, Carroll, and Hatfield (1985) noticed no significant link between CSP and the company's risk adjusting returns on assets. Graves (1997) established a positive link between a CSP index and the performance gauges, for instance, ROA the succeeding year. Surveys using calculations that are founded on the stock market also show diverse findings. Vance (1975) disagrees with Moskowitz in his research, by increasing the period for analysis to 3 years from 6 months, and consequently generates results that conflict with Moskowitz, which proves a negative CSO/CFP relation.

Alexander and Buchholz (1978) improved Vance's analysis by assessing the stock market performance of similar cluster of stocks based on risk adjustment that produces an unsettled result.