



**CORPORATE RESPONSIBILITY:  
SOCIAL CONTRACT - BASED - STAKEHOLDER THEORY**

by

**CHARN MAYOT**

A Thesis Submitted in Partial Fulfillment of  
the Requirements for the Master Degree of Arts in  
Philosophy

Graduate School of Philosophy and Religious Studies  
Assumption University  
Bangkok 10240

1997

# **Corporate Responsibility: Social Contract-Based-Stakeholder Theory**

**Charn Mayot**

A Thesis Submitted in Partial Fulfilment of  
The Requirement for the Master Degree of Arts in  
Philosophy

Graduate School of Philosophy And Religious Studies

**Assumption University**

Bangkok 10240

1997

ISBN 974-615-025-1

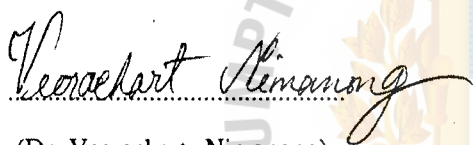
Copy Right of Assumption University



**THESIS TITLE** : CORPORATE RESPONSIBILITY : SOCIAL  
CONTRACT-BASED-STAKEHOLDER THEORY.  
**RESEARCHER NAME** : Mr. Charn Mayot  
**THESIS ADVISOR** : Prof. Kirti Bunchua  
**ACADEMIC YEAR** : 1997

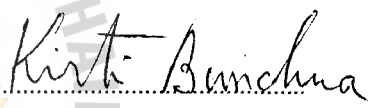
The Graduate School of Philosophy and Religious Studies, Assumption University,  
had approved this Thesis as a partial fulfillment of the requirements for the Degree of  
Master of Arts in Philosophy.

**Thesis Approval Committee :**



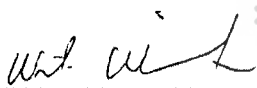
(Dr. Veerachart Nimanong)

Chairperson



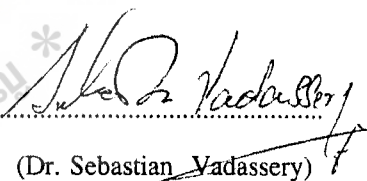
(Prof. Kirti Bunchua)

Advisor



(Prof. Dr. Wit Wisathaves)

Member



(Dr. Sebastian Vadassery)

Member



(Dr. Warayutha Sriewarakul)

Member

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

**Student's Name: Mr. Charn Mayot**

**Thesis Advisor: Prof. Kirti Bunchua**

**Academic year: 1997**

---

### **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

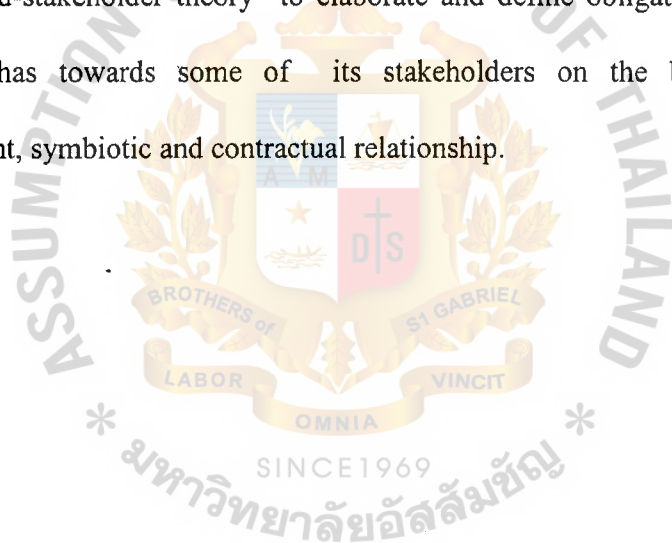


are to minimise and avoid harms. Positively, they are to enhance the authentic happiness according to reality of their stakeholders. The purpose aforementioned will be realised if and only if a corporation addresses all aspects of human existence: economic, legal, ethical and philanthropic. This concept 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.



## Acknowledgements

The researcher would like to express his deepest gratitude to the most respected Dean of the Graduate School of Philosophy and Religious Studies of Assumption University, Prof. Kirti Bunchua, who opens his mind to this field of research in his course of business ethics, who has constantly encouraged him to frame his mind in this field, and who has sacrificed his most valuable time to guide him; to Fr. Norberto Castillo who gives him valuable suggestions; to Prof. Robert Magliola who introduces him to a logic of heuristic approach; to Dr. Warayuth Sriwarakul whose valuable suggestions and patience to do a proof reading on the content are unforgettable; to Dr. Veerachart Nimanong who pens him to the Buddhist mind on the field.

His deepest gratitude also goes to Prof. Thomas Donaldson at the department of Legal Studies, Wharton School of University of Pennsylvania who helps him clarify how to accommodate social contract theory to the stakeholder theory; to Pro. Gerhold K. Becker at Centre for Applied Ethics of Hong Kong Baptist University who constantly encourages him to keep on working and who introduces him Asian approach to the field; to Prof. Norman E. Bowie at Harvard University who gives him invaluable suggestions of how to write case studies in business ethics; to Assist. Prof. Iwao Taka at Institute of Moralogy of Reitaku University (Japan) who introduces and



provides him with update articles on social contract theory of business. Last but not least Ass. Prof. Ukrit Paetnoi who introduces him texts to the field.

His deep gratitude also goes to all his professors of different subjects who lead him to an interdisciplinary approach of the field. Among them are Dr. Sebastian Vadassery (Philosophy of Mind), Fr. Ceferino Ledesma (NT), Dr. Francis Cais (OT), Dr. Ananda Reddy (Gita & Indian Philosophy), Dr. Imtiyaz Yusuf (Quran & Islamic Philosophy), Dr. Giuseppe Florio (Philosophy of Religion), Dr. Richard Dyche (Epistemology & Philosophy of Language). My special thanks also goes to all of my friends and colleagues, especially Khum Jume Harnsakul and Khun Rojjana Chanboonchua, at the Ethics and Religion Research Centre and the Graduate School of Philosophy and Religious Studies of Assumption University.

Charm Mayot

June 12, 1997.

### Abbreviations

BEQ = Business Ethics Quarterly

HBR: GCR = Harvard Business Review: Guide to Corporate Responsibility

HBR: EES = Harvard Business Review: Ethics for Executives Series

PHE = Philosophy and Economics

WN = An Inquiry Into the Nature and Causes of the Wealth of Nations



## Contents

	Page
Abstract .....	i
Acknowledgements .....	iv
Abbreviations .....	vi
 Chapter I: Introduction	
1. Why this thesis title? .....	1
2. Background of the belief and Significance of the Study .....	3
3. Status of the Questions .....	4
4. Purposes .....	6
5. Objectives .....	7
6. Methodology and Steps .....	8
7. Definition of terms .....	9
8. Limitation .....	12
9. Expectation .....	13
 Chapter II: Free market Proposal	
1. Free market View on Corporate Responsibilities	
1.1. Milton Friedman .....	16
1.2. Theodore Levitt .....	22
1.3. Albert Z. Carr .....	24
1.4. James Fierser .....	28



2. Free market Understanding of Corporation	
2.1. The agency theory .....	31
2.2. Fiduciary relationship .....	32
3. Philosophical foundation of free market enterprise's views	
3.1. Motives of business enterprise .....	33
3.2. Invisible Hand Argument .....	34
3.3. The invisible hand argument today .....	37
4. Problems of the Free market View of Corporate Responsibility....	40
5. Attacks to managerial capitalism .....	42
Chapter III: Stakeholder Theory	
1. Definitions .....	57
2. The origin and the implementations of the stakeholder theory.....	58
3. Stakeholder Model	
3.1. The Rationality of the Stakeholder Theory .....	61
3.2. Interdependencies between a corporation and each stakeholder .....	67
3.3. Primary Stakeholder Groups .....	68
3.3.1. Customers .....	67
3.3.2. Employees .....	70
3.3.3. Investors .....	71
3.3.4. Suppliers .....	71
3.3.5. Creditors .....	72

3.3.6. Wholesalers and retailers .....	72
3.4. Secondary Stakeholder Groups	
3.4.1. Local Community .....	73
3.4.2. Competitors .....	74
3.4.3. Mass Media .....	74
3.4.4. Governmental Agencies .....	75
3.4.5. Foreign Governments .....	75
3.4.6. The General Public and Social Activist Groups .....	75
3.4.7. Political Groups .....	76
3.4.8. Business Support Groups .....	76
4. Internal structure of the relationship .....	77
5. Three Aspects of the stakeholder theory	
5.1. Descriptive/Empirical .....	80
5.2. Instrumental .....	84
5.3. Normative .....	87
6. Concepts of corporation according to stakeholder theory	
6.1. Corporation as a legal person .....	91
6.2. Corporation as a bundle of contracts .....	94
Chapter IV: Social Contract Theory for Business	
1. Overview of Traditional Social Contract Theory .....	98
2. Evolution of Contractarian Approach to Business Ethics .....	104
3. Objectives for Developing Social Contract Theory in	

Relation to Business .....	106
4. The Application of Social Contract Theory to Business .....	109
5. Logic of Social Contract Theory for Business .....	116
6. The Legitimacy of the Logic	
6.1. Argument from the hypothetical state of nature .....	119
6.2. Argument from the emergence of productive organisations..	120
7. Moral justification for the existence of a corporation .....	122
8. Terms of the Contract	
8.1. Principle of Informed Consent .....	128
8.2. The Principle of corporate responsibility for the effects of its transactions .....	130
8.3. Principle of the respect of human rights and dignity .....	131
8.4. Principle of Justice .....	132
9. Supplementary Condition .....	138
10. The binding of the social contract based stakeholder theory....	142
11. The legitimacy of the application of social contract theory to business.....	147

## Chapter V: Application of The Social Contract-Based-Theory

### To The Corporate Responsibility

1. To What Areas Corporate Responsibility is Extended.....	152
1.1. Economic responsibility .....	154
1.2. Legal Responsibility .....	157



1.3. Ethical Responsibility .....	159
1.4. Social Contract-Based Stakeholder Theory and Ethical Theories .....	161
1.5. Philanthropic responsibility .....	162
1.6. The distinction between Philanthropic and ethical responsibilities .....	163
2. For whom a corporation is responsibility.....	167
2.1. A social contract with consumers .....	169
2.2. A social contract with employees .....	172
2.3. A social contract with investors .....	175
2.4. A social contract with suppliers .....	179
2.5. A social contract with competitors .....	183
2.6. A social contract with community .....	190
Chapter VI: Evaluation and Suggestions	
1. Evaluation .....	196
1.1. Problems arising from the stakeholder theory .....	197
1.2. Problems arising from social contract theory .....	203
2. Suggestions for further studies .....	208
References .....	212
Autobiography .....	233

## **Chapter I**

### **Introduction**

#### **1. Why This Thesis Title?**

During the last decade Thailand became one of the economic giants of South East Asia with an annual growth rate of around 12-14 per cent per GDP. There came both negative and positive aftermath of such economic boom. One of the explicit negative aftermath is economic crime, which Thai people hardly were aware before, which causes unmeasurable losses and sufferings to innocent victims and drives many of them to situations worse than death. For example, during 1970-1980 many people engaging in Mae Cha Moi's pyramid share sold their salaries of the next five years in exchange for loans. And then they spent the loans for investment in this pyramid share. After the chain share collapsed and they had to work for five consecutive years without receiving any salaries of even one stang. Some cases caused losses to the bad image and the economy of the whole country, others to welfare of the general public. In a research, the Research Institute in Political Economy of Chulalongkorn University, at the end of 1996, reported that the total amount of revenue involving the six major economic crimes most prevalent in the country namely drug rings, prostitution, illegal labour, illegal weapon trade, illegal gasoline trade and gambles is around 800,000,000,000 (eight hundred thousand

billion) baht<sup>1</sup> while the annual budget of the fiscal year was a little more than 800,000,000,000 (eight hundred thousand billion) baht.

It can be summarised that all of malpractice in businesses are partially or even totally theoretically rooted in self-interest. It is traditionally believed that the only responsibility of corporate executives and a function of corporations are economic by nature. They are to make the highest profit for owners and stockholders. The only reason supporting this idea is the fact that shareholders and owners invest, take risks in such investments solely for the highest economic return. One of the most effective way to increase profits is to reduce costs of production. Blind attempts to reduce costs of productions finally lead to malpractice such as dumping non-treated (poisonous by-product) water into waterways, falsifying value added taxes, excessively exploiting natural resources, utilising child labour, and many other economic crimes. According to the researcher, all these malpractice are not based on greed only but in theoretical belief on the roots of business also. One of the most effective way to tackle the problems from their roots is to change this belief. In this thesis, the research attempts to falsify this belief and replace it with his modified theory called “social contract-based-stakeholder theory.”

---

<sup>1</sup> See *Prachachat Dhurakit* (5-8 December 1996, p. 1, 15) for further elaboration.



## 2. Background of the Belief's and Significance of the Study

Free market advocates hold that business of business is business, not protecting and enhancing the welfare and security of the public which they believed to be achieved by the pursuit of profits. This ideology is supported by one Nobel prize awarded economist at the Chicago School of Economics, Milton Friedman (1962, 1970). In line with Friedman, Theodore Levitt (1958) argues that there are only two constraints for business transactions according to this ideology. One is profit maximisation principle and the other one is legal principle. Albert Z. Carr (1968) likens business activities to a poker game. When people start playing a game they know the rules to follow in advance and they voluntarily enter the game. The players can do any thing, even bluff, to win as long as it does not violate the game-rules.

This idea is rooted in philosophical economics proposed by Adam Smith(1776), a moral philosopher at Glasgow University, who maintained that the sole motive of business transactions is self-interest. Moreover, for him, it is morally neutral for one to pursue self-interest. It can be either good or bad depending on what the transaction produces. The pursuit of self-interest does not harm any society, but, on the contrary, it benefits society. Economic affairs, according to these neo-classical economists, are regulated by a static law like the law of physics which they call “an invisible hand.” This implies that however seriously business persons pursue

their self-interest, the invisible hand will automatically bring about the common good to a society as a whole.

Though this view is declining today, it has not completely disappeared. Many entrepreneurs conducting businesses, especially in Thailand, still believe that economic and legal concerns are the only two legitimate obligations for corporate executives and a corporation. A creation of social welfare is not their job. It is the job of either country's government or the invisible hand.

### 3. Status of the Questions

The researcher finds that the view on corporate responsibility proposed by the free market advocates is too narrow and causes unresolvable problems both practically and theoretically. In his thesis the researcher attempts to point out defects and evaluate the view on corporate responsibility of free market economics from ethical perspectives. Four major evaluations on this view of corporate responsibility that the researcher attempts to raise are:

3.1. It is a fact explicit to all people that corporate activities affect lives of almost all people, negatively and positively, in all aspects of their lives, economically, legally, ethically, socially, culturally...etc.. What is the reason why a corporation including corporate executives should refrain from responsibility on its effects on the lives of human beings (including other entities)?

3.2. It is universally admitted that a corporation is widely dependent on its constituents such as suppliers, creditors, employees, consumers, communities,...etc. to a large extent. Moreover, a corporation survives and prospers on the contribution of numerous constituents. According to the golden rule, why should a corporation enjoy a privilege of not to contribute anything to its constituents at all?

3.3. As the researcher has earlier mentioned, business malpractice are notorious in Thailand. It is noticeable that laws cannot cope with all these sophisticated frauds and cheating, however moralists' and lawyers' attempts to establish new and more efficient measures and approaches to deal with these problems. If the thesis proposed by Milton Friedman, Theodore Levitt, and Albert Z. Carr is correct, how can we explain business crimes which cause losses and damages economically, psychologically to the unfortunate victims, national economy, and tremendous environmental depletion.

3.4. If the managerial capitalism view held by classical economists is correct. Executive managers are not obligated to take any other responsibilities other than economic return for shareholders and owners. Who will be responsible to the damages caused by such business transactions?

#### 4. Purposes

4.1. To challenge and falsify the free market view of corporate responsibility which holds that a corporation, which is privately owned enterprise, is designed solely to make the greatest profit possible.

4.2. To propose a new paradigm based on the author's modified theory called "social contract-based-stakeholder theory" on business transactions. This paradigm requires a corporation and corporate executives to enhance harmony, authentic happiness according to reality, and coexistence among all parties involved (stakeholders such as management, customers, employees, suppliers, investors, competitors, government agencies, mass media and communities).

4.3. To broaden the narrow confinement of the traditional view on corporate responsibility which was formerly limited to only economic and legal constraint to all areas of human life:- economic, legal, ethical and philanthropic constraints.

4.4. To propose the social contract theory as the rational ground for explaining why the corporation is to extend its narrow perspective of corporate responsibility (economic and legal) to a broader one holding that a corporation is to be responsible for ethical, and philanthropic concerns as well.

4.5. To propose a social contract-based-stakeholder analysis as an alternative approach to corporate managers and chief-executive officers for their understanding of the nature and functions of corporations which finally lead them to understand their obligation to enhance authentic happiness according to reality (harmonious coexistence) to all stakeholders.

4.6. To provide the guidelines based on the social contract-based-stakeholder analysis for the directors and chief-executive officers to help them solve conflicts in corporations and to conduct their business transactions.

## 5. Objectives

The researcher's social contract-based-stakeholder theory is an integration of a modified social contract theory for business developed by Thomas Donaldson, Dunfee, Norman E. Bowie and Iwao Taka and the stakeholder theory initially proposed by Evan R. Freeman with four objectives.

5.1. A new theory in which a researcher attempts to bridge utilitarianism, deontology, and virtue ethics with fewer difficulties.

5.2. A new paradigm for business transactions in which business practitioners visualise the necessity to broaden their confined view on corporate responsibility and change to hold a broad view on corporate responsibility.



5.3. A philosophical basis for defining obligations, duties, codes of ethics, a corporation (including corporate executives) towards its stakeholders.

5.4. A hostile attitude between a corporation and its constituents is replaced with new paradigm in which an atmosphere of harmonious, and peaceful coexistence is created through an introduction of a new paradigm based on the social contract-based-stakeholder theory.

## 6. Methodology and Steps

6.1. *Methodology*: This research is mainly based on relevant literature concerning (1) the scope and philosophical ground of corporate responsibility of the free market ideology; (2) the concept and the scope of corporate responsibility according to stakeholder theory; (3) the nature of the social contract theory and the application of the social contract theory to business; (4) the application of the social contract-based stakeholder theory to explain business transaction; (5) the information concerning cases about business ethics (economic crimes) from various sources such as newspapers, magazines, periodicals, experts, and business practitioners; (6) the ethical theories and the application of those theories to stakeholder management. The foregoing are meant to make the theory clear and practical to enable a dialogue among economists, lawyers (business crimes) and business practitioners.

6.2. *Steps*: The steps to be followed in accomplishing this research is thus:

- to find authoritative literature relevant to the topics above mentioned;
- to read and integrate all those materials into a practical theory:-- social contract-based stakeholder theory;
- to collect data and information from sources such as newspapers, magazines, experts, and business practitioners for writing cases on business ethics regarding corporate responsibility occurring in Thailand;
- to utilise the social contract-based stakeholder theory to explain the nature of business transactions;
- to have the theory commented by ethicists, economists, lawyers;
- to have the theory revised and amended;
- to finalise the thesis.

## 7. Definition of Terms

7.1. *A corporation*: A corporation is an association of individuals, created to pursue certain purposes as mentioned in the memorandum of association and recognized as legal persons by authority of law, possessing unlimited longevity, limited liability independent from shareholders and owners.

7.2. *Responsibility*: Responsibility primarily refers to the act of accepting the consequence of one's deed of a fully autonomous person. The implication is that a defective, a small child, a non-human entity are not entitled to the responsibility of their deeds. For example, Miss Wanthanee killed her beloved friend by her careless drive, she therefore had to be responsible for the death of her friend. In this thesis the researcher is attempting to apply the concept of responsibility to a corporation which is legal person rather than an autonomous physical person.

7.3. *Corporate responsibility*: It is a set of generally accepted relationships, obligations and duties between a corporation as a legal person and its constituents. This relationship in turn demand a corporation to take responsibility for the consequence of its acts and interactions with its stakeholders. Philosophers and political theorists consider this common understanding the 'social contract.' This contractual relationship demands that a corporation, a party of the contract, heed and concern the welfare of all constituents concerned in every decision-making, policy-making, transactions so as to maintain authentic happiness according to reality, harmony and coexistence. And whenever an undesired or negative consequence arises, a corporation must respond immediately.

7.4. *Social Contract Theory for Business*: It is an attempt to utilize the traditional politico-social contract theory of Thomas Hobbes, John Locke, Jean-Jaques Rousseau, and John Rawls as heuristic device or thought experiment to

determine the obligations, rights and duties of a corporation and its constituents. These obligations are implicit in the mutual and interdependent relationship between a corporation and its stakeholders and are discovered with the lenses of hypothetical contract. However, the research does not affirm that there is a real contract between a corporation and its stakeholders in all cases.

7.5. *Stake*: A stake is any interest, share, or claim a group or individual has in the outcome of corporation's policies, procedures, or actions toward others. Stake and claim can be based on legal, economic, and social, moral, technological, ecological, political, or power interests (Carroll, 1989, p. 57; Weiss, 1994, p. 32).

7.6. *Stakeholders*: A stakeholder is "any group or individual who benefits from or is harmed by, and whose rights are violated or respected by, corporate actions" (Evan and Freeman, 1995). "In other words any group of individual who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization" (Weiss, 1994, p. 32). Caux Roundtable defines stakeholders into six in number namely: -consumers, employees, investors (shareholders and owners), suppliers, competitors, and community. However, there are still other members of the stakeholders of a corporation such as mass-medians, government agencies, financial community, political groups, trade associations and unions.

7.7. *Authentic Happiness According to Reality*: It means “happiness on the happiness of others.” This happiness will be achieved when and only when corporate executives, consumers, employees, investors (shareholders and owners), suppliers, competitors, communities, and other stakeholders of a corporation such as mass-medians, government agencies, local community, political groups, trade associations and unions achieve happiness proportionate to their realities.

## 8. Limitation

This thesis is essentially interdisciplinary in nature. It is mainly based on two major disciplines: economics and ethics (as a branch of philosophy). By nature of this field, practicality overrides theory. The researcher realises the differences in ethical theories, especially between utilitarianism and deontology, which he tries to integrate into the social contract-based-stakeholder theory. However he does not discuss these conflicts at all. His main purpose is not to resolve theoretical problem but to construct a practical theory in line with social contract and stockholder theory. He concentrates on broadening the narrow perspective of corporate responsibility beyond the narrow view of neo-classical economists to the broader view of stockholder models, to all stakeholders and to all aspects of societal life: economic, legal, ethical and philanthropic. There are still no unanimous agreements and criterion on who are to be stakeholders or not and on what criterion is to be used to justify who is or is not a stockholder of a corporation. The researcher decides to



follow the principle of business of the Caux Roundtable<sup>2</sup> in 1986. He also provide a social contract theory for business a rational ground for this broad perspective of corporate responsibility<sup>3</sup>. Based upon this theory he tries to provide practical guidelines for managerial decision-making for business practitioners.

This theory is still at its infancy. It cannot be expected to solve all ethical problems occurring in business world but the researcher expects it to be one of the more practical and flexible tools for managerial decision-making in this changing world. There are still many more issues to be researched in the future. He hopes the theory will be able to work better with more data and information in the future.

## 9. Expectation

Good aftermath that the researcher expects to follow an introduction of a new paradigm based on the social contract-based-stakeholder theory are as follows:

---

<sup>2</sup> CEOs of major corporations from the United States, North America, Europe, Great Britain, Japan, Korea, and countries in South East Asia had a round table in a town of Caux in Switzerland in 1986 to find solutions to scandals arising from business practices and common principles for business transactions. After one week long discussion they jointly announced the principle for business on the basis of stakeholder perspective.

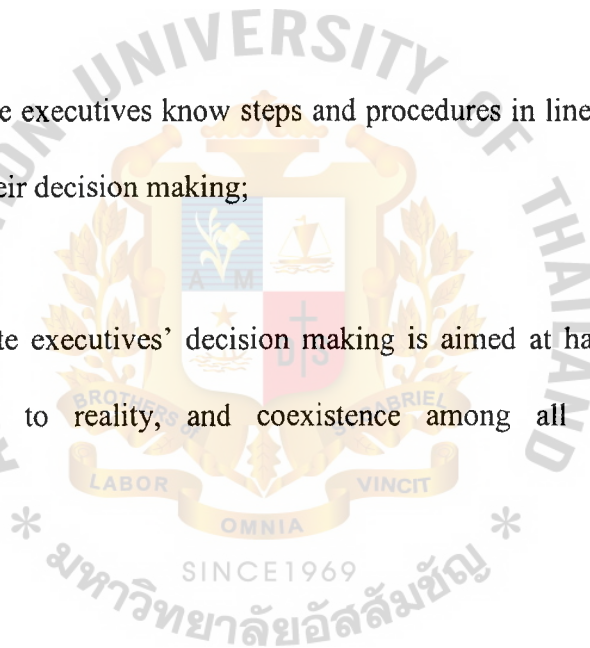
<sup>3</sup> There are actually three aspects of stakeholder theory: descriptive, normative and instrumental. The stakeholder model proposed in chapter 3 is a description of a fact of a relationship between a corporation and its community. Social contract theory for business discussed in chapter 4 is a basis for a derivation of obligation (normative) a corporation towards its stakeholders and areas of corporate responsibility: economic, legal, ethic and philanthropic. In chapter 5, the researcher has discussed partially benefits of adherence to those duties and obligations (instrumental).

9.1. corporate executives understand the multi-tiered relationship between their business organisations and all other stakeholders;

9.2. corporate executives realise their obligations to all other stakeholders. This will encourage them to bring the interest of all stakeholders into their consideration in their decision-makings by taking economic, legal, ethical and philanthropic consideration into account;

9.3. Corporate executives know steps and procedures in line with stakeholder theory to follow in their decision making;

9.4. Corporate executives' decision making is aimed at harmony, authentic happiness according to reality, and coexistence among all parties involved (stakeholders).



## **Chapter II**

### **Free Market Proposal**

Free market ideology proposes that a corporation has only an economic function. It is established in such a way to generate the highest values added for owners and stockholders.

There are two major constraints for businesses according to this ideology: economic and legal. Major proponents are Milton Friedman in his “Capitalism and Freedom” (1975) and “The Social responsibility of Business Is to Increase Profits” (1970, reprinted in Business Ethics, Hoffman, 1995, pp. 137-141); and Theodore Levitt in his article entitled “The Dangers of Social Responsibility,” (1958, reprinted in HBR:GCR, pp. 27-38). Albert Z. Carr in his article entitled “Is business bluffing ethical” (1968, reprinted in HBR:EES part I, pp. 137-144) likens business transactions to a poker game. For him there are only two major concerns of a corporation:-- economics and laws. James Fierser, in his recent article entitled “Do Businesses Have Moral obligations Beyond What the Law requires? (1995, pp. 457-468), supports this view. This stance is collectively labeled ‘ethical minimalism’<sup>1</sup> by the researcher in his thesis.

---

<sup>1</sup> This term is used in many senses. In his thesis the researcher means the stance which holds that corporate responsibility is restricted to only two areas,

## 1. Free Market View on Corporate Responsibility

### 1.1. Milton Friedman

The traditional view of the free market economy holds that the major and sole responsibility of corporate managers is to serve only or primarily their owners' and stockholders' wealth and interests. That is so because business is established exclusively to produce goods and services so as to sell them for profits.<sup>2</sup> The only obligation of business is to make profits. Business has no other responsibilities than to perform this economic function efficiently. This conception of business's role has been one of the cornerstones of its legitimacy- of society's belief in the right of business to exist. Milton Friedman, the most famous contemporary advocate of this view, whose words have been widely quoted states that:

...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 game, which is to say, engaged in open and free competition, without deception or fraud. Similarly, the social "responsibility" of labor leaders is to serve the interest of the members of their unions. It is the responsibility of the rest of us

---

economic and legal. Other areas viz. ethic and philanthropic are optional rather than obligatory.

<sup>2</sup> Gerard Elfstrom in his *Moral Issues and Multinational Corporations* says that profit is like the blood or the breath of business, the lack of profit for a certain period destroys business. "The primal fact of corporate life is that enterprises must grow and seek profits or die.... The fact of competition drives corporations, as a matter of life or death, to seek profits and growth" (Elfstrom, 1991, p. 16).

to establish framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, “led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it (Friedman, 1975, p. 133).

So as to maintain their interest, owners and stockholders hire corporate executives to manage a corporation in such a manner to make profits for them. The fact that these corporate executives receive their salaries from owners and stockholders of the corporations; their fiduciary<sup>3</sup> relationship with the owners and stockholders binds them with direct responsibility and loyalty to accomplish their employers’ purposes for maximizing profits for them.

In a free-enterprise, private-propriety system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.....In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary

---

<sup>3</sup> A legal term connoting the relationship between a principal and his/her agent. The principal entrusts his/her property to his/her agent for protection and benefit-increase. And in turn the principal promise to commensurate his work with a certain form of fringes and benefits, such as salaries, stocks and bonds.



institution, and his primary responsibility is to them (Friedman, 1970, p. 138).

Michael Hoffman (1995, p.130) comments on the stance that the corporate executive's primary and sole responsibility to increase profits does not imply that they can do anything that they want so as to attain such purpose. "It is important to realize that Friedman is not claiming that a corporation has no responsibilities and obligations. Rather, he is arguing that corporations are directly responsible to only one set of people-- their stockholders" (Hoffman, 1995, p.130). This does mean that corporate executives have certain, however limited, scope of responsibilities, and they cannot do anything they imagine so as to make profit for their employers. "While conforming to the basic rules of the society, both those embodied in laws and there embodied in ethical system" (Friedman, 1970, p. 138). However some of his followers take the economic function of corporations radically and Friedman himself does not make it clear at this point. In all his writings he emphasizes only the economic function of a corporation within the constraint of laws and he does not spend any paragraph discussing other aspects of business responsibilities such as legal, ethical and philanthropic constraints.

Moreover, Friedman strongly criticizes the emerging view holding that "corporate officials and labor leaders have a social responsibility that goes beyond the interest of their stockholders or their members" (1975, p.133). For him, this view is a "misconception of the character and nature of free economy" (1975, p.133). In a free

market society, the capital invested, the risks taken, and the endeavor devoted for the success of the corporation belong to the owners and shareholders. He argues that corporate executives are rather “agents of the owners and shareholders....than of the customers, creditors, the state, or the corporation’s immediate neighbors..., as agents they would be expected to show the interest in determining how their principals want to act accordingly” (Stone, 1975, reprinted in Hoffman, 1995, p.143). The owners and shareholders establish a corporation as an instrument to invest for the highest profits possible. Since profits come from their resources, savings or loans, they invested, it is justified that profits must be returned to them. If corporate executives use that money for other purposes, like a contribution to the support of charitable activities, than to give it back to the owners and shareholders, they violate the contract they made with their employers. Milton Friedman thus writes:

Such giving by corporations is an inappropriate use of the corporate funds in a free-enterprises society. The corporation is an instrument of the stockholders who own it. If the corporation makes a contribution, it prevents the individual stockholder from himself deciding how he should dispose of his funds...Such contributions should be made by individuals who are the ultimate owners of property in our society. People who urge extension of deductivity of this kind of corporate contribution in the name of free enterprise are fundamentally working against their own interest...(1975, pp.135-6).

In his article written in the *'New York Times'* (1970) Friedman contends that corporate executives who spend the corporate' profits to the social charity is spending "someone's else money for a general social interest. It is worse if by "his action in accordance with social responsibility, he reduces the returns to stockholders and, he is spending their money...in a different way than they would have spent it" (Friedman, 1970, p.138).

Moreover the view that demands corporate managers to exercise responsibility to the society at large not only ask corporate executives to violate their obligations to owners and shareholders but also request the corporation and its managers to do a job that is outside their scope of responsibility and of which they have no expertise at all.

This is fundamentally subversive view doctrine. If a businessman does have a social responsibility other than making maximum profit for shareholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is? Can they decide how great a burden they are justified in placing on themselves or their stockholders to serve that social interest? It is tolerable that these public functions of taxation, expenditure and control be exercised by those who happen at the moment to be in charge of particular enterprises, chosen for those posts by strictly private groups? If businessmen are civil servants rather than employees of their stockholders then in a democracy they will sooner or later be

chosen by the public techniques of election and appointment

(Friedman, 1975, pp.133-4).

The logic implicit in the preceding argumentation is “[c]lassical liberal theory maintaining that public and private realms exist as separate spheres which contain distinct types of relationships and activities” (Harrington, 1996, p.374). Friedman argues that there must be an absolute separation between the roles of government and that of corporations. While the former is responsible for preserving freedom for its citizens and providing public welfare, the latter is responsible for gaining profit for an individual who owns or holds the shares of the corporations. Corporate executives are agents of shareholders. Their expertise is making profits and serving the interests of shareholders and owners, not providing social services which are not their expertise at all. How can they do the job, providing social services to a society, which they do not know how to do it well. Government is the expert in this field, and they know how to do it well; therefore this job should be exclusively left to responsibility of a government.

Furthermore, Friedman contends that it is unfair to require corporate executives to provide social services. And if any corporate executive tries to do so, they are in effect “taxing stockholders (and owners), but because they are private employees rather than publicly elected officials, their actions lack authority and legacy. ....The legitimacy of corporate activity depends on executives defining themselves to the role of agents serving the interests of those who own stocks in the

corporation. Social responsibility is the job of government, not business” (Hoffman, 1995, pp.130-1). If corporate executives get involved in social services they are acting as publicly elected officials instead of being private employees. And such commitment is incompatible with free market principle, since it overlaps with the socialist practice.

This is the basic reason why the doctrine of “social responsibility” involves acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.....(the corporate executive is an expert in running his company-in producing product or selling it not in reducing inflation or solving social problem) (Friedman, 1995, p.139).

### 1.2. Theodore Levitt

Theodore Levitt has limited the responsibilities of business into only two areas:-- “...business has only two responsibilities- to obey the elementary canon of everyday face-to-face civility (honesty, good faith, and so on) and to seek material gain..” (Levitt, 1958, reprinted HBR:GCR, p.35). “Welfare and society are not the corporation’s business. Its business is making money, not sweet music.....In a free enterprise system, welfare is supposed to be automatic; and where it is not, it becomes government’s job, and business’s job is not government” (Levitt, 1958, p.33). He agrees with Milton Friedman in that there must be an absolute separation between the

function of government and that of a corporation as a privately owned property. “The function of business is to produce sustained high-level profit. The essence of free enterprise is to go after profit in any way that is consistent with its own survival as an economic system” (Levitt, 1958, p.30). What is most dangerous for Levitt is not the fact that corporations and managers are required to pursue profits. This is, in fact, the very nature of corporations. They were created out of the greed of material gain and live for the acquisition of material property. If it wants to survive it must struggle.

.....the powerful whose future and perception are shaped in tight and materialistic context of money but which imposes its narrow ideas about a broad spectrum of unrelated non-economic subject on the mass of man and society.....What is bad for this or any other country is for society to be consciously and aggressively shaped by a single functional group or a single ideology, whether it may be...(Levitt, 1958, pp.30-31).

If corporations exist to seek profit, not charity; self-interest, not social welfare; coercion in such manner is certainly bad “for man, bad for business, bad for society, and ultimately bad for the corporation itself” (Levitt, 1958, p.31).

Like other institutions in our societies, business, as an economic entity, wants to survive. “It wants security from attack and restriction; it wants to minimize what it believes is its greatest potential enemy-- the state...It is felt that these are the best possible investments it can make for its own survival” (Levitt, 1958, p.33). It is only



profit which determines its fitness to survive. Any corporation in loss for several consecutive years will certainly cease its existence.

### 1.3. Albert Z. Carr

Albert Z. Carr in his article entitled “Is business bluffing ethical” (1968, reprinted in HBR:EES, pp.137-144) likens business activities to behaviors of playing a poker game in which each player is ready to seize every opportunity to win, as long as it does not involve an outright cheating. The only constraint of a poker game players is game rules which are predetermined before the game being played and each player is supposed to know all the rules before entering the game. A wise player is allowed to use any tactic that he can discover so as to win and the winning with even crook tactic is legitimate as long as the player is not caught for violating explicitly game rules. As he writes:

So long as a businessman complies with the laws of the land and avoids telling malicious lies, he's ethical. If the law as written gives a man wide-open chance to make killing, he'd be a fool not to take advantage of it. If he doesn't, somebody else will. There is no obligation on him to stop and consider who is going to get hurt. If the law says he can do it, that's all the justification he needs. There is nothing unethical about that (Carr, 1968, p.130).

For Carr, law is codified ethics; and there is no room for ethics beyond those ethical stipulations that are codified into laws. The implication is that whatever deed

is allowed by laws of a certain country, it is not only lawful but also ethical. “We don’t make the laws. We obey them. Then why do we have to put up with this ‘holier than thou’ talk about ethics?” (Carr, 1968, p.131). For example, if killing a weaker rival for the purpose of enhancing corporate competitiveness in the market is lawful, it is also ethical. Moreover it is a fool not to do so, because others will certainly do if they have a chance like that. One’s failure to do so means a loss of competitiveness. “We’re in a highly competitive industry. If we are going to stay in business, we have to look for profit wherever the law permits” (Carr 1968, p.131). That is because profit is the breath, blood, and life of business. As long as business can gain profit, it can maintain its competitiveness and can stay in the world of business. Therefore if a business fails to kill in case that it is allowed by law, it kills itself.

We live in what is probably the most competitive of the world’s civilized societies. Our customs encourage a high degree of aggression in the individual’s striving for success. Business is our main area of competition, and it has been ritualized into game of strategy. The basic rules of the game have been set by government, which attempts to detect and punish business frauds. But as long as company does not transgress the rules of the game set by law, it has the legal right to shape its strategy without reference to anything but its profits (Carr, 1968, p.132).

This does not mean that virtues such as truthfulness, honesty, sympathy, friendliness, justice..etc. should not be adhered at all by business people. These virtues are private concerns rather than the public affairs. In his private life a businessman can adhere to these virtues as he wishes. If he cannot he does not commit any mistakes. However, whenever he enters a business world, he has to commit himself completely to the business game. It is the game of 'a struggle for survival of the fittest'. He must do everything within constraint of game rules so as to maintain its competitiveness, high profits and survival. Carr's argument is based upon the fact of carrying out business. All businessmen have to face the problems in which there is a conflict between ethical standard and economic gain. Those who never have this experience are very lucky. However they will certainly face one form or another kind of this ethical dilemma sooner or later. In such dilemmas, a businessman has to "strive to put himself into strong position where he can defend himself against such pressure in the future without loss" (Carr, 1968, p.134). If he has to be a "winner in business game he must have game player's attitude (Carr, 1968, p.132).

"This is not to say that sound business strategy necessarily runs counter to ethical ideals" (Carr, 1968, p.132). Carr's logic is radically utilitarian. Adherence to virtues in the world of business is allowed only on the utilitarian basis. On one hand a business man should or even must hold on codes of ethics only if he sees a chance of a long run profits in doing so. "If it takes a long term view of its profit, it will preserve amicable relations, so far as possible, with those with whom it deals" (Carr,

1968, p.132). On the other hand if a businessman sees a better chance for greater profits out of the adherence to virtues than doing otherwise, he is also strongly advised to be virtuous. "A wise businessman will not seek advantage to the point where he generates dangerous hostility among employees, competitors, government, or the public at large. But decisions in this area are, in the final test, decisions of strategy, not of ethics" (Carr, 1968, p.132). This implies that unethical act which does not outrightly violate the law is allowed if it can help maintain profits, competitiveness, and survival of a business.

To be a winner, a man must play to win. This does not mean that he must be ruthless, cruel, harsh, or treacherous. On the contrary, the better his reputation for integrity, honesty, and decency, the better his chances of victory will be in the long run. But from time to time every businessman, like a poker player is offered a choice between certain loss or bluffing within the legal rules of the game. If he is not resigned to losing, if he wants to rise in his company and industry, then in such a crisis he will bluff- and bluff hard (Carr, 1968, p.134).

This quotation implies that deception for profits in business, for example, in advertising or in telling the cost of the products which does not outrightly violate law, is ethical as well as legal. Deception in these cases like these is part of the rules of business game. "Since we do not morally condemn pokers players for attempting to deceive opponents with their poker faces, by analogy we should not condemn

business for doing what is necessary to legally make sales when it involves going contrary to our common moral institutions” (Fieser, 1996, p.461).

Carr is also relativistic in his view about value of business. Law and ethics are just social convention and there is no universal legal and ethical value. All can be changed by administrative, legislative and juridical sovereignty of the government. It is not the duty of business to make changes. Business has a duty to obey and to adjust to the convention that changes. “If law governing their business change, or if public opinion becomes clamorous, they will make the necessary adjustments. But morally they have in their view done nothing wrong. As long as they comply with the letter law, they are within their rights to separate their businesses as they see fit” (Carr, 1968, p.131).

#### 1.4. James Fieser

In line with Milton Friedman, Theodore Levitt and Albert Z. Carr, James Fieser argues that there are two fundamental conditions which define the nature and scope of business: making profits, and obeying the law, to which he refers as the profit principle and the law principle. They both are the sufficient and necessary conditions for the general notion of business enterprises. Business of business is business. “[T]he very concept of business ethics is contradiction in terms. By its nature, business is supposed to be unscrupulous and driven by the need for success, so where is the room for ethics?” (Fieser, 1996, p.457). This assumption lead to similar conclusion about the sole role of managers as that of his predecessors: to make a

profit for stockholders because they are under fiduciary relationship with their principals. The law principle is necessary just because it is “the contractual framework within which business operates. Further, if laws are backed by sufficient sanctions, rejection of the law principle would be self-destruction for both business and business owners” (Fieser, 1996, p.458). He refers to moral principles which are not codified into laws ‘supra-legal obligations’. The social request for business to be bound by supra-legal obligations fails rationally. “Supra-legal obligations appear optional to business people, and it is unreasonable to expect businesses to perform duties which appear optional” (Fieser, 1996, p.457). In short, businesses have no moral obligation beyond what the law requires since these are the rules of the game the players know before joining the game voluntarily. For him a moral principle must have majority endorsement within a cultural context (Fieser, 1996, p.457). Business ethics that quest for independent moral principles should be seen as part of a prelegislative or pre-regulatory dialogue rather than universal value.

## **2. Free Market Understanding of Corporation.**

Friedman contends that “the corporation is an instrument of the stockholders who owns it” (Friedman, 1975, p.135). In other words a corporation is a pure economic institution and “a private property, instrument of owners designed primarily to make money” (Hoffman, 1995, p.132).



This concept is not all correct. Few corporations are owned by one or few people. Most modern corporations, especially public companies, are owned by hundreds of people.<sup>4</sup> Michael Hoffman (1995) points out that if we view a corporation a privately owned property with the sole function to increase profits within the constraint of laws only. However great a number of shareowners in a corporation are, it can never make a corporation a share-value community. “They are (just) collections of individuals who work together to establish a corporate policy, make a corporate decisions, and execute corporate actions” (Hoffman, 1995, p.132). This leads to a conclusion that the perception of a corporation as a private property is the origin of the narrow view of corporate responsibility. “[I]f we hold that a corporation is a privately owned enterprise designed to make a profit, for example, we are likely to have a narrow view of corporate responsibility...”(Hoffman, 1995, p.129).<sup>5</sup>

---

<sup>4</sup> According to the decree regarding the public company limited, Article 15(enforced in B.E. 2535) a public company is a company found with a wish to sell stocks and shares to the public. The liability of shareholder/stockowner is limited to the value of stocks and shares s/he is holding. The founders, of at least 15 persons, have to state the wishes thereof explicitly in the memorandum of association. The company has to register as a public company limited as well. Peter French (1997, reprinted in Hoffman, 1995, pp. 176-183) has argued that these corporations are not private corporations any more. They are quasi- public institutions.

<sup>5</sup> Pollock, an epistemologist, holds that we behave in accordance to what we believe. A businessman who believes that a corporation is an economic institution created solely for making profits is likely conduct his business in a different way from another businessman who perceives his corporation an institution in which men work together for shared values.

## 2.1. The Agency Theory

The idea embracing executive managers' roles appropriate to the free market ideology is the agency theory. According to this theory an executive manager is the “agent of the individual who owns the corporation or establishes the eleemosynary institution” (Friedman, 1975, p.137). Hoffman points out the empirical fact for this assertion that: “stockholders (as the owners of corporations) elect representatives - the board of directors-- to establish board objectives and direct corporate activities. The directors in turn select corporate officers to execute their policies. Management is thus accountable to the board of directors, and the board to stockholders” (1995, p.132).

Moschandreas observes that “an agency theory exists when one individual (the agent) acts on behalf of another individual (the principal)” (1994, p.296). For example, a doctor decides for his patient in the technology proper to cure his patient's diseases, a lawyer decides for his client in selecting the proper proofs to defend him, and the executive manager decides for his employers the strategy, he thinks, will protect and increase their properties. Thus a medical doctor is the agent of his patient, a lawyer an agent of his client and an executive manager an agent of the shareholders or owners. L. Katherine Harrington has pointed out the key feature of the agency theory as follows:

...(1) a view of the firm as the nexus of explicit contracts between resource holders.; (2) an understanding of the agency relationship as

existing when a principal (stockholder) engages an agent (managers) to perform services on their behalf; and (3) the definition of management's role as that of maximizing the interest of shareholders (understood as wealth maximization) (1996, p.378).

It is remarkable that economists use the word agent in a sense much looser than a physician or a lawyer. An economist use the term 'agent' in a sense more in line with the common usage, viewing an agent as "a person who is hired to undertake someone's deeds on behalf of someone else" (Ricketts, 1994, p.106). This same term is used quite differently in law. "The lawyer, an agent, is a person invested with legal power to alter the principal's legal relationship with the third parties. The two partners are one another's agents in a strict legal sense, since each can bind the other in a contractual agreement with third party" (Ricketts, 1994, p.106).

## 2.2. Fiduciary Relationship

Agency theory generates the fiduciary relationship between executive directors and shareholders.

The agency relationship which is of central importance to the firm's operation arises when principal(s) (owners) engages agent(s) (managers) to operate on their behalf... This agency relationship (between principals and agents) creates a fiduciary responsibility on part of management which requires exclusive pursuit of maximization goals (Harrington, 1996, p.378).

The fiduciary relationship means that shareholders, owners or investors who are principals of a corporation assign executive directors who are their agents to operate business transactions for them. In return to their work, agents are awarded with various forms of fringes and benefits such as salaries, bonus, stocks and bonds, and many others.

Maschandreas (1994) observes that top managers' fiduciary relationship with owners or shareholders is quite different from that of the lower rank of the management. They have to play dual role. "They have to act as principal in their relationship to lower management and other personnel. They act as agents in their relationship with shareholders" (Maschandreas, 1994, p.306).

### **3. Philosophical Foundation of Free Market Enterprise's View:**

#### **3.1. Motives of Business Enterprise**

It is universally admitted that free market enterprise is rooted in the philosophical and economic thought of Adam Smith, a professor of moral philosophy at Glassgrow University. In his "*An Inquiry into the Nature and Causes of the Wealth of Nations*" Smith argues that the motive of business activity is self-interest. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard of their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their own advantage" (WN I.ii., 1993, p.22). According to this view, the pursuit of

self-interest is morally justified since it is demanded by human nature. A corporation is seen as amoral institution that is established to serve the self-interest and material motives of owners and shareholders.

### 3.2. Invisible Hand Argument

Regarding the question that if everyone in the business world pursues their self-interest in operating their businesses, how can the harmony in society be achieved?; Adam Smith postulates the doctrine of “invisible hand ” to answer this question.

As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention (WN IV.ii., 1993, p.292).

Adam Smith argues that the “pursuit of one’s own self-interest is morally justified, because the pressure of an “invisible hand” ensures that each entrepreneur’s pursuit of his or her profit will certainly maximize the good of the whole. This implies that it is moral for individuals to pursue their interests without regard to the general good of the society, the invisible hand of the free market will automatically transform the individual’s pursuit of economic gain into the general utility of the society. This argument is embedded in the fact that capitalists choose to invest in certain business so as to increase his own gain. It is clear from the outset that they are pursuing their own interests. But the unintended result is the promotion of the public interest, which Smith equates with the rendering “an annual revenue of society as great as he can” (Bishop, 1995, p.166 ). In another passage Smith maintains that:

Every individual is continually expecting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of society he has in his view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer the employment which is most advantageous to the society (WN IV.ii., 1993, p.289).

It seems clear from this quotation that the pursuit of ones’ self-interests or advantages makes business people unintentionally and unknowingly promote the public interest, or what is most advantageous to society. For Smith, this is an empirical assertion of what will happen in the external world when everyone pursues their self-interests. It is empirical in that it predicts that in the given situation of a free market, when certain



types of actions (everyone pursuing their own interests) are advanced, a certain result of public good promotion will come out.

The utilitarian logic behind this argumentation can be clearly traced. An action is morally justified, if such an action produces multiple benefits. It is assumed that by everyone's pursuit of their own interests, the advantages of society will certainly be achieved. Therefore the pursuit of self-interest is morally justified and it ought to be followed. According to this logic, self-interest is inherently morally neutral. It can be either good or bad. And one ought to follow it because of its consequences. Everyone ought to pursue their self-interests so as to actualize the social benefits. According to Christian ethics, a sole pursuit of self-interest, greed and avarice is considered to be a vice. Virtues are practices of opposite characters, for example, benevolence, generosity, self-denial, etc.

Smith derived this tradition from an economic writing of the mid-eighteen century, Bernard Mandeville. In his "Fable of the Bees," which was first published in 1714, he argued that the personal vices of greed, avarice, envy etc., were not intrinsically bad but were actually public virtues<sup>6</sup> in that they drove people to thriving economic activities. He proposed that the view holding that pursuit of luxury and flaunting material wealth which were known to be vices and socially harmful should

---

<sup>6</sup>This is different from Christian virtues of poverty, chastity, and obedience. It is also different from Platonic virtues of wisdom, courage,...and justice; and Aristotelian virtues of courage, justice.

be changed. The pursuit should be taken as morally neutral. That is if it brings about good consequences, it is morally good; and conversely if it brings about bad consequences, it is morally bad. “Things are good and evil in reference to something else, and according to the light and position they are placed in” (Mandeville, 1714, cited in Novak, 1995, p. 65). The fact is that the pursuit of self-interest leads to benefits of societies. “Pride and vanities have built more hospitals than all the virtues together” (Mandeville, 1714, cited in Novak, 1995, p. 65). That is the reason why the pursuit of self-interest is morally good. This tradition was then transmitted to David Hume and later on to Adam Smith.

### 3.3. The Invisible Hand Argument Today

At present, one of the reasons why Friedman and Levitt attributes the pursuit of profits as the sole social responsibility<sup>7</sup> of the corporation is based on their confidence in the ‘invisible hand.’ For Friedman, Adam Smith’s discovery of the ‘invisible hand’ is the greatest achievement because it provides an empirical fact which serves as an assurance for the good outcome of business transactions. In his *Adam Smith’s Relevance for 1976* he puts that: “Smith’s...great achievement-- as Hayek and others so eloquently pointed out-- is the doctrine of the ‘invisible hand’,

---

<sup>7</sup> It is notable that Friedman does not say that one can do anything so as to maximize economic gain for the shareholders or owners. He clearly mentioned that such transactions must be conformed to the law, cultures and codes of ethics. However Friedman does not give any details of how to conform codes to of ethics. He mentions it only once and never say anything about it again through the whole book. That may be the reason why the pursuit of profit is interpreted as the sole purpose of business transactions through his whole writing.

his vision of the way in which the voluntary actions of millions of individuals can be coordinated through a price system without central direction” (Friedman , 1978, p.17).

Friedman appears to have a strong belief in the empirical truth of the invisible hand argument. It can be argued that he also accepts the moral version of it. In arguing that a businessman “ought to pursue only profits, he could be thought to support the strong form of moral corollary, namely, that the invisible hand place people and companies under a positive moral obligations to pursue only their own interest” (Bishop, 1995, p.170). For scholars in this school, the pursuit of self-interest is a natural phenomena which will automatically brings about good consequence. Therefore it is an “ought” and a “must” that a businessman follows it. Actually he must not and ought not to resist it. That is the reason why Levitt maintains that however narrow his view considered to be by his rivals, it is not morally wrong with this position. By contrast, the view should be morally narrower.

Now there is nothing wrong as such with the corporation’s narrow ambitions or needs. Indeed, if there is anything wrong today, it is that the corporation conceives its ambition and needs much too broadly. The trouble is not that it is too narrowly profit- oriented, but that it is not narrowly profit -oriented enough. In its guilt-driven urge to transcend narrow limits of derived standards, the modern corporation is reshaping not simply the economic but the

institutional, social, cultural, and political topography of society  
(Levitt, 1958, p.84).

In modern economics, the reference to the invisible hand argument is usually made especially in terms of welfare economics. This branch of economics attempt to provide an empirical proof that the free market system will finally lead to the Paretian-optimal outcomes in the use of resources for optimal production. From this empirical reference, a moral conclusion is drawn. A recent survey of opinions of senior managers in Europe found out that 60% of responders interviewed on ethical issues refers to the invisible hand<sup>8</sup>. Gibbard has given an observation thus:

Much of the work of theoretical welfare economics consists in investigating claims that free exchange produces optimal incentives. This work elaborates and assesses Adam Smith's claim that under a system of free exchange, economic agents act "as if guided by an invisible hand" [*sic*] to produce an outcome that is best in some sense (Gibbard, 1985, p.26).

Kenneth Goodpaster and John B. Matthew (1982) have given a similar comment in their co-authored article entitled "*Can a Corporation have a conscience?*" thus:

A deliberate amorality in the executive suite is encouraged in the name of systematic morality; the common good is best served when each of us and our economy institutions pursue not the common good or moral purpose, advocates say, but competitive advantage.

---

<sup>8</sup> The result of the survey was published in 'Ethics and Economic Success'; *European Business Ethics Newsletter*, May, 3: 1992.

Morality, responsibility, and conscience reside in the invisible hand of Free market system, not in the hands of the organization within the system, much less the managers within the organizations (1982, HBR, p.136).

#### **4. Problems of the Free Market View on Corporate Responsibility**

The narrow view of the free market advocates on corporate responsibility causes unresolvable problems both practically and theoretically. In this thesis the researcher attempts to point out defects and evaluate this view on corporate responsibility on ethical perspectives. Three major evaluations on the view of corporate responsibility according free market that the researcher attempts to raise are:

4.1. It is a fact explicit to all people that corporate activities affect lives of almost all people, negatively and positively, in all aspects of their lives, economically, legally, ethically, socially, culturally...etc.. Then what is the reason why a corporation including corporate executives should refrain from responsibility of the consequences of their acts on the lives of human beings (including other entities)? Moreover, a corporation survives and prospers on the contributions of numerous constituents. On the basis of the golden rule:-- treat others as one want to be treated. Why should a corporation enjoy a privilege of not to contribute anything to its constituents at all?

4.2. It is clearly seen that business malpractices (including economic crimes) cause losses, damages and sufferings to people and economy of the whole country. In some cases these criminals did not cause death to the victims, however these crimes drove so many victims to the situation worse than death.<sup>9</sup> It is noticeable that laws (especially those of developing countries) cannot cope with all these sophisticated frauds and cheating, however moralists and lawyers attempts to establish new and more efficient measures and approaches to deal with these problems. If the thesis proposed by Milton Friedman, Theodore Levitt, and Albert Z. Carr is correct, how can we explain business crimes which cause loss and damage economically, psychologically to the unfortunate victims, national economy, and tremendous environmental depletion?

4.3. If the managerial capitalism view held by classical economists is correct. Executive managers are not obligated to take any other responsibilities than economic return for shareholders and owners. Who will be responsible for the damages caused by such business transactions?

This theses is attempting to falsify the narrow view on corporate responsibility of the Free market advocatës. The researcher's stance is that corporate executives have other responsibilities other than serving the interest of owners and stockholders.

---

<sup>9</sup> During 1970-1980 many people engaged in the petrol chain share (Mae Cha Moi) sold their salaries of the next five years in exchange for loans. And then they spent the loans for investment. After that the chain share collapsed and they had to work for five consecutive years without receiving any salaries even of one stang.



They have to take responsibility for the welfare of all stakeholders. The areas of corporate responsibility must be extended to the areas of ethics and philanthropy.

The philosophical ground serving as an explanation of the broad view of corporate responsibility (stakeholder principle) is the existing explicit and implicit contract between a business institution and its stakeholders. This social contract requires the business institutions to strive for the benefit of each stakeholder. If a conflict between different stake or stakes arise, corporate executives have to arbitrate and decide for a transactions in which the greatest possible benefit can be achieved by all parties; if there is unavoidable losses and damages, only the alternatives that cause the least possible negative effects to a party or parties involved are allowed.

## 5. Attacks to Managerial Capitalism

The researcher is trying to falsify the narrow view of free market advocates on twelve points as follows:

5.1 According to Milton Friedman in his '*New York Time*' article (1970) "The Responsibility of Business is to Increase Profits," corporate executives are agents of the individuals who own the corporations or who hold shares of the corporations. Through 'the proxy machinery' shareowners decide who the managers are and assign them with a mission to preserve their benefits. Milton Friedman argues that executive managers are agents "of the individuals who own or establish the

eleemosynary institution, and his primary responsibility is to them (1970, Hoffman 1995, p.138). Corporate executives ought morally to consider themselves more the agent for shareholders and owners than customers, creditors, the state, or the corporation's immediate neighbors.

Hoffman points out that “fiduciary is a person to whom property of power is entrusted for the benefits of others” (1995, p.130). Stone (1958, reprinted in Beauchamp and Bowie, 1983, p.143) contends that this perception is a mere expectation of very few shareowners. If the managers truly consider themselves the agents of the shareowners, they would be expected to act in such a way that their principals would do in such the way so as to protect and increase their properties. For example an envoy, as an agent of the county, acts primarily and exclusively for the benefits of his country and his citizens.

But it is not true that managers truly consider themselves the agents of stockholder/shareowners because their perspectives and purposes are not always identical to that of the shareholders and owners. Moreover their purposes are often opposite to those of the shareowners. Actually shareowners realize this fact, they therefore attract executive managers with various forms of rewards such as high salaries, bonuses, benefits and even ownership in terms of stocks and shares so as to seek their conformity and threat them with punishment for their divergence.

Moreover, modern companies are big institutions with thousand of shareowners. Which group of people or entities that managers (of a corporation) should consider to be their agents. It might be more acceptable to say that managers are agents of corporation. But a corporation is a legal person in distinction from shareowners.

5.2. The pure ideological form of managerial capitalism advocates the seeking to maximize interest of stockholders, the criticism of the governmental regulations and intervention, the endorsement of the “invisible hand” doctrine.

The fact that externalities, moral hazards, and monopoly can occur in any capitalistic society. These phenomena cause “tragedy of the commons” or free-rider problems that pervade the public good such as water and air pollution. If all are completely driven by self-interest, no one has an incentive to incur the cost of clean-up or the cost of non-pollution strategy, since all these activities mitigate the marginal gain of the firm. When every firm reasons this way, the result is pollution of water and air. Finally these externalities, moral hazards, and monopolies lead to more external control on the managerial capitalism by the government. Evan and Freeman (1982) point out that if all firms have sought to internalize the benefits and externalize the costs of their actions. There is no incentive to economize. There arises a tendency to an excessive use of resources involved and the deterioration of workers’ health. This situation will eventually draw government to intervene with taxation and

regulations. This is to show that the pursuit of pure ideological capitalism leads to self-contradiction, (non-managerial capitalism). The pure pursuit of profits without moral values finally lead to the decrease of profits and freedom.

5.3. According to this argument the management has made a contract with owners and shareholders to increase profits for them. He is obligated to keep this promise. If he fails to increase profit for them as promised, he breaches the contract. This view rests on the empirical fact that corporate executives are hired by shareowners to earn profits for them. Both parties voluntarily sign bilateral contract. Stone has given an allegory to clarify this transaction thus:

A widow who was left a large fortune goes to a broker, asking him to invest and manage her money so as to maximize her return. The broker, let us suppose, accepts the money and the conditions.....if he did what was opposite, he violated a promissory obligation to the widow (Stone, 1995, p.142).

This allegory sounds reasonable but it cannot give the right picture of today's business activities. Few investors ever put or give their money directly into a corporation or to executive managers upon the express promise of management that they operate the corporation so as to maximize the highest return to owners and stockholders. The clearest example is seen in the public companies registered in the securities exchange of Thailand. Shares outstanding held by most investors today were issued years ago and found their way from one hand to the other, day by day and year by year, to their

current shareholders. For example, Mr. C. bought them from Mr. B, and Mr. B bought them from Mr. A, and Mr. A bought them from the purchaser of the original issue who in turn had bought the shares through an underwriting syndicate. When investors purchased securities, they do not make any promise requiring management to make profit for them. Moreover, a prospective investor does not purchase a security because they expect managers to make profits for them, but because of a good record of the company in making profits. They purchase securities just because of their expectation that management will make profits as it did before. This ability will in turn boost the values added to the shares they are holding and in turn creates surplus values.

In case of family and middle-sized corporation, this allegory can give us a partial picture of business transactions. Even if management had made an express promise to its shareholder and owners to maximize profits it does not mean that they can “maximize profits” in any manner they wish. For example they cannot pollute environment, ignore or break laws, or harm others. If there is such terrible contract for any reason, most people would suppose it ought- morally- for such promise to be broken in any case. “There is nothing in the argument from promises that would wed us to a regime in which management was bound to maximize the income of shareholders” (Stone, 1995, p.142).

5.4. However seriously Friedman, Levitt and many modern economists have believed in the invisible hand to generate benefits to the society automatically amid the pursuit of self-interest of businessmen. It is remarkable that Smith, himself, does not seem to believe seriously in this issue. John D. Bishop remarks that Smith uses the phrases 'invisible hand' only three times in his whole writings, once in each of these three literature: *'History of Astronomy'* (II.2), *Theory of Moral Sentiments* (IV.i.10), and *The Wealth of Nations* (IV.i.9). Moreover in some passages referring to the invisible hand he appears inconsistent and self-contradictory. In one passage he writes that the pursuit of self-interests of business people does not lead to a promotion of the public interests. Their interests generally conflict with the public interest. In their greed for self-interest they deceive and even oppress the public. Surely one can hardly gain from others' deception and oppression. If one can, it is by rare chance.

The interests of this third order [those who live by profit], therefore, has not the connection with the general interest of society as that of the other two [laborers and landlord].....The proposal of any law or regulation of commerce which comes from this order [those who live by profit], ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interests is never exactly the same with that of the publick, who have generally an interest to deceive and even to oppress the publick, and



who accordingly have, upon many occasions, both deceived and oppressed it (WN I.xi., 1993, pp.156-157).

5.5. The invisible hand works well only in a hypothetical symmetry market in which every individual can access to information equally. But the market in today's world is asymmetry. It is absolutely impossible for every individual to access to information equally. For example producers are able to know the full information like raw materials for production, the strong points and defects of the products they produce. And it is impossible for consumers to know all these vital information necessary for their rational decision. Surely, the producers will never disclose such defects to the consumers (they are considered to be trade secret), if the government does not require them to do so.

If an 'invisible hand' really works it means that product recall is completely irrational. One of the best way to increase profits is to reduce costs. But cost reduction will certainly affect product quality. This is a simple logic of a choice making. If you choose to spend the only ten baht you have on a notebook, you cannot spend it on a pencil. If an invisible hand really works, sub-standard materials that a producer uses to produce a car for the purpose of reducing costs of production and increase profits, will eventually bring about optimal safety to drivers. Any company that recall a certain model of cars for fear that it will endanger consumers is completely irrational. They are doing what is opposite to what they believe. By

contrast they do so, because they are not confident in what the free market advocates propose. On the contrary they do believe that radical greed for profits can certainly cause dangers to their consumers, which will make their consumers lose trust in them.

5.6. Our society assigns obligations to people on the basis of their roles or status, independent of any specific verbal promises they made. For example, captains are bound to protect his seamen and passengers on board; doctors to prolong and protect the lives of their patients; priests to care for the spiritual health of his parishers; parents to protect and foster their children. Management never actually promises the shareholders that they would maximize shareholders' investment, however they have certain roles to perform. Modern business considers directors and top management, as well as lawyer would say, as fiduciaries. Directors are fiduciaries of shareowners, of course as they are subject to the legal limits of fiduciaries-- that is to say, they cannot engage in self-dealing, "waste" of corporate assets, and the like (Stone, 1995, p.143).

Being fiduciaries to shareowners, executive managers are not excluded from social responsibility or even allowed to do anything harmful to the society just for the benefits of a corporation. And it cannot give them any excuse from contributing what is to the society at all. Moreover, fiduciary relationship is not single, but multiple. For example, a medical doctor has a fiduciary relationship not only with his patients but also with the management of the hospital in which he is working, with medical

association, ... etc. In the same manner, corporate executives have fiduciary relationship with not only shareowners but also employees, communities. For example, employees sometimes entrust executive managers with power in wage negotiations, working condition, bonus, etc. A community entrusts executive managers with power to use infrastructure, to hire workers in the community, to dump tolerable toxic by-products to the community. Therefore, an executive has a duty to serve not only the benefits of shareowners but also of other stakeholders.

5.7. The traditional view holding that management is to pursue market transactions in such a way that profits for stockholders and shareholders are maximized. The assumption aforementioned is rooted in the corporate law which stipulates that a corporation should be run primarily in the interest of stockholders in the firm. Directors and officers of the firm have fiduciary obligation to stockholders in the sense that the “affairs of corporation” must be conducted in the interest of stockholders. And stockholders can theoretically bring suit against those directors and the managers for doing otherwise. Evan and Freeman (1988, reprinted in Hoffman, 1995, pp.146-7) argues that “a corporation is a legal person, existing in completion of the law, managers of the corporation are constrained by the law.” The article aforementioned is only one and a small part of the corporate law. To understand it completely a reader must compare it with other articles of laws of the whole country in totality. Other articles of the corporate law constrain the pursuit of stockholders’ interest at the expense of other claimant on the firm. It has, in effect, required that the

claim of customers, suppliers, local communities, and employees be taken into consideration, though generally in a different manner from the claims of stockholders. An emergence of laws protecting environment, consumers, employees, privacy, minimum wages...etc.; lawsuits raised against harmful products, environmental pollution, unfair treatments of employees explicitly show that nowadays caveat emptor (let the buyers take care) has been gradually replaced by caveat venditor (let the sellers take care). One of the clearest example found in Thailand recently is the requirement for drug manufacturers to provide consumers with information about ingredients, manufactured expiry date and generic name whether or not consumers want and are willing to pay for this information.

5.8. Free market advocates are, actually, based on capitalistic ideology in which rationality plays the most important role. However, a radical pursuit of self-interests lead to irrationality. This means that free market advocates are committing self-contradiction in theory and practice. The relationship between a firm (managers) and its stakeholders is reciprocal and rooted in the trust with each other. For example, a consumer decides to buy a product because s/he trusts that a firm will provide him/her with a standard quality product, of at least minimum standard. The researcher does not mean that there is only one standard. Surely a sedan car costs one million baht and the other one that costs four hundred thousand baht comply to different degrees of safety standard. If trust is lost this consumer-producer relationship will surely disappear. And in turn a corporation can neither make profits nor survive.

One of a good example is what happened to each of the ten trust companies that the Bank of Thailand announced to have liquidity problems. The day after an announcement customers rushed to withdraw their savings.<sup>10</sup> This shows that customers save their money in all these trust companies not for managers to make highest profits to shareowners, but because of trust they have in these companies to protect and increase their benefits as well as that of shareholders. When their trust in these companies loses, they terminate the fiduciary relationship. If, for example, consumers realizes that a certain corporation sees them just a means for making the highest profits for its shareowners, and that it is ready to sacrifice their benefits at any time for such purposes. Surely such a firm will lose its image, market shares, and financial performances. Therefore, each party is constrained by the nature of relationship.

5.9. Keith Davis proposes that the social responsibility of corporations is based on social power. If a business has power and wants to retain power it has, then a just relationship demands that a business also bear responsibility for its actions. “This has been stated as the Iron Law of Responsibility, which is that in the long run,

---

<sup>10</sup> On June 26, 1997 the Finance Ministry demanded 16 finance firms to shut down temporarily and on August 5, 1997 the Finance Ministry demanded other 42 finance firms to shut down temporarily. The day after the two major announcements other financial institutions (commercial banks and finance firms) which are not demanded to shut down at all were strongly affected. Very great number of clients rushed to withdraw their savings all day long with the total amount of many thousand million baht per day. The only reason was that they lost trust and confidence on any institution. See also *Khoo Khaeng Business Daily* (August 6, 1997) and *The Interest Business* (June 30-July 6, 1997) for more details.

those who do not use power in a manner in which society considers responsible will tend to lose it” (Davis, 1975, reprinted in Carroll, 1977, p.37). Moreover, a corporation does not acquire power by itself, by the contribution of the society. Therefore a corporation is also bound by responsibilities to entities which gives it its power.

5.10. The most forceful argument supporting the free market proposal is that the pursuit of self-interest is not justified on the supposed obligation to shareholders per se, but as a means of charting a straight course toward what is best for the society as a whole (Stone, 1975, reprinted in Hoffman, 1995, p.144). The idea is rooted in Adam Smith’s proposal of the empirical fact of self-interest as the motive of business transactions in which the invisible hand will automatically generate greatest possible benefits for the society as a whole. “[H]e intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention... By pursuing his own interest he frequently promotes that of the society more effectually than he really intends to promote it” (WN.IV.ii., 1993, p.292). It seems clear that according to Smith, interference from externalities is not needed to be brought into consideration at all. Businesses are not required to care for any social welfare. Moreover, an involvement in social welfare on the part of businessmen is an inappropriate use of corporate fund. In Thailand economic crimes are most prevalent. And in each case, large scale of damages are caused to numerous individuals and to national economy. It is clearly seen that economic crimes are



rooted on a radical pursuit of self-interest and short-run profits of some business people. If an invisible hand really works, why it does not turn economic crime into the greatest benefits to the national economy, rather than damages. Friedman himself is quite self-contradictory when he objects that if the corporate director took “social purposes” into account, he would become in effect a public employee or a civil servant. He seems to criticize businessmen who are trying to involve in social welfare because by doing so they will benefit social welfare. To be consistent, he should not criticize a social contribution of a business because both the pursuit of self-interest and the involvement in social welfare will eventually make no difference. Both acts lead to the purpose of enhancing social welfare. Therefore whatever they do social welfare is enhanced.

5.11. In his article aforementioned, Carr likens business activities to the poker game. Fierser agrees with Friedman, Levitt and Carr in that business is constrained by only economic and legal aspects. However strongly he strongly agrees with them, he disagrees with the analogy of business transactions to a poker game. He points out that “Carr’s argument fails in that the poker game business analogy breaks down too quickly” (Fierser, 1995, p.461). In the poker game, players knowingly realize the adventure s/he is taking and then voluntarily enters the game. Moreover, s/he can leave the game when s/he feels enough. “By contrast, a well-informed consumers and workers may not have full knowledge of the questionable business practices which are legally permitted” (Fierser, 1995, p.461). Worse than that when consumers or

workers, ... etc. realize that they are in an inferior position. They have no power to withdraw, and can never withdraw without an intervention of the government. For example, if villagers realize that a chemical plant in their community is storing toxic chemical in an improperly protected warehouse, they have little authority to negotiate with top corporate executives to build a proper warehouse which can guarantee their safety in case of a leakage. But if there is governmental intervention, the negotiation might be easier. The researcher wants to point out that game is game and business is not a game but it is life. It is true that business game such as prisoners' dilemma, zero-sum game, or Samaritan dilemma can explain some aspects of man's behaviors. However, no game can explain man's life, interactions and behaviors completely in all respects. Therefore, there must be a limitation in applying the game theory to explain human behaviors.

5.12. Milton Friedman maintains that the advocate of supra-legal social responsibility for the corporation amounts to a hidden social tax. "But if he does this, he is in effect imposing taxes, on the one hand, and deciding how tax proceeds shall be spent, on other hand" (Friedman, 1970, p.138). Being socially responsible (beyond what the law requires) will mean reduced returns to stockholders, higher prices for consumers, or lower wages for employees. Feirser (1996, p.461) comments that this argument is wrong in that business money spent on moral causes is not like a tax in at least one important way. Taxes imposed by governments are mandatory. However, no one's association with a socially responsible corporation is mandatory. Corporate

involvement in social welfare is voluntary rather than obligatory. It can never add costs to the production and increases prices of the goods and services either. For example, in Thailand corporate contribution to society is generally called “returning profits to the society.” It is true that returns to shareowners might be reduced. However, it is justified for a corporation that prospers and survives by numerous contributions of Thai society to give something back to Thai society.



## Chapter III

### Stakeholder Theory

#### 1. Definitions

1.1. A stake is any interest, share, or claim a group or an individual has in the outcome of corporation's policies, procedures, or actions toward others. A stake can be based on either legal, or economic, social, moral, technological, ecological, political, power interests (Carroll, 1989, p.57; Weiss, 1994, p.32).

1.2. Stakeholders: A stakeholder is any group or individual person whose legitimate benefits/interests are enhanced or harmed by, and whose rights are violated or respected by corporate procedural and/or substantive actions, whether or not a corporation has any corresponding functional interests/benefits in them. Another definition is "any group of individual who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization" (Weiss, 1994, p.32). This definition is based upon the assumption that the interests/benefits of each stakeholder group are of intrinsic value which merits consideration not only for enhancing the interest of some other groups, such as shareholders/stockowners but also for their own sake (Donaldson, 1995, p.67).

## 2. The Origin and the Implementation of the Stakeholder Theory

In academic circle, Freeman's '*Strategic Management : A Stakeholder Approach*' (1984) has been highlighted as a landmark literature to provide a solid and lasting foundation for almost all continuing efforts to define and to build stakeholder models, frameworks, and theories (Clarkson, 1996, p.105). In his account of the historical roots of the stakeholder approach, Freeman accredited the 'Stanford Institute International' for initiating and defining the concept in 1963.

Among business communities, the General Electric Company is said to be the first to incorporate the concept of stakeholder in its policies, around the year 1930s, in which four major stakeholder groups: shareholders, employees, customers, and the general public were identified. In 1947, Johnson & Johnson's president, Robert Wood Johnson, enumerated company's stakeholders into four major groups namely: customers, employees, managers, and shareholders. He then used the stakeholder model to develop a well-known business credo of the company.

In 1950 General Robert Wood, the prominent corporate executive of the Sear during the postwar period who led the company to fantastic growth amid economic recession, listed major stakeholder parties according to the rank of their importance to the company into four namely: customers, employees, community, and stockholders. Around that same period, Thomas J. Watson, Sr., the then chairman of IBM referred to this concept concerning management's role as one of balancing a 'three-legged

stool' consisting of employees, customers, and shareholders.

In 1981 two hundred leaders of largest corporations in the United States like Ford, AT&T, GM, Victor,...etc. held the *New York Business Roundtable*. The roundtable, after a long debate and lobby, jointly issued the “*Statement on Corporate Responsibility*” the content of which is related to the stakeholder principle. One part of it runs thus:

Economic responsibility is by no means incompatible with other corporate responsibility in society. In contemporary society all corporate responsibilities are so interrelated that they should not and cannot be separated...A corporation's responsibilities include how the whole business is conducted everyday. It must be a thoughtful institution which rises above the bottom line to consider the impacts of its actions on all, from shareholder to society at large. Its business activities must make social sense just as its social activities must make business sense (cited in Steiner and Steiner, 1994, p.112).

The roundtable even emphasizes that business has to “undertake social responsibility even though doing so may reduce profits at least temporarily” (cited in Steiner and Steiner, 1994, p.12). Business decisions must be based on the three principal types of business social responsibilities and their magnitude in company's operation which comprise (1) response to traditional free market force; (2) decision to undertake social



programs mandated by the government and/ or made because of pressure of outside groups; and (3) decision to take voluntary social program.

The Caux Round Table (1986)<sup>1</sup> defined stakeholders as being six in number: customers, employees, investors (owners/shareholders), suppliers, competitors, and community. This event is uniquely different from the former one in that: (1) it was jointly founded by scholars and corporate executives of major corporations from the North America, Europe and Asia Pacific region and they did it voluntarily without any interruption or even support from the part of governments; (2) this event was a melting pot for business ideology between the east and the west. The roundtable agreed upon a practical guideline for managerial decision which was called the “Caux Round Table Principle for Business”, which comprised two major principles, Kyosei and the respect of human dignity. The concept of stakeholder and the respect for human dignity (in the sense that is mentioned in this thesis) is originated in the western hemisphere. Kyosei is the Japanese philosophy of symbiosis, living and working together for the common good and coexistence. It is remarkable that this philosophy is found in all oriental philosophies. In his great suspicion for the real motive and success of this initiative, Henri-Claude de Bettingnies commented that “it was a pioneering venture, one aiming at reaching an objective....to influence and to

---

<sup>1</sup> The roundtable was held in Caux, a small mountainous village in the north of Switzerland. In his talk with one of the founders: Prof. Mitsuo Hayashi, the researcher was told that the fundamental motive for this event is self-policing in business communities. There is a saying very well-known among business people: ‘if they do not clean their house, others will come in to clean their house’. And in fact businesses do not want government to interfere them without necessities.

change the mindset of top executives. It was also an initiative with global intention” (1996).

### 3. Stakeholder Model

#### 3.1. The Rationality of the Stakeholder Theory

In contrast to the traditional model of managerial capitalism, which is grounded in the narrow ideology of neo-classical economics, the stakeholder perspective is based on holistic view on the environment of a corporation in its totality. According to the model of liberal economics in which all constituencies generate to the success of a corporation but the benefits coming out of a corporation are directed to only one group of stakeholders, shareowners/stockowners. In reference to Figure 1 which represents the liberal economic model the arrows which stand for contributions that each stakeholder group generates direct towards a corporation, but the contributions that a corporation can generate direct to one group of stakeholders. It is remarkable that this ideology is incompatible with even common belief in the golden rule. It is irrational, self-contradictory for a corporation which is prosperous by the contribution of all other stakeholder groups to withhold its contribution to all other stakeholder groups, or to consider the return to other stakeholder groups “an inappropriate use of corporate funds in a free-enterprise society” (Friedman, 1975, p.135), or to “bluff-and bluff hard” (Carr, 1968, p.134) for the sole benefits of one stakeholder group, shareowners/stockholders, without any concern for the losses and sufferings which can occur to other stakeholder groups at all. Why it should be

inappropriate for a corporation to contribute back to the one that generates one's prosperity. By contrast it is a duty and a justice to do so. According to the researcher this view (free market proposal) is both descriptively incorrect and ethically unacceptable. Legally, even in the developing countries like Thailand, Vietnam, Indonesia, Philippines, a corporation must take into account legal and ethical consideration even if it loses.

With this bird-eyeview, there lies a really close, inseparable, interdependent, mutual and symbiotic relationship between a corporations and other constituents. Corporations are dependent to a large extent on their stakeholders to execute their business goals successfully in a society. (see Figure 2). On the one hand a corporation can make sufficient profits for its survival by selling products to customers and customers depends on a corporation to supply them with goods and services they need. Without a corporation they have to produce themselves all what they want and they might not be able to produce some items. Another way of elaboration a corporation is allowed by community to hire available human resources, to use infrastructures such as electric power, running water, roads and communication systems...etc. , to exploit natural resources, to produce tolerable effects (desirable as well as undesirable) to the community, and to be a legal member of the community, to name only a few. Without all these contributions and allowances a corporation cannot survive and operate. On the other hand, a corporation creates new jobs which in turn generate greater income and improve living condition of the people in a community. It

has to sell products to communities (near and far). If such products are not welcome by a society, financial performance of a corporation will be so poor that it cannot survive. However it can also cause undesirable effects, more or less, such as pollution, cultural changes, social gap to communities.

If a corporation prospers from the contribution of the society, it is justified for the corporation to contribute to the society also. It is completely unfair for a corporation to gain from the society, but eventually harms a society. For example, the Bangkok Commercial Bank's stakeholders include stockholders, customers, loaners, government officials, the Bank of Thailand, investors, political groups, employees...to name only a few. Corporate executives of BBC also depend on and are obligated to each of these groups of people in different ways so as to operate banking business successfully. They are primarily obligated economically to stockholders, who invest on stocks, shares and bonds of the company, to increase values added to their investments. They are also obligated to clients of the bank who entrust them for their protection with savings to protect their property; to the Central Bank of Thailand who are governmental representatives to oversee banking operation in accordance to the laws and regulations of the country. They, therefore, cannot take too risky investments, and grants loans to unqualified applicants because all these transactions will causes losses to the savings of clients and investments of shareholders/stockowners. In contrast to the agency theory, a stakeholder approach argues that if they do not meet moral, social, political, and legal requirements to other

stakeholders; they will not be able to function effectively or even to serve their stockholders fairly or justly in a democratic social system (Weiss, 1994, p.4).

Figure 1: Liberal Economic Model:

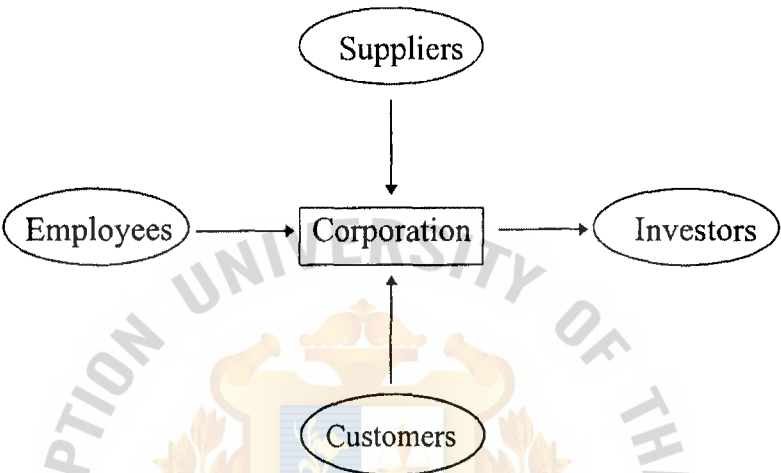
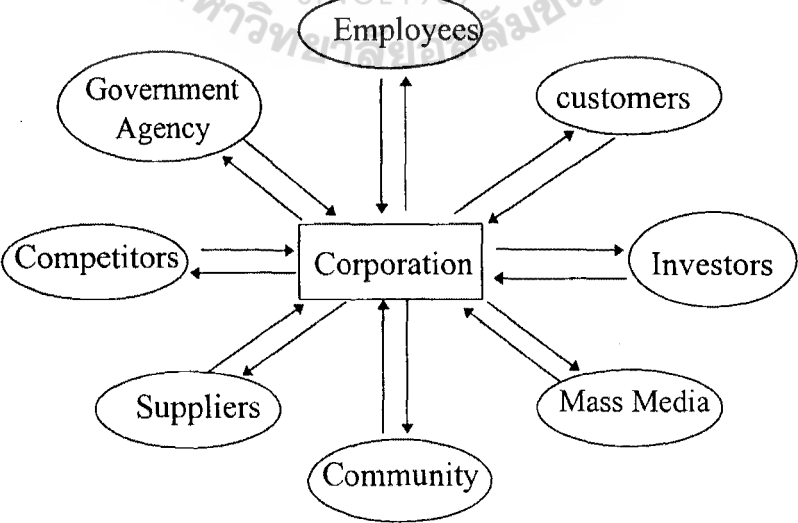


Figure 2: Stakeholder Model:



One of the mistakes of the free market proposal is that it views a corporation and society as an aggregate of completely separate components with completely separate function as Theodore Levitt puts that: business of business “is making money...welfare is supposed to be automatic; and where it is not, it becomes government job, and business’s job is not government” (Levitt, 1958, p.33). In fact, “the boundary line between the two is blurred and indistinct. Business is a part of society, and society penetrates far and often into business. They both separate and connect. And in the world where global communication is rapidly expanding, the connections are closer than ever before” (Frederick et. al., 1992, p.7). Stakeholder perspective is said to be holistic because it views a corporations and its stakeholders as an “interactive system in which each can influence the other. They are intertwined so completely that an action taken by one will inevitably affect the others” (Frederick et. al., 1992, p.7). This theory is, therefore, a framework for understanding a corporation on a basis of a close, mutual, interdependent and symbiotic relationship between a corporation and its stakeholders. A business does not operate in a vacuum. A few business actions, decisions and policies are without unavoidable impacts on at least one (often more) of its stakeholders, just as “a pebble thrown into a pond that unavoidably creates ever-widening ripples” (Frederick et. al., 1992, p.4). In the same manner stakeholders’ actions, for example a few actions by government are without direct or indirect impact on business. Moreover, the more they interact with each other, the closer, the more interdependent, and the more inseparably unified they become. The survival for both is in fact the ability to adapt and fit oneself to others.



Free market proposal is one-sided in that it perceives a corporation only in the economic framework, the ability of a corporation to supply goods and services to its stakeholders as efficiently and effectively as possible. In contrast the stakeholder theory views this living system (an integration of corporation and society) in its totality in which all aspects of human societal life, economical, political, social, and cultural are mixed up. For example, Micro-Soft windows, internet, and worldwide webs change not only our economy, but also the way we work, think, talk and even relax. Business and society, therefore, have many non-market interactions.

According to the stakeholder theory, each stakeholder group is of intrinsic value, and cannot be addressed only in terms of cost and benefits analysis. None of them can be used as a means for an end by a corporation. In the liberal economic model (figure 1), the arrows that run in only one direction means that other stakeholder groups such as customers, employees, etc. are used as means for the prosperity of a corporation and shareholders/owners. In contrast, arrows in the stakeholder model that run in both directions means that the legitimate interests of each stakeholder that contribute to the success of a corporation are to be addressed and that “there is no prima facie priority of one set of interests or benefits over one another” (Donaldson, 1995, p.68). (figure 2). This model aims at enabling corporate executives to conceptually understand this holistic framework and practically to map and to manage corporate relationships with groups (present and potential) who affect and are affected by the corporation’s policies and actions. It can also be used as

planning method to anticipate actions and reactions over events and policies outcomes. This theory requires managers to heed and respond to the interests of all stakeholders and take them into consideration in their decision makings, and to invest in creating and maintaining a relationship of trust with them. The failure to do so means damages, or a halt to company's operations.

### **3.2. Interdependencies Between a Corporation and each Stakeholder**

By definition, any company's stakeholders can be classified on the basis of their similar interests, claim, or rights against a firm into two major groups: primary stakeholder group and secondary stakeholder group. However, this classification is not sharply and absolutely distinguished; often one area shade into the other. Primary stakeholders of one corporation may be secondary of the other, or vice versa.

*Primary stakeholder group* is defined as "one without whose participation the corporation cannot survive as a going concern" (Clarkson, 1996, p.106). This stakeholder group is typically composed of investors (shareholders/stockowners), employees, customers, suppliers, creditors, dealers and retailers. It is remarkable that the relationship in this category is so highly interdependent, mutual, direct, necessary, and critical that the rise of one party might cause the rise of other party and the fall of one party might lead to the fall of other parties. Their interaction is fundamentally based on market framework, concerning producing goods and providing services. *Secondary stakeholder group* is defined as those "who influence or affect, or are influenced or affected by corporation and they are not essentially for a survival of a

corporation” (Clarkson, 1996, p.107). This stakeholder group includes competitors, activist groups, community, government agencies. The interdependency between a corporation and its secondary stakeholders is not so critical and vital to the existence of the corporation as that of the primary stakeholders. Impacts of a corporate acts on this group of stakeholders are directly or indirectly caused by primary mission or function of a corporation. The relationship is non-market orientation. However, being stakeholder groups does not mean that they are not important at all. Moreover, they can cause significant influences to a corporation. Freeman himself remarked:

Some groups may have as an objective simply to interfere with the smooth operations of our business. For instance, some corporations must count “terrorists groups” as stakeholders. As unsavory as it is to admit that such “illegitimate” groups have a stake in our business, from the standpoint of strategic management, it must be done (1984, p. 53 as cited in Clarkson, 1996, p.107).

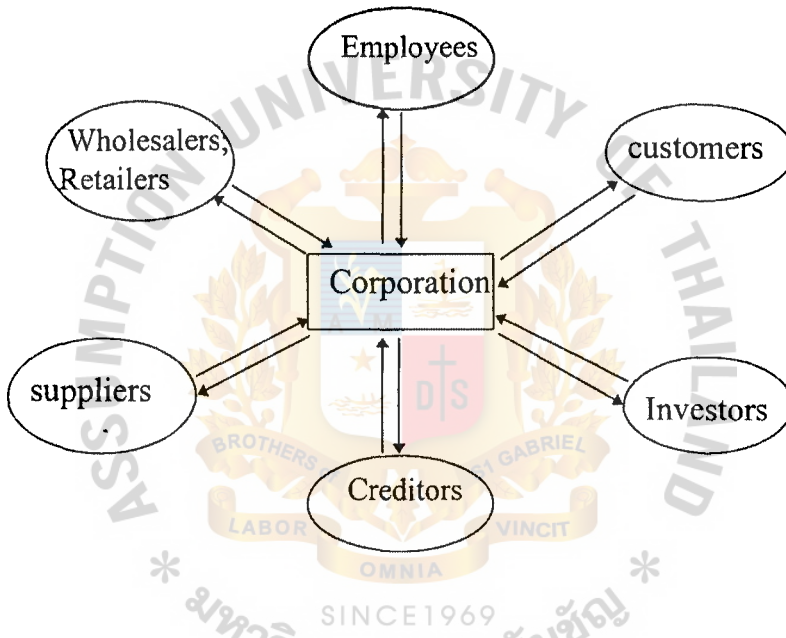
### 3.3. Primary Stakeholder Groups

Primary stakeholder groups comprise (see figure 3):

*3.3.1. Customers* are those who exchange resources for products of a firm. In return they receive the benefits expected from the products purchased. Customers provide the lifeblood of the firm in the form of revenues. A firm supplies them with goods and services that suit their needs with rational prices and qualities. And in turn they expect a corporation to remain true to the promise of rational price

and quality products as well as after sales services. Peter and Waterman (1982) argued that a close producer-customer relationship leads to success with other stakeholders. Hoffman (1995, p.148) argues that by paying attention to customers' need, management automatically addresses the needs of suppliers and owners.

Figure 3: A Corporation and its primary stakeholders.



This relationship generates a mutual trust between producers and customers. It is universally admitted that human consumption behavior is a rational activity. For example a young couple who wants a car for their family surely have studied all brands of cars available in their domestic (even overseas) market whose prices are commensurate with the amount of money they are available to spend. Their decision to buy one of them implies their trust in safety, and quality of the products and after sales service provided by the producer or its agent. If the product fails to satisfy this

need, trust between them is eventually lost.

3.3.2. *Employees* are those who exchange their labors physically or intellectually with the rewards<sup>2</sup> offered by corporations. They have their jobs and usually their livelihood at stake; they often have specialized skill for which there is usually no perfectly elastic market. In return to their labor and loyalty, they expect security, wage, benefits, fair and equal treatment<sup>3</sup>, and meaningful work. It is duty for a corporation to provide for them with security, wage, benefits, fair and equal treatment and meaningful work and to carry them through difficult times.

To be commensurate with a corporation's expectations, employees are expected to follow the instructions of management most of the times, to speak favorably about the company, and to be responsible citizens in local communities in which the company operates. Evan and Freeman (1988), basing their stakeholder approach on Kantian ethics, argue that each stakeholder group has a right not to be treated as a means to some end, wherever and whenever they are used as means to an end, they must be allowed to participate in the decision. As autonomous persons they have a right to decide for their future.

---

<sup>2</sup> The rewards can take various forms such as salaries, bonus, retirement pension, fringe and benefits.

<sup>3</sup> The researcher admits Immanuel Kant's second principle: "act so that you treat humanity, whether your own person or in that of another, always as an end never as a means only" (Kant, 1969, p.44). This implies that both employers, employees and human parties involved are to be treated with respect for their human dignity and sacredness. However the researcher does not take the rule in an absolute sense.

3.3.3. *Investors (stockowners/shareholders)* are financial stakeholders who have invested their capitals in corporations in terms of stocks, bonds and shares. Their main objective is seeking maximum returns for an exchange of their investments. Therefore their special claim in a corporation is legitimate in that the money they give either directly or indirectly to a corporation for investment and expansion is their private property. In addition, they also have to take risks to a certain extent in such transactions. Hoffman (1995, p.149) points out that “the firm affects their livelihood or, if substantial portion of their retirement income is in stock or bonds, their ability to care themselves when they can no longer work.” That is the reason why they exert pressure on the board of directors at company’s annual meetings if their expectations are not met.

3.3.4. *Suppliers* are vital to the success of a firm, for raw materials will determine the quality and price of end products. In return the firm is a customer of the supplier and is therefore vital to the success and survival of suppliers. Both parties are so interdependent in that they can fall and rise together (Hoffman, 1995, p.149). When the firm treats the supplier as vital members of stakeholder network, rather than simply as source of raw materials, suppliers will surely respond when a firm is in need.

Retailing market is the most competitive in Thailand during the year 1995. One method used by giant retailers (CP, Central, Robinson, The Mall) to maintain



their competitiveness is to reduce their retail prices lower than that of their rivals. Every group, in turn, tries to push this burden to their suppliers by requesting lower quotation than their competitors.<sup>4</sup> This practice is based on the view that business is in the state of 'war-to-war' against each other<sup>5</sup> and the view holding that suppliers are just means for the highest profits of dealers/retailers. This drives suppliers into the most difficult situation. It is the most dangerous to both parties. It is an act of committing suicide. As soon as suppliers are killed, retailers and dealers will finally die.

3.3.5. *Creditors* are the stakeholders that grant loans to a corporation to establish or to expand its businesses. On the one hand the capability for an establishment and an expansion of a corporation is dependent on the loans granted. And on the other hand creditors' survival is dependent on the profit earned and interests charged from their clients or borrowers.

3.3.6. *Wholesalers and retailers* One of their dependencies on a corporation is to receive quality products in time of their need and to offer/resell them to consumers. A corporation relies on them in that The dependencies that they help move products from plants to sales outlets and on to customers whenever they need. Without them market plan of a corporation cannot work at all. Trust is also an

---

<sup>4</sup> See also '*Economic Analysis*' 2.14, p.84, 1996.

<sup>5</sup> This theory is called 'Neo-Hobbesianism' more detail of which can be found in Donaldson, 1989, p.153-163; David Gauthier, 1995; Gerard Elfstrom, 1991.

underpinning of this mutual relationship. If trust is lost wholesalers and retailers may shift to buy from other more trustworthy suppliers (with more satisfactory terms) or to boycott company if their products, terms and policies are unsatisfactory.

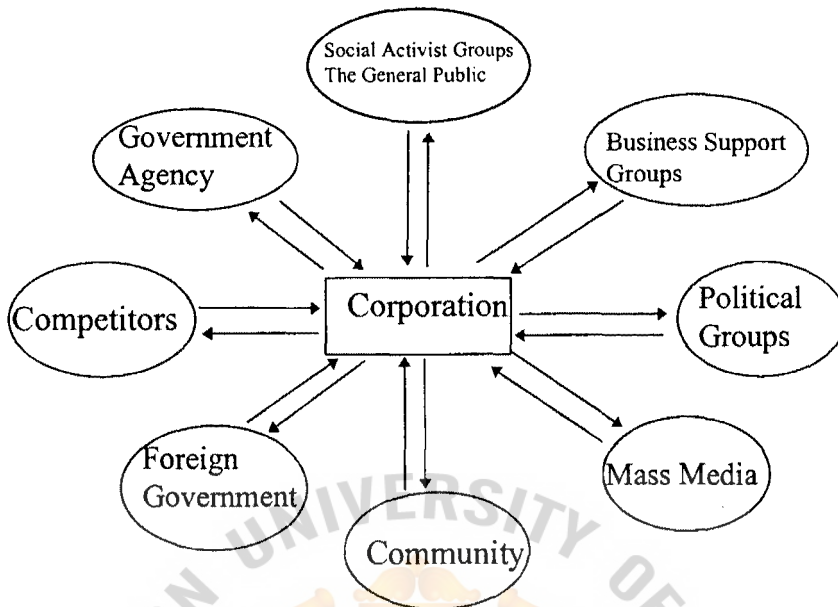
### 3.4. Secondary Stakeholders Groups

Secondary stakeholders groups comprise (see figure 4):

*3.4.1. Local community:* It is an interactive aggregate of individuals who grants the firm the right to build facilities, to operate, to sell products...etc. to a community. In turn a community benefits from a corporation in terms of taxes levied and economic and social contributions. In return for the provision of local services, a firm is expected to be good citizen, as is any ordinary person. A firm cannot expose the community to unreasonable hazards in the form of pollution, toxic wastes, and so on. If, for some reasons, a firm must leave the community, it is expected to work with local leaders to make the transition as smoothly as possible.

Legally a firm is considered as a legal person. This means that if every individual has a social contract with the whole community, each of them are bound by duties and obligations towards the community. When one of them violates the contract, s/he is to be sanctioned. In the same manner when a firm mismanages its relationship with a local community, it is in the same position as a citizen who commits a crime. It has violated the implicit social contract with the community and should be distrusted and ostracized” (Hoffman, 1995, p.150-1).

**Figure 4:** A Corporation and its secondary stakeholders.



3.4.2. *Competitors:* They are those who are eager to match or better the corporation's products, reputation, and pricing appeal. Indirectly competition is a main impetus for improvement in quality of products and services in the free market economy. It is said that one of the failure in planned economy is the lack of competition.

3.4.3. *Mass Media:* They report positive or negative business transactions of a corporation to the public. They are watchdogs which keep eyes on daily practices of a firm so as to maintain benefits of the public. They can generate either good and bad images, and status of a firm to the public. And a firm can also generate their financial well-beings with advertising premiums.

3.4.4. *Governmental Agencies:* They are representatives of the legislative, administrative and juridical bodies to enforce law concerning business transactions of a firm. They expect a firm to conform to laws. Firms can also affect their economic well-beings with taxes levied and financial supports.

3.4.5. *Foreign Governments:* They are the representatives of the host countries in which a conglomerate is operating and wishes to invest. A corporation is dependent on them for the permission of investment, favorable conditions, and fair treatments and taxes system. A corporation is under their power in terms of the legislative, administrative and juridical bodies to enforce law concerning business transactions. In turn foreign governments also expect foreign investments which are vital to their economic, social (employment) and technological (technology transfer) improvement and development. Firms can also affect their economic well-beings with the taxes levied.

3.4.6. *The General public and Social Activist Groups:* They are social institutions, formally and informally organized, of the host community in which a corporation is operating. Their main concern is to protect social values, to minimize risks and to enhance prosperity and well-beings of the society by monitoring companies' actions and policies to ensure that they conform to the legal and ethical standard of the community. A corporation relies on them for supports and positive attitudes. They also rely on a corporation in that they need financial support from a

corporation in terms of subsidiary, donation, and grants to run their programs. If a corporation fails to maintain standard, they can press or lobby government to interfere or to condemn or to stimulate negative attitude or enforce tight regulations.

*3.4.7. Political Groups:* They are political institutions that seek to gain majority vote from the community to form a government. They rely on a corporation in that they need financial support from a corporation in terms of subsidiary, donation, and grants to run their political activities. The situation is most evident in Thailand now, all political parties are backed up by major companies. Corporations rely on them in almost all of their business transactions such as permissions, taxation, regulations, bidding,... etc. A negative relationship with political parties might lead to unsmooth operations.

*3.4.8. Business Support Groups (e.g. trading association):* They are institutions organized by a community, academic institutions, or existing businesses in the community for the purposes of research and information for existing or even prospective businesses or industries in certain regions (national/local). A corporation relies on them in that it needs their information and research for adapting itself to suit the environment. They also rely on a corporation in that they need financial support from a corporation in terms of subsidiary, donation, and grants to run their projects. They can also have negative influence on a corporation by providing unfavorable information concerning corporate acts to the community and government.

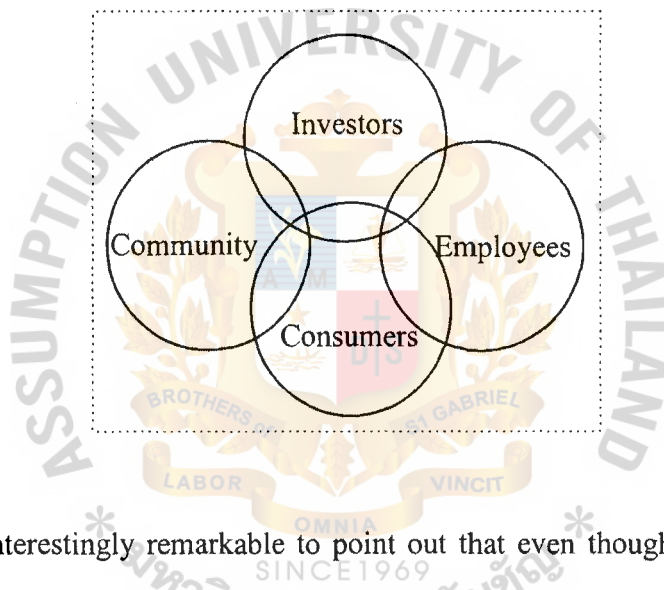
#### 4. Internal Structure of the Relationship

By nature this relationship is a completely complex and multitied environment. It is notable that each stakeholder addresses a corporation and the corporation addresses each stakeholder in different manners. However, the number of benefits that a corporation can distribute to one stakeholder group is constrained by the right for a just distribution of other stakeholder groups. For example while shareholders and owners expect maximum financial returns, employees expect the highest fringe and benefits possible, the community expects a substantial voluntary contributions and so on. If more resources are allocated to the shareowners, the employees will receive less for their fringe and benefits, and the community might receive less contributions. When these two groups receive much less than the amount they expect, they might demand more. Conversely if the corporate managers allocate more of the corporate financial resource for the fringe and benefits of employees, the community will get less social contribution and they in turn give less preference to the corporation and shareowners will receive less financial returns for their investment. This will cause them to exert pressures and demands on the executive boards at annual meetings of shareholders/owners. This dilemma is worse in cases in which the interests of different stakeholders conflict. Bill Shaw (1990, p.913-928) indicates that while community expect honesty and fair treatment from chief executive officers, stockholders and owners demand even bluffs and frauds for short term profits. This implies that management has the most difficult task to balance and arbitrate these conflicting interests of each different stakeholders in such a way that



they all can get the highest satisfaction possible or attain the state that Professor Kirti Bunchua, in his *Foundation for Professional and Business Ethics*, calls the “authentic happiness according to reality.” This is the most vital for the co-existence, and harmonious living between a corporation and society, and between all members in a society.

**Figure 5:** Illustrating the internal structure of each level.



It is interestingly remarkable to point out that even though modern western economics is rooted in the concept of free enterprise, free market, and free choice, “businesses do not enjoy unlimited freedom. Both nature and societies impose constraints on businesses” (Horvath, 1995, p.329). The free market proposal presented by Friedman, Levitt and Carr is based upon the idea of private property. Investment on a corporation comes from their savings, and loans as private property. An individual has freedom to dispose of his/her private property in such a way that it generates profits for him/her. Therefore they can turn their investment in any direction that will yield the highest values added for them. The premises of the

argument are right but the conclusion does not need to follow the premises and is wrong. The right to private property is not absolute and does not allow anyone to use his private property he likes without any constraint. For example no one is allowed to use one's private property in such a way that it is harmful to himself/herself or others. The right to private property is constrained by laws, political system, and distributive justice. Accordingly, "[the] concept of private property clearly does not ascribe unlimited rights to owners and hence does not support the popular claim that responsibility of managers is to act solely as agents for shareholders" (Donaldson, 1995, p.84).

We may speak of a person owning land... but what the land-owner in fact possesses is the right to carry out a circumscribed lists of actions. The rights of a land-owner are not unlimited... [This] would be true under any system of law. A system in which the rights of individuals were unlimited would be one in which there were no rights to acquire (Coase, 1960, p.44).

Charles M. Horvath, in *'The Social Equation and Its Limit'*, develops a metric of social equation as a heuristic device to help explain this situation. In that article adapts a mathematical representation model of the social contract to explain how one's freedom and rights to use private property to enhance one's self-interest of each

stakeholder group is constrained by that of others. Correspondingly, this constraint enhances freedom of each stakeholder group in the context of social contract too.<sup>6</sup>

### 5. Three Aspects of the Stakeholder Theory:

The gist of the stakeholder theory is “beyond the descriptive observation that organizations have stakeholders” (Donaldson & Preston, 1995, p.70). Donaldson and Preston point out that “the stakeholder theory can be, and has been, presented and used in a number of ways that are quite distinct and involve very different methodologies, types of evidences, and criteria of appraisal” (1995, p.70). It can be used to explain and guide the structure and operation, to plan and predict the consequences of corporate strategies, to boost the efficiency of a corporation, to define obligations of a corporation toward its stakeholders or even corporate codes, etc. However, there are three main approaches to the theory: descriptive/empirical, instrumental and normative.

#### 5.1. Descriptive/Empirical

Descriptive/empirical formulation of the theory attempts to describe and/or explain what a corporation is and what it looks like by its nature in relationship with its host environment including what and/or how it or/and its managers actually behave. In other words, this aspect of the theory seeks to explain what happens, used to happen, and will happen to a corporation. Main issues that the descriptive

---

<sup>6</sup> See Charles M. Horvath, “The Social Equation and Its Limits” in *Business Ethics Quarterly*, 5:2, 1995, pp. 329-352 for further discussion.

approach describes are: the nature of the firm, the way managers think about managing, how board members think about the interest of corporate stakeholders. Further Donaldson and Preston point out that the fundamental questions to be asked for testing the accuracy of this aspects are: (1) whether the model is more descriptively accurate than rival models; (2) whether observers and business practitioners see a corporation in this way; (3) whether this outlook serves as framework for testing any other empirical claims, instrumental predictions, including normative derivations, relevant to the stakeholder concepts (Donaldson and Preston, 1995, p.66).

One of the most common justification of the descriptive aspect of stakeholder theory is the reflection of a conscientious mind of business communities in the two business roundtable in New York, 1981 and Caux Roundtable in 1986 and the other one is a survey. Donaldson and Preston comments that among the many surveys since 1984 until 1995 some “managers may not make explicit reference to stakeholder theory, but the vast majority of them apparently adhere in practice to one of the central tenets of the stakeholder theory, namely, that their role is to satisfy a wider set of stakeholders, not simply shareholders” (Donaldson & Preston, 1995, p.75). One of the most famous study is a survey, conducted by Prosner and Schmidt in 1984,<sup>7</sup> over 6,000 managers, supervisory managers, middle managers and executive

---

<sup>7</sup> The study was originally published in *California Management Review* 26, no. 2 (spring 1984) with the title “Value and the American Manager: An Update” and was reprinted in *Business Ethics: A Managerial, Stakeholder Approach* by Joseph W. Weiss, (1994, p.33).

managers and asked them to rank which party they consider most important in a corporation. (see table 1). *Supervisory managers* ranked themselves (myself) the most important, subordinates, employees and co-workers the second, the third and the fourth respectively. Stockholders are ranked nearly at the bottom. *Middle managers* view themselves and their subordinators the most important, employees and customers the second and the third respectively. They also rank shareowners near the

**Table 1:** The Importance of Various Organizational Stakeholders to Managers\*

	<b>Supervisory Managers</b>	<b>Middle Managers</b>	<b>Executive Managers</b>
Customers	5.57	6.10	6.40
Myself	6.28	6.29	6.28
Subordinates	6.06	6.30	6.14
Employees	5.93	6.11	6.01
Boss(es)	5.72	5.92	5.82
Co-workers	5.87	5.82	5.81
Colleagues	5.66	5.78	5.75
Managers	5.26	5.56	5.57
Owners	4.07	4.51	5.30
General Public	4.38	4.49	4.52
Stockholders	3.35	3.79	4.51
Elected Public Officials	3.81	3.54	3.79
Government Bureaucrats	3.09	2.05	2.90

\* Scale of 1 to 7(1=lowest; 7=highest)

bottom. *Executive managers* ranked customers the priority, themselves the second, and employees the third. They rank the importance of shareowners a little lower

than average. This survey seems to point out that corporate managers in general do not agree with what Milton Friedman writes: “the corporate executive to be selected by the stockholders is that the executive is an agent serving [solely] the interest of his principal” (1970, cited in Hoffman, 1995, p.139).

This finding does not refute the importance of shareowners at all, but point to the fact that other stakeholders are at least as important as/or even more important than stockholders. Moreover, it does not refute the importance of profits, but reaffirm that “profits is important and necessary, but perhaps is not always the only or the most important indicator of success for executives. There also seems to be a belief that money is a result--not necessarily a primary cause--of success” (Weiss, 1994, p.34).

In terms of law which can be interpreted as an implicit reflections of an implementation of the stakeholder theory, even in Thailand in which its laws are considered to be very outdated. There have been new laws that protect the benefits of not only shareholders but also those of other stakeholder groups. For example we have an Act protecting consumers' rights promulgated in 1979 and was amended in 1993; an Act of Social Security for employees promulgated in 1990 and was amended in 1994; an Act for preserving and protecting environment promulgated in 1975 and was amended in 1978 and 1979. Even though these acts do not mentioned or not even know the stakeholder theory, but what the parliament and senate are



trying to do to promulgate these new laws reflect the stakeholder concept implicitly.

However, Donaldson and Preston contend that “neither the legal development nor the management survey results provides definitive epistemological foundation for the stakeholder theory. “[They] are at bottom simply facts. They do not constitute the basis for stakeholder (or any other) theory of management” (1995, p.76). The hazard of using purely descriptive data, whether jurisprudential or survey results, as justification for the theory, though easily appeals acceptance, might be uncertain, emotional and illogical. Such ground might face a problem of so-called naturalistic fallacy, moving from the ‘is’ to ‘ought’ or describe to evaluate, without necessary intervening analysis or explanation (Moore, 1959/1903, p.15-16). There is also the problem of hasty generalization. Moreover, laws and new surveys are subject to change due to current trends and new data which can be even opposite to the previous ones, if so the theory will be of no value. The significance of descriptive aspect should be limited.

## 5.2. Instrumental

Instrumental theory purports to “the logic of this concept in practical terms, i.e., in terms of how organizations can succeed in the current and future business environment” (Freeman, 1984, p.25) or to describe what has happened, is happening and will happen *if managers or firm behave in certain ways*. This approach is logically based upon the principle of causality, that is if you want to achieve (or

avoid) result X, then adopt (or don't adopt) the principle or practice Y. The simple hypothesis is that whether corporations whose managers adopt stakeholder principles and practices will perform financially better than or at least as well as those who do not.

The approach attempts to identify a connection or a lack of connection between the practice of stakeholder management and the achievement of corporate performances in comparison with that of the non-stakeholder approach (Donaldson & Preston, 1995, cf. Jones, 1996). In other words, this approach seeks to answer what happens if: for example, whether the corporate concern on consumers' safety, satisfaction..etc, can result in greater market share or better financial performance. The principal question to be asked concerning this aspect is whether "practicing stakeholder management will result in less, or equal or greater conventional performances in terms of profitability, stability, growth" than the practicing of other models (Donaldson & Preston, 1995, p.67).

The methodologies used to study in this respect are : conventional statistics and/or direct observation and interviews<sup>8</sup>. It is remarkable that "whatever their

---

<sup>8</sup> The detail of the research based on conventional statistics can be found in the research work of Prosner & Schmidt, 1984, Aupperle, Carroll & Hatfield, 1985, Barton, Hill & Sundaram, 1989, Cochran & Wood, 1984; Cornell & Shapiro, 1987, McGuire, Sundgren, & Schneeweis, 1988, Preston and Sapienza, 1990, Preston, Sapienza & Miller, 1991. The detail of the research based on direct observation and interviews can be found in the research work of Kotter & Heskett, 1992; O'Toole, 1985 and 1991.

methodologies are, these studies have tended to generate implications suggesting that adherence to stakeholder principle and practices help a corporation achieve conventional corporate performance objective as well as or better than rival approaches” (Donaldson & Preston, 1995, p.71; cf. Jones, 1996). However, we must be considerate of the approach as the logic aforementioned is hypothetical and implicit. It is hypothetical in that the practice of the stakeholder management does not guarantee the better or the best performance in all cases, there are also studies that implicitly indicate that the practice of stakeholder management can result in less good financial performance. And it is implicit in that some corporate managers do not mention directly that good performances are directly caused by stakeholder management. And they do not explicitly mention that they are practicing stakeholder management. The conclusion about good consequences of stakeholder management is interpreted from their implicit stakeholder management practice. There is as yet no compelling empirical evidences that the optimal strategy for maximizing a firm’s conventional financial and market performance is stakeholder management (Donaldson & Preston, 1995, p.78). Nevertheless, the view that stakeholder management and favorable performance go hand in hand has, however, become common place in the management literature, both professional and academic. General Robert E. Wood, the then CEO of Sears (1950), puts that “all I can say is that if the other three parties named above [customers, employees, community] are properly taken care of , the stockholder will benefit in the long run” (cited in Worthy, 1984, p.64; Donaldson & Preston, 1995, p.77).

### 5.3. Normative

Normative aspect concerns the moral propriety of the behavior of firms and/or managers. In another word, this approach seeks to answer *how a firm or managers should behave in such and such situation* or what Jones has put: what should happen if... (1996, p.406). The stakeholder theory, by itself, does not dictate any ethical theory. Donaldson and Preston (1995, p.81) observes that there are “two normative propositions of the stakeholder theory: (1) stakeholders are identified by their interest in the affairs of the corporation; (2) and that the interests of all stakeholders have intrinsic values”, for example be conscientious to consumers’ safety because it is the right thing to do. However, the researcher does not take it in absolute sense. He tries to combine several philosophical approach.

In his thesis, the researcher seeks to define moral or philosophical ground inherent in the stakeholder theory from which obligations, duties and rights of each stakeholder as well as guidance, attitudes, and structures about practices or actions or strategic policies that constitute stakeholder management can be derived. This approach is accounted in distinction from what the behavior will yield as being accounted in instrumental approach. Nevertheless, “the three approaches to the stakeholder theory, although quite different, are mutually supportive and that the normative base serves as the critical underpinning for the theory in all its form” (Donaldson & Preston, 1995, p.65,66,67). Moreover, this aspect has been the

underpinning of the theory since beginning until recent work.<sup>9</sup> This is so because (1) the very nature of a corporation is “a nexus of contracts” (Williamson & Winter, 1991), the implication of this concept of a firm is the multiple obligations for all parties entering such implicit contract; (2) by definition of stakeholders as ‘those groups without whose support the organization would cease to exist’ (SRI, 1963, as cited in Freeman, 1984, p.31). This definition implies mutual duties and obligations between a corporation and its stakeholders, which in turn generate coexistence, symbiosis, and authentic happiness according to reality to all parties involved (at least theoretically). However, the theory does not imply that the interest of all stakeholders should be equally addressed in all corporate processes and decisions.<sup>10</sup>

All in all the stakeholder theory is said to be “a three-in-one theory” (Donaldson & Preston, 1995, p.72) in which all the three aspects of the theory are nested within each other ( see figure 6) and a researcher can slide from one different approach with different justification, content, and implication to another and see a close relationship between them without much difficulties. This is compatible to what Clarkson (1991, p.349) has concluded that the stakeholder model represents a new framework for describing, evaluating, and managing corporate social

---

<sup>9</sup> Normative approach to the stakeholder theory has always spreaded in the research work on stakeholder theory from beginning until now, for example Freeman, 1988, Carroll, 1989; Khun & Shriver, 1991; Marcus, 1993. Goodpaster, 1994; Donaldson, 1995 and also in the Caux Roundtable, 1986.

<sup>10</sup> The detail of which will be discussed in the topic of distributive justice in the next chapter.

performances. In reference to the managerial capitalism in which “the management serving the shareowners model (i.e., the principal agent model in its standard financial economics form) is not only descriptively inaccurate; careful analysis reveals that it is normatively unacceptable as well” (Donaldson & Preston, 1995, p.81), and in practice leads to poor corporate performances in the long run<sup>11</sup> because it deteriorates ‘trust’ which is the core of business transactions between different stakeholders.

As suggested by Figure 6: the *outermost circle* represents the descriptive aspect of the theory which presents and explains the relationship between a corporation and its constituents as well as the relationship between each of the constituents that are observed in the external world. The *middle circle* represents the instrumental aspect of the theory which attempts to prescribe :if X practice is carried out, then certain Y result will be obtained. The *innermost circle* represents the normative aspect which is the central core of the theory. These three circles are related with each other in that the accuracy descriptive aspect can be strengthened (if not completely justified) by the logic of the second aspects. The descriptive aspect is the “is” from which the “ought” is derived. The right description must be the one in which norms for enhancing authentic happiness according to reality, harmonious coexistencē can be found. This implies that the instrumental aspect can be supportive

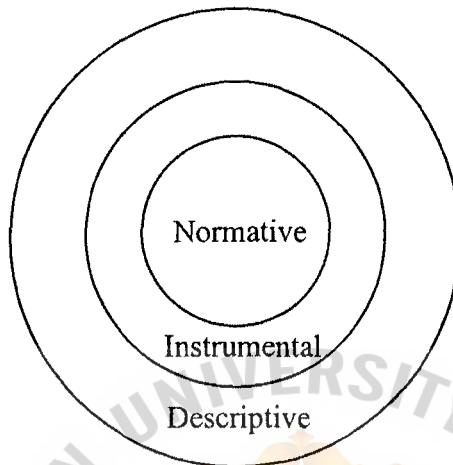
---

<sup>11</sup> The detail can be found in the research work of Thomas M. Jones (1995, p.404-437) in which he comments that “manifestation opportunism may not lead to optimal economic performance” (Jones, 1995, p. 429).



Figure 6:

Illustrating the relationship of the three aspects of the stakeholder theory:



to normative aspect also. That is so because business is more practical than theoretical. If one view, though correct, cannot bring out good performances worse bring about bad performances, then it must be subject to be replaced by a new one which is correct and can bring out good or better corporate performances. Surely an ethical policy cannot be replaced by an unethical one that can bring about good or better performances. For example, an adherence to respects of the consumers' rights policy in one way that brings about bad financial performances cannot be replaced by the policy of irrespect to consumers' right that brings about good or even better financial performances. However, it must be replaced by another way of respect of the consumers' rights principles that brings about good or better financial performances. However, *normative aspect is not legitimate because it produces good consequences but its validity can be strengthened by the good consequences it*

*produces*. The implication is that managers adhere to moral principles not only because they bring about good consequences but it is the right thing to do and simultaneously it brings about good or better consequences.

## **6. Concepts of a Corporation According to the Stakeholder Theory**

### **6.1. Corporation as a Legal Person**

A corporation is a legal person and an artifact. It is a legal person in that it is at least in part, as Chief Justice Marshall (cited in Donaldson, 1982, p.3) contends, is “an artificial being, invisible, intangible, and existing only in the contemplation of law” Being the mere creation of law, it possesses only those properties which the charter of its creation confers upon , either expressly, or as incidentally to its very existence (Donaldson, 1982, p.3). This postulates that it is “an abstract entity [and] its existence depends on being recognized by human beings” (Donaldson, 1982, p.2). Being a legal person, a corporation acquires full status as an abstract person, complete with rights to life, liberty, and state citizenship. They are treated as persons in a multitude of ways: they must pay taxes, are liable for damages, can enter legal agreements, and have the right to freedom of speech.

....the corporation is an amalgam of artifice and nature. That is, it is composed of natural human beings and reflects the natural tendency of humans to form organizations: but at the same time it is an artifact in the sense that it is a product of human intention and has a humanly malleable character. Unlike purely natural objects, we decide, up to

a point, what the corporation is. We can grant or deny it unlimited longevity, limited liability, state citizenship, and so on....[sic]...A corporation is a product of our moral and legal imagination” (Donaldson, 1982, p.14).

Being an artifact, a product of free human association, a corporation owes its existence to human creation. “Modern corporations are created by persons, but they are created in the image of their creators” (Donaldson, 1982, p.3). We choose to create a corporation and might choose either not to create them or to create different entities. Donaldson contends that it is “a persona ficta, and its fictional nature, coupled with remarkable down-to-earth power makes it thoroughly puzzling object of moral understanding” (1982, p.1). Being created by man, nevertheless, lawyers view a corporation an entity distinct from its inventors. It is liable, possesses its own moral and legal status, with limited financial liability as distinct from owners or stockholders who may sue and be sued as a unit and who are able to consign part of their property to the corporation for ventures of limited liability (Walton, 1969, p.34). It can endure beyond the natural lives of its members. This implies that the death of the owners and shareholders does not cease the existence of a corporation. In short, a corporation on view of its origin is subject to two interpretations, one is that it is chartered and granted its existence by the government and the other one is that it is created by the right of free associations of owners and shareholders. According to the former stance, a corporation is construed as a creation of the state, the public act. According to the

latter stance, a corporation is a natural product of the exercise of the individual right of freedom of association, the agreement of individuals.

In his '*Corporation and Morality*' (1982, p.2) Donaldson divides a corporation into productive organizations and non-productive organizations. Productive organization' means 'any organization that produces goods such as manufacturers and services such as banks, cinemas, restaurants, legal firms, counseling firms, schools and universities including non-corporation as government agencies. Non-productive organizations which are extremely rare. They include organizations existing merely to hold a patent or copyright, or to collect or to shelter for members of society (Donaldson, 1982, p.2). A corporation, a productive organizations can be either a profit-making entity chartered for the express purpose of making profit or non-profit-making entity chartered for various purposes other than making profits such as educational or philanthropic.<sup>12</sup> However varied, "[corporations] resemble each other sufficiently to constitute a natural locus of study" (Donaldson, 1982, p.2). Their sizes may vary. The target of this thesis is medium -to -large size, private, profit making corporations which are created by the agreement of individuals, rather than state enterprises and non-profit organizations.

Even though being an invisible person, a corporation can lie, cheat, and steal like an ordinary individual man. Moreover, corporations nowadays are social giants

---

<sup>12</sup> see also *Foundation of Professional Ethics* of Prof. Kirti Bunchua, page 77-79 for further clarification.

affecting the depth and breadth of society. For this reason they have a special ethical significance. “[P]eople perceive the corporation as a moral entity. Indeed, they credit it with the unmistakable mark of morality: a duty to acknowledge standards which transcend laws” (Donaldson, 1982, p.1). However a moral aspect of corporations poses complicated problems in that a corporation cannot be thrown in jail. It can only pay for their crime and be deprived of money and property (Donaldson, 1982, p.6).

## **6.2. Corporation as a Bundle of Contracts**

With the lens of the stakeholder theory a corporation is seen as “nexus of contracts<sup>13</sup>” between itself and its stakeholders (Jensen & Meckling, 1976 cited in Jones, 1995, p.407). Evan and Freeman (1990, p.352) also share this view as they put that: “managers administer contracts among employees, owners, suppliers, customers, and the community. Since each of these groups can invest in asset specific transactions which affect the other groups, methods of conflict solutions, or safeguards must be found.” Hill and Jones (1992, p.132,134) as well as Sharplin and Phelps (1989) integrate the stakeholder concept with agency theory to create a stakeholder-agency theory. While agency theorists argue that corporations are structured to minimize costs for the purpose of increasing profits and get some

---

<sup>13</sup> With the term ‘contract’ here, the researcher does not mean a business contract in which one party promises to purchase a commodity with such and such quotation and the other side promise to sell such and such merchandise with such and such amount of money under such and such term of payment. The kind of contract

participants (the agents) to do somewhat other participants (the principals) desire. It is so, according to the agency theory, because managers are bound by a fiduciary relationship with their principals. “[A] corporate executive is an employee of owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desire, which generally will be to make money as much as possible” (Friedman, 1973, p. 138). Firm-as-contract theorists proposes that managers are seen as agents of all stakeholders who agree to cooperate with each other within organizations (i.e., through contracts), rather than only one particular group or simply deal with each other through the market orientation, to minimize the costs.

Top corporate managers, because they (a) contact with all other stakeholders either directly or indirectly through their agents and (b) have “strategic position” (Herman, 1981) regarding key decision of the firm, can be considered the contracting agent of the firm. This firm is thus as a nexus of contracts between its top managers and its stakeholders (Jones, 1995, p.407).

Nevertheless there are differences in opinions on types of contract among stakeholder theorists. Hill and Jones view the firm as a network of relationship consisting separate implicit contract between each stakeholder group in which each stakeholder differs among themselves with respect to (a) their rank of importance in the firm and

---

the researcher means is contract as a metaphor, thought experiment, heuristic device for understanding the relationship between the firm and its stakeholders.



(b) their power vis-a-vis the managers (Donaldson, 1995, p.78). Freeman and Evan view the firm “as a series of multilateral contracts among [all] stakeholders” (1990, p.354) in which all parties have an equal right to bargain. However different their opinions on what kind of contract managers and corporate stakeholders are constrained, stakeholder theorists share some common elements. A contract in itself implies some basic ethical elements namely: voluntariness, fairness, and obligation (right and duties). According the principle of informed consent a contract will be invalid if it is coerced. Freeman and Evan (1990, p.352) argue that a minimal condition for the acceptance of such multipartite arrangements by each contracting party is a notion of “fair contract,” i.e., governance rules that “ensure that the interests of all parties are at least taken into consideration.” Contracts implies special rights and duties in which contractors undertake an obligation to do what he or she agrees to do. If a contract lacks either of these three basic ethical elements, it can be invalidated.

According to the researcher, everyone has equal right to bargain for an achievement of basic needs such as safety to life, sufficient food, good health, healthy working condition...etc.. Those who are better off have obligations and duties to hear their voices. For other areas other than basic their power to bargain might be varied depending on the rank of an agent in the firm and (b) their power vis-a-vis the an agent. Therefore a manager has a dual role of safeguarding the welfare of a corporation and of balancing the conflicting claims of multiple stakeholders to

achieve their goal. As Freeman puts: “A stakeholder theory of the firm must redefine the purpose of the firm... The very purpose of the firm is, in our view, to serve as vehicle for coordinating stakeholders’ interests” (1990, p.102-103) in such a way that authentic happiness according to reality is maintained. This is possible by the mutual and voluntary acceptability of bargains by all contracting stakeholders.



## **Chapter IV**

### **Social Contract Theory for Business**

Donaldson argues that “stakeholder analysis holds a great promise for the field of business ethics, but much work remains before it will fully realize its potential as comprehensive normative theory capable of guiding business decision-makers” (1984, p.174). One important question the stakeholder theory does not attempt to answer is why corporate executives must take not only economic and legal, but also moral and philanthropic responsibilities into account and must take the welfare of all stakeholders, namely, consumers, employees, investors, suppliers, community and even competitors into their consideration for decision making.<sup>1</sup> Thomas Donaldson (1982, 1986, 1994, 1995 and 1996), David Gauthier (1986), Thomas Dunfee (1982), Norman Bowie (1982), Michael Keeley (1988) and Iwao Taka (1996) have proposed the social contract theory as an alternative solution to serve and explain the moral underpinning of this holistic perspective of corporate responsibility.

#### **1. Overview of Traditional Social Contract Theory**

Social contract theory means an application of a hypothetical contract as a metaphor to determine the rights, duties and obligations of people and social institutions. These normative aspects of the social contract theory are derived from the

---

<sup>1</sup> See also Bowie (1982, p.37) “the stakeholder theory is similarly incomplete. A theory for harmonizing the interests of various stakeholders is required.”

assumption that human beings, as rational agents, consent (prudentially) to the terms of some particular societal agreement, in which some of them might be worse than the state of nature in certain respects, so as to maximize their well-beings and that of the whole society in the long run. In general, contractarian theory utilizes the device of hypothetical consent to justify principles, policies, and structure. The renowned philosophers adopting social contract tradition are Thomas Hobbes (1588-1679), John Locke (1632-1704), Jean-Jacques Rousseau (1712-1778) and John Rawls (1921-?).

Traditional social contract of Hobbes, Locke, Rousseau and Rawls is grounded on three common features: (a) a given human nature; (b) the condition of human life in the “state of nature,” before and after the introduction of social institutions; (c) the terms of an acceptable social arrangement, a contract, among people or between people and a social institution. However, social contract theorists provide sometimes completely different hypotheses on human nature. For example human nature according to Hobbes is a “constant state of war, of one with all.” He writes: “[n]ature had made men...equal, in the faculties of body, and mind;....the weakest has strength enough to kill the strongest.... And therefore if any two men desire the same thing....they become enemies” (1651 reprinted in Sterba, 1995, p.116). Human nature according to Locke is benevolence and the brotherhood. He writes: the state of nature “is a state of perfect freedom [for men] to order their actions and dispose their possessions and persons as they think fit, within the bounds of the laws of nature, without asking (to) leave or depending on the will of any other man” (1690

reprinted in Sterba, 1995, p.163). But this state of nature is not completely perfect. According to Rousseau, man in the state of nature in which food and sex are readily available is self-sufficient, isolated, instinctive, but happy. "Man is born free; and everywhere he is in chains. How did these chains come about? I don't know what can make it legitimate? That question I think I can answer" (1762, p.7). For him vices are not originated in human nature but in society. John Rawls argues that, imagine, people in the original position choose solely on the basis of self-interest. That is, each individual chooses only the sets of principles for the governing society that will generate the best for himself or herself and the loved ones. And agreement seems unlikely in this situation. However, the craving of self-interest seems to create the irreconcilable demands and conflicts (Rawls, 1972, p. 118).

However different opinions on human nature they have, they all agree that social institutions are created by agreement in which each contractor is better off in general. Nevertheless they have to sacrifice some of their personal rights and freedom and are bound by obligations, and duties prescribed by that contractual relationship. They are different from each other again in opinions regarding terms of the contract. The differences are rooted in their different opinions on human nature and the state of nature. For example, Hobbes concludes that the sovereign acts both on the behalf of and embodies the will of all citizens. This implies that his/her or their will is identical to that of each citizen. Therefore the right to produce laws and regulations of the sovereign is absolute and irrevocable. Locke concludes his social

contract that since people established a civil society for the preservation of their good lives. If civil governments neglect their duties entrusted, it is justified that “people should rouse themselves, and endeavor to put rules into such hands which may secure the end for which government was first erected (Locke, 1960, reprinted in Sterba, 1995, p.181). Rousseau concludes his version of the social contract by proposing that everyone puts his/her person and his/her power in common under the supreme direction of the general will which is “always right and always tends to the public advantage” (1762, p.30). In such action everyone is received as an indivisible part of the whole. The general will is the will of the sovereign, the total number of a given society. The general will is therefore a single will which reflects the sum of the will of all individual citizens. Since everyone in the society is a member of this social contract, he understands that his own good and freedom is connected with the common good. This means that individual will is identical with that of all others, or the general will. Laws are products of the general will. Therefore every member of the society is the author of existing laws and by obeying laws s/he obeys himself/herself. The general will is found in counting votes. The majority vote is the reflection of the general will. Since everyone is required to obey laws, s/he is therefore entitled to participating in voting for the law.

For Rawls, people in their original position are behind “the veil of ignorance.” Being equally ignorant in the original position, all people do not know their personal predicament, the social position or status they hold in society. They do not know



whether they are rich or poor, and they do not know their personal talents and characteristics-- whether, for example, they are athletic or sedentary, artistic or tone-deaf,...even their races or sex. Therefore they cannot choose any principles from a partial or biased point of view, or argue that some particular group--such as white men, property owners, star athletes, philosophers--should receive special social and economic privileges. They are just trying to advance their self-interests. Being under identical condition and motivation, the reasoning of any one person will be the same as that of each other. The circumstances of the original positions are genuinely endowed with equally free and fair choice, and because of this, "by analogy, if we make up a game and all agree ahead of time, freely and equally, on how the game is to be played, nobody can later complain the rules are unfair" (Shaw and Barry, 1992, p.120). The veil of ignorance, in effect, forces people in the original position to be objective and impartial and makes agreement possible. The principles which are likely to have been agreed to, Rawls proposes, are the principles of justice. Once the rules for governing society and the principles of justice are chosen and the veil is lifted, philosophy starts. It is remarkable that "what Rawls imagines is a thought experiment. The question is hypothetical: What principles would people choose in this sort of original position?" (Shaw and Barry, 1992, p.120). Rawls is not proposing a historical fact, he just proposes it as a heuristic device to give a rational explanation of the current social phenomena instead.

It is noticeable that however different their assumptions on human nature are, they share a common assumption: each imagined a society without a civil state (without, that is, any government) and then a society with it. The strategy is to highlight the benefits that members of a society expect from the state. “Despite the similarity of the method used, each reaches a different conclusion” (Donaldson, 1982, p.39). While Thomas Hobbes demands that a citizen obeys the absolute power of the king or the sovereign, John Locke holds that if governments fail to protect society’s rights, the trust between sovereign and citizen is broken and revolution is justified. In the same manner the existing relationship between employer and employee, principal and agent is primarily maintained by a ‘trust.’ Whenever a trust is broken, the relationship is deteriorated (Donaldson, 1982, p.39-40).

Conry argues that though all the social contract theorists differ in their assumptions about human nature, their views did share one attribute: “the sense that civilized humanity tends toward moral homogeneity-- toward relatively uniform moral orientation” (1995, p.189). Modern empirical work done by empirical moral psychologists, and other social scientists, has greatly clarified the moral part of human nature. Research from different branches of social sciences establish that Rousseau, Locke and Hobbes were in one sense all right and in another all wrong. This research almost uniformly points out that:

.... people are morally different. Some are highly altruistic and fit

Locke’s world. Others are more self-interested but emphatic and

match Rousseau's world; still others belong in, even create Hobbes' state of wars. This modern research portrays human nature as more complex than Locke, Rousseau or Hobbes' thoughts. It establishes that the assumption of homogeneity is wrong" (Conry, 1995, p.189).

## 2. Evolution of Contractarian Approaches to Business Ethics.

Steiner (1972), Robin and Reidenbach (1987) remarked that the corporate social responsibility is related to the social contract between business and the society. There are two major trends of applying political social contract theory to business. One is led by Thomas Donaldson and the other one is led by David Gauthier. Thomas Donaldson, in his "*Corporation and Morality*" (1982), is the first philosopher to construct a complete outline of a social contract for business. Following the social contract tradition of Locke and Rousseau, he uses a hypothetical agreement as device to legitimize rights and responsibilities of a business institution. Norman E. Bowie (1982) offered a brief description of the "social contract" between business and society in his *Business Ethics*. Michael Keeley (1988), in his *A Social Contract Theory of Organizations*, uses the contract metaphor in a non-traditional way, viewing the firm as a series of contract-like agreement about social rules. In the process, on the basis of voluntariness, a series of rights must be preserved. He criticizes the substitution of the welfare of individuals with the welfare of the organization.

Thomas Donaldson (1989), in his *The Ethics of International Business* modified his original version of the social contract model into global business ethics. Relying upon reason and intuition, he, again used as an imaginary social contract as a heuristic device. By identifying terms in a contract, he establishes a minimal floor of responsibility and formulates sets of explicit and implicit derivative obligations for global corporations. Thomas Dunfee (1991) emphasizes the real or “extant” social contract as constituting a significant source of ethical norms in business. When these real but usually informal social contracts are based upon uncoerced and informed consent, and the norms they produce are consistent with the principles of broader ethical theories, they become prima facie obligatory (1991, p.178). In the articles co-authored by Donaldson and Dunfee, “*Towards a Unified Conception of Business Ethics: Integrative Social Contracts Theory*” (1994) and “*Integrative Social Contracts Theory: A Communitarian Conception of Economic Ethics*”(1995), they combine hypothetical social contracts and real social contracts into one theory :-- Integrative Social Contracts Theory. “The aim of integrating the two approaches is to put the ‘ought’ in symbiotic harmony in a way requiring the cooperation of both empirical and normative research in rendering ultimate value judgments” (1995, BEQ: p.178).

David Gauthier, in his *Moral by Agreements*, follows Hobbes to utilize concepts of economic rationality to advance a hypothetical “agreement” among rational, self-interested agents that form a basis for a collective morality. Gauthier

noted that, “ironically, it was self-interestedly rational for agents to bind themselves to moral commitments that flouted self-interest in the short term to gain greater offsetting interest satisfaction in the long-term” (1995, BEQ: p.177). He bases his argument on prudence rather than altruism. Gerard Elfstorm (1991, p.16) comments that competition drives a corporate executive to seek profits and growth earnestly. Because they both are the life and death of business. This situation is comparable to the state of nature of ‘war-against-war’ of Thomas Hobbes. However, Gauthier “believes that no genuine conflict between morality and rational prudence is possible, especially given the crucial need of rational agents to avoid disastrous outcomes triggered by transactions from others, such as the withdrawal of all future cooperation” (Donaldson, 1989, p.154).

### **3. Objectives for Developing Social Contract Theory in Relation to Business.**

The contractarian approach is primarily aimed at utilizing consent on certain terms of agreement for providing a philosophical ground for normative judgment concerning economic behaviors. The stakeholder theory demands corporate executives to broaden their responsibility beyond economic and legal to ethical and philanthropic perspectives; to concern for the welfare of not only the investors (shareowners and shareholders) but also to consumers, employees, suppliers, competitors, and community, to name only major stakeholders. Literature on stakeholder theory (Khun and Shriver, 1991, Hosseini and Brenner, 1992) mostly seeks to justify and identify recognizable ethical obligations on the part of firms to

respond to the legitimate interests of corporate stakeholders by describing the mutual relationship between a corporation and its stakeholders. The theory does not provide the moral underpinning for such a requirement. In other words the theory is just descriptive, not normative.

David Hume in his *Treatise* contends that there is a gap between a fact and value. The bifurcation between both kinds of statements can be pointed out by the fact that the question of truth and falsity of descriptive statement is objectively decidable. For example, the truth or falsity of the descriptive statement such as 'that pencil is blue' can be known under objectively ascertainable conditions. But in case of a value statement the situation is quite different. The expression of value statements does not always appeal to truth or falsity, but the attitudes, ideas, beliefs and moral principles and so forth of the speakers. For example, the statement "abortion is unethical" is only an attitude of Christian towards life. It does not carry an universal ethical norm.

Stakeholder theory starts with a description of a mutual relationship between a corporation and a community and then draws moral prescription from that mutual relation. According to David Hume, the description of the mutual relationship between a corporation and a community is "a class of statement of facts which is logically distinct from statements of value. No set of factual statements by themselves entails any statement of value. To put in a more contemporary



terminology, no set of descriptive statements can entail evaluative premises. To believe otherwise is to commit what has been called the naturalistic fallacy” (Searle, 1964 reprinted in Foot, 1974, p.101).<sup>2</sup> According to Hume, it seems that the demand of the stakeholder theorists for corporate executives to broaden their responsibilities to all aspects including economic, legal, ethical and philanthropic; and to concern for the welfare of not only investors but also that of all stakeholders is only an expression of their attitudes, opinions, beliefs and their private moral principles. This demand does not impose any moral obligation on corporate executives (as well as a corporation) at all. This implies that compliance to the stakeholder principles is voluntary rather than obligatory. This is quite opposite to the perception of many of today’s world corporate executives on corporate responsibility.

The researcher’s attempt to accommodate the traditional social contract to stakeholder theory is to turn the ‘descriptive stakeholder theory’ into ‘normative stakeholder theory’ which he calls “the social contract based stakeholder theory.” Within this relationship, there is a hidden social contract to which participants are bound to adhere. It is a universally acceptable moral law that “promises and contracts do impose duties [obligations] of compliance and the fact that keeping a promise or a contract is not always beneficial is frequently irrelevant. One is still obligated to keep a contract....It must be noted that the breaking of a promise [contract] can be made on

---

<sup>2</sup> See also Moore, 1903/1951, p.10-14.

moral grounds; it cannot be done on the basis of convenience or mere self-interest” (Bowie, 1982, p.28).

#### **4. The Application of Social Contract Theory to Business**

By nature, a corporation has a mutual and interdependent relationship with stakeholders in a community (locally, domestically and globally). The nature of the relationship with one stakeholder is unique and different from that of the other. There are two major characteristics in this relationship. One is based on a causal-consequential relationship. The impact on one party finally generates either positive or negative multiplied effects or both to the other parties. This can be seen in that what happens to one stakeholder including a corporation can affect the others. So as to make it more concrete, let the researcher give a simple example. Suppose there is a small village without any industry in a north-eastern province of our country. All villagers earn their living by farming on very rich soil by growing rice, fruit, vegetable and herding animals for food. One day an audio-visual factory is established to produce electrical appliances for exportation. This factory surely hires workforce from the village in which it is located, utilizes the existing infrastructures such as road, electricity, running water and so forth which are initially created for members of the community. On the other side the existence of the factory generates higher incomes for the villagers. Shops, groceries, restaurants are opened due to the greater purchasing power of the villagers and these small businesses hire more employees. Therefore the more jobs are created and the higher incomes are generated, and the

better living conditions are expected. On the other hand if that factory terminates its operation, its employees will be jobless. Shop, groceries, and restaurant will have no customers and surely their income will decrease which will result in the laying off of their employees and the termination of their businesses. It, therefore, is logical for Donaldson to remark that after its creation a corporation becomes an integral part of the society. He writes:

....a good-sized corporation plays much the same role as a vital organ in the human body. It is an integral part of the surrounding environment and its needs are met by a network of support system: by roads, utilities, and most important, by a labor pool which must itself be housed and provided with schools, parks, and commercial facilities. In turn, the corporation provides jobs, taxes revenues, and frequently civic leadership to the community. Neither town nor corporation can function well without other. But while communities are locked into geographic locations, corporations are not. ....When they move, the result can be disastrous for the community (Donaldson, 1982, p.8).

The other type of characteristic of the relationship is based on the division of labor. Members of society demand goods and services for their daily life. Therefore productive organizations (including corporations) are created to serve their purposes. However a corporation cannot provide goods and services without exploiting any

resources at all. The communities therefore allow corporations to utilize natural, human resources which are the property of the community so that a corporation is able to accomplish the purposes of its existence and to serve the needs of a society.

According to the picture of the relationship between a corporation and a society as aforementioned, it can be concluded that the fundamental relationship between a corporation and other constituents in a society is ‘symbiotic’<sup>3</sup> and ‘fiduciarian’ relative to the relationship between owners or shareholders and corporate managers in a broad sense. It is symbiotic in that a corporation owes its existence to each stakeholder. And each constituent receives a lot of benefits from a corporation. In the same manner, both managers and investors are interdependent in that managers are paid by salaries, including fringes and benefits by deducting corporate resources (which are initially generated by investors) in return for their dedication to the corporation. On the side of economics, profits, one of the major purposes of a corporation, are enhanced by the commitment and dedication to hard work of managers. Without efficient managers, profits cannot be realized.

Luk Bouckaert comments that in this kind of relationship the “original logic of one sphere, being transferred to another sphere, introduces metaphorical ways of

---

<sup>3</sup> The term is originally used in biology referring to a process in which two or more organisms of different kinds live on or in each other for their mutual benefits. The term is used in this thesis as a metaphor to explain the relationship in which institutions, persons, activities and principles coexist in such a way that the mutuality and interdependencies among them is vital for the survival and the prosperity of all.

thinking, changes the practices and creates new institutional forms” (Bouckaert, 1994, p.158). In another outlook, a symbiotic relationship between a corporation and its constituents is a fact that generates a natural law in which its reality is self-evident, independent from any convention or experience. In reference to the principle of synderesis, the known good must be done and evil must be avoided. In a symbiotic relationship the survival and the prosperity of one party is completely vital for the survival of other parties. It is a moral duty of one agent to work out for its own survival, but a survival and prosperity of one agent is dependent on that of the others. Therefore, it is a logical and moral duty that each agent works out for the coexistence of all parties.

This relationship is fiduciarian in that a community allows a corporation to exist in a community, to use resources, because it trusts that a corporation will enhance the well-being of the whole, and keeps drawbacks to a minimum. It is quite impossible for a rational agent to allow an existence of something which s/he deems to be surely harmful to him/her. On the side of a corporation, the decision of the board of directors to establish and operate a business in a certain area implies their trusts in the community to allow them necessary resources for an operation and a production. “This relationship is primarily based upon trust and dependence in which one stakeholder or party acts on behalf of the interest of another” (Weiss, 1994, p.93). As the researcher has earlier mentioned that his assumption on human economic activities is based on enlightened self-interest, rather than altruism. The mutual

relationship and dependencies between parties will certainly break down as long as one party realizes that it is made to be worse off unnecessarily. This means that the relationship can be maintained if and only if the interests and benefits of all parties are constantly harmonized and balanced.

Fiduciary relationship eventually leads to a concept of contractarian nature<sup>4</sup> (Donaldson, 1982, 1986, 1994, 1995 and 1996; Bowie, 1982; Gauthier, 1986; Dunfee, 1995; Keely, 1995; Taka, 1996) or covenant ethics (Nash, 1990, p.101) between corporation and its stakeholders. In line with stakeholder theorists, social contract theorists focus on the importance of non-economic as well as economic relationship.

A manager's understanding of problems will not be in terms of concrete products, specific cost reductions, or even balance sheet (though obviously these will be secondary results and scorecards), but in terms of quality of the relationships that inevitably are created by any business activity (Nash, 1990, p.104; Weiss; 1994, p.93).

Nash argues that the quality of covenantal (contractual) relationship in business circles is an "enabling relationship" that adds values and mutual benefits between business institutions and stakeholders. It helps create and maintain trust and long-term

---

<sup>4</sup> Neo-Classic economists also contend that "a firm can be viewed as a nexus of implicit and explicit contracts between various groups such as banks and other lenders, suppliers, employees, management, and shareholders, etc." (Rickette, 1994).



economic transactions without which business cannot succeed (Caux Roundtable, 1986).

The success of many businesses is directly related to the public's confidence in those businesses. A loss of public confidence can be detrimental to the firm and to its investors. One way to retain and to reinforce public confidence is by acting in an ethical manner, a manner that shows a concern for the investing public and the customers of the firm. (Torabzadeh et al. 1989; Laura Nash, 1990,cited in Weiss, 1994, p.93)

It is therefore logical to infer that the stakeholder perspective can be accommodated with the social contract (covenantal ethic). A mutually sustaining relationship cannot be actualized and maintained if either a corporation, or each stakeholder, pursues self-interest blindly without any concern for the welfare of other parties at all, since it is a fact that all what we do is constrained by what others are trying to do (Hovarth, 1995, p.229-252). On the contrary, the mutually sustaining benefits can only result in the fact that corporations have social and moral-- as well as legal, political, economic, and environmental-- obligations toward all of their constituents. Social contract theory requires chief executive officers (CEOs), upper-level managers, and boards of directors to maintain moral obligations. For example in a relationship with investors they are bound to inform shareholders an ongoing basis of the company's economic and status accurately and honestly; in a relationship with communities they have to act socially responsible toward their communities, host-countries; in a relationship

with employees they have to maintain non-economic obligations of providing a safe and healthy work environment, and of paying them fair and equitable wage for their works performed. In addition to economic purpose of maintaining corporate profitability and competitiveness, producers have a moral (non-economic) obligation to accurately inform consumers about their services and the contents of their products and to provide them with safe services and safe products. These moral obligations are based on the initial social contract between a corporation as a legal person as well as a member of a community with the community. Since these obligations are based on the contract, they are morally obligated. Patricia Werhane(1989), in her discussion on insider trading, illustrated the non-economic basis that binds corporations to their stakeholders as follows:

My contention has been that the principal ethical arguments against insider trading do not, by themselves, suffice to show that the practice is unethical and should be illegal. The strongest arguments are those that turn on the notion of a fiduciary duty to act in the interest of shareholders, or on the idea of inside information as company “property.” But in both arguments, the impermissibility of insider trading depends on a contractual understanding among the company, its shareholders and its employees. (Werhane, 1989, p.177; Weiss, 1994, p.92).

## 5. Logic of Social Contract Theory for Business.

A contractual relationship arises when one person enters an agreement or contract with another party of the contract. The logic of a real contract is that a person agrees to do one thing and in exchange the other party agrees to do another thing. This contractual relationship in turn binds both parties of the contract to do what they have agreed and to fulfill terms of the contract. “Promises and contracts do impose duties of compliance and the fact that keeping a promise or a contract is not always beneficial is frequently irrelevant. One is still obligated to keep a contract” (Bowie, 1982, p.28). Further Norman E. Bowie points out that a contract can be broken solely on moral grounds. “It cannot be done on the basis of convenience or mere self-interest (1982, p.28).

Donaldson argues that the logic of a real contractual relationship can also be seen in an interdependent, mutual and symbiotic relationship between a corporation and its stakeholders. “We (the members of society) agree to do X, and you (the productive organizations) agree to do Y”, given X refers to the obligations of a society to productive organizations, and Y refers to the obligations of productive organizations to a society” (Donaldson, 1982, p.42-43). X represents the obligations of a society to productive organizations or what productive organizations expect from a society. They are: (1) recognition as a single agent, especially in the eyes of law; (2) the authority: (a) to own or use land and natural resources, and (b) to hire employees. Y side represents the obligations of productive organizations to society or

what society expects from productive organizations. They are: (1) enhancing the well-beings of the society and minimizing the drawbacks; (2) generating at least minimum benefits from authorizing the existence of productive organizations to outweigh the detriments of doing so; (3) being a good corporate citizen as a good member of society; (4) supplying products and services the society need for the daily living of its members.

Donaldson argues that this reciprocal expectation is nothing other than the act of voluntary agreements or contracts between a corporation and its constituents. “Granted, people are capable of organizing business organizations without the approval of government. Granted too, they can make agreement, conclude contracts, and draw up charters without government help. Indeed, many argue that they possess inalienable rights to do these things” (Donaldson, 1982, p.5-6). And it is reasonable to infer “that no party should be asked to conclude a contract which places him or her in a position worse than before” (Donaldson, 1982, p.44). On the contrary, they as rational agents will certainly enter only the contract that at least make them better off. If it is not possible in the short run, it must be in the long run.

In this thesis the researcher attempts to construct obligations, rights and duties, of a corporation by using the means of social contract-based-stakeholder theory. What the researcher is trying to point out is not a real (written) contract which a corporation has made with some of its constituencies, but an ‘implicit and explicit contract’ which is inherent in the mutual, interdependent and symbiotic relationship

between a corporation and its stakeholders. These rights and duties of any contractors are not written down, but they are necessary for the sustenance of transactions between a corporation and its stakeholders. They are the logical factor for the coexistence between the parties of the implied contract. In the logic of the social contract specified, one party is to do X and the other party is to do Y. If one party fails to do X, the other party fails to do Y. For example if the suppliers fail to supply the producer with raw materials, the producer will not be able produce goods and provide services to serve the needs of the market. The fact that a producer can terminate its written contract with one supplier does not mean that this logic fails, because it has to sign up another contract with another supplier. And in doing so, this logic certainly persists. In other words this implied contract is not a contract of paper, or ink that can be seen by naked eyes, but the one that can be seen by the eye or the logic of contractual relationship.

Donaldson (1982) points out that the contractual rights and duties of implicit contract depends on a publicly accepted logical systems of the existing transactions. Though this contract is not written down, it is implied in their business transactions. Business people act as if there were a contract. It is a necessary condition of the existing of business transactions. As the researcher has earlier pointed out, the very real foundation behind the visible relationship is trust and without trust the visible relationship disappears. The logic of contractual relationship is the logic that sustains trust. This implicit contract then creates special rights and duties upon contractors

other than those specified in the written contract. The moral obligation of the real contract is derived from the act of entering the contract, while the moral obligation of the implicit contract is derived from the logic of the contractual relationship. If one recognizes and accepts that existing transactions which specify such a logical system, one undertakes an obligation to do what one agrees upon in the terms of the contract. And the whole system can be sustained on the condition that everyone keeps this contract. Moreover, it is a universal ethical rule that one acts in accordance with the undertaking of the contract. The violation of the contract deserves criticism, blame, regulation and even termination of its existence.

## 6. The Legitimacy of the Logic

The logic of a mutual, interdependent and symbiotic relationship aforementioned can be validated by these following arguments:

### 6.1. Argument from the hypothetical state of nature.

Donaldson argues that the answer to this issue lies in the assumption of the state of individual production which will help justify the legitimacy of the existence of a productive organization. If a corporation's existence makes the society better off and minimizes all possible harms, its existence is justified.<sup>5</sup> Following the traditional social contract theorists he contends that the state of individual production is where people live without productive organizations. He identifies three main characteristics

---

<sup>5</sup> This justification is also rooted in the golden rule. A corporation grows and prospers from a contribution of a society. A corporation is, therefore, expected not to harm a society and make a society better off.



of state of individual production namely: (1) people are imagined as having “economic interest,” i.e. as being people for whom it is desirable to have something or services produced by human labor. Under such condition almost any human would qualify to produce what they need for themselves but not yet organize into productive organizations; (2) individuals produce and work alone. This means that it must be society without factories, banks, hospitals, restaurants, or railroads; (3) this system does not work well because it can satisfy man’s need to a very limited extent.

#### 6.2. Argument from the emergence of productive organizations.

In the state of individual production, a man can produce only few products just for his/her needs which does not cope with the infinite need of numerous members in a modern society, especially the society that maintains constant growth, from a village to a town, a city, or even a mega-city. Seeing the disadvantages of individual production and the advantage of the introduction of productive organizations, for the purpose of economic efficiency (non-economic factor is not taken into consideration at this point) people associate and create a condition in which they can cooperate to produce at least one specific product or service. When a productive organization is introduced, technologies for greater production such as division of labor, machines were created. Under this condition men can utilize their optimal capability. They can produce even double or triple or even ten times as much as they could formerly do. Mass production for the need of the mass population is thus realized. Thus it can be seen that the introduction of productive organizations is exclusively for the purpose of

resolving the major shortcomings of the state of individual production. “Rational people in the state of individual production want to maximize that interest and minimize the drawback stemming from such state of nature. They introduce the productive organization on the term of maximizing their interests, and minimizing the drawbacks” (Donaldson, 1982, p.51). A presumption is that a valid agreement must be based on informed consent. “This is nothing other than the expectation of all voluntary agreements: that no party should be asked to conclude a contract which places him or her in a position worse than before” (Donaldson, 1982, p.44).

It is a fact that “modern corporations aspire to more than the status of mere organizations: they require the power to contract as a single agent under law and the status of an ‘invisible person’ along with the rights this status entails” (Donaldson, 1982, p.5-6). These special characteristics of a corporation, which in turn are advantages for stockholders, are granted to a corporation, recognized, and protected by a community and a state on the condition that a corporation facilitate members of the community and the state to pursue their purposes aforementioned smoothly. It is therefore logical to conclude that a productive organization is introduced exclusively for the purpose of enhancing the authentic happiness according to reality, coexistence, and harmony of the society.

## 7. Moral Justification for the Existence of a Corporation

As the researcher has previously given an account, corporations are thus in need for a recognition from the society for the justification of their existence. Free market advocates (Milton Friedman, Theodore Levitt and Albert Z Carr) justify corporate existence by appealing simply to corporate economic perspective. Members of a society demands goods such as shoes, food, cars, houses..etc.; and services such as transportation, education, communication, employment, etc.. Therefore corporations are created just for the purpose of producing and providing what people need (Donaldson, 1982, p.38). Free market advocates hold that a corporation has a contract with a society just to provide members of society with goods, service and employment, while a government has a contract with members of society to provide social welfare. “Welfare and society are not the corporation’s business. Its business is making money,...In a free enterprise system, welfare is supposed to be automatic; and where it is not, it becomes government’s job, and business’s job is not government” (Levitt, 1958, p. 33). Therefore as long as a corporation accomplishes its economic function, it accomplishes its mission and it has fulfilled terms of the contract it has made with a society.

Donaldson argues that the social need of an organization to produce wealth for society is not a sufficient reason to justify its existence from a moral perspective. Morality encompasses the entire range of human welfare, physically, mentally, and psychologically. Therefore a comprehensive moral picture of a corporation’s

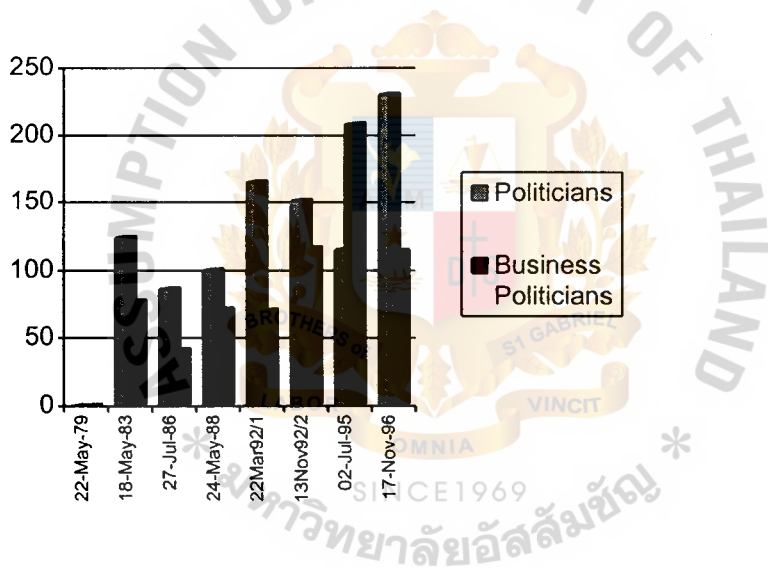
existence must be based not only on its capacity to produce wealth (economic return) but also on a full range of its effect upon society and members of society:- its potentiality to pollute community or to harm workers, or, alternatively its potentiality to benefit employees and the community by creating jobs and increasing incomes (Donaldson, 1982, p.38). Luk Bouckaert comments that by nature a firm is an interactive institution that can be understood in terms of multi-dimensional organization. “A firm, for instance, can be analyzed at the same time as (1) a profit maximizing organization operating in a more or less competitive environment, (2) a social contract defining the rights and duties of different stakeholders, and (3) a community sharing a common mission and value system” (Bouckaert, 1994, p.159). These three features of business institutions are analogous to the three sides of a triangle. A triangle cannot be a triangle if it lacks any of the three sides. An ignorance to see any one of them does not make a triangle become a geometric figure of two sides. In the same manner, economic dimension is only one aspect of a business firm. The other two perspectives are non-economic. Free market advocates see only one aspect, economic dimension, of the tripartite dimension of a business institution. Such an ignorance does not and cannot reduce the three dimensions into only one dimension. On the contrary, it is an insufficient understanding of the fact in its totality. “[A firm] is an economic, political and moral institution. Reducing a firm to one of these dimensions is lessening its capability to respond to a growing demand for values and services expressing the symbiosis of different aspects of life” (Bouckaert, 1994, p.159).

According to free market advocates, a corporation is a product of free human association. “People freely come together for the purpose of conducting business and constituting a corporation” (Donaldson, 1982, p.38). Realizing the need for goods and services of the members of a community, a group of people freely get together to produce them. Adam Smith is not completely wrong to argue that the motif for the creation of a corporation is self-interest, economic return. Seeing a chance for earning, investors voluntarily get together to create a corporation or to put their money into stocks and shares of a corporation. However, this fact is not a sufficient reason to draw a normative conclusion that it is justified for a corporation to do anything so as to accomplish its economic purpose. In the same manner, the fact that people have a right to associate does not justify their association for plotting a criminal plan.

Productive organizations, nowadays, are social giants. An organization itself breeds power, and corporations are organized social units consisting thousands of social organizations. They affect lives of millions of people, influence domestic and foreign policies, and employ more population than that of a small country. “With size comes power. Large corporations are capable of influencing mainstream of societal events and this power is not only economic, but societal and political” (Donaldson, 1982, p.7). For example, IBM has more than a million employees around the world while a small state like the Vatican has a population of only around ten thousand. This issue is most complicated in Thailand. The word ‘business politicians’ is quite

unique in Thai politics. In general elections during this decade, the number of parliament representatives coming from the business sectors has been constantly increasing. This fact merges politics with business, and paves the way for “top-level corporate executives to have better than average access to government policy-makers” (Donaldson, 1982, p.7). (See Graph 1).

Graph 1: Illustrating the number of politicians and business politicians elected in general election in Thailand, between 1979-1996.



“This blurs the distinction between a corporate formal power and its authority to act intra vires, which flows from its rights as defined by law or charter, and its practical power, which derives from its special role in society” (Donaldson, 1982, p.7). Free market view on corporate responsibility is fundamentally based on a distinction of powers and functions of a corporation and those of a government. A reality of Thai politics is a good evidence to falsify this presumption. All political parties are financially sponsored by major corporations. In return for their support



corporations can influence administrative and legislative power of the government. Therefore corporations can accumulate power by means of economics and politics<sup>6</sup>. Keith Davis (1975) argues that a large size and an accumulation of abundant power of a corporation requires it to expand its scope of responsibility. Otherwise it is ethical to be deprived of its powers.

If business has the power, then a just relationship demands that

business also bears responsibility for its actions in these areas.

Social responsibility arises from concern about the consequence of

business acts as they affect the interest of others. Business decisions

do have social consequences. Businessmen cannot make decisions

that are solely economic dimensions, because they are interrelated

with the whole social system. This situation requires that

businessmen's thinking be broadened beyond the company gate to

the whole social system. ....Business institutions that ignore

responsibility for their social power are threatened by what Keith

Davis and Robert L. Blomstorm call the Iron Law of Responsibility:

"In the long run, those who do not use power in a manner which

society considers responsible tend to lose it" (1975 reprinted in

Carroll 1977, p.46).

---

<sup>6</sup> In Thailand a symbiosis between corporations and government is clearly seen. The best examples illustrating how corporations are dependent on governments are clearly seen during the economic recession of 1995-1997. For example, in 1995 the real estate and export sectors suffered so tremendously that governments had to lend their hands to help save them.

However, a corporation is also affected and influenced by society. It must be established in a society. For its survival and prosperity, a corporation needs a permission from the community to draw existing sources of materials (resources) which belong to all members of such society, to store toxic byproducts or even to find dumping sites in the community which might be risky to the good life of that community, to hire people from the community to produce for the corporations, to use the infrastructures of the community to produce its products. Legally a corporation is a legal person<sup>7</sup> entitled with the right to own property, to dispose of a property, and to sign a contract. A corporation is even granted that this right exists apart from the discretion of society. In some cases a corporation enjoys a greater privilege than a physical person. It is entitled with limited liability, capability to control its equipment and land independent of its owners or shareholders. An owner or a shareholder can die, but a corporation will continue its existence with right and privilege until it is dissolved (Donaldson, 1982, p.43). These rights, privileges and special status are recognized under the laws of the country. This fact generates a reciprocal relationship between a corporation and the community. This relationship suggests the existence of an implicit agreement between a corporation and society. “If a hypothetical corporation holds a society responsible for providing the condition of its existence, then for what reasons does a society holds hypothetical corporation responsible ? What are the terms of social contract?” (Donaldson, 1982, pp. 41-42).

---

<sup>7</sup> To say that productive organizations must have authority to act as individual agents is not necessary to affirm that they are abstract, invisible persons. Rather it is a means for stating the very fact that productive organizations must, for a variety of purposes, be treated as individual entities.

It can, therefore, be concluded that the major justification for the existence of a corporation on an ethical basis is that corporations are productive organizations formed to enhance authentic happiness according to the reality of its rational agents. These rational agents must be the underpinning moral foundation of a corporation.

## 8. Terms of the Contract

As the researcher has previously mentioned, the contract specifies that productive organizations have a function to enhance authentic happiness according to reality, coexistence, and harmony of society. The most fundamental strategy for productive organizations to achieve this purpose is to maximize goods and minimize evils relative to all stakeholders. This rests on the assumption that each individual as rational agent will certainly agree upon the contract that will make him/her better off (or achieve authentic happiness according to reality) and disagree with the one that will make him/her worse off. “It is logical that members of the contract lay down minimum condition for a corporation to follow so as to assure that their major aim of authorizing the existence of a corporation is heeded. And whenever a corporation as a productive organization violates these minimum terms of social contract, it deserves criticism, reform of themselves, or loss of their existence” (Donaldson, 1982, p.54). The suggested minimum conditions are as follows:

### 8.1. Principle of Informed Consent:

Consent by its very nature is valid only when it is uncoerced and informed. It is most vital to the validity of the social contract theory for business. As long as the

contract is coerced and uninformed to either party of the contract, the contract is null.<sup>8</sup> This principle is rooted in the principle of autonomy. According to the principle of autonomy, “an action is morally right if and only if the action respects people’s capacity to choose freely for themselves. People are to treat each other as free and equal in the pursuit of their interests” (Buchholz, 1989, p.54). “Autonomy has to do with the power to choose courses of action in accordance with the reasons one has for acting in that way” (Applebaum and Lawton, 1990, p.31). A person as a rational human being endowed with dignity and capability of moral choice has a unique capacity of giving himself or herself a rule or a legislation for actions. Therefore a person has a unique capability of giving himself or herself a rule for action. Buchholz argues that “moral law is self-imposed and self-recognized....Those who possess moral dignity are the determiners of their own destinies and are self-governing beings. The autonomous person is both free of external control and in control of his or her own affairs” (1989, p.54). This means that the nature of rational entity is self-governance in his or her ethical affairs. “People determine its content for themselves in accordance with reasons. Each person imposes the law upon himself or herself and accepts its demands” (Buchholz, 1989, p.54). This makes force and coercion an encroachment of the principle of autonomy because they obstruct man from using his rational capacity to make a free choice. Applebaum and Lawton argue

---

<sup>8</sup> Norms such as dress codes, wearing name tags, which are forced from top to down do not involve genuine consent and are irrelevant. Employees participate and conform to such norms only from fear of retaliation and unemployment, or for other purposes such as co-operation, unison, uniformity, and identity. These norms are contingent in that conformity to the norms does not make anyone worse off.



that the principle of autonomy has two meanings, a positive and a negative one: (1) a negative meaning means freedom from certain forces; (2) a positive meaning means freedom to exercise relevant powers in order to act autonomously. The principle of autonomy is, in turn, rooted in the second category of the categorical imperative of Immanuel Kant. “Being an end in oneself means finding intrinsic value in one’s life and one’s pursuit. When our morally acceptable choices of means to one’s life plan are violated, we are being treated as less than persons” (Applebaum and Lawton, 1990, p.31).

8.2. The principle of corporate responsibility for the consequences of its transactions:

This principle holds that a corporation and its managers are to be responsible for the effects of their actions on others. This obligation is not written, but it is a publicly accepted obligation and duty which lies beneath the institutions of mutual relationship between a corporation and its stakeholders, even though it does not bind stakeholders in such a way as contractors are bound in a written contract. If these obligations and duties are not maintained the institutions of mutual relationship cannot be sustained. As we have earlier mentioned, in the institution of mutual relationship each stakeholder’s action can affect the well-being of other stakeholders. On one hand the survival of each stakeholder is also dependent on the contributions of other stakeholders. This relationship implies a logic of contractarianism in which one stakeholder is to do X, and other stakeholders are to do Y. Our assumption is that

each stakeholder is a rational agent. It is illogical that a rational agent contractor will enter a contract that makes him worse off. If the situation makes a person worse off, it is an injustice which is to be compensated proportionately. Justice is then an essential attribute of the mutual, interdependent and symbiotic relationship in which trust is the underpinning of all subsequent interactions.

### 8.3. Principle of the respect of human rights and dignity:

“Human dignity refers to the sacredness or value of each person as an end, not simply as a means to the fulfillment of other’s purposes or even majority prescription” (Caux Round Table, 1986). This principle includes respect for interests of stakeholders. This principle can be understood in two manners: Negatively and Positively. (1) Negatively, business should act in such a way that avoids causing needless, possible and known harms to its stakeholders. That is, business has to use its utmost possible knowledge to assure possible safety to its stakeholders. As long as the possible a harm is realized, business has an obligation to correct it. In the case that business has used its utmost capability to assure safety of its stakeholders, it does not commit an unethical act, but must be responsible for liabilities and correct the mistakes. In case that harms are unavoidable, only the alternative with least possible harms is allowed. Stakeholders must be informed and allowed to participate in decision making as autonomous entities; (2) Positively, a corporation has a moral duty to respect the dignity, rights and interest of the stakeholders. It has to use its



utmost capacity to enhance the authentic happiness according to reality, harmonious, and peaceful coexistence (symbiosis) of its stakeholders.

#### 8.4. Principle of Justice:

John Rawls argues that the principles of justice are the “basic structure of society” (1972, p.11). For a society is an aggregate of rational individuals. Donaldson and Dunfee argue that the principle of justice is the most persuasive reason that attracts rational prospective contractors to agree to the terms of a given agreement in the hypothetical social contracts (1995, p.137). A minimum standard of justice applicable to the concept of justice requires: (a) avoiding deception or fraud, (b) showing respect to the dignity of human life, (c) avoiding any practice that systematically worsens the situation of a given group in the society (Donaldson, 1982, p.53). This minimum standard of justice is the fundamental criterion for determining the promise-keeping of a corporation.

It is important to recognize that Rawls and Gauthier refuse to make a presumption in their models of social contract on altruistic grounds. Even though there is growing evidences that some human beings appear to be altruistic by nature they seek to strengthen the persuasiveness of their presumed agreements on the basis of enlightened self-interested instead.<sup>9</sup> There may arise a question here if members

---

<sup>9</sup> The research bases his analysis on the assumption of a rational choice driven by enlightened self-interest of human economic interactions. However, he disagrees with a radical pursuit of self-interest.

of a society are by nature self-interested, each of them will definitely choose to maximize his/her own interests only. According to Adam Smith (Milton Friedman and Theodore Levitt), the invisible hand ultimately brings about common good to the society. This implies that ethical aspects regarding economic interactions like the principle of justice, a respect of human rights are not needed. If the logic of an invisible hand (aforementioned) is correct; then, as a consequence, John Rawls seems to be wrong to maintain that the principle of justice is a basic structure and basic requirement of the society and social contract; the proposal of stakeholder theorists on the broadened concept of corporate responsibility is irrelevant. Danielson (1991)<sup>10</sup> poses an interesting question on this issue as follows: “Why should agents concern only to satisfy their own preferences constrain themselves by impartial moral principle?” There is an intellectual device called ‘Prisoner’s Dilemma’<sup>11</sup> -- invented nearly two centuries after Adam Smith-- illustrating a situation where the invisible hand of individual maximization seems to break down, the individual rationality leading to group irrationality. Andrew Schotter has given a nice comment regarding this issue thus: “Just as in life ‘who lives by the sword shall die by the sword,’ in economics ‘he who lives by rationality shall die by rationality.’ The very individual

---

<sup>10</sup> In his article ‘Closing the compliance dilemma: How it’s rational to be moral in a Lamarkian world’ published in “*Contractarianism and Rational Choice: Essays on David Gauthier’s Moral by Agreement*,” (1991, pp. 291-322).

<sup>11</sup> What the researcher has elaborated about this game in this thesis might seem naive and over-simple to the practitioners of game theory. A discussion in detail can be seen in Derek Pafit’s “Prudence, Morality, And the Prisoners’ Dilemma” published in *The International Research Library of Philosophy 6: Consequentialism*, Phillip Pettit (edt.), Hants GU 11 3HR, Dartmouth Publishing company Limited, 1993, p.539-564.

rationality that makes the market work so well often destroys the optimality of its results” (1985, p.47).

This dilemma runs thus:-- Two robbers are caught after they have robbed a store but after having disposed of the loots. The police, believing they are guilty but lacking enough evidence to convict them, take them to the police station and interrogate them in separate rooms. Each robber is given a chance to be immune from imprisonment if he confesses the crime. If neither confesses, the police can convict them of only a very minor crime for loitering at the crime scene. In this case both would go to jail for six months only. However, if one confesses and the other does not, the one that confesses will get off without imprisonment at all for his cooperation in helping to convict the other. The one who did not confess will go to jail for ten years. Finally if they both confess they both will be convicted, each on a lesser charge, because there are insubstantial evidence (since the loot have already been disposed of), they will go to jail for only five years <sup>12</sup>. The various possibilities are summarized in Table 2.

---

<sup>12</sup> adapted from Andrew Schotter, “*Free Market Economy*” (1989, p.47-48) and Samuel Brittan, “*Capitalism With Human Face*” (1991, p.38-39).

Table 2: Illustrating alternatives of the prisoners’ dilemmas:

		Robber 2	
		do not confess	confess
Robber 1	do not confess	6 months in jail, 6 months in jail,	10 years in jail, 0 years in jail
	confess	0 years in jail, 10 years in jail,	5 years in jail, 5 years in jail,

On the side of robber (1), the best alternative for him is to confess while robber (2) remains silent so that he can be immune from imprisonment, his second best is to keep silent while his accomplice also keeps silent and they each will be imprisoned for only six months, his third best alternative is to confess if prisoner (2) confesses and he will be imprisoned for five years, and lastly his worst alternative is to remain silent while his accomplice confesses for he will have to serve as long as ten years in prison. If he consults only his self interest he will certainly confess. And if so he has a chance to achieve either the best or the third best. He has no chance to receive the second best and the worse outcome. It is notable that whichever alternative is chosen by robber (1) is constrained by the alternative chosen by robber(2). Since our presumption is that agents of any society act in self-interest, it is most likely that prisoner (2) will choose to confess to avoid that worst alternative. If so, it is impossible for prisoner (1) to achieve the best alternative. And it is most probable that if they both are concerned only with their self-interest to seek a

maximization of their benefits, they will enjoy only the third best alternative. The second best alternative can be possible only when they co-operate not to confess. This will be possible only if they both have a mutual trust in each other. If robber (2) resorts to the same logic of reasoning the result will go round in the same manner.

The point of this dilemma is that “if each person act rationally and pursue only his own self-interest, the social outcome is worse if each individual does not” (Schotter, 1985, p.47). This game reveals the fact that some human interactions in which men pursue self-interest can lead to irrationality and the Paretian optimality cannot be maximized. In such cases, the invisible hand of the free market breaks down and cannot work, but “the more co-operative norm works better” (Brittan, 1995, p.39). The agents can be better off if they act in a non-rational and non-egoistic but enlightened self-interested and social minded manner.

This dilemma can be applied to numerous social phenomena. For example, a crossroads without traffic lights with cars coming from all the four directions. If all rational drivers choose to maximize their self-interests, then all will rival to be the first one to drive through the intersection and car crashes will certainly halt the traffic. It is a fresh pursuit of self-interest that turns rationality to irrationality. Another example is the demand of running water on Saturday and Sunday mornings. If all rational agents decide to follow their self-interest to finish their weekly launderings in the morning so as to have a free time for going shopping in the afternoon, the result is

that no one is able to finish their launderings within the time period expected and no one will be able to go shopping in the afternoon as planned.

The researcher agrees with them in that the enlightened reason is the more flexible reason why rational contractors would agree to the terms of a given agreement for it can be applied to any type of rational agent: self-interest, enlightened self-interest and altruism. “If self-interest contractors will agree to these moral principles without supposing any altruistic influences, clearly ordinary humans, who may possess *altruistic instincts*, will also agree to them” (Dunfee and Donaldson, 1995, BEQ: p.179). Donaldson argues that when a rational person cooperates to establish a ‘production organization’, he or she certainly will not agree upon the terms that are unjust, at least the terms that tend to make him worse off. On the contrary, he or she is likely to agree upon the terms that are just, the ones that he or she expects to make him or her better off to a certain extent. Therefore principles of justice are the conditions of the original agreement. “They are the principles that free and rational persons concerned to further their own interests would accept in an initial position of equality as defining fundamental terms of their association. These principles are to regulate all further agreements; they specify the kinds of social cooperation..” (Rawls, 1972, p.11).



## 9. Supplementary Condition

Whatever ethical theories are to be applied, these supplementary important conditions that are acceptable among parties of the social contract are to be acknowledged. They are foundations for avoiding harms and enhancing the authentic happiness according to reality, peaceful and harmonious coexistence among members of society or social contracts. However, the three norms (principle of informed consent, respect of human right and justice) must always be maintained. These norms are what Donalson and Dunfee (1994 and 1995 in BEQ and PhE) called “hypernorms” which are universal and override any community norms.

9.1. Society acknowledges that trade-off must be made on the condition that certain minimum standards of justice are maintained. Society cannot reasonably expect productive organizations to maximize any stakeholder’s interest to the absolute maximum possibility at the time given, for doing so would grossly encroach the interests of other stakeholders. Although the contract allows the productive organizations to undertake actions requiring welfare trade-off, it would prohibit organizational acts of injustice. It might allow a corporation to lay off, or to reduce the salaries of its workers, to downsize in order to block skyrocketing production costs or a collapse of a corporation, to dismiss workers who cannot maintain the corporation’s profitability and competitiveness. One clear example in Thailand is that after re-engineering commercial banks have found out that during the past few years they have hired too much workforce which eventually becomes the main obstacles for

an improvement of their profitability and competitiveness. In this case banks have the right to reduce their workforce. The ethical problem that arises “*is not to reduce or not to reduce*”, but it is a moral duty to reduce workforce. The real ethical problem is how to do it while, at the same time, maintaining the principles of the respect to human rights, due process and justice. This means that executive directors have to find the way of downsizing in the workforce that is acceptable by the workers and that will save both the organizations and workers who have to leave. In other words, the authentic happiness according to reality of all parties must be maintained in doing so. The procedure cannot be accomplished in one month or one year, but several years.

It is notable that an allowance of a corporation to trade off is different from the gross violation of an ethical standard like cheating the consumers on the quality of the products, marketing products with full realization of possible hazards. “These are clear injustices of the kind that society would want to prohibit as a condition of the social contract” (Donaldson, 1982, p.53). It can be concluded that “a tenet of social contract will be that productive organizations are to remain within the bounds of the general canons of justice” (Donaldson, 1982, p.53). The difference is that laying off workers is the better possible alternative available that brings the least negative consequences. Moreover, such an equitable laying off is needed to help balance the interest of all stakeholders in the existential circumstances. The choice of making a trade-off has no intention to harm anyone. But it is a decision aiming at helping everyone to achieve happiness relative to their reality.

9.2. It is logically possible that people in the state of individual production would choose to accept the social contract, even though they view that their interest will be less satisfied than that in the state of nature (the state of individual production) so long as the overall welfare of all stakeholders, which is the more necessary condition of the happiness according to reality, a coexistence and harmony in the society, is enhanced.

These two principles in turn imply that among several versions of the theory of distributive justice, the researcher finds that the provision proposed in Rawls' *A Theory of Justice* (1972) is most compatible with his 'social contract-based-stakeholder theory. In his theory of distributive justice Rawls has proposed two principles of justice that are believed to be chosen in the original position.

- The First Principle: The Equal Rights Principle. Firstly, each person is to have equal right to the most extensive basic liberty compatible with a similar liberty for others (1972, p.60).
- The Second Principle: The Difference Principle. Social and economic inequalities are to be arranged so that they are both (a) to the greatest benefit of all the least advantaged and (b) attached to offices and positions open to all under condition of fair equality and opportunity <sup>13</sup> (1972, p.60).

---

<sup>13</sup> It is remarkable that there is a little difference in his first proposal of the second principle on page 60 and his modified version on page 82. When they are combined the different principle should run thus: Social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's

There are several reasons supporting the Rawlsian provision on distributive justice. Firstly, justice according to social contract-based-stakeholder theory does not mean that all stakeholders will be given equal and optimal benefits. This theory admits the different portions in the distribution of burdens and benefits as long as minimum requirements on basic needs such as education, health care, social welfare, etc.. are enjoyed by the groups worse off in society. However, society must provide opportunities for the worse off to improve themselves. Secondly, in terms of power corporations are social giants with greater power and flexibility than individuals such as workers, consumers. They are, therefore, more morally bound than other stakeholders with less power. One obligation is that they are morally bound to use their power morally; otherwise they are morally to be deposed of their powers. That is, their agents (according to this theory corporate executives are agents of both corporations and stakeholders in general) have to work for the welfare of a corporation as well as that of other stakeholders. Thirdly, the theory is teleological in that a corporation and each stakeholder is to work out for the authentic happiness according to reality, peaceful and harmonious coexistence. This is so because, by nature, the relationship between a corporation and its constituents is symbiosis which can be maintained solely by the state aforementioned. If the situation turns otherwise a corporation and its constituents have to adjust and correct the situation. In case that they cannot do so, the whole structure will logically collapse.

---

advantage; (b) to the greatest benefit of all the least advantaged; (c) attached to offices and positions open to all under condition of fair equality and opportunity.

## 10. The Binding of the Social Contract-Based-Stakeholder Theory

Contractual rights and duties are the limited rights and correlative duties that arise when one person enters an agreement or contract with another party of the contract. For example, if I contract to do something for you, you are entitled to my performance and I am obligated to such performance. Contractual right and duties normally attach to only specific individuals who enter the contract, and are limited only to transactions specified or implied in the contract. For example if Mr. A contracts to help Mr. B financially when Mr. B. is in need of money, then Mr. B. is entitled to request obligation on financial assistance from Mr. A. Mr. A is under an obligation of the contract to help Mr. B. financially when Mr. B. requests. However, Mr. B. is not entitled to request an obligation from Mr. A to pay a debt for him, or to pay for a new car that Mr. B. bought.

The foundation for keeping a contract as discussed is based on the first categorical imperative of Kantian Ethics. The first principle runs thus: “I ought never to act except in such a way that I can also will that my maxim should become a universal law” (Kant, 1964, p.70). The term, ‘maxim’ for Kant means “the reason a person in a certain situation has for doing what he or she plans to do” (Velasquez, 1988, p.90). Such a maxim can become a ‘universal law’ if every person in a similar situation chooses to do the same thing for the same reason. This maxim can be translated into the following principle: “An action is morally right for a person in a certain situation if and only if the person’s reason for carrying out the action is a

reason that he or she would be willing to have every person act on, in any similar situation” (Velasquez, 1988, p.91). For example, if I want to break a contract just because of the undertaking of the obligation makes me lose my benefits, I have to ask myself if I am willing to have someone break a contract s/he has made with me just because s/he thinks that the contract makes him/her lose his/her benefits. If I am not willing to accept it, it means that the principle cannot become a universal law. There is an obvious similarity, then, between the first categorical imperative of Immanuel Kant and the so-called “golden rule”: do unto others as you would have them do unto you.”

The obligation to adhere to the contract is also based on the second categorical imperative of Immanuel Kant. The failure to adhere to terms of the contract is also a practice that treats other persons as a means, not as end. John Rawls has also provided a further justification of the obligation to the adherence to the terms of contract that freedom is broadened when the contractual rights and duties are recognized by members of a community. The fact that Mr. A. promises to do X if Mr. B. do Y is a convention. There is no natural law requiring Mr. A and B to do such and such. A social enforced system of social rules that requires Mr. A to do X and Mr. B to do Y as promised is an assurance that contract Mr. A. has made with Mr. B. and Mr. B. has made with Mr. A. will be kept. Only if they have such assurance will people feel able to trust each other's words. And on that basis the beliefs on the institution of contracts are secured (Rawls, 1971, p.344-350). The reason why Mr. A.



enters a contract with Mr. B. is that he wants Mr. B. to do Y for him. In the same manner, the reason why Mr. B. enters a contract with Mr. A. is that he wants Mr. A. to do X for him.

Further, Velasquez (1994, p.89-90) points out that the act of entering into a contract is also subject to three secondary moral constraints:

- Both of the parties to the contract must have full knowledge of the nature of the agreement they are entering;
- Neither party to a contract must intentionally misinterpret the facts of the contractual situation to the other party;
- Neither party to a contract must be forced to enter the contract under duress or undue influence.

By nature a real contract and hypothetical contract are different; there seems to be a logical gap between them. For example, it is universally acceptable that a corporation that signs a contract with a supplier is bound by terms and conditions of such contract. A violation of the contract is morally and legally wrong. But the contract of social contract theory is not that direct and explicit but an **implied** contract. Donadlson points out that “by implied contract I assume that we mean those informal but extant understanding that impose norms on business relationships of different kinds. So, for example, you and I undertake business dealings over a period of years and, without writing anything down, come to share understandings about norms that

govern our relationship” (1996: internet)<sup>14</sup>. Even though these norms are not written down, they are easily seen in daily business practice. As rational people when we buy a car, we take it for granted that the car of a certain brand name, with the certain price that we buy, even a cheap car, complies to at least minimum safety standards. Suppose we know in advance that it is not safe, we surely will not buy it and will change to buy another brand name with equal or even higher price which we think that it is safer. On the side of automobile producers, they knowingly realize what their customers need. In their acts of advertisement, promotion, etc., they implied an adherence to these norms.

Social contract-based-stakeholder theory does not say that implied contract is completely the same as real contract. The binding of the theory is seen not in the written agreement, but in the logic of the contractual relationship. This means that the same logic of contractual relationship is seen both in the real contract and implied contract. The contribution of the theory is an attempt not only to construct obligations a corporation has towards its stakeholders, but also to point out how such obligations can be explained theoretically. In fact the implied obligations a corporation has towards its stakeholders are normally universally known, and acceptable in principle at least during this contemporary period. How to explain it theoretically is the primal contribution of this theory. An accommodation of social contract theory to stakeholder theory in this thesis is to “examine implied contracts

---

<sup>14</sup> In a theoretical discussion between Thomas Donaldson and the researcher through internet during November and December, 1996.

through the lens of hypothetical contract” (Donaldson, 1996, internet). Donaldson clarifies this point in his explanation of the difference between ‘implied contract’ and ‘hypothetical contract.’ He writes:

The difference between these “implied contracts” and “hypothetical contracts” is stark. The former are existing understandings, present in some form or another in the minds of the contractors, who themselves are flesh and blood people. The latter are not existing contracts between flesh and blood people at all, but merely heuristic devices or “thought experiments” that help us clarify what norms should govern business. The former tell us what IS; the latter tell us what OUGHT to be (1996, internet).

Terms of contract and secondary moral constraints are found in the implied contract through the imagination of the state of nature. The researcher’s simple explanation is that in daily business transactions there implies an act of entering a real contract but we do not know when this implied contract was really made. This fact does not and cannot refute that there is no contract at all. Moreover, it would be irrational to suppose that in such and such contract, conditions that fulfilled real contract are not met. Since our presumption is that each contractor is rational, implied contract is inherent in their rational interactions. “It would be widely irrational in the original position to agree to be bound by words uttered while asleep, or extorted by force. No doubt it is so irrational that we are inclined to exclude this and other possibilities as inconsistent with the concept (meaning) of promising (Rawls, 1972, p.345).

## 11. The Legitimacy of the Application of Social Contract to Business

The social contract has been traditionally applied to justify the existence of governments. Then what are reasons to suppose that it is applicable to economic institutions? Donaldson contends that the traditional social contract theory not only is a theoretical means for justifying the existence, the legitimacy and the justified actions (imposing taxes, raising armies, enforcing laws, etc.) of the states but also “provides a clue for understanding the contract for business....[T]he inner working of the contract between citizens and the states serves as a blueprint for constructing the contract between society and corporations” (Donaldson, 1982, p.33,39). Calton and Lad (1995, p.271-296) point out that the social contract theory is a potential sorting logic for the development of a comprehensive theory of the firm. “[It] helps answer questions concerning who are legitimate stakeholders and how stakes are to be defined” (Dunfee, 1995, BEQ, p.169).

The project of applying social contract to a corporation is to discover the moral underpinning of a hypothetical corporation (any corporation), to answer from a moral perspective why a corporation exists (Donaldson, 1982, p.41-42). In structure there is a parallelism between traditional social contract and social contract for business. If a political state finds a justification for its existence in social contract theory, the social contract theory of corporation should help to answer the questions:- why a corporation should exist at all, what fundamental justifications of their activities are; how we can measure their performance in the same line as the social

contract helps provide answers to political states. Donaldson and Dunfee gave further elaboration to clarify a logical shift from the normative aspect of political social contract to the implied contract in business thus: “a normative and hypothetical contract among economic participants, [and] a social contract [is] similar to the classical contractarian theories in philosophy and political economy. This general contract, in turn, defines the normative ground rules for creating the second kind of contract. The second is existing (extant) implicit [implied] contract that can occur among members of specific community” (Donaldson & Dunfee, 1994, p.254).

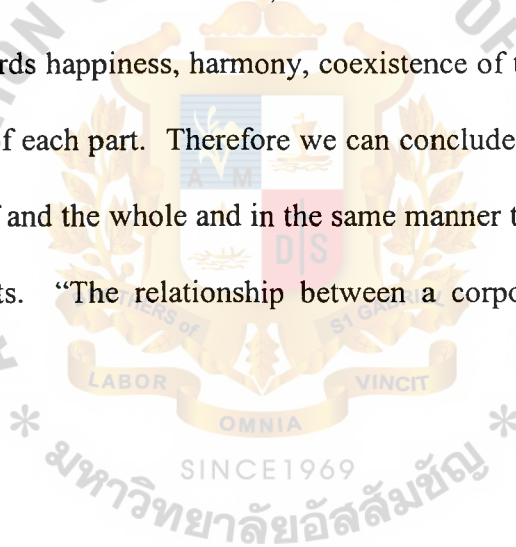
Donaldson argues that “a corporation is a state within a state” (1982, p.8). That is so because a corporation, relative to a state, is an aggregate of individuals having a relationship with the state in different ways. In a relationship with its citizens, the state has a moral duty and obligations to protect rights and freedom and to care for the welfare of its members. And another major moral duty and obligation is to maintain a balance of relationship among members of different stakes in a society. This balance is so crucial that the loss of balance means a collapse and a complete change of a society. In the same manner according to social contract-based-stakeholder theory, a corporation has moral duty, negatively, to avoid harms to its stakeholders and positively to maintain authentic happiness according to reality among its stakeholders as well as corporate profitability and competitiveness. The only difference in the duty to care for constituents between a corporation and a state lies in the fact that a state is an artifact created primarily to care for the welfare of its

citizens; a corporation is an economic artifact created primarily to provide goods and services for people. However, a corporation, as a legal person and a host of symbiotic relationship with its constituents, is not excluded from the duty care for its neighbors and society at large. “For a long time people believed that the only purpose of industry is to make profit. They were wrong. Its purpose is to serve the general welfare” (Henry Ford II cited in David Ewing, 1977, p.65).

One major similarity between a corporation and a state is seen in the structure within the corporation itself. “[A corporation] competes on some levels even with the government in the management of social and economic events. The corporation, like the government, has a citizenry from which it commands loyalty, and this citizenry includes shareholders, suppliers, and employees” (Donaldson, 1982, p.8-9). The different departments with different kinds of jobs such Purchasing, Manufacturing, Research and Development, Marketing, Public Relations, Engineering, etc., represents the different groups of people with different functions in a state. However different they are, these departments have to work in harmony so as to make a production and a service-providing proceed smoothly. Whenever one department fails to function properly, other departments will be affected. In the same manner, a state is composed of individuals working in different departments; however, a good/bad function of one department affects the well-beings of other departments.



Another similarity is seen in a labor division within the two institutions, but it is a division for the systematic corporation and betterment of the whole rather than a division for the sake of division. So as to accomplish purpose of harmonization in the midst jobs of different nature, cooperation in terms of good planning and trust is needed. Moreover “in the use of ....formal technique of planning the most successful planners are not government agencies but corporations” (Lindbloom, 1977, p.320). This leads to an understanding of a symbiotic relationship. Whenever trust, harmony, cooperation, and coordination between a corporation and its constituents as well as a government and its citizens is threatened, the survival of the whole structure is insecure. In other words happiness, harmony, coexistence of the whole is dependent on the good function of each part. Therefore we can conclude that the part exists for the well-being of itself and the whole and in the same manner the whole exists for the well-being of the parts. “The relationship between a corporation and society is, therefore, symbiotic.”



## **Chapter V**

### **Application of the Social Contract-Based-Theory to Corporate Responsibility**

Corporate responsibility means a corporate accountability for any consequences of its actions that affect individuals or group of people, communities, and environment (Frederick et. al., 1992, p.30). The approach to corporate responsibility in this thesis is based on obligations and duties derived from implied contract seen in an interdependent, mutual and symbiotic relationship between a corporation and its constituents. This implied contract can be explained by the metaphor, thought experiment or heuristic device of the social contract theory of business adapted from the traditional political social contract theory of Hobbes, Rousseau, Locke and Rawls. There are two major aspects, negative and positive, of the social contract-based-stakeholder theory. Negatively, a corporation has moral duties and obligations to avoid harm by all means on its constituents. Positively, it is to respect dignity of human stakeholders, to maintain and enhance authentic happiness according to reality, peaceful and harmonious coexistence among all its stakeholders. These two aspects can be realized if and only a corporation broadens its scope of corporate responsibility to all areas of human societal life, economic, legal, ethic and philanthropic. Managers do not have a sole, overriding duty to consider only shareholders' interests and concerns in their decision making process (Bear & Bear, 1994). They have to consider the interests and concerns of all the firm's stakeholders

as well. They have to include not only economic and legal obligations, but also ethical and philanthropic responsibility as well (Carroll, 1979). Weiss contends that “the analysis usually begins with economic, political, or ecological issues and then evolves into social responsibility and ethical decisions when questions of human and social costs and benefits, equity, and justice are raised” (1994, p.31).

### **1. To What Areas Is Corporate Responsibility Extend ?**

Unlike the minimalists, corporate responsibility, according to the social contract-based-stakeholder theory, is not limited solely to profit making and legal constraints but includes both moral and humanitarian obligations to any stakeholders, constituents, with whom it does business and its business transactions affect. The point here is that corporate responsibility, to be accepted as legitimate, has to address the entire spectrum of obligations business has to society, including the most fundamental-- economic. It is upon this four-part perspective [economic, legal, ethical and philanthropic] that our pyramid is based” (Carroll, 1991, p.228).

To make the point clear Archie B. Carroll (1979) has set forth a more comprehensive model of corporate social responsibility in four categories which cover not only economic and legal obligations, but also ethical and discretionary (philanthropic) responsibilities. These four categories embrace the whole ranges of human life. They are necessary conditions for leading a good and harmonious life in

all human societies. Therefore, they should be rationally accepted by any conscientious business regardless of their religions, nationalities, cultures...etc..

**Figure 7** The Pyramid of Corporate Social Responsibility<sup>1</sup>

The Pyramid of Corporate Responsibility is as shown below:



<sup>1</sup> Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders," reprinted in *Business Ethics: Annual Edition 93/94*, John E Richardson (Edt), Guildford,: The Duskin Publishing Group, Inc. 1995.

This vision is a feedback of recent social demand for business enterprises during this last decade after contemporary people have witnessed enormous influences of business on human lives positively and negatively. As a consequence the term corporate social performance and global concept have emerged as an inclusive to embrace corporate social responsibility, social responsiveness, and the entire spectrum of social beneficial activities of business. This is not to say that a necessity for a corporation to broaden the scope of its responsibility is purely based upon social demand which is subject to change in course of time. In the previous chapter the researcher has demonstrated that the normative aspects of this necessity can be tested with the hypothetical contract of the social contract theory.

So as to accomplish this all embracing perspective] firms must formulate and implement social goals and programs as well as integrate ethical sensitivity into all decision making, policies and actions and.....criteria by which we assess business performance to include quantity, quality, effectiveness, and efficiency (Carroll, 1991, p.228).

### **1.1. Economic responsibility**

By nature business organization is an economic unit of a society designed to provide goods and services to members of a society. It is undeniable that one of the major motives driving stockowners and shareholders to invest, to take risk, is the expectation for economic gain. In democratic free market economy, investments

come from savings and loans (private property) of individual persons. Therefore, it is fair for them to earn profits as long as such profit making does not make others worse off. Rawls (1971) argues that in some cases the rich might be allowed to be worse off to a certain extent if such decision can make the majority or the least advantage to be better off<sup>2</sup>. Moreover, profit is said to be the blood of business, that is as long as business can make profit it can survive and its employees are entitled better salaries, and fringe benefits. In contrast whenever business organizations lose [profits] for many consecutive years, it might collapse, employees finally might lose job, and the whole community might suffer from economic recession.

A fiduciary relationship, a kind of contractual relationship, between shareowners/stockholders and corporate executives is a basis for a corporation (including corporate executives) to make profit. The capital that shareowners/stockholders invest in a corporation in terms of stocks, shares, warranties or securities holding is their private property. As rational agents, they invest for a certain purpose and one of the main purposes is economic gain. A desire for economic values added is not bad in itself, moreover it is a duty that one is to decide to spend his or her money in such a way that is ethically profitable for oneself, his/her family, others or society as a whole. Doing otherwise is considered to be extravagant and is unethical.

---

<sup>2</sup> Rawls' Difference Principle: Social and economic inequalities are to be arranged so that they are both (a) to the greatest benefit of the least advantaged and (b) attached to offices and positions open to all under conditions of fair equality of opportunity (Rawls, 1972, p.83).



Their investment is primarily based upon the trust in the ability of a corporation (corporate executives) to make profits.

In the invitation for investment, balance sheet, and advertisement corporate executives attempt to attract prospective shareholders (stockholders) with such capabilities. With the eye of contractual logic both parties, corporate executives and shareholders, voluntarily and knowingly enter an explicit and implicit (implied) contract. That is corporate executives knowingly and voluntarily attract, and persuade prospective shareholders for investments by various means such as advertisement, invitations, brochure, or even convincing corporate financial statement and performance. On the other side, prospective shareholders start to be convinced by the data and information provided and decide to entrust their capability to cause values added with the capital invested. This contractual relationship in turn binds both parties with duties and obligations mentioned above. An investment on bonds, promissory notes, investors are explicitly promised to receive a certain percentage of returns. This constrains corporate executives both legally and ethically to keep the promise as mentioned in memorandum of the investment. Some other forms of investments such as investment in the security exchange do not assure prospective investors of the rate of profitability. However, the way they attract, and persuade prospective shareholders for investments in stocks and shares of a corporation with various means such advertisement, invitations, brochure, or even convincing corporate financial statement and performance implicitly assure them with the attempt to

increase economic value for them. If they show a sign of incapability to do so, it is certain that investors will surely decide not to invest.

Major obligations of economic responsibility<sup>3</sup> :

- to perform in a manner consistent with maximizing earnings per share;
- to be committed to being as profitable as possible;
- to maintain strong competitive position;
- to maintain a high level of operating efficiency;
- be defined as one that is consistently profitable.

## 1.2. Legal Responsibility

A corporation is expected to comply to the laws and regulations promulgated by local government, country, and host country in which the business is operating. As a partial fulfillment of “social contract” between business and society, firms are expected to pursue their economic mission within the framework of the law which is considered to be the fundamental precepts of the free enterprise system. “Law is society’s codification of acceptable and unacceptable behaviors” (Carroll, 1991, p.231).

---

<sup>3</sup> These obligations/duties and hereafter are based on a model proposed by Archie B. Carroll in his “The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders,” reprinted in *Business Ethics: Annual Edition 93/94*, John E Richardson (ed.), Guildford, The Duskin Publishing Group, Inc. 1995. The contribution of the researcher is a provision of a rational basis of a derivation of duties and obligations on the basis of their mutual, interdependent and symbiotic relationship.

The contractual relationship leading a corporation to be bound by legal constraint is found in the status of a 'legal person' of a corporate citizen. With the eye of 'contractual relationship', laws are common agreements of people in the society which can be rationally explained by referring to the social contract theory for politics. In the politics of democracy the logic of contractual relationship is clearly seen. Individuals entrust their rights to codify laws for their society to representatives of the parliament members through an exercise of their power to vote in general elections. These representatives in turn exercise the legislative power conferred to them by the public to draft constitutions and laws for everyone as well as the artifacts (corporations) they create in the country. It is true that a corporation as a legal person does not possess a right to vote but people in corporations do. However, as a legal person which really acts and whose acts affect the lives of physical persons. Corporations are bound by laws codified by a body of representatives elected by people in corporations and the public.

Obligations of legal responsibility are:

- to perform in a manner consistent with expectation of government and law;
- to comply with national, state, and local regulations;
- to be law-abiding corporate citizens;
- be defined as one that fulfills its legal obligation;
- to provide goods or services that at least meet minimal legal requirement.

### 1.3. Ethical Responsibility

Ethical responsibility on one hand embodies economic and legal responsibilities which are translated into laws about fairness and justice, and on the other hand ethical responsibility is beyond economic and legal responsibility in that ethical responsibility embraces those activities and practices that are expected or prohibited by societal members even though they are not codified into laws. Ethical responsibility embodies those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regards as fair, just, or in keeping with the respect or protection of stakeholders' moral rights.

Even though the minimalist maintains that law is the ultimate constraint for business transactions, the researcher holds that law is not sufficient to keep fairness and justice in free market society. Laws, especially in the third world countries, are not efficient enough to cope with the fast growing business driven by the information technology. One expert in Thai politics says that "laws of the third world countries are like spider web, it can catch only small flies; but the giant can break through them easily." Many lawsuits filed against notorious economic criminals who cause unmeasurable economic losses to the public as well as the economy of the whole country are finally acquitted because the law of Thailand is said to be outdated. For example, the case of illegal market making in 1990 and the attempt of Finance Ministry to file some law suits against the former top executives of the BBC (Bangkok Bank Commercial Public Company Limited). Moreover so many economic criminals did not face any lawsuit at all due to the same reason. For example the

government by the Finance Ministry cannot file any law suit against illegal monetary trade which has caused great losses to many customers since 1995.

There are cases in which the corporate actions and decisions are considered to be legal, but they poses threats and dangers to members in society. They, therefore, concern ethical issue. These actions and decisions are unfair in that they make members of society who are the disadvantaged worse off, and make the advantaged better off. Moreover the changing ethics or values paves ways for the establishment of laws. It is the driving force behind the creation of laws and regulations. For example, there is no law to protect environment or even consumer until recently. However ethical consciousness in these areas finally brings about the creation of new laws. As Carroll puts it:

In other sense, ethical responsibilities may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect the higher standard of performance than the currently required by law. At its most fundamental level, this is the obligation to do what is right, just, fair and to avoid or minimize harms to stakeholders (employees, consumers, the environment and others). (Carroll, 1991, p.230-231)

Obligations to ethical responsibility are:

- to perform in a manner consistent with expectation of societal mores and ethical norms;
- to recognize and respect new evolving ethical/ moral norms adopted by society;
- to prevent ethical norms from being compromised in order to achieve corporate goals;
- to be defined as doing what is expected morally or ethically;
- to recognize that corporate integrity and ethical behavior go beyond mere compliance with the laws and regulations.

#### **1.4. Social Contract-Based-Stakeholder Theory and Ethical Theories**

The social contract-based-stakeholder theory does not dictate any particular ethical theories. Instead this theory aims at enhancing 'authentic happiness according to reality', 'peaceful and harmonious coexistence' and avoiding all possible and known harms to stakeholders. The theory starts with the 'is' or the 'fact' of business environment, and then draw the 'ought' out of such fact. It is admitted that every ethical theory contains both insufficiencies and strengths. Utilitarianism and deontology sometimes lead to different decisions even on the same issue due to their different criteria. However, they both do not completely exclude each other and their conflicting judgment does not necessarily means that they cannot be accommodated with each other in any respect. They both supply each other with perspectives which



are missed in the other. “Both modern approaches are subject to maladies from their much heartier and more robust ancestor was spared. At the same time, the truth that is missed in utilitarianism, and (some say) is found in deontology, is also found-- and found much more richly-- in traditional teleology” (Macdonald and Beck-Dudley, 1994, p.616). W.D. Ross contends that the integration of different ethical theories is necessary because “we see ourselves...as being under various moral obligations that cannot be reduced to the single obligation of maximizing happiness.....We are intertwined with other people in very specific contexts and have, as a result, certain moral obligations...there should not be single answer for all cases” (cited in Vincent and Barry, 1994, p.73). Prof. Kirti Bunchaua in his *Foundation on Professional Ethics and Business Ethics* comments that they are not contradictory, but paradoxical. This means that they sound to be opposite to each other on the first glance, but in depth they can compromise.

### 1.5. Philanthropic responsibility

Philanthropy encompasses those corporate actions in response to society's expectations that business be good corporate citizens who actively engage in activities or programs to promote human welfare or the good will. For example, business contributions of financial resources or executive time to underprivileged children, orphanage, to help protect child prostitution, to construct or to provide study aids to schools and school children in the rural area.<sup>4</sup>

---

<sup>4</sup>More details of philanthropic responsibility can be found in the topic of corporate responsibility to a community.

Obligations to philanthropic responsibility are:

- to perform in a manner consistent with the philanthropic and charitable expectations of a society;
- to assist the fine and performing arts;
- to participate in voluntary and charitable activities within their local communities;
- to provide assistant to private and public educational institutions.
- to assist voluntarily those projects that enhance a community quality of life.

#### **1.6. The distinction between philanthropic and ethical responsibility**

Philanthropic responsibility is different from other areas of corporate responsibility in that while economic, legal and ethical responsibilities are necessary conditions philanthropic responsibility is “more discretionary or voluntary on part of business” (Carroll, 1991, p.230). A community might expect the industry operating in their society to contribute to the community in such a way that a community can expect an individual person to contribute to the society. However, they cannot regard firm as unethical if it fails to provide, or cannot provide to the desired level. The demand of the society for a philanthropic contribution of a corporation is not groundless at all. Kim Neven-Gattle points out that “[i]ndustry’s willingness to fund social goals is an acknowledgment of its dependence on the health of the society in

which it operates” (1996, p.15). It is notable that although philanthropic responsibility of the a firm towards the community might be highly expected, desired and prized by the society, it cannot override other three areas of corporate social responsibility which more fundamental. For example a corporation that avoids paying a lump sum of revenue tax so as to contribute some of the illegal savings to aid underprivileged children programs which is highly needed by the society cannot be said to be ethical.

Carroll has also pointed out that this diagram is not absolute, but it is contingent in that it is opt to openness to diversity to suit the uniqueness of each situation in each business transaction. He presents it as a sample model for mental experiment to construct a framework for the understanding of the complex multitied situations in real business world. “Though the components have been treated as separate concepts for discussing purposes, they are not mutually exclusive and are not intended to juxtapose a firm’s economic responsibilities with its other responsibilities” (Carroll, 1991, p.231). This pyramid is just a tool deemed to help managers to perceive the different type of obligations between business and society and to enable them to prioritize the conflicting obligations in critical tensions. Of course in real situations, conflicts might occur between all different levels viz. economic and legal, ethical and legal, economic and philanthropic...etc. As Carroll says:

A corporate responsibility or stakeholder perspective would recognize these tensions as organizational realities, but focus on the total pyramid as a unified whole and how the firm might engage in decisions, actions and programs that simultaneously fulfill all its component parts....[T]he total corporate social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities.... Stated in a more pragmatic and managerial terms, the corporate responsibility term should strive to make profit, obey the law, be ethical and be a good corporate citizen (Carroll, 1991, p.231).

Carroll also argues that economic responsibility is by no means incompatible with other aspects of corporate social responsibilities. Milton Friedman himself admits that corporation's profit making must be constrained by law and morality. He contends that management "is to make as much money as possible while conforming the basic rules of society, both those embodied in law, and both embodied in ethical custom" (Friedman, 1970, p.138). However he does not give any elaboration on how corporate executive should proceed so as to maintain legal and ethical responsibility. It seems that he is not serious about the moral constraint of business enterprises in his whole writings. This may be the reason why his followers focus only on the first part (economic constraint) of Friedman's assertion. However, he considers a philanthropic responsibility of a business is an inappropriate use of corporate financial resource, a

violation of rights to private property of shareowners, and an imposition of hidden taxes. In contrast to the 'ethical minimalists,' top corporate executives who are leaders of giants corporations at both the "New York Business Roundtable" (1981) and the Caux Roundtable (1986), unanimously agreed that:

In contemporary society all corporate responsibilities are so interrelated that they should and cannot be separated.... A corporation's responsibility includes how the whole business is to be conducted everyday. It must be thoughtful institution which rises above the bottom line to consider the impact of its actions on all, from shareholders to society at large. Its business activities must make social sense just as its social activities must make business sense (New York Business Roundtable, 1982, p.12,14).

These two responsibilities are so interwoven that both are to be simultaneously carried out so as to make a successful corporation. Philanthropic responsibility might be voluntary, however it is a demand for happy survival of business in today's world. One author has noted that: "one would not encounter many business executives today who exclude philanthropic programs from their firm's range of activities" (Carroll, 1991, p.231). And even though such the undertakings may reduce profits to the corporation, but it is just temporary. It is true that there must be a balance in such involvement, and the task of corporate managers in this changing world is to maintain the art of keeping such balance.

## 2. For Whom Is a Corporation Responsible?

There are two major views on the question for whom a corporation is to be responsible: a broad and a narrow view. The view advocated by Friedman, Levitt, Carr is a narrow view of corporate responsibility which holds that in a free market economy a corporation and corporate executives have a moral duty to only one group of people: shareowners/stockholders. Their only responsibility is to create the greatest values added for shareowners/stockholders. A social contract-based-stakeholder theory advocates a broad view of corporate responsibility. According to this theory, “there are too many competing interests in today’s pluralistic society to ignore. Stakeholders other than shareholders have important claims on a business which also must be met if a company is to survive and flourish” (Murry, 1986 cited in Frederick et. al. 1992, p.43). The theory does not completely deny a moral duty of a corporation and corporate executives to make profits for shareowner/stockholders. They are to make profit, to maintain competitiveness while avoiding harms and enhancing authentic happiness according to reality simultaneously. “Meeting these claims probably means less profit in a short term and may mean some reduction in potential shareholder wealth in the long term. Nonetheless, such outside groups and their demands cannot be ignored” (Murry, 1986, cited in Frederick et. al. 1992, p.43). This thesis attempts to define moral duties and obligations a corporation has toward its stakeholders through an implied contract seen in an interdependent, mutual and symbiotic relationship a corporation has with each of its stakeholders. The binding of



this theory is explained and tested, theoretically, by the hypothetical contract of the social contract theory.

Following the definitions concerning the primary and secondary stakeholders given by E.R. Freeman (1986), we can categorize corporate responsibility to two classes: direct obligations and indirect obligations. Direct obligations are often based on both real and implied agreements terms (duties and obligations) of which are explicitly seen. Indirect obligations are based on implicit (implied) agreements terms (duties and obligations) of which are discrete. Donaldson comments that direct obligations are those that are specified explicitly and formally and that as a rule are owed to people who conduct business directly with corporations, such as stockholders, employees, suppliers, and customers. The obligation in this class is straight forward (Donaldson, 1982, p.32). These obligations, therefore, go to the corporate responsibility towards primary stakeholders. Indirect Obligations are those not specified formally and sometimes are owed to people who conduct no direct business with the corporation, e.g. competitors, local community, and general public. The obligation in this class is elusive and difficult to identify (Donaldson, 1982, p.32). These obligations, therefore, go to secondary stakeholders. Even though indirect obligations are secondary to the direct obligations and implicit, the researcher does not mean that these obligations are optional and can be ignored. Successful corporate managers in today's changing environment have to frame their vision beyond the boundary of the fence of a corporation, the border of primary stakeholders to the

secondary stakeholders. A great concern to the interests of primary stakeholders only can help a corporation to survive. So as to grow and maintain corporate competitiveness, profitability and efficiency in a free market economy, corporate managers have to care for secondary stakeholders as well. Moreover, it is the right thing to do so.

### **2.1. A Social Contract With Consumers**

Sorell and Hendry observe that “when people talk about responsibilities of large consumer manufacturers, they often equate consumers with the public at large” (1995, p.57). This definition is too large and quite vague and it also overlaps with the responsibility of the corporation to communities. The ‘consumers’ here means individual members of the society who are buyers of corporation’s products directly and indirectly (from the intermediaries). They also include any potential buyers or any potential users of services or products.

The mutual relationship between a corporation and its consumer or the interdependence between the two parties is clearly seen. The survival of the corporation as a producer is dependent on the buyers to buy its product. Conversely, buyers are in need of certain goods or services in commensurate to the amount of money they are willing to spend. For certain reasons they cannot produce such products for themselves, and need a corporation to produce what they need for them. A corporation openly expresses that its products are to serve the needs and the

purposes of the buyer through advertisement and persuade the buyer to choose its product. This relationship implies the logic of contractual dealings. Manuel Velasquez concludes that “the relationship between a corporation and its consumers is essentially a contractual relationship” (1988, p.274). This means that when a consumer buys a product he voluntarily enters a ‘sales contract’ with the corporation which produces the products. The corporation freely and knowingly agrees to provide them with certain goods and services of reasonable qualities, durability, and after-sales services. In return consumers voluntarily and knowingly pay a corporation a certain sum of money to the corporation a product or service they purchased. In virtue of having voluntarily entered this agreement, the firm has a duty to provide consumer with goods and services of reasonable qualities, durability, and after-sales services. On the side of consumers, the acts aforementioned generate them rights to own goods and services of those reasonable qualities, durability, and after-sales services.

This contractual relationship imposes duties and obligations derived from implied agreement on a corporation in its dealing with consumers. The principal obligations that a corporation has to adhere is to treat all customers with the dignity, irrespective of whether they purchase the products and services from manufacturers directly or intermediaries.

The responsibility to consumers are:<sup>5</sup>

- to provide consumers with the highest quality products and services consistent with their requirement;
- to treat consumers fairly in all aspects of business transactions, including a high level of services and remedies for their satisfaction;
- to make every effort to make sure that the health and safety of consumers, as well as the quality of their environment, will be sustained or enhanced by the products and services they have purchased;
- to assure respects for human dignity in products offered, marketing, and advertising; and
- to respect the integrity of the culture of our consumers.

The researcher has earlier mentioned that consumers as rational agents will surely not enter the contract if they fully know that some of these terms will be violated by a corporation. For example, they will certainly not buy the product and shift to another product if they fully realize that the product is hazardous; its quality does not come up to the standard; the corporation is not ready to provide them with proper after-sales service; the product cannot serve their purpose as mentioned; or the product will not work well during the period guaranteed. In today's world economy a consumer protection movement can be found in almost all countries around the world.

---

<sup>5</sup> Obligations and duties hereafter are derived from "Principles of Business" defined by the Caux Round Table, 1986. The contribution of the researcher is to provide a philosophical basis of a contractual relationship between a corporation and its constituents which serves as a normative base of such defining.

The justification of such protection can find its rational ground in the social contract-based stakeholder theory. This protection is justified by referring to the accumulation of power of producers in relative to the consumers of its products and services, and principle of difference is in the Rawlsian theory of justice. Consumers are relatively much small and weaker in economic power, but producers are much stronger and more powerful. Therefore, consumers need protection on the basis that the stronger and the more powerful has moral duties and obligations to protect the weak. This protection is justified on Rawls' second principle of distributive justice.

## **2.2. A Social Contract With Employees**

By nature a corporation is an organization in which there is a “rational co-ordination of activities of a number of people for the achievement of some common explicit purpose of goal, through division of labor and function and through a hierarchy of authority and responsibility” (Schein, 1965, p.8). This signifies the most fundamental realities of a corporation which are hierarchies of authorities identified in the organization charts.

The many individuals that make up a corporation represent the various official positions and lines of authority in an organization. At the bottom of the organization is the “operating layer”: those employees and their immediate supervisors who directly produce goods and services that constitute the essential outputs of the organization. In case of giant corporations or “conglomerates”, the whole chart of various official positions and lines of authority ranging from top-to-down are different

levels of employees, joining hand to work for the achievement of economic goals such as efficiency, productivity, profits, maximum return on investment,...etc. Employees, in general, are those who work for a corporation for an exchange of fringes and benefits.

Ethicists (Sorell & Hendry, 1982; Velasquez, 1988; Weiss, 1994) argue that the nature of the mutual relationship between a corporation and its employees is fundamentally contractual by nature. This relationship conforms to the 'logic of contractual relationship' of the hypothetical contract. One party of the contract is to do X and the other party of the contract is to do Y. The existence of both parties is dependent on their coordination. The contractual relationship between a corporation and its employees can be viewed in various aspects: economics, legal and ethical. In terms of economics, a corporation needs a dedication to the work assigned from employees. This work constitutes goods and services of a corporation and which in turn generates revenues and profits which are the vital component for the rise and fall of a corporation. Conversely, employees are dependent on a corporation in terms of fringes and benefits. These incomes mean the well-being of the employees and their family. In terms of legal, both parties voluntarily enter legal contracts and are bound to such explicit and legal contracts.

In term of ethics, this 'implied contract' is ethically valid and can be tested by hypothetical contract of the social contract theory. Employees as rational agents



freely and knowingly agree to accept the organization's formal authorities and to pursue its goal in exchange for supports in forms of wage (salaries, fringes and benefits) and fair working conditions. A corporation enters a contract through its personnel department. In the recruitment for the employment of the personnel management, a corporation, explicitly promises to reward qualified candidates who are willing to work for the attainment of corporate goals with a certain level of fringes and benefits. This advertisement attracts individuals to make an application. And finally a corporation freely chooses to hire some candidates whom it finds to be able to serve its predesigned goals. Through this process, a corporation freely and knowingly enter an implicit and explicit contract with its employees. In the explicit and implicit contract a corporation promises to support its employees with agreed fair wages, fringes and benefits in exchange for their loyalty, and dedication to daily work. This contractual relationship in turn defines the mutual obligations (rights and duties) on both parties in commensurate to the scope of authority. On the part of a corporation it has to treat every employee with respect for their human dignity and take their interest into account seriously.

Obligations of a corporation to its employees are:

- to provide jobs and compensation to improve workers' living conditions;
- to provide working conditions that promote each employee's health and dignity;
- to be honest in communications with employees and open in sharing information, limited only by legal and competitive restraints;

- to listen to, and where possible, to act according to employees' suggestions, ideas, requests and complaints;
- to engage in good faith negotiations when conflicts arise;
- to resort to the principle of justice and due process in case of dismissal, lay off, probation, ...etc.;
- to avoid discriminatory practices and to guarantee equal treatment and equal opportunity in areas such as gender, age, race, and religion;
- to promote in business itself the employment of differently able people in places of work where they can be genuinely useful;
- to protect employees from avoidable injury and illness in the workplace;
- to encourage and assist employees in developing relevant and transferable skills and knowledge; and
- to be sensitive to serious employment problems frequently associated with business decisions, and work with government, employee groups, other agencies and with each other in addressing these dislocations.

### **2.3. A Social Contract With Investors**

The mutual relationship between a corporation and investors is primarily symbiotic. A corporation, on the one hand, needs investment in terms of shareholding from investors for various purposes such expansion, research and development, etc.. Investors, on the other hand, expect values added upon their investment in terms of interest, dividends, or increased share-value. This relationship clearly reflects the

'implied contract'. One party of the contract is to do X and the other party of the contract is to do Y. By nature, the structure of investment in free market economy clearly reflects this relationship. A corporation, small, middle-size, giant or conglomerate, as a legally corporate citizen is created by an association of a group of investors and is made a legal personality by its declaration of purposes in a memorandum and articles of association, and a fulfillment of legal requirements. Investors as rational agents, surely, put their money into a corporation in terms of investment for particular purposes. Sorell and Hendry comment that "investors (shareholders) usually invest in a firm in order to collect dividends that are led by a firm to expect (1994, p.115). A corporation, in its invitation for an investment assures its prospective shareholders of its capability to generate values added to the investments of investors. In a capitalistic economy, a corporation which is a basis for an economic well-being of the whole global society cannot exist if investors are not willing to spend their money on investment.

It is a fact that investment is a risk taking. This means that investors have a chance either to enjoy economic gains, or suffer losses, or even no gain and no loss in values of their shares. For example, it is estimated that investors, both individual and institutional, lose about 800,000,000,000 (eight hundred thousand billion) baht in their investment in the security exchange of Thailand in 1996.<sup>6</sup> No investors want to

---

<sup>6</sup> Thailand began to face one of her most serious economic recession in 1996. The growth rate and export were lower, inflation is higher than the goal expected. This situation directly affected capital market. This year the SET INDEX made new low repeatedly. For example SET index of December 13, 1996 was 820 point, while

lose in their investment. Investors, as rational agents on one hand, generally invest for a main purpose of achieving values added and they decide to invest in a certain security because of trust in their information given, in corporate truthfulness in issuing the balance sheet showing its performances, and corporate creditability. Investors finally willingly and knowingly decide to invest in certain securities. On the other hand, a corporation, as a 'legal person', acts rationally in issuing its memorandum, articles of associations through the group of founders. Acts of inviting for investments, discussing corporate strategies, counting votes in a decision-making of executive-board are reflections of corporate rationality. A corporation as an abstract person, therefore, becomes and realizes its status of a rational person in carrying out corporate acts aforementioned. It is, therefore, logical to conclude that a corporation willingly and knowingly enter an explicit and implicit contract with investors. This contract is valid for both parties since no coercion is present. This contract, in turn, binds both parties with obligations (rights and duties). Principal moral duties and obligations a corporation has towards its investors is to honor the trust investors place on its executive directors/ managers as their fiduciarian.

The social contract-based-takeholder theory does not completely deny the duty of a corporate executive to make profits. On the contrary, the theory holds that it is an obligation for executive directors to maximize profits because the money put into investments are private properties of investors. If when one deposit his/her money in

---

the SET INDEX always made new high and could reach its peak of 1,780 points in 1993.

a bank, bankers has the right to utilize our money to create values added, then depositors are entitled to receive interests. In the same manner if an investor invests in certain securities, a corporation has the right to utilize the money for particular purposes to create values added. Investors are entitled to the returns (interests, dividends, values added) agreed. In the traditional free market perspective, corporate executives believed that their “primary responsibility is to the shareholders because they are the owners of the company” (Sorell and Hendry, 1995, p.113). The social contract-based- stakeholder theory admits that this statement is true, but it is only partially true. The fact that stockowners/shareholders invest in a firm in order to collect values added that are led to expect by a firm. Therefore, the firm cannot discharge its obligation to shareholders without attempting to trade profitably. However, the social contract- based-stakeholder theory does not allow a firm to take any measure so as to cut costs and maximize profits for the owners/shareholders. Because doing so could sometimes violate legitimate rights of other groups e.g. consumers, employees, etc.. As the researcher has earlier mentioned, the primary duty of a corporate executive is to create an authentic happiness according to reality and avoid all possible and known harms to all stakeholders. In this respect, a corporate executive is therefore to be a conduit who always finds the ‘win-win strategy to generate profits for shareholders and simultaneously maximize authentic happiness according to reality and minimize shortcomings among all parties involved in such business transactions.

Obligations a corporation has towards investors are:

- to apply professional and diligent management in order to secure a fair and competitive return on owners' investment;
- to disclose relevant information to owners/ investors' asset; subject only to legal requirements and competitive constraints;
- to conserve, protect, and increase the owners/ investors' assets; and
- to respect owners/ investors' requests, suggestions, complaints, and formal resolution.

#### **2.4. A social Contract With Suppliers**

The relationship between a corporation and its suppliers is interdependent, symbiotic, and mutual. A corporation, as a customer to its suppliers, needs components, parts, raw materials, and pre-product materials of end products from its suppliers. And if these materials are not supplied, cannot be supplied regularly, or are supplied with low standard materials, the production of end products or services providing cannot go smoothly, or even cannot be possible. The success of a corporation means its survival, competitiveness, and profitability. Customers of a corporation as rational agents surely needs quality products or good services commensurate to the money they are willing to spend on purchasing end-products or services. However, the end products delivered to the end consumers cannot be of good quality if its components, raw materials do not come up to standard. A



corporation cannot deliver end products to dealers, retailers or its customers on time if raw materials are not supplied to a customer corporation on time.

A customer corporation, on the other hand, as a producer of end products knowingly realizes what

it needs. A supplier as a creditor is also dependent on its customers in that, as a

producer of raw materials, components, and pre-product materials, it needs customers

to place order for its products. Its survival, well-beings, success, competitiveness and

profitability are dependent on the success of its customers. If a company's end

products are not accepted by end customers, it cannot place orders with its suppliers.

On the contrary, if the end product of its customers is needed in great demand, its

customer will surely place large order with its suppliers. Therefore, it is clearly seen

that the rise and fall of both parties is interdependent and mutual. The existence of

both parties are symbiotic in that if one party fails, the other party has a great chance

to fail at least in the long run. If one party succeeds, the other party has a great chance

to succeed also.

By structure their coexistence conforms to the logic of 'a contractual relationship' in that one party of the contract is to do X and the other party is to do Y.

As rational agents each party strives for their existence, but neither of them can exist

independently without any contribution of another party at all. Therefore, it is logical

to conclude that each party as a rational agent enters a mutual explicit and implicit

contract with each other. A supplier as a creditor and producer of raw and pre-product

materials knowingly realizes what it needs for its survival, well-being, and prosperity

and it realizes what its customer could do for it. A supplier, therefore, knowingly and willingly enters an explicit and implicit contract with its customers. A customer-corporation, on the other hand, as a producer of end products knowingly realizes what it needs so as to produce quality products or services to end consumers and it also realizes what it needs from its supplier and without any contribution from its suppliers it cannot perform efficiently. A producer of end products, therefore, willingly and knowingly enter an explicit and implicit contract with its suppliers. And this contract is valid in that each party enters the contract knowingly and willingly without coercion. The bilateral contract in turn binds each party with rights and obligations to each other. On part of a corporation its fundamental moral duty and obligation towards its suppliers and subcontractors is to treat each of them with dignity on the basis of mutual respect and share benefits.

Obligations a corporation has towards its suppliers are:

- to seek fairness and truthfulness in our activities, including pricing, licensing, and rights to sell;
- to ensure that our business activities are free from coercion and unnecessary litigation;
- to foster long-term stability in the supplier relationship in return for value, quality, competitiveness, and reliability;
- to pay suppliers in time and in accordance with agreed terms of trade;

- to seek, encourage, and prefer suppliers and subcontractors whose employment practice respects human dignity.

Social contract-based-stakeholder theory is a new paradigm for a business transactions between a corporation and its supplier. With traditional perspective, a corporation and its supplier seem to view each other with hostile attitudes. This situation is widespread in Thailand. There has always been reports on the attempts to utilize one party as a means to the highest benefits of another party. For example, giant retailers' attempts to freeze the retailing prices of the goods bought from their suppliers to the minimum so as to enjoy larger margins and greater competitiveness than their rivals. When one retailer succeeds in this strategy, other retailers try it. Suppliers finally face financial problems. This theory helps pave the way for a creative co-existence for both parties, suppliers and customer-firms. As the researcher has already analyzed their existence is interdependent, mutual and symbiotic. The rise and fall of one party can affect the status of another party. And the death of one party can even trigger the death of another party. According to the social contract-based-stakeholder theory, each party is to enhance the "authentic happiness according to reality" of each other. This perspective will substitute the 'hostile' attitude of both party toward their counterparts with a 'cooperative' view.

There are empirical facts showing that this perspective can really help develop both parties and enjoy happiness together. Having studied the supplier project development program in major automobile industries like Chrysler, Ford, General

Motors, Honda of America and Toyota during 1980s-1996, Hartley and Choi (1996, p.37-44) conclude that “working side by side with their suppliers’ employees, customers are improving quality, reducing circle times, cutting costs, and increasing capacities. The result of these efforts are impressive.” Under this program both parties enjoy mutual benefits. “Customer firms use their knowledge skills, and experience to assist their suppliers, benefiting in turn through improved delivery performance, fewer production disruption caused by poor quality materials, and lower costs. The suppliers benefit by becoming more competitive with other suppliers as performance improves and costs go down” (Hartley & Choi, 1996, p.44). Moreover, this perspective can also enhance the happiness of other stakeholders in that “[by] assisting their weaker suppliers, customers can create more competitive situation and ultimately attain a lower price and higher value to end consumers” (Hartley & Choi, 1996, p. 38).

### 2.5. A Social Contract With Competitors

Competition is in fact a necessary factor for the success and survival of a corporation in market economy. Any corporation that loses its competitive capability is declining and might be dying if it cannot reverse the situation. Moreover it is said that a lack of competition is one of the main causes for the failure of planned market economy. Nevertheless, it is not a sufficient proof for concluding that competition is good in all respects. Competition contains both a bright and dark sides. Positively, competition paves the way for an improvement of quality of goods and services, and



efficient distributive justice. Consumer can benefit from good but low-priced and diversified products and services. On the contrary, blind competition kills, destroys, exploits and triggers unfair treatment to weak rivals and other competitive-capability free stakeholders. Being an integral and inherent component of capitalism, competition is unavoidable. Therefore, competition should not be bad in itself, but it just can bring about bad consequences. It is illogical to ask if competition is bad or not under capitalism because any economic society that does not allow competition is not capitalism. The question to be raised legitimately is how a competition should undergo so as to be fair. And if competition in today's world economy is too harsh, how it can be tamed.

A contractual relationship between a corporation and its competitors is implicit, implied and discrete. Therefore, this relationship cannot be easily seen and illustrated. This contractual relationship is hidden in the role of government in free market economy. First of all, it must be understood that free market means neither a corporation is free to do anything it wishes for its economic accomplishment nor a corporation is free to do anything without governmental controls and oversees at all. But under free market economy government's roles to control corporations should be kept to the minimum. That is to bring out laws that keep rival firms in fair game and competition, but it cannot prohibit competition.

A corporation, as a legal person, is also a member of a society. Like other members of a society, every corporation is under a 'hypothetical agreement'. In this agreement every member consents to limit their freedom by accepting legal and ethical codes of the society for the purpose of peaceful, harmonious coexistence and long-run benefits. A corporation is more or less a rational agent which realizes that every corporation as an economic institution tends to pursue its self-interest. Nevertheless, a radical pursuit of self-interest can lead to conflict of interest with other stakeholders.

This does not mean that there was a time when every corporation comes together to make an agreement that they would compete with each other within a fair game. As earlier mentioned, a social contract theory is not a historical fact but it is a thought experiment or a heuristic device that helps explain social facts. This theory can also help explain a contractual relationship through the corporate laws and the laws for public corporations. The fact is that a corporation can be founded only according to the articles of the laws of the country. Even though a corporation is illiterate, by structure it is intelligible. Being an artifact, it has founders, executive board, chief executive officer and legal advisors. Before establishing a corporation, these people have studied all the legal stipulations concerning the status, establishment, operation, transactions, and even termination of a corporation in detail. After a lengthy discussion, they finally register and apply for the establishment of a corporation. These deeds implies that founders, members of executive board, chief



executive officers, legal officers and all members of a corporation agree to comply to articles of the laws. Every corporation has to go through this process before being established. In addition today's world corporations have to comply to regional and global regulations issued by international trade organizations such as AFTA, NAFTA, ASEAN, EU or WTO. The violation of these international regulations might not necessarily result in state punishment, but the consequences are sometimes worse than state punishment for a business organization. It triggers the loss of competitiveness, disadvantage, trade sanction, bad image and strong criticism which finally lead to the loss market share in international or even domestic markets. It is, therefore, logical to conclude that through the agreement to comply or even the necessity to comply to laws of the country and international trade regulations, a corporation willingly and knowingly enter an implicit contract. In this 'implied contract' a corporation agrees to do such and such, and to avoid such and such in compliance to the law of the country and international trade regulations. This contract, in turn, binds all rival corporation with certain obligations towards each other. These principal moral duties and obligations a corporation has towards its competitors are to maintain fair economic competition for making possible a just distribution of goods and services.

Obligations a corporation has towards its competitors are:

- to foster open market for trade and investment;
- to promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respects among competitors;

- to refrain from either seeking or participating in questionable payment or favor to secure competitive advantages;
- to refuse to acquire commercial information by dishonest or unethical means, such as industrial espionage.

The social contract-based-stakeholder theory realizes the vital role of competition in the free market economy. The theory admits that it is an obligation for chief executive officers to maintain competitiveness and profitabilities because these two factors mean the survival and well-being of a corporation, its employees, a community. The main purpose of the theory in this issue is to propose a new perspective or paradigm for competition. The traditional understanding of competition is based upon either Hobbesianism or Darwinianism. Each firm is inherently self-interest and concerned with only its benefits (profits). This nature leads to antagonism and war-against-war between rival corporations, and eventually generates destructive trade policies rather than constructive ones. According to social contract-based- stakeholder theory, competition does not necessarily means hostility and destruction. And the ideal of harmonious, peaceful, and co-operative coexistence can also be applied to competition. This ‘constructive competition’ is considered to be a “*win-win*” strategy in which both parties win<sup>7</sup> and prosper together or what Prof. Kirti calls “*Authentic Happiness According to Reality*”. In this constructive

---

<sup>7</sup> ‘Winning’ in this sense does not necessarily means beating the rival, but accomplishing or even outdoing one’s predetermined goals, or becoming better than ever before.

competition none falters and each gains mutual benefits. In the business world there are a lot of examples of collaboration among rival firms, even though the two are offering the same kind of products and services. Such co-operations generate mutual benefits and values added and help solve shortcomings of both parties.

Gary Hamel, Yves L. Doz and C.K. Prahalad (1989)<sup>8</sup> spent more than five years to study collaborative ventures between competitors from the United States and Japan, Europe and Japan, and the United States and Europe. They have given a nice comment thus:

But the spread of what we call “competitive collaboration”- joint venture, outsourcing agreements, product licensing, cooperative research-- has triggered unease about the long term consequences. A strategic alliance can strengthen both companies against outsiders even as it weakens one partner vis-a-vis the other. In particular, alliances between Asian and Western rivals seem to work against the Western partner. Cooperation becomes a low cost route for new competitors to gain technology and market access....Yet the case for collaboration is stronger than ever. It takes so much money to develop new products and to penetrate new markets that few

---

<sup>8</sup> In their article “Collaborate With Your Competitors-and Win” published in *Harvard Business Review*, (1989, p.133-139).

companies can go it alone in every situation (Hamel, Doz and Prahalad, HBR, 1989, p.133).

One example is found in the joint venture between Rover and Honda in mid-1970s. Honda had entered automobile business after Rover for more than twenty years. Rover could not know how to penetrate foreign markets. Rover then joint-ventured with Honda in which Rover could learn new technology and product-development support from Honda. This helped Rover avoid investment to design and build new car on the one hand. Honda, on the other hand, learned skill in European styling and marketing, and international manufacturing from Rover. Another example, JVC and Thompson, both of whom make VCRs, know that they are looking for different areas of skills. Thompson needs product technology and manufacturing process; JVC needs to learn how to succeed in the fragmented European market. Both sides believe there is an equitable chance for gain, therefore they underwent a joint-venture.

It is therefore possible for the 'competitive collaboration' among rival firms which eventually enhance the mutual benefits to all competitors namely: providing opportunity to internalize a partner's skill and technology, acquiring new and more precise benchmarks of partner's performance which will help review of internal performance level, spurring around of competitive innovation and helping get close to rivals to predict how they will behave which will help a firm adjust its strategies.

## 2.6. A Social Contract With a Community

The relationship between a corporation and society (a community in which a firm is established, including national and international at large) is interdependent, mutual and symbiotic. A corporation needs so many things from a society, and a society grants almost all what the corporation needs for its survival, operation, growth and prosperity. In return a corporation also contribute tremendously to the community.<sup>9</sup> Prof. Thomas Donaldson has given a comment on this issue as follow:

Next to government, corporations constitute society's most prominent locus of ongoing control, and they hold that this position in part through their capacity for efficiency and planning. Especially in a small community, a good-sized corporation plays much the same role as a vital organ in the human body. It is an integral part of the surrounding environment and its need are met by a network of support system: by roads, utilities, and most important, by a labor pool which must itself be housed and provided with schools, parks, and commercial facilities. In turn, the corporation provides jobs, taxes revenues, and frequently civic leadership to the community. Neither town nor corporation can function well without other” (Donaldson, 1982, p.8-9).

---

<sup>9</sup> The detail of the mutual relationship between a corporation and a community has already been discussed in great length in Chapter 3.

The researcher agrees with Donaldson that a corporation is integrated into a society in such a way that they become one body. Different corporations, government agencies, organizations and individuals are different organs of the same body. The whole body can survive and enjoy a well-being if and only if each organ functions well. By structure, this mutual relationship conforms to the logic of a 'contractual relationship' in that one party of the contract is to do 'X' and the other party of the contract is to do 'Y'. The whole system is sustained by a dedication to one's duties and cooperation with others of each constituent. The failure to function one's duty or to cooperate with other parties of each constituent will certainly result in the malfunction of all member and finally the death of the whole system. Another explanation is that a corporation, as an artifact, is a legal person and a member of a society. Being an artifact, it means that a corporation does not come into existence by a natural process, but is created by man. Man can choose to create or not to create a corporation. The fact that there are corporations in every modern society implies people's choice to create them. Moreover people have given a corporation a lot of privileges. Being rational, people surely have certain purposes for creating corporations. Therefore, by structure, a society knowing and willing without a coercion enters a contract with a corporation through its founders. A corporation per se is illiterate, however, it can be rational by its very structure and executive members. It, therefore, knowingly and willingly without coercion enters contract with a society. This contract, in turn, binds each party of the contract with obligations. A corporation as a member of a community has a principal moral duties and obligations to be a good



citizen to contribute resources to reform societies, prevent harms, maintain human rights and well-beings of the community in which it operates.

Obligations of a corporation towards a community are:

- to respect human rights and democratic institutions, and promote them wherever practicable;
- to recognize government's legitimate obligations to the society at large and support public policies and practices that promote human development through harmonious relation between business and other segment of society;
- to collaborate with those forces in the community dedicated to raising standard of health, education, workplace safety, and economic well-being;
- to promote and stimulate sustainable development and play a leading role in preserving and enhancing the physical environment and conserving the earth's resources;
- to support peace, security, diversity, and social integration;
- to respect the integrity of local cultures; and
- to be a good corporate citizen through charitable donation, educational and cultural contributions, and employee participation in community and civic affairs.

Corporate contribution to a society is understood as philanthropic. This means that a corporation through its CEO is free to do or not to do. The social contract-

based-stakeholder theory proposes that a corporation has duties and obligations to contribute to society. As a legal person and member of society, it is rational and proper for a corporation to have duties and obligations to help and contribute to a society in the time of peace and trouble. Friedman argues that a corporation is an economic entity, created solely for economic function. Paying tax and conforming to the law of the country are only two duties and obligations of a corporation. According to the social contract-based-stakeholder theory, Friedman is right, but he is not right in all respects. Surely a corporation has a duty to pay tax and to conform to the laws of the country. However, it is not sufficient, a corporation has to do more than that. A society cannot be a good society if everybody just do according to the stipulations of the laws. A city cannot be clean only if every citizen abstain from littering (suppose the law prohibits littering). On the contrary, it will be much cleaner if everybody helps keep it clean and pick up garbage into a litter. Laws and stipulations are only minimum requirements for a moderately peaceful, harmonious and happy society.

If a physical person has a duty to do what the laws stipulate and what is more so as to maintain happiness, peace and harmony of a society, a corporation as a member of a society has to do so. According to the social contract-based-stakeholder theory, a corporation has to do more than physical person for these three reasons namely: (1) a corporation is created by man and is granted with a lot of privileges by a society. Therefore, a corporation owes a gratitude to society; (2) a corporation is a social giant with a lot more capital and power than physical person in general. And

according to the second law of justice of John Rawls it is a justice for a more powerful citizen to have more duties and obligations towards the disadvantaged than the less powerful; (3) a corporation is a legal person in a community. So, basically, it has a moral duties and obligations to be a good citizen and to contribute to the community in which it operates.

However, the social contract-based-stakeholder theory is not too rigid to require all corporations to contribute a certain percentage of its annual revenue to the society. The theory allows a corporation a 'moral free space' to decide how much, when, and on what issue it can contribute. And it is justified for a corporation to enjoy this privilege, because the obligation is not explicit but implicit and implied. If it fails to contribute whenever is ready to help and to contribute to a society especially during the time of trouble (e.g. flood, epidemic, hunger), it does not fulfill a duty of a good citizen towards to the society in which it lives.

Corporate social commitment is not beneficial only to a society at large, but also to the firm itself. As the researcher has previously mentioned, the "companies depend for their prosperity on the performance of economy as a whole" (Clutterbuck, 1996, p.183). A corporate contribution that helps improve education of the community "by making education more enjoyable, more accessible, and more relevant to the world of work, companies can also stand to reap the benefits of new recruits who are already motivated towards continued learning" (Clutterbuck, 1996, p.183). It

is undeniable fact that a “well-educated workforce, constantly improving its skill-- and hence its earning power-- is an essential element in achieving prosperity” (Clutterbuck, 1996, p.183). In cases in which the benefit to the corporation is not this evident, such involvement can help business have good image which is indeed what every corporation tries its best to achieve.



## **Chapter VI**

### **Evaluation and Suggestions**

#### **1. Evaluation**

The social contract-based-stakeholder theory is an integration of two major theories: stakeholder theory and social contract theory for business. An evaluation can be made on two respects: practically and theoretically. Practically, the researcher believes that if the theory is implemented, a peaceful, harmonious atmosphere in business community will surely be realized. Moreover, trust which is the foundation of all business interactions will certainly be enhanced. As the researcher has earlier mentioned in the first chapter, malpractice in businesses are rooted in radical belief in the market mechanism, invisible hand, which will turn a pursuit of self-interest to the welfare of the whole society. This thesis is aiming at falsifying and replacing such belief with a new paradigm which is considered to be a win-win strategy. According to this new paradigm a rise and fall of one stakeholder can affect that of other stakeholders. So as to survive, a corporation (including corporate executives) has to concern not only its own welfare and prosperity but also that of all other stakeholders. For example, as long as employees are well-paid with fringe-benefits they are expected to work better and bring about prosperity to the company as a whole. In short a corporation's duties and obligations for enhancing the authentic happiness according to reality of each stakeholder are, in fact, duties and obligations towards themselves. The researcher believes that a new paradigm will finally make business

practitioners change, correct and improve their behaviors in dealing with and realize the importance of their stakeholders which finally will lead a minimization of business malpractice. Moreover, these obligations and duties are not optional but obligatory and they are rationally clarified by the modified social contract theory integrated with the stakeholder approach called social contract-based-stakeholder theory.

Theoretically, the main purpose of the integration is to resolve a shortcomings that arise from the two theories. The test of the social contract-based-stakeholder theory in this areas is its ability to solve problems arising out of the two theories and how it can defend itself against attacks from its counterparts. This is to demonstrate how the theory can serve the aforementioned purposes.

### **1.1. Problems Arising From the Stakeholder Theory**

Weiss contends that “the stakeholder view of corporations does not dictate an absolute set of ethical standards that firms should follow in doing business” (1994, p.95-6). It supports no specific moral principle of right and wrong. It therefore lacks explicit theoretical moral ground. The researcher finds this criticism positive rather than negative to the theory. It paves way for the theory to open to the strength and to avoid the weakness of all ethical theories. It is generally admitted that no existing ethical theory is perfect. Furthermore the counter ethical theories such as utilitarianism and deontology are not completely excluded from the other. The



deficiency of one theory can be supplemented by the strength of each other. “Both modes of approaches [utilitarianism and deontology] are subject to maladies from which their much heartier and more robust ancestor was spared. At the same time, the truth that is missed in utilitarianism, and (some way) is found in deontology, is also found-- and found much more richly-- in traditional teleology” (Macdonald & Beck-Dudley, 1994, p.616).

Prof. Kirti Bunchua comments that they are paradoxical rather than contradictory to each other and they can be accommodated with each other. W.D.Ross (1930) points out that every ethical theory is an attempt to explain one aspect of man's life, and human life is so complex that no theory can help explain all aspects. All ethical cases are different and no single ethical case is similar to the others. Because they all occur to different people, in different situations and under different circumstances. That is the reason why one single ethical theory cannot explain all phenomena. So as to have a comprehensive theory to understand the complexities we have to “build a ship on the sea plank by plank while it is still floating....(Neurat, 1932, cite in Pollock, 1986, p.67). Weiss (1994, p.92) comments that we have to resort to the existing theory and adjust each of them little by little so as to attain our purposes to minimize and avoid harms and to create authentic happiness according to reality. The theory concentrates on realistic and practical aspects rather than theoretical ones so as to permit researchers and organizational members to apply a range of ethical principles to specific situations. Ethical theories

are therefore not ends in themselves but they are means for the attainments of the two purposes aforementioned.

The stakeholder theory has no solid theoretical grounding for corporate social responsiveness. The stakeholder model is a just useful tool to analyze and describe the various relationship a corporation has with its main constituents in a society, but it is by no means a serious theoretical attempt to provide new paradigm. In other words it is just a description of the fact of business environment. It fails to provide normative insight into such transactions<sup>1</sup>. It cannot answer the question of why executive managers ought to behave such and such. In case of conflicts in which corporate executives have to make trade-off between interest of shareholders, suppliers, employees, consumers, number of general public, or anyone else qualifying as stakeholders they confused of the alternative to be taken among the various existing ethical theories.

The main purpose of an accommodation of the social contract theory into the stakeholder theory in this thesis is to find a moral ground for the normative aspect of the stakeholder theory. The researcher finds a contractual relationship in a mutual, interdependent and symbiotic relationship between a corporation and its constituents. In parallel with the social contract theory for politics in which the legitimacy of a duty

---

<sup>1</sup> G.E. Moore (1903/1954, p. 10-14) contends that a mere description of what actually happens cannot be a rational ground for what one ought to do in a certain situation. The 'ought' cannot be derived from the 'is'.

and obligation to obey social regulation for a citizen are clarified in the hypothetical contract in the state of nature, a duty and an obligation for a corporation, including corporate executives, are found in the same manner. Ethically it is a moral duty that one has to keep an agreement s/he has made with others.

One major shortcoming of the stakeholder theory is that “since the term coined at Stanford Research Institute in 1963, this concept has gained popular support among professors of business ethics, ethics officers, and management. Unfortunately, the concept is without meaning, or more accurately, it is so inundated with meaning that has become meaningless” (Klein, 1996). In other words, there is no criteria to define clearly which constituent is a stakeholder group and which one is not. If too few groups are included, the theory is only an extension of the managerial capitalism, not a separate one. If too many constituents or all are included in the list of stakeholder groups, it makes the theory unworkable. An attempt to address all people make it impossible for a corporate executive to make decisive decisions. This means that a corporation is vulnerable for the loss of competitiveness and efficiency.

Weiss argues that “one goal of a stakeholder analysis from a firm’s perspective is to create ‘win-win’<sup>2</sup> situations for itself and its stakeholder relationships” (1994, p.31). It is admitted that business transactions in today’s world

---

<sup>2</sup> The term ‘win-win’ means moral decisions that are most profitable or beneficial for all parties involved within the constrain of justice, fairness, and economic considerations.

are so complicated that all factors involved must be brought into consideration so as to reach accurate decisions. This strategy is necessary for the attainment of the corporate goals. This holistic perspective is so vital in daily business transactions in that if managers fail to bring all factors involved in their decision-makings, they might make a bias decisions which later on cost a lot of money in lawsuit, cause losses of good image, status and market shares in the market place. Weiss contends that this holistic perspective can help them successful as he says thus: “In reality this does always happen” (1994, p.31). The loose definition of stakeholder is, on one hand, a strength of the theory. Business is never done in a vacuum, but in a certain society and within a certain context. It is a weakness of the theory to define definitely which groups are stakeholder groups and others are not. Primary stakeholder groups like employees, consumers, community, etc. can be stakeholder groups of all corporations. Some others especially secondary stakeholder groups are problematic. For example, some stakeholder theorists consider competitors a stakeholder group some others do not. This is because of the complex and holistic nature of the theory. It is, in fact, better to leave the issue wide open for managers and societies to accommodate what they have in their real situation into the theory.

James Feiser argues that “there is no clear formula provided for how to prioritize the various interests once they are mapped out” (Feiser, 1996, p.460). Should all stockholders’ interests be treated-- either along the lines of a utilitarian calculus or rights of each stakeholder of deontology? Few defenders of the

stakeholder approach advocate treating all interests equally. Alternatively, if one group of stockholders' interests have special priority to that of others, then the stakeholder principle is merely an extension of the profit principle. The researcher has earlier mentioned that the social contract based stakeholder theory is a means for achieving authentic happiness according to reality. This will be possible if and only if peaceful, harmonious coexistence and a symbiosis between a corporation and its constituencies are maintained. The theory does not support the priority of one group over that of others. And the theory does not maintain that every stakeholder group are to be treated in the same manner equally. The social contract-based-stakeholder theory is the framework for an analysis of the fact of business environment from which normative aspects are derived. In real crises or moral dilemmas, alternatives available are not that it must be either A or B without third alternatives. The researcher believes that the more proper alternative that generates authentic happiness can always be found. For example, in case of downsizing during the period of economic recession. There are empirical facts that workers laid off are happy of being laid off and are still of being proud of being once an employee of such and such company.<sup>3</sup> In case of some Japanese companies during the economic recession in 1990-93, employees chose to have their salaries cut down by half in order to keep a company survive. According to the theory a corporate executive has to decide in such a way that corporate profitability and competitiveness have to be sustained and authentic happiness according reality of all stakeholder groups are to be maintained.

---

<sup>3</sup> One good example is the case study of the Cummins Engine Company. More detail can be found in William Frederick et al. (1992, p.48-50).

### 1.2. Problems Arising From Social Contract Theory

The social contract theory lacks historical facts and is therefore deceptive (Kymlicka, 1995, p.186). The theory imagines that once people lived in the state of individual production, without productive organization. When their society grew, they found out that the situation was intolerable. They, therefore, banded together to form productive organizations, to introduce labor division and agreed upon some social of mutual benefits. Historically, none of these events ever happened in the political or economical affairs.

Social contract theorists propose the tradition of social contract theory as a tradition of social change and reform. The theory does not mean to retell a historical fact that lots of people wearing skin tiger clothes come together in the forest to transfer some of their rights to a ruler. In his *Ethics of International Business*, Donaldson contends that “the social contract may serve as a clue for discovering such rights and obligations.” (1989, p.58). The logic of contractual relationship from which the researcher draws normative aspects (obligation, rights and duties) is broader than the act of contract making between parties or group of individuals who voluntarily enter the business contract. In some cases of business practices, there may never have been a pen or ink contract between a consumer and a producer, or a corporation and a community, or a supplier and a retailer or dealer, “but remarkably enough, thousands of people have acted as if there were” (Donaldson, 1982, p.40). Social contract theory is a thought experiment, a heuristic device, a metaphor that can



help explain what happens in the societies, a “method for justifying and explaining the state. In the same manner social contract theory for business is a thought experiment to justify a corporation” (Donaldson, 1982, p.39).

Paul Hodapp (1990) argues that a hypothetical contract is imaginary and no one ever really enters such a contract, therefore it does not bind morally. “The distinctive basis of the social contract theory is that under such a theory obligations arise only if they have been voluntarily assumed, and Donaldson has no reason to believe that corporations have no assumed voluntary obligations” (Hodapp, 1990, p.130). Moreover, a certain corporation can claim that it does not enter a contract therefore it is not bounded by terms and obligations of the contract. A real contract is validated if and only if all of three principal conditions are fulfilled. They are: (1) both parties of the contract know the nature of the contract they are entering; (2) neither party intentionally misinterpret the terms of the contract; (3) neither party of the contract is coerced to enter the contract under duress or undue influence. Hypothetical contract fulfills neither of these conditions.

This attack arises from a misunderstanding of the social contract theory for business. The kind of contract discussed in this thesis is the implied contract which is seen in the mutual, interdependent, and symbiotic relationship between a corporation and its constituents. Even though this contract is not written down, it is real and extant. Business people act as if they really existed. Moreover, it is a vital factor for the sustenance of the relationship and even for the existence of business structure.

The hypothetical contract referred to in the thesis is used as a metaphor to explain this kind of contractual relationship.

Paul Hodapp argues that the social contract theory for business is a functional theory that accounts benefits that society may expect to receive from corporations rather than a normative contractual theory that tells corporations what they should do. As he writes:

Donaldson's social contract theory is much like the example of the ham sandwich discussed in the law of evidence which is used by attorney at the trial to revive witness's past recollection. The sandwich itself has no independent relevance for the issue at trial....Donaldson's social contract has no independent normative status. It is simply an imaginative device by which we are to recall the purposes for which our hypothetical fore-fathers created productive organizations. (Hodapp, 1990, p.128)

This criticism arise from Hodapp's misunderstanding of the social contract theory for business. Social contract theory in itself is not a normative prescription (Donaldson, 1990, p.134) like deontology or utilitarianism but it is a thought experiment, a heuristic device, a metaphor used to explain an interdependent and mutual relationship between a corporation and its constituents out of which duties and obligations are formulated on the basis of normative ethical theories. Social contract theory does not say that there are real contracts in all cases of business transactions. But the theory

says that in their business transactions business practitioners' act as if there were a contract and its validity can be rationally tested by the social contract theory. Though the social contract theory is hypothetical, business practitioners realize that unwritten norms and obligations are real and extant. They have to adhere to them if they want to be trusted by their counterparts.

Hodapp (1990) argues that Donaldson's social contract theory "as a methodology is circular, presupposing the information which it is supported to generate. That is, one already builds in the purposes of an institutions before engaging the imaginative experiment" (Hodapp, 1990, p.128). Terms and obligations deduced from the mutual, interdependent and symbiotic relationship between a corporation and its constituents is presupposition of the state of nature. They are "not end but beginning of moral reflections about foundations of the productive organizations...These terms are terms that all rational people would accept in dealing with other people (Donaldson, 1990, p.135). Though it is a presupposition, it is compatible with the golden rule: do unto the others as you want them to do unto you. "They are the sort of things we would want others to undertake in dealing with us and in our dealing with them" (Donaldson, 1990, p.135). Moreover these duties and obligations are real in that these principles are really adhered and adopted by global, regional, and local business communities. Hodapp adds that social contract theory for business as imaginative tool fails. "It fails to revive forgotten memories. We cannot imagine a state of nature without already knowing the purposes of such an

organization. ...We cannot imagine a society without purpose..such as marriage” (1990, p.128). Social contract theory is not a “substantive theory” intended to explain natural fact such as marriage but a “procedural theory” intended to explain human interactions in the market economy. Economic institutions are not natural facts in that they are created by men in a certain way and they can choose to create it other ways. Furthermore, people can even choose not to create it.

Hodapp (1990) contends that if the social contract is to be applied to the field of economic ethics “the political contract needs to be rewritten so that the state can delegate certain economic decisions. In any event, these concerns should be addressed to the state, not to corporations. The corporation is only an agent for the state and has no authority to make such contracts on its own behalf. It can only make such contracts on behalf of its principal, the state (1990, p.130). Hodapp seems to be confused about the economic system in discussion. The social contract theory is for market economy, not for planned economy. It should be made clear in a distinction between a private corporation and a state enterprise. Only state enterprises are agents of a government, but most business enterprises are private corporations which can never agents of governments but government is one of their stakeholders.

Lastly, it is the criticism the researcher expects to arise from those who argue that ‘business of business is business’ therefore social contract between a corporation and its constituents is absolutely impossible because “businesses have never engaged

in a correct conduct which will lead us to believe that they were considering the interest of us... It is impossible for business to look after our interests at the expense of their own” (Hodapp, 1990, p.130). This vision is an old paradigm for business transactions. Having witnessed tremendous negative consequences of business practices coming out of those narrow views, many business people nowadays agree that this paradigm should be changed. This outdated paradigm is based upon a belief that the benefits of society and that of a corporation are opposed. As long as this belief is changed, this paradigm is invalidated. The social contract-based-stakeholder theory is a new paradigm believing that a corporation and its constituents are aiming at the same purpose of attaining authentic happiness according to reality, peaceful coexistence and symbiosis.

## 2. Suggestions for Further Studies

Since early 1990s Thailand has enjoyed economic boom with the growth rate of 10-13 per cent per GDP. Since then there has arisen so many cases of economic crimes.<sup>4</sup> In December 1996, the research Institute of Political Economy of Chulalongkorn University has released a research on illegal businesses in Thailand. There are six kinds of most notorious illegal businesses namely: prostitution, gambling, illegal labor, illegal weapon trade, narcotics, and illegal gasoline trade. The total of capital involved is as much as 800,000,000,000 (eight hundred thousand billion) baht. It is most frightening when this figure is compared with the budget for

---

<sup>4</sup> In Thailand there are some other equivalent terms such as business crimes, white collar crimes, corporate crimes referring to these same illegal and unethical acts.

developing the country in the fiscal year 1997. The amount of the budget for development is only a little greater. However, after a big cut in Chavalit Yongjaiyuth administration the figure is almost the same. During the fiscal year 1996 alone, major malpractice in businesses such as the case of BBC (Bangkok Bank Commercial Public Company), VAT frauds, forced sales for maintenance margins causes economic losses as much as the budget for development of the fiscal year 1997. These economic crimes, are indicators for the need of business ethics in this country. Stakeholder theory is the most popular in contemporary business management not only for business ethicists but for business practitioners also. Best examples illustrating the adoption of the stakeholder principles into business communities are the New York Business Roundtable (1981) and Caux Roundtable (1986). Therefore it is most probable that the theory can be popular among scholars and business practitioners in Thailand.

Stakeholder theory is a new paradigm for business management. An accommodation of the social contract into the theory is only one alternative approach. Actually there are other several approaches for example, Christian and Muslim theology can be applied to the theory also. In the context of Thailand, the researcher finds an accommodation of Thai Buddhism into the theory most interesting. In her article "The Buddhist Ethics of Compassion And the Feminist Ethics of Care: Similarities and Implications For Ethical Comportment of Organization" (1996), Judith White has paved way for an application of Buddhist philosophy into business



ethics. She points out the similarities between the ethics of care and the Buddhist ethics of compassion. Since Thailand is a Buddhist country an accommodation of Thai Buddhism should be the best alternative to make the theory workable and easily acceptable. In addition, the plastic nature of the theory, opens wide for further researches and an accommodation with the diversified cultural pluralism of each region.

Donaldson and Preston (1995) point out that stakeholder theory explicitly and implicitly contains three different types namely: descriptive/empirical, instrumental, and normative. This research focuses mainly on normative and descriptive aspects of the theory. The researcher mentions very few assertions of instrumental aspect of the theory. All examples he gives are taken from business literature of western societies. There remains empirical researches to be done about an application of the stakeholder management in Thai context. This research does not limit to philosophy only, but opens wide for various fields such as business administration, political economy, political sciences, and social sciences. There are in fact a lot of researches in Western, and Japanese society concerning the different areas of the theory.

Another further research that the researcher wants to suggest is to find out how a business can accommodate the social contract-based-stakeholder theory into practices in the real world of business. That is to study to use the theory as a guide for defining corporate strategies, codes of ethics, duties and obligations. So as testify the

theory, there must be empirical research to check whether the application of the theory into practice can really work. For example, whether it is acceptable by employees, managers, executive members; it can improve morale in the organization; it can improve corporate financial performances.



## References

- Abbot, Leonard Dalton. ed. (1949). **Master Work of Economics: Digest of 10 Great Classics**. New York: Doubleday & Company Inc.
- Allison, Robert Elliot. (1995). A Call for ethically-centred management. **Academy of Management**, 9(1). pp. 73-76. Hanover, Pennsylvania: The Sheridan Press.
- Andrews, Kenneth and David, Donald, K. eds. (1989). **Ethics in Practice: Managing the Moral Corporation**. (15th ed.) Boston, Massachusetts: Harvard Business School Press.
- Applebaum, David & Lawton, Sarah. (1990). **Ethics and the Professions**. Prentice-Hall; N.J., 07632. Englewood Cliffs.
- Barry, Norman (1995). "What Moral Constraints for Business" In **Market Capitalism and Moral Value**. (pp. 57-78.). Hants: Edward Elgar Publishing limited.
- Barton, Lawrence (1995). **Ethics: The Enemy in the Workplace**. Cincinnati, Ohio; South-Western College Publishing.
- Becker, Gerhold K. (1996). **Ethics in Business and Society : Chinese and Western Perspective**. Hong Kong; Springer.
- Berber, Massimo M. and Ornaghi, Lorenzo. (1995). "Ethical Constraints on Prices Flexibility" In **Market Capitalism and Moral Value**, (pp. 101-119). Hants: Edward Elgar Publishing Limited.
- Bettignes, Henri-Claude de. (1996). **Towards a Global Business Ethics : The Caux Round Table Principle for Business**. Comment. A Proceeding Presented

- Bettignes, Henri-Claude de. (1996). **Towards a Global Business Ethics : The Caux Round Table Principle for Business.** Comment. A Prodceeding Presented to the First Congress of Business, Economics & Ethics. Institute of Moralogy, Reitaku University, Japan.
- Bishop, John D. (1995). "Adam Smith's Invisible-Hand Argument". **Journal of Business Ethics**, 14(3). pp. 165-180. The Netherlands: Kluwer Academic Publisher.
- Blodgett, Timothy B. (1968.). "Showdown on Business Bluffing " In **Ethics for Executives Series: Harvard Business Review.** (pp. 135-141). Boston; Harvard University Press.
- Bouckaert, Luk. (1994). published in Hārvey, Brian. (1994). **Business Ethics: A European Approach.** London; Prentice-hall International (UK) Limited.
- Brenkert, George G. (1992). "Private Corporations and Public Welfare" **Public Affairs Quartery**, 6(2), (pp.155-68).
- Brittan, Samuel. (1995). **Capitalism With Human Face.** Hants: Edward Elgar Publishing Limited.
- Brittan, Samuel (1995). "Economics and Ethics," In **Market Capitalism and Moral Value.** (pp.1-22). Hants: Edward Elgar Publishing Limited.
- Brittan, Samuel and Alan Hamlin. (1995). **Market Capitalism and Moral Value.** Hants: Edward Elgar Publishing Limited.

- Broehl, Waynes G., Jr. (1968). "Insight into Business and Society" In **Ethics for Executives Series**: Harvard Business Review. (pp.66-71). Boston: Harvard University Press.
- Broome, John (1995). "Fairness in the Rationing of Health Care" In **Market Capitalism and Moral Value**. (pp. 79-87). Hants: Edward Elgar Publishing Limited.
- Buchholz, Rogene A.. (1989). **Fundamental Concepts and Problems In Business Ethics**. New jersey; Prentice Hall, Englewood Cliffs.
- Buchanan, James M. (1994). **Ethics and Economic Progress**. Oklahoma; University of Oklahoma Press.
- Buchholz, Rogene A.. (1989). **Fundamental Concepts and Problems in Business Ethics**. Prentice-Hall, Englewood Cliffs.
- Bunchua, Kirti. (1995). **Foundation of Professional and Business Ethics**. Bangkok: Assumption University Press.
- California Management Review**. (1984). 26(2).
- Calton, Jerry M. and Lawrence J. Lad (1995). "Social Contract as a 'Trust-Building Process of Network Governance'," **Business Ethics Quarterly**, 5(2): 271-295.
- Cannon, Tom . (1992). **Corporate Responsibility**. London: Pitman Publishing.
- Carmody, Denise Lardner and John Tiially Carmody. (1993). **Christian Ethics: An Introduction Through History & Current Issues**. New Jersey: Prentice-Hall: Englewood Cliffs, Inc.

- Carrol, Archie B.. (1977). **Managing Corporate Social Responsibility**. Boston; Little, Brown and Company (Inc.).
- (1991). The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders. **Business Horizon**. August/ July, pp. 39-48.
- Carr, Albert Z. "Is Business Bluffing Ethical ?" In **Ethics for Executives Series: Harvard Business Review**. (1968). pp. 127-134. (reprinted from No. 21075) Boston; Harvard University Press.
- Caux Round Table. (1986). Principle for Business. **Business Ethics Magazine**. 612/962-4700.
- Clark, Charles Michael Andres. (1992). **Economic Theory and Natural Philosophy**. Vermont; Edward Elgar Publishing Limited.
- Clasen, Earl A. "Marketing Ethics & Consumer" In **Ethics for Executives Series: Harvard Business Review**, (1968). (pp. 11-18). (reprinted from No. 21075) Boston: Harvard University Press,.
- Clarkson, Max B. E. (1995). A Stakeholder Framework for Analyzing and Evaluating Corporate Soical Performance. **Academy of Management Review**. Vol. 20(I), pp. 92-117.
- Clutterbuck, David; Dearlove, Dez and Snow, Deborah. (1992). **Actions Speak Louder: A Management Guide to Corporate Social Responsibility**. 2nd Ed. London; Kogan Page Ltd.



- Coase, R. H. (1960). Problem of Social Cost. **Journal of Law and Economics**. 3: 1-44.
- Conry, Edward J. (1995). "A Critique of Social Contract for Business Ethics," **Business Ethics Quarterly**, 5(2): 187-212.
- Danielson, (1991).
- Davis, Keith. (1975). *Business Horizon* republished in Archie B. Carrol. (1977). **Managing Corporate Social Responsibility**. Boston; Little, Brown and Company (Inc.).
- Donaldson, Thomas. (1982). **Corporation and Morality**. Englewood Cliffs, NJ: Prentice-Hall.
- Donaldson, Thomas (1989). **The Ethics of International Business**. New York: Oxford University Press.
- Donaldson, Thomas (1988). "Fact, Fiction, and the Social Contract: A Reply to Kulgen." **Business and Professional Ethics Journal**, 4: 31-49. Also in Ethics and Risk Ethics Management in Engineering, 1987, 1: 40-47.
- Donaldson, Thomas. (1996). **Hypernorms : The Limits of Consent in ISCT..** A Prodceeding Presented to the First Congress of Business, Economics & Ethics. Institute of Moralogy, Reitaku University, Japan.
- Donaldson, Thomas (1990). "Social Contract and Corporation: A Reply to Hodapp." **Journal of Business Ethics**, 9: 133-139.
- Donaldson, Thomas & Gini, Al. (1993). **Case Studies in Business Ethics**. (3rd. ed.). Englewood Cliffs, NJ: Prentice-Hall, Inc.

- Donaldson, Thomas and Dunfee, Thomas W. (1995), "Integrative Social Contract Theory: A communitarian conception of Economic Ethics," **Economics and Philosophy**, 11(1):85-112.
- Donaldson, Thomas and Preston, Lee (1995). "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implication," **Academy of Management Review**, 20(1):65-91.
- Donaldson, Thomas and Werhane, Patricia H. (1993). **Ethical Issue in Business: A Philosophical Approach**. (4th ed.) Englewood Cliff: Prentice-Hall,
- Donaldson, Thomas and Dunfee, Thomas W. (1994), "Towards a Unified Conception of Business Ethics: Integrative Social Contract Theory." **Academy of Management Review**, 19(1): 252-284.
- Dunfee, Thomas W. (1991), "Business Ethics and Extant Social Contract," **Business Ethics Quarterly**, 1(1): 23-52.
- Dunfee, Thomas W. (1995). "Introduction To the Special Issue On Social Contract and Business Ethics." **Business Ethics Quarterly**. 5 (2): 167-171.
- Dunfee, Thomas w. and Donaldson, Thomas . (1995). "Contractarian Business Ethics: Current Status and the Next Step." **Business Ethics Quarterly**, 5(2): 173-186.
- Dunfee, Thomas W. and Maurer, Virginia C. (1992). "Corporate Attonery Whistle-Blowing: Devising a Proper Standard." **Business and Professional Ethics Journal**, 11(3&4): 3-39.
- Dunfee, Thomas W. and Yukimasa, eds. (1993). **Business Ethics: Japan and the Global Economy**. Dordrecht: Kluwer Academic Publishers.

Elfstorm, Gerard. (1991). **Moral Issues and Multinational Corporations.**

Macmillan Academic and Professional Ltd.; London.

Etzioni, A.(1988), **The Moral Dimension: Toward a New Economics.** New York:

The Free Press.

**European Business Ethics Newsletter.** (1992). May 3.

Evan, William M. and Edward, Freeman R. (1995). 'A Stakeholder Theory of the

Modern Corporation: Kantian Capitalism' In **Business Ethics: Readings**

**and Cases in Corporate Morality.** (3rd. ed.). New York: Mc Grawhill, Inc.

Ewing, David. (1977). **Freedom Inside the Organization.** New York; McGraw-

Hill.

Fender, John. (1995). "Altruism, Ethics and Economics: The Significance of Non-

Egoistic Preferences for Economics" In **Market Capitalism and Moral**

**Value.** (pp. 120-136). Hants: Edward Elgar Publishing Ltd.

Fieser, James. (1996). "Do Business Have Moral Obligations Beyond What the Law

Requires?" **Journal of Business Ethics.** 15 (4). pp. 457-468.

Flemming, John S. (1995). "The Ethics of Unemployment and Mafia Capitalism" In

**Market Capitalism and Moral Value.** (pp. 45-56). Hants: Edward Elgar

Publishing Limited.

Flew, Anthony. (1992). "Selfishness, Exploitation, and Profit Motive " In **Business**

**Ethics and Common Sense.** (19-30). Robert W. McGee ed. Wesport

Connecticut, Quorum Books..

- Foley, Vernard. (1976). **The Social Physics of Adam Smith**. Indiana; Perdue University Press.
- Foot, Phillipia. (1974). **Theories of Ethics**. Oxford; Oxford University Press.
- Frederick, William C.; Post James E. and Keith Davis. (1992). **Business and Society: Corporate Strategy, Public Policy, Ethics**. 7th Ed. New York; McGraw-Hill, Inc.
- French, Peter A. (1974). "Corporate Moral Agency" In **Business Ethics: Readings and Cases in Corporate Morality**. W. Michael Hoffman and Robert E. Frederick (1995). (3rd. ed.). New York: Mc Grawhill, Inc..
- Friedman, Milton. (1978). Adam Smith's Relevance for 1976. republished in R. G. Fred (edt.) **Adam Smith and the Wealth of Nations : Bicentennial Essays 1776-1976**. Colorado Associated Univesity Press; Boulder, Colorado.
- Friedman, Milton. (1962). **Capitalism & Freedom**. Chicago: The University of Chicago Press.
- Friedman, Milton. (1970). The Social Responsibility of Business Is to Increase Its Profits. New York Time. Reprinted in **Harvard Business Review : Ethics for Executives Series**. (No.----), pp.
- Fusfeld, Daniel Roland. (1990). **The Age of the Economist**. (6th ed.). Gelen View: Illinois.
- Ganon, Thomas M., S.J. ed. (1987). **The Catholic Challenge to the American Economy**. New York: Macmillan Publishing Company.

- George, Paul R. and Robert C. Stuart. (1980). **Comparative Economic System**. New Jersey: Houston Miffin Company.
- George, Richard T. De. (1986). **Business Ethics**. (2nd ed.). New York, Macmillan Publishing Company.
- Gauthier, David. (1986). **Morals By Agreement**. Oxford: Clarendon Press.
- Gibbard, A. (1985). What is Morally Special About Free Exchange? republished in E.F. Paul, F. D. Miller & J. Paul (eds.) **Ethics and Economics**. Blackwell; oxford.
- Goodpaster, Kenneth E. and Matthew, John B. Jr. (1982). “**Can a corporation Have a Conscience**” Harvard Business Review. Vol. 60 (1), pp. 132-141.
- Gorringe, Timothy J.(1994). **Capital and the Kingdom: Theological Ethics and Economic Order**. New York: Orbis Books.
- Hamel, Gary; Doz, Yves, L.; and Prahalad, C.K. (1989) **Collaborate With your Competitors- and Win** Havard Business Reiview January-February. p.133-139.
- Hamlin, Alan. (1995). “The Moral of the Market” In **Market Capitalism and Moral Value**. (p.137-150). Hants: Edward Elgar Publishing Limited.
- Hardin, R. (1991). “Hobbesian Political Order- Reading Hobbes in Other Words: Contractarian, Utilitarian, Game Theorists.” **Political Theory**, 19 (2):156-180.
- Harrington, Katherine L.. (1996). Ethics and Public Policy Analysis : Staekholders’ Interests and Regulatory Policy. **Journal of Business Ethics**. 15., pp. 373-382.

- Harrison, Jeffery S. and John, Caron H. St. (1996) **Managing and partnering with external stakeholders**. Academy of Management Executive (10:2) pp.46-60.
- Hartley, Janet L.; and Choi, Thomas Y. (1996). **Supplier Development: Customers As A Catalyst Of Process Change** Business Horizon July-August, p.37-44.
- Harvey, Brian. (1994). **Business Ethics: A European Approach**. London; Prentice-hall International (UK) Limited.
- Hills, C.W.L. & Jones. T.M. (1992). Stakeholder-Agency Theory. **Journal of Management Studies**. 29: 131-154.
- Hodapp, Paul P. F. (1990). "Can there Be a Social Contract With Business?" **Journal of Business Ethics**, 9: 172-131.
- Hoffman, W. Michael and Frederick, Robert E. (1995). **Business Ethics: Readings and Cases in Corporate Morality**. (3rd Ed). New York; Mc Grawhill, Inc.
- Horvath, Charles M. (1995). "The Social Equation: Freedom and Its Limits" **Business Ethics Quatery**, 5(2): 329-352.
- Hume, David. **Enquiries Concerning Human understanding and Concerning the Principles of Morals**. (11th ed.). P.H. Nidditch, ed. (1990) Oxford; Clarendon Press.
- Jones, Thomas M.. (1995). Instrumetal Stakeholder Theory : A Synthesis of Ethics and Economic. **Academy of Management Review**. Vol 2 (20), No. 2, pp. 404-437.
- Kant, Immanuel. **Grounding for the Metaphysics of Moral**. trans by James W. Ellington (1981). Hackett Publishing Company.



- Keely, Michael. (1995). "Continuing the Social Contract Tradition," *Business Ethics Quarterly*, 5(2): 241-255.
- Keely, M. (1988), **A Social contract Theory of Organisations**. Notre Dame, IN: University of Notre Dame Press.
- Keely, Michael. (1995) "The Trouble with Transformational Leadership: Towards a Federalist Ethics for Organisations." **Business Ethics Quarterly**, 5(1): 67-96.
- Khoo Khaeng Business Daily**. (1997). August 6.
- Kinnock, Neil. (1994). Beyond Free Trade to Fair Trade. **California Management Reivew**. 36(4).
- Klein, Ellen R.. (1996). **Who is not a "Stakeholder" in Multinationals? A Prodceeding Presented to the First Congress of Business, Economics & Ethics**. Institute of Moralogy, Reitaku University, Japan.
- Kulgen, John. (1986). "Comment on Donaldson's Corporation and Morality." **Business and Professional Ethics Journal**, 5:28-39.
- Kung, Hans. (1991). **Global Responsibility: In search of a New World Ethics**. trans..John Bowden; SCM Press.
- Kymlicka, Will. (1993). "The Social Contract Tradition." In Peter Singer(Ed.), **A Companion of Ethics**: Oxford: Blackwell, pp. 186-196.
- Lawson, Nigel. (1995). "Some Reflection On Morality and Capitalism," In **Market Capitalism and Moral Value**. (pp. 35-44). Hants: Edward Elgar Publishing Limited.

- Leibenstein, Harvey.(1989) "The Prisoner's Dilemma in the Invisible Hand: An analysis of Intrafirm Productivity" In **The Collected Essays of Harvey Leibenstein: Efficiency and Micro-Micro theory**. 2 (X), pp. 188-193. Kenneth Button. ed.. Hants; Edward Elgar publishing Limited.
- Levitt, Leon. (1986). "Donaldson's Social Contract for Business" **Business and Professional Ethics Journal**, 5: 47-50.
- Levitt, Theodore. (1958). The Dangers of Social Responsibility. **Harvard Business Review : Guides to Corporate Social Responsibility**. (No. 58507)
- Macdonald, James E. and Beck-Dudley, Caryn L. (1994). "Are Deontology and Teleology Mutually Exclusive?" **Journal of Business Ethics**, 13:8, pp.615-623.
- Marylin and Schor. (1991).**The Golden Age of Capitalism: Reinterpreting the Post-war Experience**. Oxford: Clarendon Press, 1991.
- Marcro, Josseph P. De and Richard M. Fox. eds. (1986). **New Directions in Ethics: The Challenge of Applied Ethics**. New York, Routledge & Kegan Paul plc.
- Marx, Karl. (1995). **Capital: An Abridged Edition**. David Mellan. ed..Oxford; Oxford University Press.
- Maskins, Erics. (1994) "The Invisible-Hand and Externalities." **The American Economic Review**, 84(2). (pp. 333-33). Manchester Wisconsin; Banta Company.

- Mayor, Don and Anita Cava, (1995). "Social Contract Theory and Gender Discrimination: Some Reflections on the Donaldson/Dunfee Model," **Business Ethics Quarterly**, 5(2): 257-270.
- McCracken, Janet and Bill Shaw (1995). "Virtue and Contractarianism towards a Reconciliation," **Business Ethics Quarterly**, 5(2): 312.
- McLellan, David. (1975). **Karl Marx**. Frank Kermode. ed.. New York, The Viking Press.
- Mill, John Stuart. (1949). "Principle of Political Economy" In **Master Work of Economics: Digest of 10 Great Classics**. Abbot, Leonard Dalton. ed. (pp. 379-451). New York; Doubleday & Company Inc.
- Mill, John Stuart. (1979). **Utilitarianism**. George Sher. ed.. Indiana Polis; Hackett Publishing Company, Inc.
- Moore, G.E. (1903/1959). **Principia Ethica**. Cambridge University Press; Cambridge England.
- Mochanderas, Maria. (1994). **Business Economics**. London; Rickett (1994).
- Nash, Laura. (1990). **Good Intentions Aside**. Cambridge; Harvard University.
- Nell, Edward. ed. (1984). **Free Market and Conservatism: A Critique of Theory and Practice**. London: George Allen & Unwin.
- Nevin-Gattle, Kim. (1996). "Predicting the Philanthropic Response of Corporations: Lessons from History." **Business Horizon**, 39(43). pp. 15-23. London: JAI Brese, Inc.

Novak, Michael. (1993). **The Capital Ethics and the Spirit of Capitalism.**

New York; The Free Press.

Nozick, Robert.(1994). **Anarchy, State, and Utopia.** New York; Basic Books, Inc.

\_\_\_\_\_. (1994) "Invisible-Hand Theories : Invisible-Hand Explanations". **The**

**American Economic Review**, 84.(2 ) Manchester Wisconsin;Banta Company.

\_\_\_\_\_. (1982). **Philosophical Explanations.** 4th ed.. Cambridge Massachusette;

Harvard University Press.

O'Brien, David J. and Thomas A. Shannon, eds. (1992). **Catholic Social Thought:**

**Documentary Heritage.** New York; Orbis Book.

Okin, Susan Moller (1990). "Feminism, The Individual, and Contract Theory."

**Ethics**, 100: 658-669.

Oxley, Alan. (c1990).**The Challenge of Free Trade.** New York: Harvester Sheafs.

Paul II, John., Pope. (1992). "Centesimus Annus: (One Hundredth Anniversary of Rerum Novarum)." In **Catholic Social Thought: Documentary Heritage.**

O'Brien, David J. and Thomas A. Shannon, eds. (pp. 437-487). New York; Orbis Book.

Pava, Moses L.. **Two Cheers for Stakeholder Theory : A Critique From a**

**Religious Perspective.** A Prodceeding Presented to the First Congress of Business, Economics & Ethics. Institute of Moralogy, Reitaku University, Japan.

- Pava, Moses L. & Krausz, Joshus. (1996). The Association Between Corporate Social Responsibility and Financial Performance : The Paradox of Social Cost. **Journal of Business Ethics**. 15., pp. 1996.
- Petit, Phillip. ed.(1993). **Consequentialism**. Hants; Dartmouth Publishing Company Limited.
- Pojman, Louis P. (1989). **Ethical Theories: Classical and Contemporary Readings**. Belmont, California; Wadsworth, Inc.
- Pontifical Council of Justice and Peace . (1992). **Social and Ethical Aspects of Economics: A colloquium in Vatican**. Vatican City; Mejia, Jorge . ed. Vatican City: Vatican City Press.
- Prachaŕhat Dhurakit**. (1996). Decmber 5-8.
- Prayutto, P.A. (1994). **Buddhist Economics: A Middle Way for Market Place**. (2nd ed. ). Bangkok: Buddha Dhamma.
- Posner, B. Z. & Schmidt, W.H. (1984). **Values and American Managers**. California Management Reiview. 26(3): 202-216.
- Rasmussen, Doughlas B. (1992). “Capitalism and Morality: The Role of Practical Reason.” In **Business Ethics and Common Sense**. Robert W. McGee ed. (1992). (pp. 33-44). Wesport Connecticut, Quorum Books.
- Rachel, James.(1993). **The Elements of Moral Philosophy**. (2nd ed.). McGaw-Hill, Inc.
- Rawl, John.(1993). **Political Liberalism**. New York: Comlumbia University Press.
- Rawl, John. (1971). **A Theory of Justice**. Cambridge: Havard University Press.

- Reidenbach, R. Eric and Donald P. Robin (1990), "Towards the Development of a Multidimensional Scale for Improving Evaluation of Business Ethics" **Journal of Business Ethics**, 9:639-53.
- Rickette, Martin. (1994). **The Economics of Enterprise: An Introduction to Economic Organization and Theory of the Firm**. 2nd ed. New York; Harvester Wheatsheaf
- Robbin, Donald P. and Reidenbach, R. Eric. (1987). "Social Responsibility, Ethics, and Marketing Strategy: Closing the Gap Between Concept and Application". **Journal of Marketing**, 51(January). The American Marketing Association.
- Robertston, Diana C. and William T. Ross, Jr. (1995). "Decision-Making on Ethical Issues:The Impact of a Social Contract Perspective," **Business Ethics Quarterly**, 5(2): 213-240.
- Robin, R.E. & Reidenbacch, D.P. (1978). Toward the Development of Multidimensional Scale for Improving Evaluation of Business Ethics. **Journal of Business Ethics**. 9: 457-471.
- Romano, Richard and Melvin Leiman. (1975). **Views on Capitalism**. (2nd ed.). Beverly Hills: Glenco Press, A Division of Benziger Bruce & Glenco, Inc.
- Ropke, Wilhelm. (1960). **A Human Economy: The Social Framework of the Free Market**. Chicago: Henry Regency Company Co.
- Ropke, Wilhelm. (1963). **Economics of the Free Society**. Chicago: Henry Regency Company Co.



- Rothschild, Emma. (1994) "Adam Smith and the Invisible Hand " **The American Economic Review**, 84(2) pp. 319-322 Manchester Wisconsin; Banta Company.
- Roy, Subroto. (1989). "Philosophy of Economics: On the Scope of Reason." In **Economic Inquiry**. London, Routeledge.
- Rousseau, Jean-Jaques. (1967). **The Social Contract and The Discourse On the Origin of Inequality**, New York: Washing Square Press.
- Salbu, Steven R. (1995) "Insider Trading and the Social Contract" **Business Ethics Quarterly**, 5(2): 313-328.
- Schotter, Andrew. (1985). **Free Market Economics: A Critical Appraisal**. New York: St. Martin Press.
- Sen, Amartya. (1995). "Moral Codes and Economic Success." In **Market Capitalism and Moral Value**. (pp. 23-34). Hants: Edward Elgar Publishing Limited.
- Sen, Amartya. (1987). **On Ethics and Economics**, New York: Basil Blackwell Inc.
- Sen, Amartya and Bernard Williams. (1984). **Utilitarianism and Beyond**. (2nd ed.). Cambridge: Cambridge University Press.
- Sharplin, A.. & Phelps, L.D. (1989). A Stakeholder Apologetic for Management. **Business and Professional Ethics Journal**. 8(2): 41-43.
- Shaw, William H. and Vincent Berry. (1992). **Moral issues In Business Ethics**. (5th ed.). California; Wadsworth Publishing Company.

- Schotter, Andrew. **Free Market : A Critical Appraisal**. St. Martin Press; New York, 1985.
- Singer, Peter. (1994). **Ethics**. Oxford; Oxford University Press.
- Singhapakdi, Anusorn; Kraft, Kenneth L. & Rallapali, Kumar C. (1995). “ The Perceived Importance of Ethics and Social Responsibility on Organisational Effectiveness: A Survey of Markets.” **Journal of Academy of Management Science**, 23(1). pp. 49-56.
- Skiddelsky, Robery, (1995). “The Role of Ethics in Keynes’s Economics” In **Market Capitalism and Moral Value**. (pp. 23-34). Hants: Edward Elgar Publishing Limited.
- Smith, Adam. (1976). **An Inquiry Into the Nature and Causes of the Wealth of Nations**. Oxford University Press; Oxford, 1993.
- Sorell, Tom and Hendry, John. (1995). **Business Ethics**. 2nd Ed. Oxford OX2 8DP; Butterworth-Heinemann.
- Steiner, George A. and Steiner, John F. (1994). **Business, Government and Society: A Managerial Perspective**. New York; McGraw-Hill, Inc.
- Sterba, James P. (1995). **Social and Political Philosophy: Classical Western Texts in Feminists and Multicultural Perspectives**. Belmont: Wadsworth Publishing Company
- Stone, Christopher D. (1975) ‘Why Shouldn’t Corporations Be Socially Responsible?’ from *Where the Law Ends: The Social Control of Corporate Behaviour*. In Michael W. Hoffman and Frederick, Robert E. (1995). **Business Ethics**:

- Readings and Cases in Corporate Morality.** (pp.141-145). (3rd Ed.) New York; Mc Grawhill, Inc.
- Taka, Iwao. (1994). 'Business Ethics: A Japanese View' **Business Ethics Quarterly**, 4() . pp. 53-78.
- Taka, Iwao. (1994). **Revising Inegrative Social Contracts Theory : Towards Solving the Awareness in Japanese Management.** A Prodceeding Presented to the First Congress of Business, Economics & Ethics. Institute of Moralogy, Reitaku University, Japan.
- Taylor, Joan Kenedy. edt. ., (1986). **Free Trade: The Necessary Foundation for the World Peace.** New York: The Foundation for Economic Education, Inc.
- Teichgraeber III, Richard F. (1986). 'Free Trade' and Moral Philosophy: **Rethinking the Sources of Adam Smith's Wealth of Nations.** Durham, Duke University Press.
- Terborgh, George. (c1968). **Capitalism Revisited.** Washington D.C.: Machinery and Allied Product Institute.
- The Interest Business.** (1997). June 30-July6.
- U.S. Cathlic Bishops (1986). "Economic Justice for All" In **Catholic Social Thought: Documentary Heritage.** (1992). pp. 572-680. O'Brien, David J. and Thomas A. Shannon, eds. New York; Orbis Book.
- Vallentyne, ed. (1991). **Contractarianism and Rational Choice: Essays on David's Gauthier's Moral by Agreement.** New York: Cambridge University Press.

- Velasquez, Manuel G. (1988). **Business Ethics: Concepts and Cases**. (2nd ed.). Englewood Cliffs: New Jersey.
- Walton, Clarence. (1969). *Conceptual Foundations of Business* Homewood, Ill: Richard D. Irwin, 1969, p. 134
- Weintraub, Sidney. (c1984). **Free Trade Between Mexico and the United States**. Washington D.C.: Brooking Institution.
- Weiss, Joseph W. (1994). **Business Ethics: A Managerial Stakeholder Approach**. Belmont California; Wadsworth Publishing Company.
- Werhane, Patricia. (1989). **Rights, Persons, and Corporation**. New York; Oxford University Press.
- William M. Evan and Edward, Freeman R. Edward. (1990) 'A Stakeholder Theory of the Modern Corporation: Kantian Capitalism' republished in *Business Ethics: Readings and Cases in Corporate Morality*. Michael W. Hoffman and Robert E. Frederick (eds). 3rd. ed.. New York; Mc Grawhill, Inc. 1995, p.352.
- Williamson, Oliver E. (1994) "Visible and Invisible Governance". **The American Economic Review**, 84 (2) pp. 323-326. Manchester Wisconsin: Banta Company.
- Williamson, O.E. & Winter, S.G. (1991). **The Nature of the Firm: Origins, Evaluation, and Development**. New York, Oxford University Press.
- Zimbalist, Andrew; Howard T. Sherman and Stuart Brown. (1989). **Comparative Economic System: A Political Economic Approach**. (2nd ed.). Orando, Florida: Hartcourt Brace Publisher.

### Autobiography

Mr. Charn Mayot was born at Ban Changming, Tambon Changming, Amphur Phannanikom, Sakon Nakorn Province on January 19, 1958. After finishing his high school from Saint Joseph School, Tharae, Sakon Nakorn in 1978, he was admitted to the Lux Mundi Seminary of Thailand. In 1984 he graduated a bachelor degree in philosophy from Saengtham College. From 1985 to 1989 he was a school teacher in Saint Joseph School, Tharae, Sakon Nakorn. In 1989 he moved to Bangkok to become a school teacher at Saint Dominic School, Petburi Road. In 1992 he became an instructor at Assumption University, Hua Mark, Bangkok. In 1993 he received a bachelor degree in English from the Faculty of Humanities of Ramkamhaeng University. In 1993 he was granted a scholarship to pursue his studies for a master degree in philosophy at the Graduate School of Philosophy and Religious Studies of Assumption University.



