The Ethics of Responding to Stakeholder Interests: A Reply to Entine

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In the November 1995 edition of the Electronic Journal of Radical Organization Theory (EJROT) Jon Entine (1995) uses some examples to illustrate the complexity of being socially responsible. This is the reality that most organizations face today. Social responsibility has become an integral part of competitive business. Organizations that neglect their responsibility to their stakeholders will not survive for very long. However, as Entine so correctly observes, this is a "messy" business. There are no clear guidelines. Actions that may work for one organization under certain circumstances may not work for other organizations. Ben and Jerry's failure in the rainforest is just one example of how good intentions are not always enough to produce results that satisfy the whole range of stakeholders.

In his article Entine assumes that there is a socially responsible business "community" or club. When Freeman (1984) introduced the notion of stakeholders, it was not meant for a select few. The stakeholder approach to business was a paradigmatic shift away from the traditional approach that the only moral responsibility of business was to maximize the wealth its stockholders (Friedman, 1962). Inherent in this traditional approach was Adam Smith's assumption that the market will correct itself and punish those organizations that do not care for the environment around them. Unfortunately, we know that this does not happen. In his criticism of Ben and Jerry's decision to feed excess ice cream to pigs, Entine suggests that most companies would "just wash it down the drain." Part of the problem here is that we still have a paradigmatic incompatibility. The economic model (in the USA) is still strongly dominated by the Friedman approach to the free market. Organizations are rewarded for meeting the narrow expectations of their stockholders -- making a profit, no matter how. At the same time those organizations that attempt a different approach are subject to criticism and attack.

One of the problematic elements of measuring social responsibility is to distinguished between intent and consequence. It is here where social responsibility and ethical behavior meet each other. Ben and Jerry may have had very good intentions, but they did not foresee all the consequences. On the other hand, those companies that "wash it down the drain" certainly did not have any good intentions to protect their environment, but if there were no immediate negative consequences, does it mean their actions were ethical? This is where the assumptions in Entine's article are based on the narrow utilitarian approach to ethics. He looks at the consequences and if the costs outweigh the benefits it is regarded as unethical. Does this mean that Ford's decision to continue selling Pintos after tests showed the danger of the fuel tank exploding, would have been ethical if nobody got hurt? Would Ben and Jerry's decision to give ice cream to pigs be ethical if pigs did not get sick? This is where the practical side of social responsibility becomes messy. Business ethics is related to the philosophical assumptions about what is right. In order to make judgments about the ethical nature of social responsibility efforts, we have to explore the real intent of organizations. Did Ben and Jerry buy nuts harvested in the rainforest because their marketing department indicated that it would sell very well, or were they concerned about the deforestation of the rainforest? Entine does not seem to care about the intentions, he measures the consequences. In fact, he concedes that part of the failure of the rainforest effort was because "most Amazon villages, long since corrupted by western interests, were not about to forage for nuts to meet the expectations of social activists." The difference is that these corrupt western interests made a profit, while the Ben and Jerry venture was a financial failure: "the money did not even cover expenses." So, should we measure social responsibility of organizations in terms of financial success? Surely not!

Perhaps this article about the dilemma faced by Ben and Jerry could serve as an illustration of the complexity of the stakeholder model. It is also a good illustration that the stakeholder approach is not merely a normative description of the forces outside organizations, it is an essential management tool (Donaldson & Preston, 1995). Like most other management decisions, it is impossible to find optimal solutions. Instead, managers end up satisficing (Simon, 1947), which leaves them open to criticism. Attempts to satisfy some stakeholders, may often have unforeseen negative consequences for other stakeholders. Corporate social performance is the product of the company's overall response and policy along several different dimensions (Clarkson, 1995). Taking a small sample of incidents without also considering the company's performance in other areas (employee compensation, supplier relations, community involvement, charitable giving etc.) is not very constructive or helpful to finding ways to deal with the practical reality of social responsibility.

Unfortunately Entine makes very little contribution towards ways out of the "messy reality." His notion of an "integrity" model is based on the Friedman assumption that the market will correct the behavior of organizations. Organizations will presumably be forced to behave in socially responsible ways because they have to provide a quality product or service and they have to respond to consumer criticism. Entine does not provide any examples of organizations that follow this model successfully. Past experience has, however, provided us with several examples that illustrate the fallacy of this model. One such example is the paper mills in northern New England. The main customers are not concerned about or even aware of the way these mills pollute the air and rivers in the area. As far as they are concerned the paper mills offer a quality product at a reasonable price. Locals, on the other hand, are far too dependent on these mills for their livelihood to oppose their practices. So, unless there is some intervention from the EPA (Environmental Protection Agency) or unless there is a major catastrophe, we will continue to have high levels of pollution. A good example of the "integrity" model at work is the difference between Dow Corning and General Electric. When GE pumped thousands of gallons of PCB into the Hudson River, their customers continued to buy products from GE and the company continued to prosper. Today fishing licenses in New York state come with a warning that it is not safe to eat fish caught in the rivers of the state. Millions of people along the Hudson River suffer those consequences, but, since they are not the major customers, they do not have a great deal of influence. Dow Corning, on the other hand is suffering the negative consequences of producing breast implants that leaked and were harmful to the health of the immediate consumers. So, the "integrity" model only seems to work in those cases where the customers have strong enough influence to change the company's actions.

Some organizations have chosen the route of self-regulation by following the CERES principles (Coalition for Environmentally Responsible Economies), but this is still voluntary. As long as the technocentric paradigm remains dominant (Gladwin, Kennelly & Krause, 1995), companies will be under pressure to treat their ecological environment in exploitative, profit maximizing ways. One answer may be to increase the degree of regulation. Porter and Van der Linde (1995) show that regulation need not necessarily be counter productive. They argue for "innovation-friendly regulation" that will regulate the practices of organizations, but at the same time stimulate more competitive innovation. History provided us with more than enough evidence that the free market system cannot be trusted to produce ecologically sound practices without some form of regulation. Ultimately, the failure of the current approach to providing ecological safeguards for our future should lead to new assumptions and a new paradigm. Despite a strong call for organizations to be ecologically sustainable (Gladwin, Kennelly & Krause, 1995; Merchant, 1989; Shrivastava, 1995; and several others), only a few organizations are showing leadership in finding new and creative ways to be socially responsible without imposed regulations.

It appears that those organizations that sincerely try to meet the expectations of multiple stakeholders run the risk of unforeseen consequences and then become easy targets for criticism. We all have a growing concern in livable planet and we expect our business organizations to contribute to that. Entrepeneurial organizations like Ben and Jerry, and The Body Shop may well address minor problems and it may be true that they often rush off with eccentric ideas. What is important, however, is that they are trying and in doing so, they are raising the consciousness of consumers at large. This is one approach to making social responsibility work. If more stakeholders were aware of the issues and consequences, they may be able to use their influence more effectively. Journalists like Entine have an ethical duty to raise this level of consciousness. It is unfortunate that he chooses to attack small companies that are trying to make a difference while leaving the major culprits to continue with their negative practices.

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