Ethics in real life

Business ethics

Derek Matravers:
Anja, what do you understand by the profit maximisation view of business?

Anja Shaefer:
I think this is a view which would be intuitively familiar to most people thinking about business. It is the view that a business has the responsibility or, if you like, the purpose to maximise the profits for its owners. The owners, these days, in larger businesses are usually its shareholders. So the profit maximisation views says that the main purpose of being for a business is to increase the wealth of its owners, to increase the return on investment, as we say in technical terms, ie to increase the profits for its shareholders. This doesn't necessarily mean that there are no other considerations whatsoever. So the shareholder view of a business still says that businesses must follow the law of the country in which they operate. So they mustn't increase profits by disobeying the law. The profit maximisation view of business also generally agrees that businesses should follow the rules of common decency. But, and this is the really important thing, profit maximisation is always the dominant aspect of business, so that is its main purpose, as long as it operates within the law, the main purpose of a business is to make as much money as possible.

Derek Matravers:
And could you say what you understand by the alternative, the corporate social responsibility view?

Anja Shaefer:
This is a view which is, in some ways a little bit newer and it suggests that there are other responsibilities that a business has. It doesn't suggest that business should not make profits but it says there are other things that businesses also need to do. It also doesn't suggest that shareholders are not important, but it also says that there are other groups of people, people who we sometimes call stakeholders who are also important, who have an important stake in the business. And that stake is a mutual one. A stakeholder is somebody who is significantly affected by what a business does but at the same time, stakeholder groups also often have the possibility of significantly affecting the business. So what the corporate social responsibility view says is that there are responsibilities beyond making profits for shareholders. Such responsibility could be environmental responsibilities, for instance, so a business should not in its pursuit of profit poison the environment or use far more resources than it really needs to. Businesses should also take responsibility for the impact that their actions have on, say, local communities. Again, this could be through environmental effects but it's also through employment. It is also through the way in which the business places itself in the political spectrum. So it shouldn't throw its weight around and go against everything else that people in the local community wish. So this is what we mean by corporate social responsibility.

Derek Matravers:
So a stakeholder is anybody affected by the business?

Anja Shaefer:
Yes. In essence, that is the case. There are a number of different definitions of what stakeholders are but the most common one is one that says indeed, a stakeholder is anybody who is affected by the consequences of what a business does and therefore they have a stake in what that business does. There is a second part of that common definition which

says a stakeholder is also somebody who has the ability to significantly affect the business in turn.

Derek Matravers:
What in your opinion is the strongest argument for the profit maximisation view?

Anja Shaefer:
The profit maximisation view, really, comes very much from an economics understanding of what the business is and it goes back to Adam Smith and the idea of the invisible hand. That if everybody in an economy looks after their own interests, their own economic interests, the invisible hand of the market then arranges things so, that by doing that, they also maximise wealth and they maximise wellbeing for the totality of all the people in that market. And this is the reason why some people say, if businesses concentrate on making as much money as possible for their shareholders, they are also maximising wealth for society at large.

Derek Matravers:
Right, and what, in your opinion, is the strongest argument for the other side, for corporate social responsibility?

Anja Shaefer:
Mainly that the invisible hand doesn't work quite as nicely as some economists have suggested. Under ideal circumstances, with lots of small businesses, ie the circumstances that Adam Smith thought about when he wrote about this for the first time in the eighteenth century, do not really apply. It is not clear whether they applied even then but certainly today, with large multinational corporations who operate all across the world and who sometimes have a lot of power, both economic and political power, the markets don't operate quite in the same way as Smith suggested. So it is quite possible for businesses to increase profits in ways which we wouldn't consider to be particularly socially desirable. For instance, you can increase profits by dumping all your nearest waste in the nearest river and as long as you do so without getting caught, that actually maximises your income or it minimises your costs. At the same time, you can make money by exploiting vulnerable people, by selling them things that they either don't need or that aren't very good for them. So this is one way in which the power of businesses, if you like, distorts the invisible hand of the market. There are also quite a number of things which we consider to be part of happiness, part of human wellbeing which aren't really traded in the market. A society's wellbeing does not just depend on a maximum amount of material wealth, a maximum amount of material things to have and to enjoy. It also depends on things like friends, community, family, a clean environment, a safe place to work in and to live in. All these things are not traded in the market, they don't really depend, in the first instance, on how much money is being made and that is where markets, by their very nature, are not very good at providing these things necessarily. And so, for these two reasons, corporate social responsibility is needed because there are things that markets are not very good at providing for society.

Derek Matravers:
I take it from your answer then, that you favour the corporate social responsibility model rather than the shareholder model? Do you think that it's a problem for the view that you favour that companies are actually owned by people's private money and given that it's their, the shareholders' private money, why shouldn't they spend that on enriching themselves rather than on providing, say, a good environment for the rest of us?

Anja Shaefer:
I think the same rules applies here as I do for private individuals. So, if we own a car then clearly, it is our right to use this car and to drive around it. It's not, however our right to drive around in it recklessly, too fast, not paying attention to traffic or pedestrians and thereby harm other people, say, by knocking them over. I think we would all accept that the right to do as we please with our private property does not extend to the right to harm other people and infringe on their rights. The same applies to business. So businesses clearly must look after their shareholders' property, or their shareholders' investment by trying to maximise the return on this investment. They may do so for instance, by manufacturing goods which they can sell to other people at a profit. What they can't do, however, or what I think they don't have a right

to do, is to manufacture these goods in such a way that to stay with the environmental example, the local river is polluted or the atmosphere is polluted, because that could harm other people. They might get ill or their quality of life might be quite seriously diminished by having to use water which is not clean, by having to breathe air which is not clean. And thereby the right to do with shareholders' private money as you please would impinge on the rights of other people to do with their own lives as they please. And I think there is where the limits to property rights apply in the same way as the limits to all other rights apply.

Derek Matravers:
Can I just ask one more question about that? It might help a business' profitability if, for example, they close down their call centres in England and move them to a place where wages are lower. Where does corporate social responsibility stand on a question like that?

Anja Shaefer:
That is quite a difficult question to answer actually. Even though it's an example which is used quite a lot. Because stakeholder interests, in this case, are multiple. And they are in conflict with each other. Now, it might well be in the shareholders' interest to move the call centres to somewhere else where lower wages would mean a cost reduction. This is clearly against the interests of the local community or the employees in England who are now made redundant. It may, however, very well be in the interests of people in that other country who are now given employment options which perhaps are much better than the other employment options that they otherwise have. You might well argue that those people in that lower cost country have far fewer opportunities in life otherwise than people in England. And that therefore, it's actually good corporate social responsibility to give them an opportunity to better themselves and to benefit from this employment. On the other hand, you might also well argue that if it is an old established company that has been in a particular part in Britain for a very long time, that it also has, if you like, a longstanding duty to the community which allowed it to grow up and to become the big multinational company that it is today. And that therefore making people redundant, particularly if it happens very quickly with no other option of employment, is not good corporate social responsibility. I think what I'm saying here is that these cases are often quite complex and that corporate social responsibility thinking would very rarely say This is definitely right and This is definitely wrong. What it would say however is that these other stakeholders' interests need to be taken into account. What the final solution is very much depends on the individual circumstances of each company, each community, I would say.