

2022 VALUE RESOLUTION #3

When in conflict, a corporation's responsibility to its shareholders ought to be valued above its responsibility to its stakeholders.

BACKGROUND

The rise of the corporation in the last 150 years has been an integral part of making the modern world what it is today. The fact that many people can travel around the world, own a car, use a cell phone, and enjoy myriad inventions such as washing machines, vacuums, and computers in the comfort of their own homes is a testament to the difference corporations make in our lives.

Yet the rise of corporations has not been without controversy. During the rapid industrialization of the 1800s, many raised concerns about corporations' poor treatment of workers, low wages, and environmental pollution. With large corporations becoming increasingly powerful, people began to wonder, what kind of duty do corporations owe to society at large? While most would agree that corporations have a duty to shareholders as well as to society at large, the priority of that duty is the question at the heart of this resolution: Do corporations exist primarily to make money for their shareholders or do they have an equal responsibility to

everyone affected by corporate decision making?

TERMS

Corporation

A corporation is specific legal form of organization of persons and material resources, chartered by the state, for the purpose of conducting business.

As contrasted with the other two major forms of business ownership, the sole proprietorship and the partnership, the corporation is distinguished by a number of characteristics that make it a more-flexible instrument for large-scale economic activity, particularly for the purpose of raising large sums of capital for investment. Chief among these features are: (1) limited liability, meaning that capital suppliers are not subject to losses greater than the amount of their investment; (2) transferability of shares, whereby voting and other rights in the enterprise may be transferred readily from one investor to another without reconstituting the organization under law; (3) juridical personality, meaning that the corporation itself as a fictive "person" has legal standing and may thus sue and be sued, may make contracts, and may hold property in a common name; and (4) indefinite duration, whereby the life of the corporation may extend beyond the participation of any of its incorporators. The

owners of the corporation in a legal sense are the shareholders, who purchase with their investment of capital a share in the proceeds of the enterprise and who are nominally entitled to a measure of control over the financial management of the corporation.”¹

Shareholder

A shareholder is “a person who owns shares in a company and therefore gets part of the company's profits and the right to vote on how the company is controlled.”² A shareholder is often also called a *stockholder*.

Stakeholder

A stakeholder is “a person such as an employee, customer, or citizen who is involved with an organization, society, etc. and therefore has responsibilities towards it and an interest in its success”³

CONFLICT

According to the Nobel-Prize winning economist Milton Friedman in his book *Capitalism and Freedom*, “There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”⁴ According to this view, a corporation's primary responsibility is to its shareholders, using their investment of capital to produce profits that will pay dividends. In fact, if corporations talk about valuing other social interests above that one responsibility, they are, according to Friedman, “preaching pure

and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.”⁵

Others argue that corporations have a responsibility to weigh the interests of all their stakeholders including their employees, customers, and the community in which they operate. The core question, says philosopher and professor of business administration R.E. Freeman, is this: “For whose benefit and at whose expense should the firm be managed?” He answers this question by saying that “each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake.”⁶

The conflict surrounding a corporation's primary responsibility leads to many interesting questions including:

- What is the purpose or end of corporate governance?
- What responsibility does a corporation have to society?
- Is a corporation a person? Is it a moral agent? Does it have rights?
- Who exactly are a corporation's stakeholders?
- Which type of stakeholder should be prioritized or should they all be prioritized equally?
- How can a corporation equally weigh the interests of stakeholders when those interests are in conflict?

PHILOSOPHY

This topic falls into the branch of philosophy called ethics, specifically normative ethics--the exploration of what *ought* to be. Normative ethics therefore begins with the assumption that morality exists and then asks the question, "By what standard should morality be judged?" There are three basic schools of thought when it comes to answering this second question: consequentialist theories (morality is judged by the consequences of actions), deontological theories (morality is judged by duties or rules), and virtue-based theories (morality is judged by the virtue it produces).⁷

Debaters can choose from any of these options as a justification for their position in the round. Popular philosophers in each category include Jeremy Bentham and John Stuart Mill (consequentialism), John Locke and Immanuel Kant (deontology), and Aristotle and Elizabeth Anscombe (virtue ethics).

In addition to these ethical questions are questions of personhood and natural rights (life, liberty, property) granted by some to corporations. Although all thinkers agree that corporations have some but not all aspects of personhood, the debate rages as to whether these qualities of personhood grant corporations the same amount of rights and responsibilities as individuals.^{8,9}

AFFIRMATIVE VALUES

There are multiple values at stake in this resolution. For Milton Friedman, the value of a free society itself is at stake. Others who defend the shareholder theory argue that the survival of the corporation and any social good it can do depends upon its

economic success. Therefore, profits or economic well-being must be valued above other values. Shareholder defenders point to the value of capitalism and free enterprise articulated by economic thinkers such as Adam Smith in *The Wealth of Nations*.

NEGATIVE VALUES

R.E. Freeman, on the other hand, envisions multiple different value justifications for the shareholder theory including the value of fairness based on the social contract theory of philosophers like John Rawls (which could also include values such as equity and autonomy), the value of environmental protection based on ecological principles, or the value of relationships based on Feminist Standpoint Theory.¹⁰

STRENGTHS

- Asks a philosophical question that has immediate real-world implications
- Allows students to investigate an important cultural debate
- Christians can argue both sides
- Broad body of academic research and philosophical work is available
- Multiple cases can be developed for both sides

WEAKNESSES

- Some of the writings on this topic include detailed discussions of economics and business strategy which will likely be over the heads of most high school students; nevertheless, there is plenty of material that they should be able to understand.

- Because of the concrete nature of this topic, students could focus on policy-based solutions and legal arguments rather than philosophical justifications.

RESOURCES

¹ Britannica, The Editors of Encyclopaedia. "Corporation." *Encyclopedia Britannica*, 19 May. 2020, <https://www.britannica.com/topic/corporation> Accessed 3 March 2021.

² Cambridge Dictionary. "Shareholder." Cambridge University Press, 2021, <https://dictionary.cambridge.org/dictionary/english/shareholder>. Accessed 3 March 2021.

³ Cambridge Dictionary. "Stakeholder." Cambridge, University Press, 2021, <https://dictionary.cambridge.org/dictionary/english/stakeholder>. Accessed 3 March 2021.

⁴ Friedman, Milton, and Friedman, Rose D. *Capitalism and Freedom: Fortieth Anniversary Edition*. United Kingdom, University of Chicago Press, 1982. p. 133.

⁵ Friedman, Milton. "The Social Responsibility of Business is to Increase its Profits". *New York Times Magazine*, 13 September 1970, http://umich.edu/~thecore/doc/Friedman.pdf?mod=article_inline. Accessed online 3 March 2021.

⁶ Freeman, R. Edward. "Stakeholder Theory of the Modern Corporation". *Perspectives in Business Ethics* Sie, Volume 3, p. 144. 2001, <https://academic.udayton.edu/lawrenceulrich/Stakeholder%20Theory.pdf>. Accessed online 3 March 2021.

⁷ Dittmer, Joel. "Applied Ethics", *Internet Encyclopedia of Philosophy*. <https://iep.utm.edu/ap-ethic/> Accessed 4 March 2021.

⁸ Beard, Charles A. "Corporations and Natural Rights". *The Virginia Quarterly Review: A national journal of literature and discussion*, The University of Virginia. Summer 1936, <https://www.vqronline.org/essay/corporations-and-natural-rights>. Accessed online 17 March 2021.

⁹ Greenfield, Kent. "In Defense of Corporate Persons". *Constitutional Commentary*, Vol. 30, p. 309, 2015. Boston College Law School Legal Studies Research Paper No. 366. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2639778. Accessed online 17 March 2021.

¹⁰ Freeman, R. Edward. "Stakeholder Theory of the Modern Corporation". *Perspectives in Business Ethics* Sie, Volume 3, p. 144. 2001, <https://academic.udayton.edu/lawrenceulrich/Stakeholder%20Theory.pdf>. Accessed online 3 March 2021.

SUGGESTED READING

¹ Dittmer, Joel. "Applied Ethics, 2. Business Ethics", *Internet Encyclopedia of Philosophy*. <https://iep.utm.edu/ap-ethic/> Accessed 4 March 2021.

² Moriarty, Jeffrey, "Business Ethics, 3.1 Ends: shareholder primacy or stakeholder balance?", *The Stanford Encyclopedia of Philosophy* (Fall 2017 Edition). <https://plato.stanford.edu/entries/ethics-business/#EndsSharPrimStakBala>. Accessed online 12 April 2021.

³ Smith, H. Jeff. "The Shareholders vs. Stakeholders Debate", *MIT Sloan Management Review*, Summer 2003 ed. Published July 15, 2003.
<https://sloanreview.mit.edu/article/the-shareholders-vs-stakeholders-debate/>
Accessed 12 April 2021.

⁴ French, Peter A. "The Corporation as a Moral Person", *American Philosophical Quarterly*, Vol. 16, No. 3 (Jul., 1979), pp. 207-215. Published by: University of Illinois Press on behalf of North American Philosophical Publications.
<https://www.sci.brooklyn.cuny.edu/~schopra/Persons/French.pdf>. Accessed online 12 April 2021.

⁵ Friedman, Milton. "The Social Responsibility of Business is to Increase its Profits". *New York Times Magazine*, 13 September 1970,
http://umich.edu/~thecore/doc/Friedman.pdf?mod=article_inline. Accessed online 3 March 2021.

⁶ Freeman, R. Edward. "Stakeholder Theory of the Modern Corporation". *Perspectives in Business Ethics* *See*, Volume 3, p. 144. 2001,
<https://academic.udayton.edu/lawrenceulrich/Stakeholder%20Theory.pdf>. Accessed online 3 March 2021.