

CORPORATE GOVERNANCE

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1. INTRODUCTION

Prof Edward Freeman have published documents that address the need for organisations to participate in social responsibilities. He defines the stakeholder as *“any group or individual that can affect or is affected by the corporation’s purpose”* (Freeman, 2004:229). Society forms part of it. One of the studies he is involved in is the relationship between the corporate social performance and corporate financial performance. According to Freeman (2002:17) it makes little sense to separate the social and financial matters especially when the wealth of a stakeholder can increase while the social responsibility is also attended to. Freeman (2001) also suggest that low corporate social performance affect the organisation finances negatively

Milton Friedman was born in 1912 to Jewish family in the New York City and very influential philosopher, most prominent advocate of free markets through his years of study and research developed many economic beliefs and theories, which are highly regarded to this day. Milton Friedman published a guiding principle for business ethics article, *“The social responsibility of business is to increase its profits”*. His view on the article is that corporate executive should rather focus on encouraging the interests of the shareholders than serving the interests of all stakeholders. He stated that *“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.”*

2. Views of Kenneth Goodpastor

In the view of Kenneth Goodpastor, he assesses the ethical decision making and the relationship between manager and stakeholders. His approach considers the stakeholders as part of the organisation economic strategy. *“One approach to answering such questions that has become popular during the last two decades is loosely referred to as “stakeholder analysis.” Ethically responsible management, it is often suggested, is management that includes careful attention not only to stockholders but to stakeholders generally in the decision-making process.”*

He further makes an analysis of the term “Stakeholder” as other parties having “stake” in the decision making model of the organisation. Relating this view to L’Oréal business strategy, is the business that have taken moral responsibility of including their stakeholder to their business model by empowering and mentoring young women to develop projects that addresses climate change. The organisation quest and strategic objective is to committed in improving climate change and aligning that with to their profit objective.

3. The main aspects of the corporate sustainability

L'Oréal has taken the moral responsibility of committing to take climate action. In terms of the L'Oréal sustainability journey their rapid progress has focused transitioning towards a low carbon business model. By reducing the CO2 emissions of their plants and distribution center's by 77% between 2005 and 2018. At the same time, increasing their production 38% possible to combine growth with reducing our environmental impact.

One of their ambition is to become part of the circular economy by preserving natural resources, such as water. In 2018, three of their plants have become 'dry factories', which means that 100% of the water used for industrial purposes is recycled and reused in a closed loop. Whereas they continue to improve the profile of their products, so that the consumer would not be obliged to choose between beauty and ethics. In 2018, 79% of their new or renovated products had an improved social or environmental profile.

One of the social responsibility L'Oréal had was to launch the Women4Climate in March 2017 with the aim to empower and mentor young women who develop projects addressing climate change in their home city. L'Oréal is the founding partner of this global mentoring program it's an initiative led by C40 cities. Their initiatives are looking into lowering the environmental impact of its raw materials and empower women to improve their health, wellbeing and livelihoods. L'Oréal has established sustainable sourcing programs that benefit local producers in regions impacted by climate change. More than 50% of the raw materials used by L'Oréal in its products are renewable, with the majority derived from plants.

3.1. Do corporations have moral responsibility?

"It is improper to expect organizational conduct to conform to the ordinary principles of morality," he says. "We cannot and must not expect formal organizations, or their representatives acting in their official capacities, to be honest, courageous, considerate, sympathetic, or to have any kind of moral integrity. Such concepts are not in the vocabulary, so to speak, of the organizational language game."

In our opinion, this line of thought represents a tremendous barrier to the development of business ethics both as a field of inquiry and as a practical force in managerial decision making. This is a matter about which executives must be philosophical and philosophers must be practical. A corporation can and should have a conscience. The language of ethics does have a place in the vocabulary of an organization.

L'Oréal has proven that corporation are well within their means to operate with integrity and that leads to greater financial performance. Its strategy has integrated the moral responsibility giving back socially with initiative that promote emancipation of small businesses.

3.2. Whose interest should Corporation serve?

According to the American law institute the objective and conduct of the business corporation. A *business corporation should have as its objective the conduct of business activities with a view to enhancing corporate profit and shareholder gain, except that, whether or not corporate profit and shareholder gain are thereby enhanced, the corporation, in the conduct of its business'(a) is obliged, to the same extent as a natural person, to act within the boundaries set by law, (b) may take into account ethical considerations that are reasonably regarded as appropriate to the responsible conduct of business, and (c) may devote a reasonable amount of resources to public welfare, humanitarian, educational, and philanthropic purposes."*

Kenneth Goodpastor view gives more light to the normative ethics behaviour on this model that (1) Maximize the benefits and minimize the costs to the stockholder group, short- and long-term, and (2) Pay close attention to then interests of other stakeholder groups that might potentially influence the achievement of organisation. As much as the organisation strategic objectives are to maximise profits and to participate in the global economic realm, it is within its existence to ensure that corporation strategies serve the interest of the community. In contributing to the social plaques their corporation are gaining stakeholder participation that support its profit. Corporation existence is dependent on the stakeholder and they should show or serve social contribution and not only focus on being capitalist.

3.3. Which aspect might be formally governmental responsibility?

Tackling climate change by protecting oceans, water resources, preserving natural resources and biodiversity are formally government responsibility. According to Macaela Mackenzie how the organization came about taking those responsibilities was that L'Oréal signed an eco-friendly pledge in 2017. L'Oréal didn't qualify as an eco-beauty brand. Though the drugstore puts out some killer products for the price daily latte, they've also been known to test on animals. According to the company's FAQ page, they do not test finished products on animals, but in China a major market for the brand animal testing is still required for certain products. L'Oréal wanted to get in on the eco action. The brand signed a "memorandum of understanding on environmental performance and resource management" with sustainable resource manager. Pledged to pursue eco-friendlier manufacturing processes. The beauty brand has "decided to promote innovative solutions to favour

sustainable production” and to “tackle climate change, protect oceans and water resources, and preserve natural resources and biodiversity.” That means L’Oréal will start improving recycling practices and using more renewable energy to reduce its environmental footprint.

4. The main aspects of corporate citizenship programs

L’Oréal is spread across the globe. This suggests that it is planted in different communities and forms part of society and therefore, there is a relationship between the people and L’Oréal. This is highly beneficial for the profit margin because they cover more areas. But that comes with corporate social responsibility which according to Puaschunder (2010:3) most organisation in this day and age consider social responsibility and make it part of their code of conduct

Corporate social responsibility can be practiced in many ways. L’Oréal does a number of things including first the provision of employment to people around the community especially those coming from disadvantaged environment, disabled peoples are allowed or given chance to work at L’Oréal, participate in solidarity purchase where they purchase what they need from the community and giving them an opportunity to be part of the overall project (L’Oréal, 2020).

The organisation exists at Germany as well. Therefore, like said before it forms part of Germany society. People with disabilities were very fortunate to have L’Oréal come to their assistance as they did by partnering with the Hagsfelder Werkstätten institution to help about 200 of them to gain access to the labour market in 2019 (L’Oréal, 2020).

These are difficult times for the world at large. The pandemic of Coronavirus is threatening the human existence and claiming lives of number of people on a daily basis. Many organisations are assisting in preventing of the spread of this virus. L’Oréal was one of those organisations. They practised what Prof Freeman Edward believe organisations should not ignore which is the corporate social responsibility.

To be specific, they launched a Europe-wide coronavirus solidarity programme. European countries are the ones affected the most with highest numbers of infected people (WHO, 2020). They started a production of hand sanitisers for the French and European health authorities and free hand sanitisers to the French pharmacies and European food distribution customers to protect those customers and employees. Hair salons, small perfume shops that utilises L’Oréal products and had to pay them had their payments frozen till business continues as usual and the suppliers that were severely affected but this pandemic economically will have their payments shortened. And the

L'Oréal foundation also donated one million euros to the organisation that helps the needy through the combat of this Coronavirus which is a non-profit organisation (L'Oréal, 2020).

5. Which aspect of the programmes might be said to be formally governmental responsibility?

Unemployment is a nightmare wherever it is presence. Government is usually the biggest employer in many countries but not the only employer. This means that if a large number of population is employed by the government. Rise in unemployment means less participation in the economy and its growth in a country. Therefore, the government is primary caterer for employment.

L'Oréal's number of programmes are formally governmental responsibilities. Assisting with employing people from the community especially those disabled and giving them access to labour market. Some individuals are unable to work, could be because of age or disabilities or they are unskilled. Usually the government would have to take care of such people. But the L'Oréal Foundation assist the government and the needy.

6. What are the benefits and drawbacks of the cooperation taking over these responsibilities?

People often want to feel the connection between them and an organisation they deal with. With L'Oréal assuming so much corporate social responsibility, that reflects a very good image on them and therefore people feel their presence and the market and profit margin improves. According to Freeman *et al* (2001) the investigation conducted by Graves and Waddock in 1994 suggests that more corporate social performance results in higher number of organisations that invest in the stock.

Training of people in this industry of hairdressing and entrepreneur is what L'Oréal is administrating to the people in communities. This is a benefit to the organisation because they will now have personnel to help them with labour and handling of the business in abundance.

Running these corporate social responsibilities can be costly at times. Funding the projects, the employees that participate in these activities and project leaders can be little bit of a pinch.

7. View of Friedman Milton

7.1. Do corporations have moral responsibilities?

According to Milton Friedman he stated 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 the game”. The responsibility of corporation or rather L’Oréal is to produce, build its brand and distribute its products and services efficiently to the consumer in marketplace. L’Oréal focuses more on attracting potential, competent and loyal customer but most importantly to sell its products and branding which attribute to an investment that increases long-run profitability and having an impact on charitable activities. Milton Friedman criticizes the contribution of charitable activities that L’Oréal offer he urge that corporations should focus on those activities that are causally related to company profit, effectively excluding charitable activities that do not directly generate revenue. L’Oréal charitable activities to the community includes the following:

- helping vulnerable members of the community to rebuild their lives, offering those without training a way back to work
- funding beauty and wellness treatments in medical and social settings as a way of helping vulnerable individuals on their path to recovery and supporting them to become part of our society again, knowing that physical appearance plays a fundamental role in boosting self-esteem, fighting spirit and social belonging

By looking at corporate social responsibility of L’Oréal it implies that the company has committed responsibility to empower both the society and employee by ensuring that corporate resources are disposed to benefit all stakeholders and safeguarding the positive brand recognition which is refined by attracting customers and increasing their loyalty.

7.2. Can corporate be regarded as moral agents?

In accordance with Friedman’s view he stated that corporation is not obliged or have no responsibility to society, but individual may have social responsibility. The corporate can be found to be moral agent if it is not meet the criterion of been individual proprietorship. Friedman stated that “the individuals who are to be responsible are businessmen, which means individual proprietors or corporate executives. Most of the discussion of social responsibility is directed at corporations, so in what follows I shall mostly neglect the individual proprietors and

speak of corporate executives". In case of L'Oréal if the executive members do not own any business therefore they are regarded as agents hired by the owner to serve the objective and aim to achieve the goal of the business. In addition, the L'Oréal executives are accountable to make any predictable ethical decision and thus putting those ethical decisions into action. Furthermore, Friedman stated that "What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers." If it happens that decision-makers have any other business therefore they should disclose their financial interest. L'Oréal chooses to provide access to products that enhance well-being, mobilizing its innovative strength to preserve the beauty of the planet and supporting local communities consequently it implies that they have the responsibility and power to act.

7.3. Whose interest should the Corporation serve?

In case of L'Oréal the company serves the interest to:

- The society as the beneficiary by helping vulnerable members of the community to rebuild their lives, offering those without training a way back to work,
- The shareholders as the principle: Women in Science programme, which is channelling female creativity into every scientific discipline and working to establish real parity

8. Conclusion and Recommendations

Friedman theory find no fault or burden on corporate agent for making charitable activities that maximize the profit, but he despises the concept of making such activities in the name of corporation social responsibility to the society thus it gives the public perception that it has the social responsibilities which might harm the relationship between the corporate and the society.

Goodpastor further agree that good relationship between the stakeholders and corporate executive should be maintained and both parties are accountable for ethical decision making subsequently organisational economic strategy should be considered. Corporation can and should have ethics.

Operations of corporations should be at the best interest in order to enhance the society and environment than having a negative contribution toward them. Corporates have the responsibility and the influence to behave to satisfy both the society and the employees. Whether the purpose of the corporation is to render the service or to make the profit, the corporations are fully accountable for the action performed and the consequence they bring about.

It is recommended that corporations should:

- Enhance society and their environment rather focusing on contributing negatively
- Be more interactive and boost morale of corporate agent and stakeholders

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