

**Thesis Title: Corporate Responsibility: Social Contract-Based-Stakeholder Theory**

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**Academic year: 1997**

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### **Abstract**

Free market advocates propose that the scope of corporate responsibility into two manners. Corporate executives (corporations) are to be responsible to only one group of people, shareholders and stockowners. The areas of their responsibility are limited to only economic and legal perspectives. This belief finds its origin in two philosophical grounds. (1) The economic writing of Adam Smith, Milton Friedman and Theodore Levitt in which they maintain that a corporation is solely an economic institution established by self-interest of the founders. (2) A fiduciary relationship between corporate executives (as agents) and shareholders/stockowners (as principals) by which agents are under promissory agreement to generate the highest values added to their principals.

Two major events, business roundtable (1981) and Caux roundtable (1986) initiated solely by business sector has challenged this traditional belief. They agreed upon stakeholder principle that demands businesses to broaden confinement of their responsibility. That is they are to be responsible for all stakeholder groups such as customers, employees, suppliers, communities, competitors...etc.. Negatively, they

are to minimise and avoid harms. Positively, they are to enhance the authentic happiness according to reality of their stakeholders. The purpose aforementioned will be realised if and only if a corporation addresses all aspects of human existence: economic, legal, ethical and philanthropic. This concept was first introduced by Evan R. Freeman in early twentieth century.

Scholars find that stakeholder principle lacks philosophical ground that binds a corporation to accomplish purposes mentioned thereof. In this thesis, the researcher finds moral obligations for corporate executives to accomplish the purposes aforementioned by accommodating the social contract theory into the stakeholder principle to construct a new theory called “social contract-based-stakeholder theory”. An interdependent, mutual and symbiotic relationship between a corporation and its constituents implies a contractual relationship. There is a correspondence in the logic of contractual relationship in a real contract and that of the implied contract.

Even though implied contracts are not written down, but they are what the parties involved have to accomplish. And each party acts as if such a contract really existed. For example, there is never a written contract that a product sold to customers has to come up to at least minimum safety standard. But by advertisement, sales promotion, a producer implies a promise to maintain a minimum safety standard and a consumer really demands an adherence to such standard from the part of producers in their choice to buy such products. If they know in advance that such and

such products do not come up to the standards expected, they will surely refrain from buying them. This implied contract can be rationally explained by a hypothetical contract of the social contract theory. It consists in fundamental requirements which a man, in the hypothetical state of nature, as a rational agent will agree upon the principles that make him better off and disagree upon those that make him worse off. The hypothetical contract is, therefore, utilised as a heuristic device, thought experiment, or metaphor to define moral duties, and obligations a corporation has towards its stakeholders. In the last chapter, the researcher has utilised his “social contract-based-stakeholder theory” to elaborate and define obligations and duties a corporation has towards some of its stakeholders on the basis of mutual, interdependent, symbiotic and contractual relationship.

