

MGX3100- Individual assignment

Broken Hill Proprietary and Corporate Social Responsibility

Global warming is one of the biggest threats to humanity. As the pool of evidence surrounding global warming and the detrimental side effects grows, there is an increased pressure on governments, corporations and society to reduce the overall carbon footprint. Sustainable corporations invest in environmental initiatives by shifting to renewable energy, utilising the most energy efficient process and equipment. On the other hand, several corporations fail to acknowledge the global threat or take initiatives to reduce their carbon footprint and receive the backlash from activist groups (Parkinson, 2019). Recently, activist superannuation groups leverage their position as investors to pressurise Broken Hill Proprietary Company Limited (BHP) to move away from coal mining (Mazengarb, 2019). Despite the growing pressures, CEO Andrew Mackenzie of BHP has stated that his commitment is to the shareholder value and that BHP is not willing to alter their investment portfolio but rather offered to spend \$400 million over a 5-year period in alternative initiatives to curb the emissions from the company's operations as well as emissions generated from the use of their products (Stevens, 2019). His position aligns with the values of the shareholder theory where the goal of the corporation's managers is to maximise the profits by any legal means possible. Investment in social and environmental initiatives are considered as 'theft' from the shareholders unless the value obtained from such initiatives is equal or greater than the value invested. In opposition, Mackenzie's critics favour the stakeholder theory where the corporation's commitment should be to equally benefit all the stakeholders- shareholders, consumers, employees, suppliers and wider community. Whilst both perspectives are credible and lead to eventual benefit for all stakeholders, this essay will discuss the strongest arguments for and against Mackenzie's position, critically appraise both arguments and conclude which stance supports business ethics and moral codes.

Mackenzie's position is in line with the shareholder theory. The main theories that are in support of Mackenzie's position are Adam Smith's Invisible hand, Milton Friedman's Shareholder theory and the corporations act 2001. Shareholder theory states that a senior corporate executive of an organisation is someone who is an employee to the owners of the company, who has a "direct responsibility" Carson, T. (2003) to manoeuvre the business in such a way that it makes as much profit as possible within the constraints of law. This ideology

takes the name of “shareholder perspective” in the corporate social responsibility domain, Milton Friedman’s inspiration of the shareholder perspective comes from Adam Smith’s “invisible hand” ideology. Adam states there are ‘unseen forces that move the free market economy’ and that the general good is best achieved by allowing individuals to pursue their own self-interests (Jones & Felps, 2013). Fundamentally, this signifies that without an organisation fulfilling the needs of the shareholders and ‘increasing the shareholder wealth’, regardless of the investments it makes into other areas it would not be able to acquire the outcomes desired (Majaski, 2019).

The government in Australia also has many laws that protect the interests of the shareholders and their wealth. Organizations are tamed in such a way that the generation of shareholder profits and distribution of dividends is the one and only way to achieve success. This is further supported by the Australian Corporations Law section 181(1), Corporations Act 2001 states that ‘a director owes a fiduciary duty to the company to act honestly in good faith and to the best of his/her ability in the interest of the company’. The segment of the law which states ‘best interests of the company’ refers to generating profits to further increase shareholder wealth. This resonates with the proposition of Andrew Steward Mackenzie (CEO of BHP) who states that Bhp “weighs long-term shareholder value more highly”. Hence, it is clear that the Milton Friedman’s shareholder perspective is in support of McKenzie’s position, as his role is to only maximise the profits of the organisation, BHP’s activist investors pressured for investing superannuation funds into an ethically responsible company is just to calm the raising voices of the other stakeholder groups.

This was originally not the intended direction for the company as they were pressured into reducing their carbon footprint to meet the demands of the activist superannuation groups. Mackenzie stated that ‘he will listen to these activists and put them in an appropriate perspective, but their foremost interests are in creating long-term shareholder value’, this highlights that BHP is only willing to take actions that do not affect shareholder value, when shareholder value is at risk, the management is likely to stand by creating and protecting shareholder value. ‘It is inappropriate for the management who are appointed to serve the best interests of the company to take upon the role of spending company money on social worthwhile projects’, this idea coincides with the position Mackenzie has taken in response to the pressure from the activists. Whilst this ‘selfish’ approach seems to benefit only the corporation, the development of the corporation will lead to the benefit of all stakeholders

(Mansell, 2012). The company will try not to hurt the consumers in order to maximise the profits, the growth of the company will produce new opportunities, increase the quality of the workforce and investment in social initiatives to maximise their profits. Decisions that are likely to benefit the shareholders are prioritised and others are put aside even though they are socially responsible actions because they are not going to generate any profits for the business. Issues around the climate change and superannuation are external societal pressures which are not implemented and acted upon as they are not in line with the main objectives which is profit maximisation. Milton's shareholder theory, Adam Smith's invisible hand and Australian corporations' law are all in accordance with Mackenzie's position. BHP's position will allow for the betterment of the corporation and society hand in hand.

On the other hand, Edward Freeman suggests that an organisation's responsibility lies not just in creating the wealth of shareholders but also to "benefit all stakeholders", there are five main types of stakeholders an organisation can have which are shareholders, employees, suppliers, customers and the local communities (Carson, 2003). This theory falls under the social responsibility domain with its intention being to achieve organisational objectives while aligning business ethics and moral codes. Freeman says that the organisation should operate in such a way that it benefits all the stakeholder groups and not just benefit the organisation in the long run. The managers and CEO's are considered to be mediators, their role is to connect with the stakeholder groups, understand their needs and involve them to the extent possible in the day to day operations of the business. The key idea Freeman portrays in this theory is that the mediators, CEO's and managers, can refuse the demands of the shareholders when it is in conflict with the stakeholder's needs. Freeman argues that the success of the organisation should not only be dedicated to its shareholders but also to the stakeholder groups as they are directly impacted by the operations and only through their consistent support can the organisation focus on achieving its purpose.

The stakeholder theory is seen to be the new trend, as organisations have a shifting focus towards identifying and fulfilling the needs of stakeholder in order to align their ethical and moral values. Freeman promotes equal rights and fairness for those who are involved and impacted by the business's decisions as he takes into consideration the ethical and economic issues that are raised around this area. The outcome of this theory is an economy where economic wealth is for everyone, an organisation cannot survive on a long term by just meeting the needs of the shareholders and maximising their profits. Companies should allow to hear the

feedback from other stakeholder groups as well and continuously adapt to increase the life of the business. Mackenzie's position does not support the stakeholder theory in any dimension as the only focus remains as prioritising the interests of one of the stakeholder groups, the shareholders. Mackenzie's consistent position for six years has been to deliver high returns on capital and increase profit margins by enabling 'productivity improvements' (financial review, 2019). As the society is moving towards becoming more sustainable, it is the duty of the organisations to adapt to this paradigm and innovate initiatives and practices that satisfies the needs of the stakeholders who are involved. BHP's response to the pressure from activist group to stop coal mining, is rather a dodged response as BHP is not flexible and broad minded to sacrifice the profits generated from coal mining. Mackenzie rules out the demand of the activists and provides an alternative to reduce carbon emissions to net zero by 2050 (Thompson, 2019). BHP fails to give importance to the stakeholder groups and has a biased stance to only meet the needs of the activists to the extent where shareholder wealth is not affected. Managerial decision making, no matter what form it takes does neither require substantive normative philosophical theories, nor the maximisation of one single value (Van der Linden & Freeman, 2017), when all the stakeholders are kept in good terms, it is likely to benefit the organisation in multiple dimensions, few of which are profit maximisation and growth of the corporation.

As discussed above, both stances benefit BHP and the wider community in different ways. However, it is essential to take into consideration the current social, environmental and political factors in how the different stances will likely play out. The shareholder theory focuses on maximising the profits for BHP, thus ensuring the success of the business. Failure to maximise profits will result in greater uncertainty in the growth of the company (How, Lee & Brown, 2019). Profit maximisation requires support from the community, employers and customers which requires the company to invest in their wellbeing. Additionally, the company's growth will attract more skilled workers and thus improve the free economy. This phenomenon is termed, 'the invisible hand'. Although Milton Friedman claimed that the corporations should be morally obligated to helping the society, he justified this stance with the role of 'the invisible hand' in providing indirect benefits to the other stakeholders. However, the belief that the 'invisible hand' will regulate these benefits is flawed. Without governmental regulatory bodies, corporations operating using the shareholder theory will forsake any obligation to society and the environment which will result in more harm than benefits. Furthermore, the indirect benefits of this theory are hard to measure and not obvious and are likely to be considered by

the activist superannuation groups. His attempt to circumvent the pressures from the superannuation groups by offering an alternative pathway to reduce carbon footprints whilst maximising profits highlight Mackenzie and BHP's corporate mentality. Due to the negative connotations associated with corporate mentality, it is likely BHP is going to face more backlashes from wider community. As superannuation are estimated to control more than half of the Australian share market by 2030, BHP's current position is likely to lead to their downfall. If Andrew Mackenzie had adopted the stakeholder theory, the equal investment into benefits of all the stakeholders would gain the approval of the activist superannuation groups and the wider community. Even if the company's profits are compromised in the short term, the increase in superannuation funds being invested in BHP would have maintained or even boosted its growth in the long term. Self-regulation of corporations would be more accepted widely which could lead to increased growth of companies and eventually, stronger economy that is sustainable and morally obligated to the betterment of the society and the environment.

A thorough analysis of the arguments for and against clearly illustrates that Andrew Mackenzie's position can be looked at from different perspectives. Taking into consideration the current political, societal, environmental landscape of Australia, it can be clearly seen that the majority of the power lies with the consumers and the community as seen in the increasing contribution of superannuation funds in the Australian share market (Irvine, 2019). rather than the corporation. Therefore, it is safer for the corporations to adopt the stakeholder theory where the immediate benefits for all is clearly evident. There is a high likelihood that if BHP takes a risk and adopts the stakeholder approach, its competitors are likely to follow. There are high chances that BHP would gain competitive advantage as it will be the only organisation of the industry who takes this approach to achieving organisational objectives and being sustainable (Russell, 2019).

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