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Controversy: Do Corporations Have Any Responsibility Beyond Making a Profit? A Response to Norman P. Barry

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Of course they do. But for all sorts of reasons, specifying precisely what responsibilities business corporations do and do not have, as well as providing convincing arguments for each of these, is a notoriously difficult task. Some of the difficulties are tellingly examined by Professor Barry; others, however, are not. His wholesale dismissal of any basis for affirming the morally obligatory character of what are usually termed *corporate social responsibilities* strikes me as lame. While he may think he is making a tough-minded argument in favor of profit maximization pure and simple, his various observations maintain an aura of unreality that may render them dubious to anyone who is familiar with how businesses actually operate.

The most arresting piece of unreality is the assumption that anyone who advocates corporate social responsibility is necessarily against the capitalist system. This is ludicrously false. Historically, the movement for corporate social responsibility began in the early 1970s, at a time when American business, at least, was sorely in need of restoring its claim to social legitimacy. Professor Barry acknowledges that many businesses got involved in the corporate social responsibility movement to ward off increased government regulation. Indeed. But such "tactical" considerations, in my colleague's stilted view, "would be thought hypocritical by the genuine moralist." He ought to know better, but if one were to imagine the field of business ethics from what he has to say about it here, one would have to infer that the only moralists worthy of any respect would be those hyper-Kantian universalists, who would rather cling to some discredited Socialist agenda than compromise or even critically reexamine their espoused ideals. Of course, in the game that Professor Barry would have us play, any business ethicist who would thus qualify as a genuine moralist has already demonstrated his or her complete irrelevance.

Problems with the Stakeholder View of the Corporation

As a business ethicist who has been attacked in some Christian circles for not advocating socialism, and who has sought to defend the morally obligatory character of corporate social responsibility to both commerce undergraduates and M.B.A. students while also defending in principle the morality of the capitalist system, I would be happy to linger over the many unrealities that color Professor Barry's conclusions. But I fear that would be a waste of time. Let me start, then, with a point where he and I essentially agree. My colleague has accurately described certain major difficulties in the *stakeholder* view of the corporation. The word *stakeholder*, as he points out, is "a not very subtle play on the word *stockholder*." Its intent is to broaden management's fiduciary duty to include not just shareholders, i.e., the firm's owners of record, but also the firm's "workers, suppliers, residents in the community where the firm is situated and, indeed, any group that might have a connection with it, however tenuous." His fear is a legitimate one: In the hands of some ethicists, stakeholder theory can become so inclusive that it "comes to represent almost the antithesis of ownership rights." More important, he underscores the major problem with any firm's attempt to implement stakeholder theory as a priority rule for managerial decision-making:

> The problem is that there is no ordering principle equivalent to the price mechanism that could be used by stakeholders in the typical decisions affecting corporations. If the stakeholder idea were taken seriously, decision-making in a corporation would resemble that of a parliamentary assembly: the board room would be a battleground for warring pressure groups.

Corporate management, in the absence of any clear priority rule, would have to negotiate with each of the "constituencies" that could validate—most likely on an *ad hoc* basis—their claim to stakeholdership. Were each valid stakeholder claim to confer an entitlement, then management would have a fiduciary duty to each stakeholder group, analogous to its current fiduciary duty to the firm's stockholders. Since stakeholder theory normally is unable to prioritize the conflicting claims of various stakeholder groups, management would have little to go on but the expediencies of interest-group liberalism in responding to these claims.[1]

To be sure, this is a big problem; but how different is it from what managers must already face every day, even when strengthened and consoled, as surely they should be, by the clear-cut imperatives of the price mechanism? As F. A. Hayek famously pointed out, the free market's price mechanism is the most efficient processor of disparate bits of information yet devised by anyone.[2] But managerial decision-making is rarely reducible to data processing. If it were, most managers should be replaced by computers! The fact is that corporate offices and board rooms already resemble a battleground for warring pressure groups, but the move to a stakeholder approach would at least ensure that this "parliamentary assembly" looked more like the House of Commons than the House of Lords.

Given his positive evaluation of the morality of hostile takeovers, Professor Barry must share some sympathy with those who seek to diminish the entrenched power of the self-perpetuating managerial elites who abuse existing corporate governance structures for their personal gain. The price mechanism alone surely cannot be invoked to justify the staggering growth in compensation packages for top corporate management. Having one's fellow CEOs serve on the Board of Directors that will vote on your salary increase seems about as economically rational as having, say, Alex Rodriguez and Sammy Sosa vote on Ken Griffey, Jr.'s next contract! So let's get real. Shareholders are not the only interests currently being served by those who control corporate decision-making, nor do the decisions that are made consistently follow the logic of increased shareholder wealth.

Without some attempt to accommodate the real interests of stakeholders, corporate management is likely to face increased participation of stakeholder groups as stockholders. Unless those groups with legitimate stakeholder claims are represented in corporate governance structures, stakeholder groups will continue to follow the example of "constituencies" such as the Interfaith Center for Corporate Responsibility (ICCR). Stakeholders are neither stupid nor impotent. They can easily mimic the ICCR's successful strategy of mobilizing religious communities to use their investment portfolios for leveraging various corporate social responsibility agendas through proxy battles and other insurgencies at annual shareholders' meetings. Promoting social responsibility agendas through controversial proxy resolutions may seem rather futile, since such resolutions routinely fail by massive majorities; but such battles make great theater, and that is precisely their point. Top management is usually willing to negotiate with those who organize such efforts precisely because the one thing they abhor above all else is bad publicity. The lesson for management is simple: "Deal with us now or deal with us later. If you do not want to recognize our claim as stakeholders, fine; my friends and I will just become stockholders and make our claim that way! One way or another, management will be forced to perform its fiduciary duties."

Corporations Are Moral Agents Too!

Though many business ethicists make a direct and explicit linkage between stakeholder theory and the movement toward corporate social responsibility, there is no logical connection between the two. Nor does stakeholder theory justify the idea of corporate social responsibility. The philosophical case for corporate social responsibility is parallel to the case for regarding any individual moral agent as having social responsibilities. Morally serious people typically recognize that anyone's pursuit of happiness or self-interested activity is, or ought to be, limited by certain larger moral considerations, ranging from the common good, God's will, other people's rights, the public interest, or the basic responsibilities of citizenship. Such moral claims are usually thought to involve more than passive acquiescence. They demand more than mere obedience to the law's minimal demands. We generally acknowledge a moral obligation to help others in need, especially when we can do so at little cost to ourselves. If individual moral agents have such social responsibilities, why would corporations also not have them? In an early work, *Corporations and Morality*, Tom Donaldson presented convincing reasons for thinking that corporations have such social responsibilities. He argued that corporate activity and how we describe and judge it—say, in legal cases as well as in news reports and academic theorizing—exhibits all the characteristics of moral agency that individual persons display.[3] If corporations have social responsibilities, these are inevitably moral for the same reasons that an individual's responsibilities are moral, and if any individual can be said to have social responsibilities, then so can a corporation.

To think otherwise is to fall victim to what Richard DeGeorge has aptly described as "the myth of amoral business."[4] One cannot help but detect a trace of this particular bit of economistic superstition in Professor Barry's argument. If business is more accurately regarded as an amoral machine than as a moral agent, then managers can confer absolution on themselves for their sins of omission as well as commission. Ritual invocations of the price mechanism would then be sufficient to explain and justify all managerial decision-making, and the maxim "Business is business" would not be just another tautology. Only an economist or a theorist who chooses to ignore the chorus of testimonies from people who manage corporations for a living can fail to see that they are typically regarded as moral agents, not only by the public at large but also by the people who work in and for them. If corporations are moral agents, then, in principle, they have social responsibilities, just like you and me.

What Responsibilities Are Firms Obliged to Acknowledge?

The real question is not whether corporations have any responsibility beyond making a profit, but what sorts of social responsibilities any given firm might actually be obliged to acknowledge. Here I sympathize with Professor Barry's fears, for some advocates of corporate social responsibility tend to regard corporations merely as deep pockets and seem willing to saddle them with responsibility for anything they cannot convince the government to assume. This extreme view of corporate social responsibility does, as my colleague insists, usurp the political function. But it is neither the most accurate nor the most common view of corporate social responsibility. Robert Solomon's discussion of corporate social responsibility in *Above the Bottom Line* is pertinent here, as he distinguishes between negative and positive social responsibilities.[5]

Negative social responsibilities tend to follow under the rubric common to all moral agents: Do no harm! Just like all other moral agents, corporations are responsible for the actual consequences of their business activity. "[A] business is responsible for taking reasonable precautions regarding the influence and effects of its activities and correcting mistakes that are due to its not taking such reasonable precautions. What is 'reasonable,' of course, depends on context and costs."[6] Businesses, for example, should pay the cost of cleaning up the environmental messes they make, and not be allowed to pass these costs off to others as "externalities." This should be fairly self-evident to any reasonable person.

However, positive social responsibilities are likely to be controversial, for in Solomon's view, these are responsibilities that society urges upon corporations but that are not intrinsically tied to the firm's operation. Yet, Solomon contends, some such responsibilities are incumbent upon all of us, and equally shared among us "simply in virtue of being a member of society."[7] Because different institutions, including business corporations, have different capacities for fulfilling these responsibilities, Solomon proposes two criteria to help clarify which positive social responsibilities a business should feel obliged to honor. Let me define these two as *competence* and *cost*, and both are to be specified in relationship to what any given business is and is not actually capable of contributing. Both criteria are implicit in what Solomon says: "The moral *should* be, 'Don't try to do good when the means to do so involve possibly fatal financial risks and side effects that might well be more harmful than the evil you intend to cure.'"[8] The criteria of competence and cost, then, can be stated this way:

> If any positive social responsibility can easily be addressed, consistent with the purpose of the business and the competencies it has assembled to fulfill that purpose, the business ought to acknowledge that responsibility.
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> If any positive social responsibility is clearly beyond the purpose of the business and the competencies it has assembled, the business is not obligated to acknowledge that responsibility.

If all parties to the controversies over corporate social responsibility could accept these two limiting criteria, it ought to be possible to move beyond the kind of ideological posturing that absolutizes one's stand either for or against a corporation's social activism. If these criteria were embraced, the costs involved in accepting one's corporate social responsibilities could be understood and justified as part of the normal costs of doing business. If, as Professor Barry apparently fears, Anglo-American capitalism cannot function in a world committed to such criteria, then our political economy must be very shaky, indeed. If Anglo-American capitalism cannot flourish while both paying the true costs of its own business operations, and contributing its fair share to the common good, then perhaps it is not the unsurpassable engine of efficient wealth-creation that its admirers tout it to be. But just the opposite is the case, as recent history shows, despite Professor Barry's unsubstantiated assertion that only monopolies can afford to pay for corporate social responsibilities. Businesses are likely to make even more profit by actually living up to their legitimate social responsibilities than by evading them.

Notes

1. Cf., Thomas Donaldson, *The Ethics of International Business* (New York: Oxford University Press, 1989). In this and subsequent works, Donaldson has developed an elaborate paradigm for business ethics based on "Integrated Social Contract Theory." The strategy of integration involves, among other things, a correlation of the social contract paradigm derived from the history of political philosophy with stakeholder theory. While I find many of Donaldson's insights helpful, I do not subscribe to this paradigm because I believe that the social contract paradigm is based on an erroneous view of human nature, one that overemphasizes our individual rather than social characteristics, and because I think that the social contract approach does not resolve the problem of establishing ethical priorities among the conflicting claims of various stakeholders. Hence, my general agreement with Professor Barry over the drawbacks involved in a stakeholder approach to business management.
2. F. A. Hayek, "The Use of Knowledge in Society," in *The Economic Nature of the Firm: A Reader*, ed. Louis Putterman (New York: Cambridge University Press, 1986), 66–71.
3. Thomas Donaldson, *Corporations and Morality* (Englewood Cliffs, N.J.: Prentice-Hall, 1982), 18–33.

4. Richard T. DeGeorge, *Business Ethics*, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1995), 5–7.

5. Robert C. Solomon, *Above the Bottom Line: An Introduction to Business Ethics*, 2nd ed. (Fort Worth, Tex.: Harcourt Brace College Publishers, 1994), 279–83.

6. Ibid., 281.

7. Ibid., 282.

8. Ibid.