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Ethical Consequences: Treatment of Stakeholders in Capitalistic Approach and Cooperative Approach to Business

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Abstract
The study illustrates an interpretive glimpse on ethical concern in business corporations. The challenge towards Capitalistic approach to business has given birth to model called Cooperative approach to business. It has been deeply studied and analysed that both entities incur ethical dilemmas due to their nature of business operations. This paper intends to compare capitalistic approach to business (Microsoft Corporation) with Cooperative approach to business (Mondragon Corporation) to identify the ethical consequences that arise from how each entity treats various stakeholders. In recent chaotic business environment, surprisingly, a massive portion of students and many other target audiences in relation with business studies have been lacking the comparative awareness related to ethical consequences in a business that concerning individual profit maximization and a business that concerning social responsibilities across the borderline. This paper flashed characteristics of both approaches so that it can be addressed easily.
Keywords: Business Ethics, Capitalistic Corporation, Cooperative Corporation, Ethical Dilemma, MCC.

I. Introduction
Adhering to corporate social responsibility in an increasingly competitive business environment has become challenging for modern entities. For instance, the requirement for the business to provide a specific minimal level of returns to shareholders even during harsh economic environments could lead to an entity's engaging in imprudent practices [1]. In this respect, the organization tries to make a trade-off between the value delivered to the customer and that delivered to the shareholder. Alternatively, businesses facing adverse economic conditions are likely to result into employee cuts to sustain their profits thus leading to high levels of unemployment in society. Such a concern of Capitalism of maximizing profits even at the expense of the social good has increasingly been challenged in the recent times. Although some propositions deem that capitalism tempered with conscious social initiatives results into a net positive impact on society in the long term [2], opposing propositions have considered it unlikely for capitalistic entities to sustain such a social concern in the long term [3]. Such concerns with capitalistic entities have led to evaluation of other models of businesses e.g. cooperative businesses, which could offer alternatives for a better social organization.

II. Ethical Dilemmas of Modern Corporations
Modern corporations face a challenge of balancing contrasting interests of various stakeholders. Shareholders (investors) for instance require the entity to offer them higher returns on their investments through increased profitability that betters the market value of their shares. Customers, on the other hand, require high quality products, which may require the organization to incur additional costs thus lowering its profitability. Similarly, the entity's employees demand better remuneration and working conditions, which increases an entity's costs thus lowering its profits. Compounded by adverse economic environment, which impedes organization's initiatives to generate additional revenues, the entities face a dilemma as to establishing an effective equilibrium among the contrasting stakeholder interests. Establishing such a balance could lie in the political-economic ideology from which the entity derives its organizational approach.

One such political-economic ideology is capitalism, which is based on an endeavour to achieve maximum profits, annihilate the competition and advance private property [4; 5]. Traditional capitalist corporations thus strive to achieve maximum profits even when such achievement may deter the enhancement of society in which they operate. They seek to operate in a monopolistic environment [5]. Ethical practices do not form a core concern for such corporations, with their ethical considerations coming only when the failure to initiate ethical programs, threatens the achievement of their core purpose of profit maximization [1]. Accordingly, in such corporations, the interest of the shareholder takes precedence over all other interests, with a potential outcome being the increase in inequality in society [4].

An alternative to capitalistic organization is cooperative organization. Cooperative entities derive their approach from a catholic social doctrine that opposes the concepts of laissez faire capitalism (propagated by Adam Smith) and those of revolution and state collectivism (propagated by Karl Marx) [6]. The social doctrine emphasizes the importance of principles such as open membership, democratic control, payment of limited interest on capital and distribution of surplus in accordance with the trade conducted [6]. In accordance with such a doctrine, employees of the entity serve as its shareholders thus reducing the conflicting interests that would arise were they not part of the shareholders [6]. However, one form of cooperative entities, the producer cooperatives, could fail to achieve long-term growth due to difficulties presented by the inability of its employees to raise adequate capital to support the entity's optimal operations [6]. Accordingly, even such cooperatives could eventually attract capitalists to ensure their survival.

The choice between a capitalistic and a cooperative mode of organization thus appears to present a unique challenge in itself – the generation of adequate capital to support the organization's operations. With regard to capitalist entities, the challenge is in finding an incentive to attract investors who agreeable to an equivalent concern for the interests of other stakeholders in the organization. That is, will investors commit their funds in an entity that does not guarantee them a superior consideration in formulating its initiatives? With respect to cooperative entities, the challenge lies in getting adequate capital to ensure the entity's survival, without seeking additional financing that renders them vulnerable to a capitalistic transformation. Accordingly, the next section compares and contrasts a capitalist entity (Microsoft Corporation) and a cooperative entity (Mondragon Corporation) to identify the ethical consequences of stakeholder treatment in both entities.

III. Comparison of Mondragon and Microsoft Corporation

Mondragon Cooperative Corporation is the standard example for effective organization through cooperative principles. Unlike capitalistic investor-owned firms such as Microsoft, cooperative firms such as Mondragon Corporation encourage participatory and democratic decision-making within the entity [7]. Mondragon Corporation comprises more than 100 distinct cooperatives and over 150 businesses, which have joined voluntarily to form a corporation that operates in more than 65 countries and employs more than 85,000 people [7]; [8]. It operates in a democratic fashion with democracy in the organization being conceptualized as *one worker one vote regardless of the share of the capital owned* [7]. It was started in 1956, and from its headquarters in Spain, the organization has grown to operate a multilevel network of training centres, finance services, retail businesses and production businesses [8].

To achieve efficiency with such multiple businesses, Mondragon Corporation developed a distinct model of management that integrates aspects of cooperative principles, and modern management practices [7]. For instance, Mondragon Corporation has various governing bodies such as Congress, General Assembly, governing Council, and divisions that ensure effective coordination of activities throughout the corporation [8]. However, unlike capitalist entities, such governing bodies are not based on the financial contribution and sharing framework e.g. holding company vs. subsidiaries, but on an agreement among members to share areas of management necessary for effective coordination of operations [7]. Such a set-up implies that the cooperatives and established management systems are the owners of the corporation rather than the corporation owning them as would be the case of a parent company and its subsidiaries [7]. Additionally, absolute authority over the cooperative's assets is vested in the members, who vote for their desired candidates to occupy the positions in the governing bodies or vie to be voted into such governing bodies [8].

Another core characteristic of the Mondragon Corporation is its concern for its employees. Employees are shareholders in the entity and get to share in the profit distributions in addition to receiving their regular salaries [7]. The arrangement to `have employees as joint owners prevents capital-labour conflicts, which would occur in cases where the employee and shareholder interests conflict. Due to such an employee concern, the Mondragon Corporation has established a corporate culture that promotes values such as cooperation, commitment to management, social responsibility and fair distribution of wealth [7]. Commitment arises since employees envisage that their work goes towards enhancing their consequences since a better performance would better their share of the corporation's profits.

Various significant differences thus exist between Microsoft and Mondragon Corporation. One of such differences for instance regards the issue of businesses that comprise the respective entities. While Microsoft controls component businesses based on the financial investment it has made on those businesses via acquisition [9], in Mondragon Corporation the component businesses act independently with management being shared based on a voluntary agreement. Similarly, while in Mondragon Corporation, each member has equal voting rights, in Microsoft the voting rights are distributed according to the number of shares that one holds. In this respect, minority groups such as the founder members, who own substantial amounts of capital [7], have a greater influence on the running of the business compared to minority shareholders [10]. Although Microsoft also offers its employees a chance to own the organization through the employee stock purchase plan [9], individual employees lack the capacity to buy substantial amounts of stock to influence the decisions the entity enters into [11].

The cost-cutting approaches targeted at the labour providers in Microsoft also differentiate it from Mondragon Corporation. For instance, Microsoft has consistently shifted some of its operations to offshore low wage countries thus resulting into the loss of jobs [12]; [13]. On the contrary, Mondragon Corporation engages a multitude of individuals in the areas it conducts business thus helping in creating employment rather than eliminating them [6].

Despite such differences, some similarities can be noted between Microsoft and Mondragon

Corporation. One of these is that both entities engage in significant social responsibility programs within the communities they conduct business in. Microsoft has for instance engaged in various philanthropic activities that for instance seek to enhance access to education facilities in some of its market [9]. Similarly, Mondragon Corporation engages in education promotion activities that better the labour supply in the regions it conducts business [6]; [7].

IV. Ethical consequences of stakeholders treatment in both Business Entities

The Cooperative approach to business enables it to balance different stakeholder interests to achieve sustainable growth [14]. For instance, the corporation was rated among the 10 best places to work in Europe by Fortune magazine in 2003 and has consistently featured in that list [11] through its approach to business operations; the entity has met its moral responsibilities towards the individual employees, its component cooperatives and society in which it operates [14]. This has been achieved through the commitment to business ethics as espoused in its corporate values such as respect for members, personal development, educational programs, social security, and distributive justice [14].

Accordingly, ethical consequences of treatment of stakeholders in Mondragon Corporation can be identified with respect to different stakeholders. In respect to employees, their involvement in the corporation's decision-making processes and fair participation in profit distribution encourages them to commit to the entity's values and culture, thus avoiding cases of imprudent practices [7]. In respect to shareholders, the fair distribution of profits among all members and the equal opportunities for engaging in the entity's management avoids the establishment of predominant shareholder group that engages in self-serving control of the entity's operations [7]. Commitment to social responsibility does not only ensure the entity provides good quality products to its customers, but also alleviates the economic situation of the society in which it operates [6]; [7].

On the contrary, the capitalistic approach of Microsoft has had various negative effects on the entity's consequences. For instance, despite the entity's continued profitable run [9], its implication in anticompetitive practices and massive relocation of jobs to off-shore low-cost countries have dented its reputation [12]; [13]. Conversely, despite its numerous philanthropic programs in its recent history [13], the inability to generate comparable profitability to its competitors such as Apple Inc. has seen it lagging behind in attracting investors [15].

In Microsoft, ethical consequences in respect to employees are thus evident in respect to two aspects. Firstly, by lacking adequate representation in ownership of the organization, the employees may not commit to prudent business practices thus enhancing the vulnerability of the entity ethical pitfalls [1]. With the lack of commitment to the corporate values, employees may for instance result into imprudent practices to sabotage the entity's reputation. Secondly, Microsoft's profit-maximization focus, which has led to the movement of various jobs offshore as a cost cutting measure, adversely affects the economic wellbeing of the individuals whose jobs have been outsourced. Such a scenario implies that the organization focuses more on meeting the interests of the investors at the expense of the other stakeholders, an aspect that leads to social inequality in society.

Even with its focus on shareholders, Microsoft may fail to attract such shareholders with lapses in other social aspects that might influence the entity's profitability in future. For instance, with customers being mindful of the ethical practices of the entities they purchase from [1]; aspects such as Microsoft's anticompetitive practices could deter potential investors from investing in its shares. Establishing a balance of conflicting stakeholder interest in Microsoft thus becomes challenging since, in a capitalistic economy, investors will be seeking profit maximization, a goal that would be negated by acceding to employees' need for higher remuneration.

V. Cooperatives in addressing Potential challenges modeled by Capitalism

The Mondragon Corporation offers insight into the ability of cooperatives to solve social challenges posed by capitalism. Although capitalistic organizations establish social responsibility programs to reduce the inconsistency between shareholder's profit-maximization interest and interests of other stakeholders, such an approach is only temporal in addressing social equity [3]. This is for instance exemplified by the recent financial crisis where corporates engaged in imprudent practices to extract supernormal profits at the expense of the common good [16]. Such inability of firms to balance their profit maximization goal and corporate social responsibility compels evaluation of alternative modes of doing business. Cooperatives offer such an alternative since they provide a way for an entity to achieve growth while remaining committed to the social consequences of its activities.

The effectiveness of cooperatives as an alternative to capitalistic corporations is evident from Mondragon Corporation case. For instance, even with its high concern for employee's welfare, Mondragon Corporation was able to enhance its profits by 39 precent in the period 2001 to 2006 [17]. Such profitability, in addition to the social benefits that the entity helps to achieve e.g. reduction in social inequalities by offering more people jobs at the expense of achieving a profit-maximization goal, highlights the potential of cooperatives in balancing the divergent interests of multiple stakeholders [18]. For instance, while employees benefit from increased participation in decision-making and fair profit distributions, shareholders would benefit from increased employee commitment to the organization's goals, thus reducing the risk of imprudent practices occurring within the entity. Such reduced risk in turn leads to the development of a positive corporate reputation that increases the entity's customer base.

VI. Conclusion

Various stakeholders play an important role towards the growth of an entity thus requiring the entity to establish an effective balance among such stakeholder's interests. Although capitalistic entities could achieve such a balance through their corporate social responsibility programs, recent events such as the financial crisis have highlighted that such initiatives may only achieve a temporary effect in enhancing social good. Accordingly, the alternative forms organizing may prove necessary to achieve long-term effects. One such alternative is a cooperative approach as exemplified by Mondragon Corporation. In this approach, entities incorporate their employees into joint ownership of the corporation and use a fair process in distributing business surpluses to all members. Such an approach enhances employees' commitment to the corporate values thus reducing the risk for imprudent practices within the organization. Accordingly, a cooperative approach could be the needed shift for entities to contribute towards just a socially business and economic environment.

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