THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY COMMUNICATION ON CORPORATE REPUTATION

By

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ABSTRACT

Corporate Social Responsibility (CSR) is increasingly more important for firms in today's global marketplace and effective communication of CSR initiatives is vital towards enhancing a company's reputation and its sales revenues. With this consideration, the reputations of firms in the Aerospace and Defense (A & D) industry worldwide, in conjunction with their use of social media were examined to validate a link between the use of social media to communicate CSR activities and a firm's reputation ranking. The methodology involved a qualitative content analysis of the online and social media presence of the top 20 A & D companies from the Deloitte Toche Tohmatso Limited (DTTL) 2014 Global A& D financial performance study. Data from six indicators of CSR: environment, community relations, diversity, employee relations, human rights, and client comments, was examined. According to the findings, firms utilizing social media for CSR communication should expect improved reputation ratings. All top 20 A & D companies publish at least four CSR indicators on social media platforms. The conclusion reached is that, while CSR content via social media can lead to higher reputation ratings, companies need to strategically choose the ideal number of CSR indicators, to position themselves in the global marketplace.

Keywords: Corporate Social Responsibility, Social Media, Corporate Reputation, Aerospace & Social Media, Ethics and Social Media, Marketing & Advertising.

INTRODUCTION

In today's global economy, a company's success can, to a certain extent, be influenced by the CSR actions they communicate to their stakeholders. The most common definition of CSR comes from the European Commission (2001, p.6): 'CSR is a concept, whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis' (Broomhill, 2007; Coles, Fenclova, & Dinan, 2014; Delbard, 2011; Horn, Brem, Wolfl, Ivens, & Hen, 2014; Nielsen & Thomsen, 2007; Oberseder, Schlegelmilch, Murphy, & Gruber, 2014; Tomaselli & Melia, 2014).

CSR communication is often discussed through marketing perspectives, such as, positive word of mouth which subsequently leads to higher financial returns and increased reputation (Dawkins, 2005; Gomez & Chalmeta, 2013; Kang & Hustvedt, 2014; Kang, Lee, & Huh, 2010; Mack, Blose, & Pan, 2008). In terms of financial performance, previous studies conflicting shown positive, negative, or neutral correlations between CSR communication and profit (Lee & Park, 2009; Schultz, Castello, & Morsing, 2013; Sen, Bhattacharya, & Korschun, 2006). Many studies looked at both traditional and modern communication channels in conjunction with the frequency of CSR communication (Coles et al., 2014; Hou & Reber, 2011; Jeffres, Neuendorf, & Atkin, 2012; Nielsen & Thomsen, 2007; Ros-Diego & Castello-Martinez, 2011; Schultz, Castello, & Morsing, 2013; Servaes, Polk, Shi, Reilly, & Yakupitijage, 2012). This present study differs in, that it focuses on CSR communication via modern channels such as, Internet and social media sites. It attempts to find relationships between the content of CSR messages and a company's reputation.

Company reputation has been defined as 'assessments of particular attributes or collective knowledge about or recognition of a firm' (Einwiller, Carroll, & Korn, 2010, p. 301). According to previous research, reputation is based on many variables such as transparency (Ros-Diego & Castello-Martinez, 2011; Delbard, 2011; Ghiurco, 2014; Horn et al., 2014; McWilliams & Siegel, 2000; Nielsen & Thomsen, 2007; Mack et al., 2008; Tomaselli & Melia, 2014), credibility (Horn et al., 2014; Mack et al., 2008), honesty (Einwiller et al., 2010; Kaplan & Haenlein, 2010), and, most importantly, the 'fit' between a company actions and their words (Dawkins, 2005; Delbard, 2011; Fenclova & Coles, 2011; Hou & Reber, 2011; McWilliams & Siegel, 2000). To fully profit from their CSR activities and enhance their reputation, an integrated communication strategy is essential. Companies need to devise communication strategies which accurately reflect transparency, honesty, credibility, and the 'fit' between the company and their CSR actions. Today, social media plays an increasingly large role in this regard.

While social media offers the opportunity for interaction and dialogue on CSR topics, they are still under-used by many companies (Ros-Diego & Castello-Martinez, 2011). There are numerous contradictions and inhibitors in communicating CSR actions through social media. These include a lack of resources, lack of understanding, implementation constraints, and external constraints (Coles et al., 2014; Etter, Morsing, & Castello, 2011; Servaes et al., 2012; Sheldon & Park, 2010). In communicating CSR actions, companies want to profit, both financially and socially and social media is becoming an increasingly important tool. Nevertheless, it appears they are often reluctant to enter into or promote dialogues via social media which may be legally or socially unfavorable (Etter et al., 2011). Companies enjoy the benefits of social media through its immediacy and low cost marketing advantage, but many hesitate to invest in hiring staff to maintain the social media sites (Gomez & Chalmeta, 2013; Tomaselli & Melia, 2014). Finally, companies only tap into a small amount of the potential of social media, using it primarily to inform stakeholders of their CSR activities. This is not because they can't do more; rather, they simply don't know how to use these social media platforms effectively (Gomez & Chalmeta, 2013).

From the literature, various studies on CSR messages have been conducted on different industries (travel, tourism, cars, airlines, media, hospitality, telecommunications, etc.) and in different countries (Brouwer, Brander & Van Beukering, 2008, Casado-Diaz, et al., 2014; Champoux, Durgee & McGlynn, 2012; Coles et al., 2014; Fenclova & Coles, 2011; Kang et al., 2010; Lee & Park, 2009; Sheldon & Park, 2010). The present study focuses on global companies in the A & D industry who communicate CSR messages via social media networks. It examines how companies communicate CSR actions via social media, to effectively enhance a company's reputation. To examine CSR content which is communicated through social media networks, the following research questions were defined for the present study:

- Is there a link between the use of social media to deliver CSR messages and a company's reputation?
- What message content delivered via social media impacts corporate reputation the most?
- Is there a relationship between a firm's social media reputation and sales revenue?

These questions were analyzed through six CSR message indicators namely, environment, community relations, diversity, employee relations, human rights, and client comments.

1. Theoretical Framework

The three domain approach of Schwartz and Carroll (2003) was used as a basis for the theoretical framework of the present study. The original CSR pyramid of Carroll was based on a hierarchy of four domains: at the bottom of the pyramid was the economic domain; immediately above, the legal domain; then, the ethical domain; and, at the top of the pyramid, the philanthropic domain. While some studies continue to use this 4-domain pyramid to explain the CSR activities (Nielsen & Thomsen, 2007; Sheldon & Park, 2010; Hou & Reber, 2011), others use the 3-domain approach, namely, the economic, legal, and ethical domain (Kang et al, 2010; Servaes et al., 2012; Du, Bhattacharya, & Sen, 2010). Sheldon and Park (2010) go as far as to suggest that philanthropic is the least important of the four domains. This concurs with the original pyramid which, despite the appearance that philanthropic is the most important or highly valued domain as it is at the top of the pyramid, it is misleading. For Carroll, the philanthropic domain at the top of the pyramid suggested a desired behavior. When combined with economic motives, philanthropy becomes a strategy to further profits. Thus, the two domains at the bottom of the pyramid, economic and legal, are in fact the most fundamental and required elements of CSR motivations (Schwartz & Carroll, 2003).

While CSR activities can be purely economic, purely legal, or purely ethical, Schwartz and Carroll (2003) suggest that an overlap of the three domains is preferable, but difficult. In international business, with numerous stakeholders, cultures, and traditions, it is complicated to define which ethical and legal standards should be applied. It is equally difficult to combine the motivations, expectations, and needs of the various stakeholders and the management itself. There are major differences between managers and consumers concerning their assessment of the CSR activities (Oberseder, Schlegelmilch, Murphy, & Gruber, 2014, p. 103) as some 'managers also remain doubtful of engaging in CSR' (El-Garaihy, Mobarak, & Albahussain, 2014, p. 119), while consumers are embracing it wholeheartedly.

In addition to assessment, this conflict is also evident when selecting the communication channel to deliver CSR messages to the different stakeholders. Indeed, Kaplan and Haenlein (2010) have noted 'choosing the right medium for any given purpose depends on the target group to be reached and the message to be communicated' (p. 65). Thus, the content of the message, the medium, and the frequency may change based on the stakeholders. An inconsistent message (content) as well as a message not supported by CSR actions can damage a company's reputation (Dawkins, 2005; Delbard, 2011; Fenclova & Coles, 2011; Hou & Reber, 2011; McWilliams & Siegel, 2000). Successful companies have understood not only how to integrate their CSR message with other marketing actions, but also how to communicate their messages in a consistent manner using the appropriate channels. According to Kaplan and Haenlein (2010), 'one goal of communication is the resolution of ambiguity and reduction of uncertainty, and nothing is more confusing than contradicting messages coming across different channels' (p. 65). Companies need to communicate consistent messages on appropriate channels in a timely fashion; however, companies risk skepticism from stakeholders if the CSR communication is too intense or excessive (Dawkins, 2005; Etter & Plotkowiak, 2011; Lee & Park, 2009; Tomaselli & Melia, 2014). According to Du et al. (2010), 'a key challenge in designing effective CSR communication strategy is how to reduce stakeholder skepticism and to convey favorable corporate motives in a company's CSR activities' (p. 10).

2. Research Methods and Data Collection

The theoretical framework for the research was based on Schwartz and Carroll (2003), the three domain approach. The particular channels used (Eberle, Berens & Li, 2013), the content of the message (Eberle et al., 2013) and its effectiveness (Du et al., 2010; Sen et al., 2006; Van Noort et al., 2012) were analyzed. The A & D companies examined reported revenue in excess of US $500 million in 2013. The A & D organizations do not include government

Rank	Company	Revenues (US $ MILLIONS)
1	The Boeing Company	86,623
2	Airbus Group	78,692
3	Lockheed Martin	45,358
4	United Technologies Corporation	33.192
5	General Dynamics	31,218
6	BAE Systems PLC	26,380
7	Northrup Grumman	24,661
8	Rolls - Royce	24,255
9	Raytheon	23,706
10	GE Aviation	21,911
11	Finmeccanica S. p.A.	21,292
12	Safran	19.243
13	Thales	18,850
14	L-3 Communications	12,629
15	Textron	12,104
16	Honeywell Aerospace	11,980
17	Bombardier Aerospace	9,385
18	Precision Castparts	8,378
19	Huntington Ingalls Industries	5,820
20	Embraer	6,235

Source: DTTL (2014) Global A & D Sector Financial Study

Table 1. Global A & D Companies Ranked by 2013 Sales Revenue

controlled entities or private companies that do not release public filings (2014, DTTL). Table 1 shows the top 20 A & D companies included in the analysis.

The methodology for this research used NVivo 10 software to explore the questions that analyzed six CSR indicators namely, the environment, community relations, diversity, employee relations, human rights, and client comments (Eberle et al., 2013). The online reputations of 20 Global A & D Companies were examined as noted in Table 1.

NVivo 10 software allows an analysis of all forms of unstructured data from documents, web pages, social media conversations, audio, and video content. NVivo 10 is a qualitative analysis tool, that assists with coding of data from the multiple sources which provides robust findings.

Tracking a company's corporate reputation requires the analysis of several online communication channels. Social Mention is a social media analysis platform that generates content into a single stream of information. Social Mention monitors 100+ social media platforms: Twitter, Facebook, FriendFeed, YouTube, Digg, Google, and others. The tool measures Strength, Sentiment, Passion, and Reach of the corporation. Strength measures the number of discussions on your brands within the past 24 hours; Sentiment is measured by the ration of positive to negative mentions; Passion measures the likelihood of individuals discussing your brand; Reach measures the range of influence of your brand (Social Mention).

3. Results

In Table 2, corporate reputation, in terms of Strength, Sentiment, Passion, and Reach were analyzed using Social Mention online analysis tool. The results of the Global A & D companies reflect the strength of the brand of Finmeccanica at 55% and Embraer at 52% on social media. In terms of Sentiment, Raytheon scored highest at 25:1, while Passion at 72% and Northrup Grumman, topped the rankings. Finmeccania's brand was found to have the highest Reach at 60% through its social media presence.

In Table 3, the CSR indicators in the online platforms for the 20 Global A & D Companies were analyzed. The CSR

Company	Strength	Sentiment	Passion	Reach
The Boeing Company	49%	4:1	54%	27%
Airbus Group	38%	4:1	52%	24%
Lockheed Martin	42%	5:1	22%	38%
United Technologies Corp.	35%	8:1	34%	32%
General Dynamics	29%	9:1	48%	20%
BAE Systems PLC	30%	3:1	47%	22%
Northrup Grumman	50%	14:1	72%	20%
Rolls-Royce	20%	9:1	25%	26%
Raytheon	36%	25:1	46%	26%
GE Aviation	29%	9:1	48%	20%
Finmeccanica S. p.A.	55%	5:1	25%	60%
Safran	39%	3:1	16%	41%
Thales	32%	6:1	38%	26%
L-3 Communications	25%	2:1	47%	25%
Textron	13%	11:1	35%	18%
Honeywell Aerospace	30%	9:1	35%	36%
Bombardier Aerospace	28%	12:1	58%	18%
Precision Castparts	32%	7:1	47%	25%
Huntington Ingalls Industries	31%	10:1	52%	22%
Embraer	52%	13:1	29%	44%

Table 2. Companies Online Reputation

indicators were compared to the Social Mention online analysis in Table 1. The analysis does support the lower brand reputation of companies that discussed less CSR indicators such as, L-3 Communication. Companies like Finmeccanica S. p.A. discussed five of the six CSR indicators assisted in boosting their corporate reputation to 55%. However, the same boost in reputation is not supported with other companies that discussed all the six CSR indicators.

Conclusion

As seen in the results, all companies, except L-3 Communications, published CSR content on their online platforms addressing four to six of the CSR indicators. The most popular four were Environment, Community Relations, Diversity, and Employee Relations. The vast majority (15 out of 20 companies) reported direct client comments, while only seven (less than a third) published Human Rights content on their online platforms. Through Social Mention analysis, the results of the CSR content on the online platforms were grouped and ranked based on four areas of corporate reputation: strength, sentiment, passion, and reach.

Company Client Comments	Environment	Community Relations	Diversity	Employee Relations	Human Rights	Client Comments
The Boeing Co.	✔	✔	✔	✔		✔
Airbus Group	✔	✔	✔	✔		✔
Lockheed Martin	✔	✔	✔	✔	✔	✔
United Technologies	✔	✔	✔	✔		✔
General Dynamics	✔	✔	✔	✔		✔
BAE Systems PLC	✔	✔	✔	✔		✔
Northrup Grumman	✔	✔	✔	✔		✔
Rolls-Royce	✔	✔	✔	✔	✔	✔
Raytheon	✔	✔	✔	✔	✔	✔
GE Aviation	✔	✔	✔	✔	✔	✔
Finmeccanica S. p.A.	✔	✔	✔	✔	✔	
Safran	✔	✔	✔	✔	✔	✔
Thales	✔	✔	✔	✔	✔	✔
L-3 Communications	✔	✔	✔			
Textron	✔	✔	✔	✔		✔
Honeywell Aerospace	✔	✔		✔		✔
Bombardier Aerospace	✔	✔	✔	✔		✔
Precision Castparts	✔	✔	✔	✔		
Huntington Ingalls Ind.	✔	✔	✔	✔		
Embraer	✔	✔	✔	✔		

Table 3. CSR Indicators

For the top two companies in the terms of sales revenue, The Boeing Company and Airbus Group, five of the six CSR indicators were communicated via social media. The results of the Social Mention analysis showed that the top two companies scored within the top ten for the Social Mention indicators of strength, passion, and reach. It is interesting to note and perhaps suggestive of future research that, Boeing and Airbus operate in a global duopoly market structure.

For the last two companies on the list in terms of sales revenue, Huntington Ingalls Industries and Embraer, there were several surprises. Both addressed only four CSR indicators: Environment, Community Relations, Diversity, and Employee Relations. This seems to suggest that, the combination of these four indicators affect corporate reputation and Social Mention scores more than online communication of Human Rights and Client Comments. However, in isolation, there appears to be an inverse relationship between positive reputation based on the combination of the four indicators and sales revenue.

For companies who communicated all the six CSR indicators via their online platforms, their results are less conclusive when analyzing their Social Mention scores. The companies which communicated all the six CSR indicators also reported some of the lowest scores of the group. Thus, using all six CSR indicators did not seem to greatly improve the Social Mention scores, for these companies not their sales revenue.

In response to the first research question, about the link between the use of social media to deliver CSR messages and company reputation, the results suggest that four CSR indicators may suffice; using all six CSR indicators does not seem to improve the overall company reputation results.

To respond to the second research question: the four CSR message indicators which seem to have the most impact on reputation are Environment, Community Relations, Diversity, and Employee Relations. Further research would need to be conducted to test these indicators individually or in groups to see which one (s) impact the corporate reputation most.

Finally, to respond to the third research question: If corporate reputation is linked to the company revenues, it would have been expected that, the top companies would score higher in the Social Mention rankings. This was not the case. While the top companies in sales revenue scored well in some of the Social Mention rankings, they did not have the highest scores throughout. This may suggest that the number of discussions about the brand (strength) and the range of influence of the brand (reach) are the most important Social Mention measures to consider in the future.

However, the results do indicate that using social media can be an effective way to continue to influence customers and encourage discussion about the brand. Nevertheless, a positive corporate reputation can be enhanced via a social media campaign. This is a long-term investment. Companies can use the results of this research to position themselves online through the communication of their CSR activities. They may want to consider developing a social media strategy to communicate their CSR activities and, inevitably, improve their Social Mention rankings.

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organized body of people in exchange for activities that were beneficial to the public, such as the construction of roads, railroads, and waterways. The chartered entities were called corporations. Shareholders of corporations were allowed to make a profit if they acted in the interest of the public, and states could revoke the charters of corporations if they acted contrary to the public's interest.

Corporate decisions were made by shareholders of corporations consistent with their charters. Citizens governed corporations by enumerating operating conditions in charters as well as in state constitutions and state laws. Some of these conditions, according to Our Hidden History of Corporations in the United States, were as follows (Reclaim Democracy, 2016):

- Corporate charters were granted for a limited time and could be revoked promptly, if the corporations violated laws.
- Corporations could engage only in activities necessary to fulfill their chartered purpose.
- Corporations could own neither stock in other corporations nor any property, that was not essential to fulfilling their chartered purpose.
- Corporations could be (and often were) terminated if they exceeded their authority or caused public harm.
- Owners and managers were responsible for criminal acts, that they committed on the job.
- Corporations could neither make any political or charitable contributions nor spend money to influence law-making (Reclaim Democracy, 2016).

In the 1819 U.S. Supreme Court ruling in Trustees of Dartmouth College v. Woodward, the Supreme Court states:

A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, expressly, or as incidental to its very existence (Duhaime, 2016).

In the 1855 case of Dodge v. Woolsey, the Supreme Court affirmed the states' power over that of "artificial bodies." The court held that a shareholder in a corporation has a remedy in chancery against the directors, to prevent them from committing acts, which would amount to a violation of the charter or to prevent any misapplication of their capital or profits, if the acts amount to a breach of trust or duty. The charter was recognized as the contractual relationship between a state and the corporation (https://supreme.justia.com/cases/federal/us/59/331/).

However, this relationship was changed by a statement made by Justice Waite in the 1886 Supreme Court case of Santa Clara County v. Southern Pacific Railroad. The statement has been widely interpreted by corporate lawyers as recognition of a corporation as a "natural person," thus giving birth to the doctrine of the "corporate person." It suggests that corporations were intended to fully enjoy the legal status and protections created for human beings. The statement is as follows:

The court does not wish to hear argument on the question, whether the provision in the Fourteenth Amendment to the Constitution which forbids a State to deny to any person within its jurisdiction equal protection of the laws, applies to these corporations. We are all of the opinion that it does (Korten, 2000: 185-6).

Public corporations were created in the 1800s; individuals who bought shares in a corporation became one of its owners, and the owners in turn hire people to manage their corporations on their behalf. Therefore, the doctrine of corporate personhood raises an interesting contradiction in management agency theory. The corporation is owned by its shareholders and is therefore their property. Is it also a person that enjoys the rights of personhood, and do those rights take precedence over the ownership rights of its shareholders? While this question has been debated, it has not been answered. However, it is clear that the doctrine of corporate personhood has elevated the rights of corporations to the rights of humans under the law.

By the 1990's, public corporations had assumed their own identity. It was understood that there was a separation of ownership and control (Stout, 2012). This has become the modus operandi of corporate management. Although shareholders own their corporations, they do not control them. Thousands of individuals could buy small fractions of corporate shares without becoming involved in or aware of the corporation's operations and without having the ability to influence what the corporation does. The 2010 Supreme Court case Citizens United v. Federal Election Commission solidified the power of corporations, by eliminating some restrictions on how corporations can spend money in elections (https://www.law.cornell.edu/supct/html/08-205.ZS.html). The 2011 SEC ruling on shareholders' rights to influence runaway executive compensation gave timid support to shareholders' demands (https://www.sec.gov/rules/final/2011/33-9178-secg.htm).

The Citizens United decision has many ramifications, since it has the effect of granting Constitutional rights to corporations, i.e., treating corporations as people. Corporations and unions were essentially given the power, to spend as much as they want to get people to vote in favor of or against someone running for political office. Greenfield (2015) discusses the issue of fighting the view that corporations are not people. This is a big issue with the political left, since there is a concern that many corporations are not acting in a socially responsible manner.

The efforts of anti-personhood activists are not only in tension with stakeholder theory on the conceptual level. In the political arena too, a tension exists because the energy for reform is a finite resource. I believe that, at this moment, there is an opening to question, the very framework of how we view corporations and their social obligations. But we won't get anywhere on that front, if the progressive left wastes its energy fighting for a constitutional amendment, that is unlikely to succeed and would do more harm than good if it did. To cure the ills of Citizens United, we should stop fighting corporate personhood. Instead, let's fight to make corporations more like people (Greenfield, 2015).

Greenfield (2015) feels that, if corporations are treated by law as people, then we have the right to ask them to behave like decent people. Clearly, as noted by the examples above, corporations are not required by law to maximize shareholders' value. Corporations, however, have nonetheless advanced this mantra to mask their often misguided behavior. The shareholder primacy thinking became prominent, partly due to a published work by Berle & Means titled "The Modern Corporation and Private Property" (Berle & Means, 1932). They argued that, the powers granted to a corporation or to its management should be used exclusively for the benefit of shareholders. The managerial strategy to pursue higher stock prices at the expense of other options is consistent with this perspective.

In practice, corporations have not lived up to their professed stewardship of shareholders' value. Progressively, the notion of "shareholder value" became synonymous with a higher share price. While this is a cynical and perverted view of shareholders' interest, it serves the narrow interest of Boards of Directors and executives of corporations. The fact cannot be ignored that share price is a major factor in determining executive compensation. The results of this research show that, the doctrine of "shareholder primacy" is a mask for corporate values and not a mandate to maximize shareholders' wealth. Investors differ different in size, scope, politics, influence, and interest. Therefore, a corporation's focus on share price alone will inevitably alienate shareholders who want their corporation to make better products, provide for the welfare of employees, protect consumers, and contribute to the community and the country.

2. Perspectives on the Maximizing Shareholder Value Doctrine

The myth that shareholders are placed before everyone else is not unrelated to the microeconomics concept that maximization of profits is the foremost goal of the firm. Nobel Laureate and renowned economist Milton Friedman felt strongly that top management must be solely concerned with increasing shareholder wealth, not social welfare. In 1970, Friedman attacked the idea of businesses having social responsibility in a well-known New York Times Magazine article. The title of the article sums up his personal belief that "The Social Responsibility of Business is to Increase its Profits." According to Friedman:

There is one and only one social responsibility of business–to use it resources and engage in activities designed to increase its profits so long, as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud (Friedman, 1970).

In a 2009 interview with Phil Donahue, Friedman said:

Well, first of all, tell me: Is there some society you know that doesn't run on greed? You think Russia doesn't run on greed? You think China doesn't run on greed? What is greed? Of course, none of us are greedy, it's only the other fellow who's greedy. The world runs on individuals pursuing their separate interests. The greatest achievements of civilization have not come from the government bureaus. Einstein didn't construct his theory under order from a bureaucrat. Henry Ford didn't revolutionize the automobile industry that way. In the only cases, in which the masses have escaped from the kind of grinding poverty you're talking about, the only cases in recorded history are where they have had capitalism and largely free trade. If you want to know where the masses are worse off, worst off, it's exactly in the kinds of societies that depart from that. So that, the record of history is absolutely crystal clear, that there is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by the free-enterprise system (Mediaspin, 2012).

While Friedman makes his position quite clear, his comment ignores the fact that poverty in many developing countries is directly linked to the unethical behavior of multinational corporations, that have expropriated the natural resources of the countries, overthrown their governments, and bribed their leaders in pursuit of profits.

A significant number of researchers are finding that courses in business ethics are not making students behave in a more ethical manner (Etzioni 2002; Friedman, Lynch, & Herskovitz, 2013). This result may have much to do with the fact that, students are taught to appreciate the importance of maximization (of profits, utility, and shareholder value), but are given little understanding of the importance of ethics, customer satisfaction, and social responsibility in building a strong, prosperous, and sustainable company (Korn, 2013; Gardiner, 2010; Holland, 2009; Mangan, 2006). It is not surprising that one study found that, 56% more MBA students cheated on a regular basis in college (trying to maximize grades) compared to the students majoring in other areas (Holland, 2009). Another study found that, the least honest students are those majoring in economics and business, with only a 23% rate of honesty vs. slightly above 50% for humanities students (López-Pérez R., & Spiegelman, E., 2012).

Friedman's (1970) view provides the theoretical basis for the opinion embraced by Jensen & Meckling (1976). They unequivocally state that, the goal of the firm should be MSV. They advanced the idea that, the way to achieve this was to offer CEOs and other key corporate leaders' financial incentives such as stock options and shares of stock to "align their interest with maximizing the stock price" (Hayat, 2014; Smith, 2014; Denning, 2013).

It is important to recognize that MSV is an incentive that can boomerang and threaten a corporation's viability. The latest research conducted by behavioral economists has found that, incentives may not always work as expected. Ariely (2008: 67-88) posits that, in general, people are governed by two sets of rules: market norms and social norms. In the world governed by market norms, one gets what one pays for. People expect money in the form of wages, rents, prices, interest, and so on. In the world governed by social norms, people do each other favors without expecting financial rewards. Thus, providing CEOs with stock options to encourage a rise in stock prices may not be effective as offering an incentive, as the former places emphasis on market norms rather than social norms, which do not strengthen the company itself. CEOs in this context may focus their energies on how to "game the system" using techniques such as, accounting gimmicks or even fraud to increase the short-term price of the stock. Yau & Brutoco (2012) assert:

More shareholder value has been destroyed in the pursuit of profits in the name of shareholder value maximization *than for any other reason. In fact, shareholder maximization, not only failed to occur in the run-up to the Great Recession from 2008 to 2009, but shareholder value was destroyed on a massive scale, while societal costs were created that will be borne by the next several generations.*

It is therefore of great importance for students as well as boards, to understand the dangers of myopically following an MSV approach. The following section highlights some of these dangers.

3. Implementation and Undesirable Results

This paper identifies nine undesirable results of the narrow implementation of the MSV doctrine.

3.1 Encouraging Accounting Sleight of Hand

Corporations that focus on shareholder value, which is primarily indicated by earnings per share, are apt to use accounting gimmicks to window-dress their earnings. These corporations are also likely to report fictitious balance sheets, overstating their assets and understating their liabilities. It is unequivocally clear that, accounting and auditing irregularities, caused or contributed to several of the recent major corporate bankruptcies in the United States – Lehman Brothers, Washington Mutual (WaMU), Worldcom, and Enron.

A firm that accepts an MSV objective is likely to be more aggressive in their revenue and cost recognition, which may lead them to inflate revenue and understate costs. Many companies have used "accounting sleight of hand" to help CEOs put the best spin on earnings figures and appease investors (Morgenson, 2015). The plethora of corporate scandals that have occurred and the related loss of share value, including the dissolution of some companies, are indicative of corporate values and inconsistent with considerations of shareholders' value. When we examine some of the worst accounting scandals in the United States, we can see that most were driven by a desire to increase stock prices and have resulted in significant losses in shareholders' wealth.

The following are just a representative sample of abuses. Waste Management reported $1.7 billion in faked earnings, leading to huge losses in shareholders' wealth. Enron Corporation shareholders lost $74 billion because of earnings and stock price manipulation. WorldCom inflated their assets by $11 billion, resulting in $180 billion in losses for shareholders. Health South inflated their earnings by $1.4 billion, resulting in a total loss of shareholders' investments. Freddie Mac misstated earnings by $5 billion, with shareholders paying the penalties. American Insurance Group paid over $2.6 billion in penalties and restitution for stock price manipulation. Lehman Brothers hid $50 billion in loans disguised as sales, leading to the collapse of the firm and total loss of shareholders' investments (http://www.accounting-degree.org/scandals/).

Many companies issue two kinds of financial reports. One kind of report is based on Generally Accepted Accounting Principles (GAAP), and the numbers reflect the results of Generally Accepted Auditing Standards (GAAS). The other kind of report is based on pro-forma or non-GAAP numbers. Non-GAAP information includes opinions of experts such as attorneys, economists, statisticians, and others in specialized fields such as technology. These opinions are intended to fill in the knowledge that is absent in the accounting profession. This type of report often contains financial results that may overstate earnings or exclude various key costs, such as stock compensation costs and/or costs associated with mergers and acquisitions. As has been demonstrated in many situations, the non-GAAP numbers can have a huge impact on the price of a stock. For example, recently, Valeant – a major pharmaceutical company, that has been in the news for its tactics in acquiring companies and then raising the price of drugs to obscene levels – found that its market value dropped by $60 billion. The stock valuation was based on non-GAAP numbers (which factored out the cost of the acquisitions) and commanded an inflated premium that made no sense (Morgenson, 2015). One would think that, companies should be very cautious when using the non-GAAP numbers; in reality, however, 334 of the 500 Standard & Poor companies used them. The difference in profits between the two sets of numbers (GAAP and non-GAAP) is a staggering $132 billion (Morgenson, 2015).

The accounting profession is beginning to understand how important ethics are to accounting. Tamayo de-Guzman (2013) asserts:

Today's professional accountants are less involved in traditional accounting functions and are more concerned with leadership and management. Today's accountants are leaders in their field, providing key support to senior management and are directly involved in many important decisions.

The position of the COSO (Committee of Sponsoring Organizations) 2013 Internal Control – Integrated Framework (2013) makes it clear that, the role of the accounting and auditing profession is not, what it used to be. Today, accountants and auditors have an obligation to ensure an "ethical tone at the top." Moreover, they have a responsibility to all stakeholders, including customers, employees, and society, and not just to management, investors, and creditors. In particular, they have an obligation to ensure that a company does not engage in risky behavior that jeopardizes the long-term health of the organization. In the knowledge economy, accountants have to be able to see the big picture and provide guidance that will enable an organization to thrive. The Institute of Internal Auditors (2012) states the following, regarding the crucial need for auditors to create a corporate culture where ethical decisions are made:

What rationalization does when a company make to justify a corporate culture where ethics are ignored? In recent years, greed, fraud, and a lack of ethical conduct have led to the collapse of many organizations. A variety of internal and external pressures can lead companies down the wrong path. And once the first misstep is taken, it's a slippery slope to hurting stakeholders, the community, and your reputation.

3.2 Executive Compensation vs. Capital Investments

Although Boards of Directors set executive compensation, executives have significant influence over their compensation through their management decisions. Among these areas of influence are stock buybacks and stock options. When a company buys back their own stock, who benefits? In an article that appeared in Harvard Business Review, William Lazonick notes that, between 2003 and 2012, 449 of the 500 S&P companies spent $2.4 trillion to buy back their stock (Nocera, 2014). The purpose of most buybacks is to enrich executives who hold many shares and stock options. The problem with buybacks is that, this money is not being used to strengthen the future of the company by making capital investments. It is also a myopic strategy, that results in fewer jobs and weakens the entire economy of a country. Capital investment, on the other hand, leads to more employment, more jobs, and greater profits for all firms. Everyone gains from a growing and more prosperous economy.

There are other financial gimmicks used by corporations that may not be good for the long-term strength of the firm. Thousands of companies have backdated stock options as a way to inflate executive pay (Fried, 2008). Fried (2008) concludes that "Secret backdating thus provides further support for the view that managerial power has played an important role in shaping executive compensation arrangements."

3.3 Profits Obsession vs. Helping Humanity

The Ebola virus recently threatened the entire world. Ten years ago, a promising vaccine with the potential to prevent the disease was ignored by the pharmaceutical industry, because the vaccine would primarily benefit poor African countries with a limited ability to pay for it. Had the pharmaceutical companies invested in its development, it would have probably saved thousands of lives (Grady, 2014). If a company is concerned solely about MSV, it makes no sense to develop drugs that have the potential to save the lives of millions of poor people who do not have the means to pay for them. On the other hand, if a firm takes a long-term perspective, it can recognize that diseases can easily spread from poor to rich countries. Moreover, it could be in the interest of a firm to sacrifice some profits in order to benefit humanity. Porter & Kramer (2006) demonstrate how pursuing a policy based on corporate social responsibility can actually make sense for a firm and provide it with a competitive advantage.

Martin Shkreli, CEO of Turing Pharmaceuticals, caused a huge stir when he raised the price of Daraprim from $13.50 to $750 per tablet (Pollack & Tavernise, 2015). One might argue that he did what was necessary, in order to maximize shareholder value, but the decision backfired under public pressure.

While the global marketplace, with its sophisticated global supply chains, is a marvel for the earnings of multinational corporations, the story is quite different at the beginning of the chains. "In rural sheds and urban sweatshops, subcontractors compete to cut costs and gain business from contractors who supply the goods that fill the containers" (Cooper, 2014: 29). According to Cooper (2014), the corporations that own these brands have limited obligation to the safety and health of their workers. In September 2012, a textile fire in Pakistan killed 300 workers (Rehman, Walsh, & Masood, 2012). Similarly, in November 2012, a fire killed at least 112 workers in the Tazreen Fashion factory in Bangladesh; five months later, the Rana Plaza building in Bangladesh collapsed, causing the deaths of 1,100 workers (Harris, 2013). According to Cooper (2014: 29): "Twenty-eight global brands had garments in production in Rana Plaza at the time of collapse."

As early as 1981, the Business Roundtable recognized that corporations have a responsibility to all stakeholders, not just stockholders (Yang, 2013):

Corporations have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy. The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. And the well-being of society depends upon profitable and responsible business enterprises (Yang, 2013).

3.4 Cost Containment vs. Value of Human Life

In 1978, Ford recalled the Pinto, a very popular compact, after several accidents and injuries. There was a design flaw in the fuel tank that caused it to rupture, leak fuel, and catch fire in the event of a rear-end collision. It took months of legal battles with the government before Ford finally agreed to a recall. An article in Mother Jones magazine entitled "Pinto Madness" brought to light, the issue of using cost-benefit analysis to determine whether or not to make a product safer by spending extra money on a different design. Ford could have spent $11 more per car to make the fuel tanks safer and ultimately save 180 lives. However, they considered it to be less costly to pay off any lawsuits that resulted from fuel tank fires.

The company defended itself on the grounds that it used the accepted risk/benefit analysis to determine if the monetary costs of making the change were greater than the societal benefit. Based on the numbers Ford used, the cost would have been $137 million versus the $49.5 million price tag put on the deaths, injuries, and car damages, and thus Ford felt justified not implementing the design change (Leggett, 1999).

If one uses an MSV approach, potential loss of life is acceptable. On the other hand, a firm that believes that the death of even one customer is too much, will opt for the costlier recall of a product regardless of the impact on shareholder value. The defective ignition switch manufactured by General Motors had a tendency to accidentally shut off if jostled, causing the car engine to turn off, thus deactivating the air bags and, in some situations (e.g., at high speeds on a highway), causing fatal accidents. Apparently, the management decided to keep the product defect a secret. The GM secretly changed to a safer ignition switch, but did not recall the cars with the defective ignition switch. There is currently a class-action suit against GM alleging that the company has a history of concealing defects (Stout, 2014). It is now known that more than 100 people died because of the defective switch coverup. There are also allegations that the Takata Company concealed the results of airbag tests that were secretly conducted in 2004. Apparently, Takata airbag inflators can explode after an accident and harm vehicle occupants by shooting out metal and plastic shrapnel. About 34 million vehicles have been recalled – the largest automotive recall in history (Atiyeh & Blackwell, 2015).

In another example, the CEO of the Peanut Corp. of

America was sentenced to 28 years in prison for selling peanut butter tainted with salmonella. The 2008-2009 salmonella outbreak caused by the peanut butter resulted in the death of 9 people and the illness of 714 others. Apparently, the problems were the result of known unsanitary conditions at the food plant as well as a leaky roof at the food plant (Addady, 2015). Finally, there is now evidence that, at least 30 executives at Volkswagen collaborated on an illegal software designed to cheat on emission tests for diesel engines. Approximately, 11 million cars were involved in this deception. Some believe that these pollutants will result in the early deaths of dozens of people (Zhang, 2015).

The strategy of hiding defects and secretly settling with customers (or their estates) harmed by a product may work in the short term, but can result in serious financial and image problems in the long run. Many consumer advocates now believe that the unprecedented verdict in the Peanut Corp. of America case, may send a very strong message to executives that, they will be held accountable for injuries caused by their products.

3.5 Maximizing Shareholder Value vs. Maximizing Customer Satisfaction

Jack Welch, former CEO of General Electric Corporation (GE), asserts that, the corporate objective of MSV is immoral, the "dumbest idea in the world," and a good way to destroy an organization in the long run (Denning, 2011). Welch believes that a firm's objective should be to make a high quality, constantly improving product to maximize customer satisfaction. Evidence shows that the goal of MSV does not have this effect in the long run. Denning (2012) describes its ruinous economic effects and how it is actually counter-productive to its stated purpose:

Thus a focus on maximizing shareholder value leads the firm to do things that detract from maximizing long-term shareholder value, such as favoring cost-cutting over innovation, that adds value to customers and builds the brand, pursuing "bad profits" that destroy brand equity, and excessive C-suite compensation. The net result can be seen in the disastrously declining ROA [Return on Assets] and ROIC [Return on Investment Capital] over the last four decades in large US firms as documented by Deloitte's Shift Index. Shareholder value has many other drawbacks. It encourages hierarchical bureaucracy. It destroys employee morale: only one in five workers is fully engaged in his or her work. The sole focus on profit is anti-social in nature and has given business a bad reputation. It cripples job growth: according to a study by the Kauffman Foundation, large firms have created zero net new jobs over recent decades (Denning, 2012).

Nocera (2012) believes that the financial crisis of 2008 that almost destroyed the world economy resulted from the goal of MSV:

Too many chief executives succumb to the pressure to boost short-term earnings at the expense of long-term value creation. After all, their compensation depends on it. In the lead-up to the financial crisis — to take just one extreme example — financial institutions took on far too much risk in search of easy profits, that would lead to a higher stock price (Nocera, 2012).

According to a Portfolio Magazine ranking, the worst American CEOs of all time were Dick Fuld, former CEO of Lehman Brothers, and Angelo Mozilo, former CEO of Countrywide Financial Corporation, in that order. Fuld presided over the largest bankruptcy in history, and Mozilo was a major contributor to the 2008 collapse of the mortgage industry (http://www.cnbc.com/id/30502091). Portfolio Magazine describes Mozilo as follows:

Meet the man who made subprime a household word. Once a symbol of self-made accomplishment—a butcher's son, who built the largest mortgage lender in the country—Mozilo, became blinded by success and began going after the riskiest and most unsavory of borrowers to boost his company's market share. In doing so, he legitimized a sector that would ultimately bring down the economy.

Mozilo did "maximize shareholder value" in the short term and became quite wealthy. However, the company eventually failed under the weight of his greed. Meanwhile, he earned more than half a billion dollars in the process (Anderson, 2014).

3.6 Focusing on Short-Term Increases in Stock Price vs. Long-Term Thinking

The concept of MSV is a counterproductive business objective that causes CEOs to focus on short-term earnings. Stout (2012) asserts:

Shareholder value thinking causes corporate managers to focus myopically on short-term earnings, reports at the expense of long-term performance; discourages investment and innovation; harms employees, customers, and communities; and causes companies to indulge in reckless, sociopathic, and socially irresponsible behaviors. It threatens the welfare of consumers, employees, communities, and investors alike (Stout, 2012:vi.).

There is a growing movement to put an end to the objective of MSV (Wartzman, 2013) because, it distorts the way executives should think, compelling them to sacrifice long-term success for short-term increases in a stock price. It is frightening to consider that "Fifty five percent of chief financial officers said that they would pass up an attractive capital investment project today, if the investment led them to miss their quarterly earnings target, even by a little bit" (Wartzman, 2013).

Wartzman (2013) offers two compelling arguments why enthusiasm for the objective of MSV may be diminishing. First, an increasing number of graduate students are passionate about changing the world and not just about getting rich. However, the curricula of too many business and law schools may undermine their personal values. As per Cornell law professor Lynn Stoutcontends, by the time these students hit the job market, they have come to falsely believe that the primary purpose of the corporation is to "maximize shareholder value."(Wartzman, 2013).

Second, an increasing number of executives resent the pressure from Wall Street and elsewhere to focus on short-term financial metrics. Most executives go into business because they are eager to offer a product or service that provides customers—and, by extension, society as a whole—something of value (Wartzman, 2013).

Almost a decade ago, Rappaport (2006) felt that, MSV could be improved as a goal if a firm followed 10 shareholder value principles. The key principle was not to manage earnings, since doing so causes companies to avoid projects that provide long-term value, but might adversely affect short-term earnings. Rappaport cites a 2005 study that found:

A startling 80% of respondents said they would decrease value-creating spending on research and development, advertising, maintenance, and hiring in order to meet earning benchmarks. More than half the executives would delay a new project even if it entailed sacrificing value (Rappaport, 2006).

Therefore, stock options may not be successful devices for aligning the interests of shareholders with those of executives for a very simple reason: senior executives do not have to hold them for long periods. They may choose to exercise their options. Also, a CEO's tenure with a company is fairly short, so it is quite logical for executives to focus on strategies that will benefit the stock in the short-run. There is little value in helping a company succeed in the long run, when the executive will have left the firm (Rappaport, 2006).

3.7 Adverse Impact on Corporations and the Economy

Corporations have engaged in tax avoidance tactics that are not in the interest of the country or the shareholders in the long term. These tactics create phantom relationships with smaller companies in foreign countries, with lower corporate tax rates or facilitate manipulation of the deduction of certain expenses.

One tactic known as "tax inversions" occurs, when a US Corporation merges with a company in a foreign country with lower corporate tax rates and "relocates" its corporate office to the foreign country to avoid paying high American corporate tax rate. The effect is that profits made in the United States are reported in, and therefore subject to the corporate tax rate of the foreign country. In fact, as much as $2 trillion in earnings of American companies has not been repatriated to the United States, in order to avoid paying the taxes (Ayres, 2014). Recently, Pfizer announced a $160 billion merger with Allergan. This deal is seen as a way for Pfizer to reduce its tax bill. Allergan is based in Ireland which has a lower tax rate than the United States (Crowe, 2015). Companies as large as

Coca-Cola and CF Industries are currently pursuing this strategy, while Apple Corporation and Google, Inc. have already completed the process. The Treasury Department is trying to make it more difficult for American companies to use inversion to reduce their tax bills (Sahadi, 2014). The new rule established by the Treasury Department to curtail companies' ability to avoid U.S. tax rates by relocating requires the companies to have "substantial business activities" in the foreign country.

Another prevalent tax avoidance tactic is known as "earnings stripping." Under this tactic, a corporation creates tax deductions in the United States on income it earns in the low tax countries, by making intercompany loans. The interest is deductible in the United States company's operations, and the income is taxed at the lower rate in the foreign company's operations.

American companies that engage in these tactics benefit from an educated workforce, a reliable military force, an effective legal system, local police and fire protection, and a strong political system without paying their required taxes. In so doing, they rob the government of funds that could be used not only to provide services to the public, but also to support scientific research that could benefit corporations and shareholders. In short, these companies not only shift the burden of taxation to others, but also deprive the country of funds that could be used to support economic development.

The Great Recession of 2008 demonstrates the devastating impact that the blind pursuit of MSV can have on the economy. Bank executives' engagement in reckless and hazardous financial transactions such as credit default swaps and derivatives brought the economy to the brink of collapse. Nearly $13 trillion in household wealth was lost. Over nine million workers lost their jobs. Millions of Americans lost their homes in foreclosure. Millions of retirees lost a substantial portion of their savings. The financial crisis reduced the ability of families to buy homes and the ability of entrepreneurs to start and grow small businesses.

3.8 Adverse Impact on the Environment

Corporations that are only concerned about MSV may feel justified in showing a little concern for the environment. Of course, excessive concern for the environment and global warming might increase costs and thus reduce the stock prices; however, there are definitely cases where green marketing can be profitable for a firm, at least in the long run. Indeed, Porter and Kramer (2006) posit that social responsibility goals do not always have to be in tension with the profit-making goals of an organization. There are some social causes that can benefit a firm by increasing its competitiveness in the marketplace and simultaneously help society.

There are certain situations in which, a policy of zero waste and zero pollution may be good for the society, but costly for the firm. A firm that focuses on MSV may feel that it is too costly to attempt to achieve zero waste and zero pollution and may thus focus instead on maximizing profits. Howard (1997) uses the expression "tragedy of maximization" to describe the devastation that the philosophy of maximizing self-interest has wrought. According to Pitelis (2002), a philosophy that seeks only to maximize shareholder value and is indifferent to long-term outcomes can lead society towards monopoly, inequitable distribution of income, unemployment, and environmental disaster.

3.9 Hiring the Wrong Leaders

Today's effective corporate leader understands that the rules in a knowledge-based economy are quite different than they were in the past (Friedman & Lewis, 2014). Leaders that lack the ability to tap into and encourage creativity are of little value to the organization of today. Certainly, a firm headed by a leader whose only concern is share price, is unlikely to succeed in the knowledge economy (Andersen, 2013). Andersen concludes:

If a leader needs to build a sustainably growing and profitable enterprise in an industry that requires a high degree of innovation or creativity and/or must provide excellent customer service — then the money-only approach will not work (Andersen, 2013).

Leaders must cultivate the employees' abilities and creativity at every level of the organization. The kind of employees a firm needs are those who are engaged in their work and find it meaningful. Engaged employees are energetic, creative, enthusiastic, and motivated; they will do everything possible to make sure their organizations succeed (Gross & Holland, 2011). Researchers have found that, employees want a meaningful life, a meaningful job, a work environment filled with compassion and love, and a sense of connection to a higher purpose (Friedman & Friedman, 2014; Karakas, 2010; McGhee & Grant, 2008; Rhodes, 2006; Fry, 2003). Barker (2014) asserts that, "having meaning in your life increases life satisfaction twice as much as wealth." Employees who are engaged in work that makes a difference (i.e., work that benefits society) demonstrate much higher levels of job satisfaction than those who are not engaged in a meaningful work (Barker, 2014). Researchers have found that "giving employees a sense of purpose has benefits beyond retention...when people are able to connect their jobs to something meaningful, their productivity increases as much as five times" (Goudreau, 2015). When employees are interested in what they do, they are less likely to be careless, thereby avoiding accidents, and are more likely to be motivated to work for the success of their company (Crim & Seijts, 2006).

Firms headed by executives who are only concerned with MSV and undervalue meaningful work and the welfare of society will have difficulty retaining engaged and creative workers. The senior vice president of Google stated that, a key reason, people stay at their jobs has to do with them, feeling that their work is meaningful (Goudreau, 2015). Even customers prefer dealing with a firm that is socially responsible and cares about people. A 2013 Cone Communications study dealing with corporate social responsibility found that, more than 90% of consumers in ten countries would boycott companies that behaved in a socially irresponsible manner. More than 50% of the consumers claimed to have avoided buying products from companies because of what they felt was "bad corporate behavior"(O'Donnell, 2013). "Doing good and giving back" are ways to make a company stand out and thrive; not finding creative ways to MSV.

Conclusion

There is no question that capitalism can be a powerful tool for good; however, it can also cause great harm. Hazelton (2005) stated that, the corporation is "unquestionably one of the most important inventions of humanity." In fact, both Marx and Smith agreed that corporations have produced an incredible amount of wealth for people (Hazelton, 2005). Indeed, 24 out of the 50 largest economic entities in the world are corporations (Hazelton, 2005). Unequivocally, capitalism and free enterprise have done more to eradicate poverty than any other economic system. The percentage of people in the world living on a dollar a day dropped by an astounding 80% between 1970 and 2006 (Pinkovsky & Sala-i-Martin, 2010; Brooks, 2014). Thus, capitalism with a moral foundation can be a potent tool for eliminating poverty. On the other hand, capitalism without morality and government regulation can cause a great deal of harm. For example, King Leopold II of Belgium was responsible for the deaths of 10 million innocent people in the Congo (White, 2012: 325-333), and the only motive for this horrible genocide was greed (Friedman, Edris & Friedman, 2015).

Ayres (2014) declares:

For decades now, the social contract that existed between American workers and businesses has been unraveling at an alarming rate. There are many exceptions of excellent businesses that treat their workers fairly and pay their fair share of taxes but every year, the rate of CEO pay and perks increases and the pay and benefits of the workers stays flat. The federal minimum wage stays the same, as consumer prices escalate. Companies that fired workers during the Great Recession and forced their remaining workforce to work longer hours for the same or less pay have found, they can do quite well with a smaller workforce even as their business rebounds by hiring part time workers or consultants, at a fraction of the cost (Ayres, 2014).

Guthrie (2011) posits that government provides corporations, as limited liability entities, with great opportunities to take risks and make profits. Without the legal protection afforded by limited liability, no one would be willing to risk their assets on any risky business venture. Thus, it is not unreasonable for a society to insist that corporations act in a socially responsible manner. Guthrie argues that, the construct of corporate social responsibility came from the corporations themselves, as an alternative to being constrained by many regulations. Society, therefore, has a right to insist that a corporation must demonstrate a greater responsibility than simply MSV.

Lazonick (2014) accuses MSV of creating a culture in which accounting fraud, grossly excessive CEO compensation through stock options, crony capitalism, and little concern for the welfare of employees represent the normal way of conducting business. The principle of MSV clearly has many ramifications and can harm society as well as any firm that accepts it. In many cases, MSV hurts shareholders and employees while benefiting only key executives, who take huge risks to maximize their compensation at the expense of the growth or even the survival of the firm. Finally, the psychological effect on employees of working for a firm with MSV rather than helping society as its central objective should not be ignored. People want to feel that they are making a difference and not simply tools to make money for the shareholders. It is time for corporations and business schools to expand the scope of corporate responsibility beyond the narrow focus on maximizing value (i.e., generating higher share prices). Sanghoee (2014) is correct in his assertion that:

CEOs tasked with running a company should focus as much on the preservation and growth of the business as on the maximization of shareholder wealth... Unfortunately, executives at major companies today are under pressure to maximize returns for investors every quarter, or for activist shareholders looking to cash in quickly on some perceived opportunity, which can lead to hasty business decisions, poor strategic planning, and acquisitions or divestitures that backfire later. More importantly, they are compensated based on short-term price performance rather than long-term business feasibility, which can misalign the interests of both management and current shareholders with the true welfare of the company (Sanghoee, 2014).

Therefore, CEOs that manage their companies on the principle of MSV do not represent the interest of their shareholders nor, by extension, those of their employees, their customers, or the United States.

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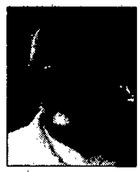

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