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The Illusion of Corporate "Social" Responsibility

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In the light of recent business scandals in the US questions about corporate responsibility have been revived. However, there is no need to reformulate the role of the corporation in the modern capitalist economy but rather the necessity is to restate the traditional conventions of business practice, which were flagrantly breached in the Enron, Worldcom, Tyco and other notorious affairs. I am talking in the main about what is often called Anglo-Saxon capitalism, though what I say has a wider application.

It is my contention that the corporation does not have a responsibility to "society," although it does have a duty to follow the uncontroversial rules and conventions by which we all live: everybody gains from this. However, when corporations take it upon themselves to support "good" causes, for example, going beyond the law and property rights in the protection of the environment, aiding poverty relief and introducing "affirmative action" in the workplace they are normally exceeding those rules and conventions and venturing into areas where there is little agreement. Company executives become the arbiters of morality and they use shareholders' money to support these good causes. Most of this activity is not genuine morality since it is not their money that is at stake. If the *owners* of the company want to spend their money on good causes that is their privilege. But the more frequently this occurs the more the company resembles a charity than a business. Bodyshop plc began to do this and ran into trouble. Eventually the market compelled a return to the promotion of shareholder value. That is what corporate capitalism is about.

Shareholders should be clearly distinguished from "stakeholders." The former put their money into a company and are legally and morally entitled to make the final decisions in it as well as securing a profit. Stakeholders normally have some connection with the firm but often have no equity stake in it. A stakeholder-driven firm, though fashionable in business ethics, makes no sense. If business decisions were made by stakeholders they would not be determinate, for stakeholders have a variety of often conflicting goals, whereas shareholders (apart from the small minority of anti-capitalist fanatics who buy stock in a company just to make trouble) have only one: the maximization of shareholder value.

Companies originally emerged quite spontaneously under common law. A number of people pool their assets, appoint managers and are paid a dividend on their investment. The managers, who may or may nor be shareholders, are under a strict *fiduciary* duty to act exclusively in the interests of the owners, the shareholders. The creation of the company produced certain controversies. For example, from their earliest days corporations have been protected by limited liability, that is, owners' investments only are at risk, not their private assets. Many critics of the corporation say that this is a "privilege" which has to be earned back by the company, through good works and socially responsible action. However, this is not a privilege conferred by the state but arose originally from the common law of contract. Somebody making a loan to a company knows full well that he might not get it back. The company has perpetual life and can sue or be sued as an "artificial" person. But these features do not make it an entity equivalent to a real person. There is no case, then, for the attribution of criminal responsibility to the corporation for something called "corporate manslaughter." Crimes are committed by real people and the guilty individuals are responsible.

In the business scandals of the late 1990s business personnel were clearly in breach of fiduciary duties, moral convention and often the criminal law. The share price was often fixed, salaries were inflated, employees were encouraged to buy stock in the company when managers were selling theirs knowing the price was about to fall and also sorts of other chicaneries went on which hurt the owners and others. Such excesses will eventually be corrected by the market. In particular, shareholders will reassert their rights and hold managers to account. It is noticeable that the managers in these episodes were enthusiastic about social responsibility: they gave (company) money to charity, practiced equality in the workplace and worked for deprived children. One particularly egregious manager regularly gave lectures to business students on the importance of "conscience in commercial life." What these people ignored were the basic conventions of business and society. It is in the interests of business to observe these standards.

European (and Japanese) business is often compared favourably with the Anglo-Saxon model. It is said to be less greed-driven and more communitarian than individualistic in its motivations. But it has had its share of scandals, look at Parmalat. Also, the managers show little concern for the legal owners of a company when they resist takeovers which would enhance shareholder value. They might claim they are advancing the interests of the community but they are usually protecting their own jobs.

Further Reading

Norman Barry: *Business Ethics,* Indiana, Purdue University Press, 2000, chapters 3 and 4.
Norman Barry: "Do Corporations Have Any Responsibility Beyond Making a Profit?" in *Markets and Morality*, vol 3, 2000, pp. 101-26.
Norman Barry: "The Stakeholder Concept of Corporate Control is Illogical and Impractical," *The Independent Review*, vol 6, 2003 pp. 541-554.