Forbes INDIA

Copyright 2019, Forbesindia.com

How should a manager balance responsibility towards shareholders and society

By Prof. Prateek Raj and Dr. Anjul Khadria| Sep 21, 2021

Instead of managing the stakeholders, managers should focus on cooperation, transparency and assistance. This shall help find a middle ground for stakeholders and the community

---

Managers must learn how to carve out strategies that are good for both the firm as well as society.

Image: Shutterstock

Who is a manager responsible to? Is profit the only objective? A manager certainly has a responsibility towards shareholders, who have entrusted their investments in the hands of the manager. However, a manager is a citizen too. As a citizen, a manager has a responsibility towards the broader society as well, which has entrusted its resources in the hands of the manager. At times the responsibility of a manager towards the shareholders and towards the broader society comes into conflict. For example, during recession, should a firm sustain heavy losses by keeping underemployed workers on the payroll? This is a tough question. How can managers deal with such a dilemma?

Business needs to make money to survive, and this means the voice of shareholders will always be significant. In competitive markets, the risk of sinking is always high. Hence, there exists a natural bias for managers to be sensitive to the profit-centric concerns of shareholders. In such a world, pursuing and creating profits appears to be the central responsibility of managers as citizens–"greed is good" as corporate raider Gordon Gekko from the 1987 movie Wall Street would say. Managers who make losses are not any good, as profits are necessary for not just the firm but also socio-economic growth. It is profits that generate room for employment and innovation. But profits through which means?

_RSS_In the heat of competition, firms may pursue strategies that are profitable for the firm but not for society. For example, pollution may be profitable for firms but poisonous for society. Managers must learn how to carve out strategies that are good for both the firm as well as society. How do such strategies look like? Managers can generate profits either by improving themselves or by hurting their competitors. Strategies that focus on making business difficult for competitors, or that create pollution, raise cost, or reduce transparency, and increase market frictions are bad abrasive strategies. Such abrasive strategies are also bad for the long-term sustainability of the company, as competition motivates firms to not take short cuts and invest in innovation, which also shields them from potential disruption (of the kind that Apple and Google brought to Nokia). Hence, managers should be motivated to pursue innovative strategies that involve sustainable process and product innovation. Strategies that pursue process innovation, and hence sustainably reduce costs, or pursue product innovation, andhence increase its value for the customer and price, are good innovative strategies. If greed is good, then innovation is better.

Given the centrality of innovative strategies in business, managers cannot ignore its own employees, especially the innovators who drive the process and product innovation in the company. Hence, beyond shareholders, the relationships of managers with employees (internal organizational structure) and with other partners (suppliers, buyers) in the company's supply chain are of equal importance so that companies can indeed be capable of pursuing innovative strategies.

Managerial conduct is influenced by non-market stakeholders as well, like social activists, and the media. Managers are far more likely to pursue innovative strategies if they fear getting bad press coverage whenever they pursue abrasive strategies. Had the media been active in investigating the safety protocols of the Indian chemical industry before 1984, the Bhopal Gas tragedy could have been averted. That the Soviet Chernobyl disaster happened in a country with no free press or a civil society should not come as a surprise. The persistent muckraking journalism of the American meat industry in the early 1900s led to the establishment of the Food and Drug Administration, improving the quality of the American food and drug industry.

Given the importance of stakeholders, businesses often resort to “managing” them. The worst manner in which businesses can “manage” stakeholders is through capture, such as by owning media companies and using advertising budgets as a way to influence media coverage (media capture). Similarly, firms can promise lucrative jobs to politicians and bureaucrats, for favourable treatment (regulatory and political capture through revolving doors). Firms can also influence academics by selectively sharing data, access and consulting projects, or by offering philanthropy to universities (academic capture). Often above types of captures are difficult to distinguish from simple engagement or CSR, but such quid pro quo type of misbehaviour becomes clear if a firm tries to set media or academic agenda through intimidation, or attempts to conceal some information about its “non-market” strategies. Generally, non-market strategies should be transparent, and if they are concealed then it might be an attempt for capture.

Generally, cooperation, transparency and assistance is the best way to engage with stakeholders, especially if a company gets into a crisis. In 1991, Salomon Brothers’–a company owned by Warren Buffett–was charged with securities fraud. Buffett testified about the securities scandal at the United States Congress and apologised for the company’s conduct. In it, he coined a quote that has since become legendary: "Lose money for the firm and I will be understanding. Lose a shred of reputation for the firm, and I will be ruthless.”

Prof. Prateek Raj, Faculty, Strategy area at IIM Bangalore and

Dr. Anjul Khadria is a scientist at California Institute of technology