Of Greed, Profit, and CSR: Ethics in Business

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Businesses have become an integral part of our lives with corporations like Walmart making annual sales upwards of the $473 billion mark, 1.4 times more than the GDP of South Africa. With a lot of common ground between the people and corporations for example resources, it is only expected that at times conflicts may arise in which the question arises – in whose interests should the firm act? The shareholders or the stockholders?

Typically in this day and age, firms are either owned by families or have been opened up to a portion of the public by means of IPO's meaning they become shareholders i.e. have a vested interest in the business and the management is entrusted to nurture their investment. When a conflict between whose needs to put first when considering business decisions, management has the option of turning to the shareholder primacy where the needs of the shareholder are the top priority. The average shareholder objective being to get high returns and investment growth which means management will streamline operations to achieve these objectives. Shareholder primacy is basically the brainchild of the economist Milton Friedman who famously stated that ‘’the only social responsibly that firms have is to use resources and engage in activities that are designed to increase its profits’’ (Canadian Business Ethics, 2012). The classical view of the shareholder primacy states that firm managers uphold the shareholder's objective without much consideration for the consumers, producers and the other stakeholders. However the statement ‘much consideration ‘ is subject to a constraint it Being the moral minimum, this implies that although the business will do all it can for the shareholder's welfare there are ethical red lines it would not cross. To exemplify the classical shareholder model I will give a scenario. Given a wood firm that has the option to increase profits by moving operations to a new province and rendering its current workforce jobless or retrenching some workers and overworking the rest it would go with the first option as this is a positive for shareholder and does not legally violate workers' rights. The second type of shareholder model is the enlightened shareholder model where the differentiating factor is that it encompasses sustainability over and above the requirements of the classical shareholder model.

The first argument for the shareholder primacy model is Adam smith's theory of the invisible hand which says that the efficiency of society is maximized when individuals behave selfishly (Timeless Economics, 2009). From this we can say when business managers primarily act in the shareholders' interests, this is an example of the market acting in its own self-interest which will ultimately produce the best outcome for the other stakeholders hence in conclusion businesses should ultimately practice shareholder primacy. The conclusion follows on from these premises hence it is valid. The normative premise, however, fails as it is not true in all cases. How does SAA increasing its potential revenue by increasing flights whilst simultaneously increasing their Carbon emissions benefit society as a whole given that this is a negative externality on the whole populace yet only a small select use air travel. On the ground, the invisible hand theory does necessarily always produce the best results as we have cases of inequality which is an outcome of a self-serving market.

A case example would be America where the invisible hand is mostly the system to go by the top 1% of the population get 20% of the income which can be hardly equitable (Matthews, 2014). We should also question whether the individual referred to by Adam smiths is interchangeable with the firm as it is not a flesh and blood person but only a legal person. The argument is therefore valid but not sound therefore it fails.

Shareholder primacy can also be propagated by the general perspective that the firm has no obligation to the other stakeholders because 1) of sufficient lack of knowledge on how to help them hence it is acceptable for them not to be involved with or represent the community 2) they cannot afford to do anything else besides profits. Formalizing the first half of the argument the descriptive premise would be that the firm has no skill and training to help out the community i.e. social responsibility, the normative premise being that to be able to do something is a necessary condition for being morally obliged to do it. The valid conclusion would then follow on as that the firm is not morally obliged to be socially responsible. (Winfield, et al., 2013) The first flaw is the descriptive premise, a firm can assist in its respective field where it has skill e.g. a building company building latrines for the community. The whole reason they are in business is that their area of work is in demand. The normative premise fails in that it makes it seem as there is ultimately no way they can have the knowledge in this context which is not true as the business can spend money to get expertise in the field. The second half is extracted from Norman Bowie whose theory summarized states that in a competitive environment with two firms, having corporate social responsibility is an added cost and will give the non-participating firm a comparative advantage. This means that no firm will focus on social responsibility even if it wanted to as it will be in danger of going out of business. This can warrant being called a slippery slope argument given the fact that some firms earn massive profits and it is unreasonable that donating a small percentage of that will make much of a difference to their financial standing. Given this backdrop as well it is highly likely that the profits would be multiple times over the investor’s contribution hence a slightly reduced return will still make the shareholders happy and will definitely not result in bankruptcy etc.

A second argument for shareholder primacy will hinge on placing the government as the sole and legitimate benefactor of society. This emanates from the reasoning that governments are elected by society whilst business leaders of businesses are not. Given this, the argument then adds that only those elected by society through a democratic process ought to be held responsible for society's welfare the conclusion following on that it is hence justified that the government, not business managers ought to be held responsible for society's welfare. To dissect this reasoning we look at the initial statement. Community welfare in this instance is being taken as a naturally monopolistic sector which is far from the situation on the ground. Governments are faced with financial constraints which means there will always be a gap that can be filled by cooperates. If the government were to be ultimately responsible for all social welfare this would have to mean possible tax hikes which will negatively affect the corporates as this is not optional even in a bad financial year. It does seem true as it does take a village to raise a child. Even against a backdrop of saying that harm may come to citizens if firms become a benefactor, this does not stand true in all circumstances as a firm helping out an orphanage does not constitute harm.

Moving on to the second model which is one of the stakeholder models where by definition the business managers act in the good of all parties. The most common straight hitting argument for this model is to point out that shareholder primacy fails hence automatically we are left with the stakeholder model. This though correct is flawed with respect to the false dichotomy fallacy by making it seem as this is the only option left. (Winfield, et al., 2013) We should put into con.fford such priviledgesa infprmaleen producers to minimisesideration that the arguments presented for shareholder primacy are mainly for firms seeking monopolistic power and are cost externalizes. A better argument would hinge on the great level of impact that firms have in our day to day lives. The descriptive premise would be that some businesses have extraordinary power to help resolve the problems of stakeholders other than the shareholders. A Second would be that some of the issues facing shareholders other than shareholders are really desperate. Our normative premise would then be that anyone who has the power to help with severe ought to do so. Our conclusion would then be that anyone with extraordinary social power ought to help resolve the severe problems of stakeholders other than the shareholders. To critique this train of thought I will look at the mechanism that would have inevitably brought about some of the issues, economics. By economics, we see that due to pitting unlimited wants against limited resources in society, resources will at times end up unequally distributed and more often than not the lions share ends up in the hands of firms. This may indicate that the little resources that are left for the rest of society may be one of the causes of the severe problems being experienced. Another possible source of problems could be society experiencing the negative externalities of production from firms example being health issues from excessive pollution. Given that we have seen that firms probably played a small part in contributing to problems we are already thinking that maybe firms should act in the interests of stakeholders due to the widespread negative externalities? To have a definite answer whether we should accept the above argument we look at the moral obligation question –is the business morally obliged to help other shareholders with severe issues? The answer is that if someone is in dire need of help and another party has the means to elevate their situation is even by a fraction then yes moral obligation is there and on that note, we accept this argument for the stakeholder model. A good example of a thriving stakeholder model is Pick n Pay Cape town which among picking green producers to minimize pollution it also has free fitness programmers it runs in Khayelitsha informal settlement for the populace who normally would not be able to afford such privileges.

After all the different scenarios I would think we are now able to answer the crucial question –“in whose interest should businesses act?” Having being presented with two options the shareholder primacy and the stakeholder model, we saw that the arguments for shareholder primacy fell short of being sound as it does not take much to be able to make a difference in society. For the stakeholder model, we saw that in times of severe need firms do have a moral obligation to help and governments alone cannot be expected to be the sole benefactor of society due to budget constraints. All arguments for the stakeholder model hold and are sound therefore we are inclined to accept this as the better and widely beneficial model of the two options.

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