# Enterprise Liberty: Entrepreneurs and genuine corporate social responsibility.

## Moonshots

*Focus the work of management on a higher purpose*

 *and*

*Embed the ethos of community and citizenship*

## Problem

“I have never known much good done by those who affect to trade for the public good. It is an affectation, indeed, not common among merchants...” (Adam Smith 1776:p32)

**Introduction**

This quote of Adam Smith’s cuts to the heart of this essay and also most other discussions of corporate social responsibility; can a firm trade for the public good? In this essay fiduciary duty is identified as a prime mechanism for creating corporate social irresponsibility. Entrepreneurs are identified as having a role in allowing genuine CSR to emerge.

**CSR is and fiduciary duty**

There appear to be three theoretical stances that seem to be dominant in the CSR literature, these are:

1. ‘The corporate social responsibility of business is to increase its profits’ (Friedman 1970); the shareholders can spend their money how they choose. This Friedman style logic has been the focus of business thinking in liberal markets since the Reagan-Thatcher revolution in the eighties (Waddock 2008).

1. CSR improves corporate financial performance (Lee 2008). This is a newer view against which there are compelling arguments; it is maintained it here for the sake of argument.
2. CSR is impossible as it is against the very nature of capitalism: “That capitalism itself, by encouraging the pursuit of economic self interest, creates an environment in which people are tempted to cut corners, cheat, or otherwise break the rules of the business game” (Shaw, 2009: 567). This is a particularly cynical view but important in the context of this essay.

Each of these three viewpoints lends support to the argument that genuine CSR starts with the entrepreneur, this will be clarified in the ‘practical impact’ section to follow. First let us examine the issue that is core to CSR debate, and the three viewpoints above; fiduciary duty on equity.

A firm must generate a return on investment, in part to allow a healthy growing business, but ultimately to pay out to the owners of the equity. Attempting to maximise return on investment seems to be instrumental in motivating socially irresponsible actions of firms; as in the quote of Shaw above regarding ‘pursuit of economic self interest’. Indeed there is a view that profit maximisation is a legal responsibility of the firm’s executives and to make an expenditure that does not maximise returns is akin to theft, as per the American legal view as follows:

“The dominant view among U.S. legal academics is that managers’ fiduciary duty obligates them to maximise profits and requires all other considerations to be instrumentally related to the primary goal of profit maximisation” (Lee, 2006: 10).

This legal stance, while being acutely important here, is not necessarily worldwide. Less liberal markets, such as Germany, France and Japan may have different expectations of firms compared to liberal markets such as the UK, USA, Australia and New Zealand (Ochieng 2008, Fligstein & Choo 2005). For the sake of brevity, we will focus here on this liberal market conception of fiduciary duty.

There are competing views extant in liberal markets such as ‘stakeholder theory’ as commonly associated with R. Edward Freeman. This concept is an alternative to the US view above and is centred on ‘managing for the stakeholder’:

“the primary responsibility of the executive is to create as much value for stakeholders as possible” (Freeman, 2008: 56).

Managing for all stakeholders, even if management is free to do so, does not address the issue that while there is a motivation to cheat the system true CSR is near impossible; as per viewpoint three above. It is for this reason that other CSR mechanisms such as triple bottom line etc are, in the eyes of this author, against the nature of a for-profit firm. Profit maximisation is a constant pressure against spending on social or environmental goals.

**A role for the entrepreneur**

When the entrepreneur establishes a firm they are in the position to decide on the ownership structure and make the consequent resourcing decisions to decrease, or even remove, fiduciary duty to owners.

One might argue that no entrepreneur would start a firm but for profit motivation. This, however, is a dated view as there is a growing literature on ‘social entrepreneurs’; those entrepreneurs that start a firm to address a social problem. Probably anyone reading this can cite examples of entrepreneurs acting due to passion, obsession or purely because they are a ‘geek’.

So as the incentive to start an enterprise is not inherently linked to profit motivation it is argued here that resourcing becomes the dominant reason to sell equity. There are, however, routes to capital other than selling equity (and thus creating fiduciary duty). It is not the purpose here to review all the mechanisms such as social lenders, grant makers, philanthropists etc. Rather we will accept that capital is available to non-equity firms and thus we can create the following matrix (Table 1) to delineate the nature of enterprises.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Equity? | Private Gain? | Social Purpose? | Business Activity? |
| Company | Yes | Yes | - | Yes |
| Charity | - | - | Yes | - |
| Social Enterprise - with equity | Yes | Reduced | Yes | Yes |
| Social Enterprise - pure | - | - | Yes | Yes |
| **Something else?** | **-** | **-** | **-** | **Yes** |

**Table 1: For profit firms, charity, social enterprise and something else?**

In the two types of social enterprise shown in ‘Table 1’ there is an additional duty that arises: that of duty to their social purpose or mission. The executives and managers now have a perceived social issue that is a further ethical weight to balance in their decision making around whether or not a particular spend is appropriate.

Discussion of whether CSR is inappropriate, profitable or impossible enters a new light in the instance of the ‘Something else?’ shown in Table 1. This phenomenon would be the initiation of a firm that seeks to do just what Adam Smith, in the starting quote, indicates is uncommon. The concept is of a firm that has been formed only to offer goods and services and has no fiduciary duty to owners, or responsibility to support a mission. For lack of a better term, the concept contained in the ‘something else’ row of Table 1 will be here referred to as ‘enterprise liberty’ or ‘liberated enterprise’ and may be a vehicle for genuine CSR.

## Solution

**Entrepreneurs and enterprise liberty**

The entrepreneur that initiates a firm would need to deliberately pursue a strategy that secured the ongoing liberty from mission or fiduciary duty. This would require finding capital other than from equity, as well as other challenges. Nevertheless this concept, if pursued by entrepreneurs, would constitute a distinct part of the market mix.

**‘Enterprise Liberty’ and the market mix**

It should be noted now that the author here is not arguing for a utopia of economic anarchy where all firms are free of fiduciary or mission duty. Rather this concept is being put forward as a positive part of the market mix. For profit firms, charities and social enterprise would all exist as each fits a different set of circumstances. Liberated firms may also fit into and improve markets by breaking prisoner’s dilemmas and creating a benchmark for social responsibility while a price benchmark is set by traditional firms.

 **Self interested consumers as well as ethical consumers**

Ethical consumers are defined here as consumers that make a purchase decision based on perceptions of ethical issues rather than a simple motivation of personal value maximisation. This phenomenon of acting other than in self interest is becoming increasingly well documented in the literature (Stole 2005, Friddell 2007, Ven 2008). This phenomenon indicates an existing demand for CSR goods and services but possibly more as niche products enjoying higher prices. ‘Ethical consumers’ might constitute an existing demand for firms that have been liberated of their motivation to act unethically.

It can be argued that the goods and services of a liberated enterprise might experience demand across a broader base of consumers, rather than only ‘ethical consumers’, if the following tenet proves true: that consumer self interest favours an altruistic firm. Potential mistrust of firms that have a purpose of profiting off the consumer by utilising information asymmetries etc might generate trust and acceptance of liberated firms.

##

## Practical Impact

A ‘liberated enterprise’ could allow management/executives to focus on a higher purpose by liberating them from certain duties that are at odds to serving the wider community. This could allow the ethos of community and citizenship to become a central part of the culture of the firm.

In order to achieve genuine CSR entrepreneurs must take up the role of initiating altruistic firms. This fits against the three conceptions of CSR, described earlier, as follows.

CSR is inappropriate: even Milton Friedman might agree that if there are no owners then the firm’s executives are free to make expenditures that might hurt a single bottom line.

CSR is essential for survival of the firm: indeed yes, as altruistic enterprises would be the epitome of CSR they might be more competitive than less responsible firms, at least in affluent markets.

CSR is impossible as it is against the very nature of capitalism. Again yes, the mechanics of capitalism are changed here by removing fiduciary duty, thus this may be one of the only ways to achieve genuine CSR.

As demonstrated above fiduciary duty can be seen as instrumental in creating firms that act irresponsibly and is a persistent counterforce against CSR. If entrepreneurs pursue ‘enterprise liberty’ then genuine corporate social responsibility may become possible.

## Challenges

**Resourcing**

Securing capital becomes more challenging.

**Public policy problems**

The pursuit of such enterprise may create a public policy problem as the majority of legal structures existing for firms are an imperfect fit for a market driven enterprise with no owners or social mission.

Some countries have legal structures that fit more closely with this concept, eg the UK ‘CIC’ and the US ‘L3C’. There are also ways of adapting typical company legal structures by adding explicit mission statements and constitutions with ‘lack of pecuniary benefit’ clauses etc. As the world is only beginning to adapt policy to support social enterprise it may be beneficial to broaden the scope of such debate to include conceptions such as enterprise liberty.

## Tags

CSR, social responsibility, entrepreneur, social entrepreneur, ethical consumers, CIC, L3C, liberated enterprise, enterprise liberty.

## References

Fligstein, N. & J. Choo, *Law and corporate governance.* Annual Review of Law and Social Science, 2005. **1**: pp. 61-84.

Freeman, R.E., *Managing for Stakeholders*, in *Ethical theory and business*, T. L. Beauchamp, N. E. Bowie & D. G. Arnold (eds.). 2008, Pearson Prentice Hall: New Jersey. pp. 56-68.

Fridell, G., *Fair-trade coffee and commodity fetishism: the limits of market-driven social justice.* Historical Materialism, 2007. **15**: pp. 79-104

Friedman, M., *The Social Responsibility of Business is to Increase its Profits* The New York Times Magazine. 1970, September

Lee, I.B., *Ethical Investing*, in *Global perspectives on ethics of corporate governance*, G.R. Rossouw & A.J.G. Sison, (eds.). 2006, Palgrave Macmillan: New York. pp. 9-26.

Lee, M.P., *A review of the theories of corporate social responsibility: its evolutionary path and the road ahead.* International Journal Of Management Review, 2008. **10**(1): pp. 53-73.

Ochieng, C.M.O., *Comparitive capitalism and sustainable development: stakeholder capitalism and co-management in the Kenyan fisheris subsector.* Natural resources forum, 2008. **32**: pp. 64-76.

Shaw, W.H., *Marxism, business ethics, and corporate social responsibility.* Journal of business ethics, Smith, A., *The wealth of nations*. 1776.

Smith, A., *The wealth of nations*. 1776.2009. **84**: pp. 565-576.

Stolle, D., M.Hooghe & M. Micheletti, *Politics in the supermarket: Political consumerism as a form of political participation.* International Political Science Review, 2005. **26**(3): pp. 245-269

Ven, B.v.d., *An ethical framework for the marketing of corporate social responsibility.* Journal of business ethics, 2008. **82**: pp. 339-352.

Waddock, S., *Corporate responsibility / corporate citizenship: the development of a construct*, in *Handbook of research on corporate global citizenship*, A.G. Scherer & G. Palazzo, Editor. 2008, Edward Elgar Publishing Inc: Cheltenham, UK.