The Title of the Report:

Critical Evaluation of the Business Ethics of British Petroleum based on two Contrasting Theoretical Approaches

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Contents

1. Introduction

The purpose of this report is to provide a critical evaluation of the business ethics of a company based on two contrasting theoretical approaches of ethical business and corporate social responsibility. The company on which this report is based was selected from the oil industry, namely British Petroleum (BP). British Petroleum plc is a UK based oil and gas company and also the parent company of the BP group. Its headquarter is in London. The BP has over 100 years of history starting back in 1908.

During its long journey of success, it has invested millions of dollars in business and community (BP global, 2016). BP generates its sales revenue mainly from two business segments namely; the upstream segment (Exploration and Production) and downstream segment (Refining and Marketing). Today it provides a variety of petroleum products such as fuel, lubricants, biodiesel, and petrochemical product to households, industry, and automobiles etc. Some of its well-known brands include Castrol and ARAL (BP Annual Report, 2013). Based on its 2012's revenue, BP has been identified as the fifth-largest company in the world. Moreover, it is one of the 6 major oil and gas producing companies in the world. It has 15 refineries that are either completely or partly owned. Moreover, it has 85,900 employees and has oil reserves of $17,000 million barrels (BP global, 2016).

The company is involved in oil exploration and drilling activities due to which various environmental concerns and social responsibilities arise on part of the company. The BP has been accused of having inefficient safety procedures and management performance which had resulted in various accidents and hazardous incidents such as chemical leak of Texas City and Gulf of Mexico (GOM) oil spill in 2010 (BP Annual Report, 2013).

The oil spill in the GOM had caused huge financial losses and has deteriorated the reputation of the company (The Guardian, 2010). In the past various lawsuits, financial claims and penalties have been filed against BP due to oil spills, accidents and health and safety violations (Fisk & Calkins, 2013). In this situation, there is a huge pressure on BP to improve its health and safety measures and be ethically responsible towards the environment, employees and society. However, the company is required to generate more profits for the shareholders of the company.

The two perspectives on the basis of which the business ethics of BP is critically evaluated in this report are; (1) stockholder theory (O'Leary, 2004) and (2) stakeholder theory (Friedman & Miles, 2002). In view of these two contrasting theories, the ethical business practice for BP could vary and the key individuals and groups (stakeholders) involved in the case would be different. Under stockholder theory, the main stakeholders for BP would be its owners and the shareholders, and the ethical business practice would require BP to be socially responsible by maximizing their ownership and profitability (Miles, 2012).

However, under stakeholder theory, the main stakeholder for BP would be its community, employees, suppliers, and customers and in this situation, the ethical business practice would require BP to be socially responsible towards these groups by taking social welfare initiatives and be socially responsible towards all of the aforementioned groups (Schaefer, 2008). In this way, the concept of ethical business under stakeholder theory is broader as everyone in the world is included in the stakeholder of a company.

In the next section of this report, the literature regarding the two contrasting concepts of ethical business under stockholder theory and stakeholder theory are critically analyzed and their implication on the business ethic of BP is evaluated. Both the aspects are explained in separate headings, where each of the concepts is defined and their respective literature is reviewed. Subsequently, the two concepts are applied to the selected issue of BP to identify what would amount to ethical business practice under the two contrasting theories. At the end of this report, a conclusion is drawn regarding the business ethic of BP under contrasting concepts of the two theories.

2. Theoretical/Conceptual Approaches and Analysis

Based on past literature two contrasting theoretical approaches are critically analyzed as follows, namely; Stockholder theory and Stakeholder theory. These theories provide contrasting views regarding the social responsibility of a business organisation.

2.1. Stockholder Theory

Stockholder theory which is also known as shareholder theory is an approach to the corporate social responsibility of a business organisation. The theory was proposed by Milton Friedman and is also referred to as Friedman doctrine (Friedman, 2009). According to this approach, a business organisation is only socially responsible towards one group which is the stockholders of the organisation. The stockholders view the organisation as an economic engine and as such the primary goal of the organisation is to maximize the profits so that a profit can be distributed to them in the form of dividends. (Friedman, 2009)

According to Friedman the social initiative which a company take should be decided by the stockholders of the organisation, rather than being advocated by the CEO which is appointed to carry out the business for the stockholders (Friedman, 2009). According to this view of social responsibility, an organisation should not have any social responsibility towards society and the general public or anyone who is not the shareholder of the company. It is because the main concern of a business organisation is to maximize profit for the stockholders and the business itself and so it has social responsibility only towards the shareholders of the organisation. Friedman stated (2009, p. 133) “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, which is to say, engages in open and free competition without deception or fraud.”

However, the concept of stockholder theory is criticized by left-wing socialists such as Naomi Klein (Miles, 2012). Many critics mock the above definition given by Friedman, as in view of them it is ironic to regard the profit maximization stance as the only social responsibility of a business organisation (O’Leary, 2004). Under stockholder theory, the social responsibility emphasis of the business only towards its stockholders is regarded against the social responsibility of the organisation towards the welfare of the society and hence this social responsibility stance is false (Weiss, 2009).

Moreover, it is argued that the stockholder theory is vague and not consistent with the concept of corporate social responsibility with respect to stakeholders other than the stockholder (Schaefer, 2008). The stockholder theory is criticized for supporting only the corporate elites and making them more wealthy while the general public and the society as a whole is deprived of any benefits. (Miles, 2012)

The shareholder theory claims that businesses are a way by which capital is advanced to the managers by the owners (shareholders) of the company with the aim of receiving profit over the investment. In this respect, the managers are liable to preserve and maximize the interest of the owner while acting as agents for the owners. Under agency relationships the managers have a fiduciary responsibility towards the shareholders to not spend business resources in any purpose which is not allowed by the shareholders or is not in the best interest of the shareholders, irrespective of its social benefit. In view of this the shareholder theory strictly necessitates that managers have a legal obligation to follow stockholders' instructions. (Lee, 2008)

However, it is important to consider that the shareholder theory even in this vague form does not allow managers to carry out any activity to maximize profit without any checks and balances. The last part of the Friedman (2009, p. 133) definition of shareholder theory clearly states that "...engages in open and free competition without deception or fraud." This emphasises that while maximizing profit and acting in the best interest of the shareholders the managers are not free from all the moral and ethical codes. They are required to ensure that they are not involved in any illegal or deception or fraudulent activity in the course of profit maximization.

The shareholder theory argues that ethical constraints in the form of general ethics of fair dealings and laws are imposed by the society on the organisation which prevent it from engaging in illegal or deceptive or fraudulent activities. The general ethics of fair dealings and laws make up the ethical boundaries that every business is required to uplift while achieving the main aim of profit maximization. It is argued that most of the critics of stakeholder theory have seemed to overlook these ethical and legal limitations of the stakeholder theory. In view of this the claim of the critics that under the shareholder theory the managers have no ethical constraints while profit maximization seems not completely true. (Schaefer, 2008)

As per the stockholder's theory, the social pressure on BP to improve the health and safety procedures and to take social welfare initiatives like public welfare activities would be regarded as utilization of business resources for a purpose that is not in the best interest of the shareholders. The view that the resources of business can be utilized for the social good of the society and general public without the consent of the stockholders, in the same manner, the taxpayers' money can be spent for the betterment of the society without the consent of the taxpayers, would be wrong. Therefore under stockholder theory, it would be against the social responsibility of the business to maximize the profit and to act in the beneficial interest of the owners, unless such social good is done as per the consent of the stockholders. (Friedman & Miles, 2002)

2.2. Stakeholder Theory Review

Stakeholder theory is a contrasting approach of the stockholder theory regarding the ethical and social responsibility of a business organisation. According to this approach, a business organisation is socially responsible towards all of the groups (known as stakeholders) which can get affected by the decision and activities of a business organisation (Phillips & Freeman, 2010). In contrast, with the stockholder theory, the whole starting focus is on profit maximization, the starting focus of the stakeholder theory is on society and the world. The stakeholder theory seeks to identify the stakeholders who could be affected by the organisation and then focus on ascertaining the legitimate claims and rights of these stakeholders with respect to the actions of a business organisation. This gives rise to certain social responsibilities in the business organisation. (Mareș, 2008)

In a nutshell, the stakeholder theory states that all individuals or groups whose lives are impacted by the decision of an organisation have the right to have a say in directing its actions. The organisation is obligated to be socially responsible towards them by preventing them from doing any such activity which would be against the social welfare of all the stakeholders. Because of this, the prime responsibility of the managers is not towards the shareholders and not just to maximize the profit. However, the managers have a responsibility to maintain a balance between the conflicting rights of various stakeholders. (Frederic, 2002)

The stakeholders for a company who would depend upon the nature of the company and hence the group of people which may get impacted by its activities would comprise of its stakeholders. Typically there are five groups that are included in the stakeholders of an organisation under stakeholder theory, namely; customers, community, employees, suppliers, and the shareholders of the company. However, who could be included in the stakeholders of a company may vary significantly based on the nature and business activities of the organisation. (Fisher, Lovell, & Valero-Silva, 2012)

For instance, in the case of British Petroleum the stakeholders of the company would include, but not limited to the following;

- Shareholders of BP.
- Management and employees of BP.
- Customers and potential customers of BP.
- Suppliers and potential suppliers of BP.
- The local and international community of the world.
- Local population near the oil extraction and drilling sites.
- The bodies regulate the oil and gas industry.
- Local and international governments.
- Environmentalists and social welfare activists.
- Health and safety regulating bodies.
- Banks, creditors and lenders.

(BP Annual Report, 2013)

The aforementioned groups are included in the groups to which BP would be socially responsible as per stakeholder theory. However, these groups are not the only ones to which the company is socially responsible as the statement that everyone is a stakeholder who is affected by the activities of the business. In view of this, who else would be included in the list of stakeholders of a company becomes blurry. Therefore it becomes highly difficult and impractical from the point of view of a business organisation to be socially responsible towards all of the stakeholders and to give them a say in directing the business activities.

However, by taking into consideration the viewpoint of stakeholder theory it is necessary for the organisation to be socially responsible towards all of the stakeholders, even though it would be against the profit maximization stance of stockholder theory. (Lee, 2008)

In stakeholders theory, the managers are subjected to the fiduciary responsibility towards not only the shareholders but all of the stakeholders. The managers have an agency relationship with all stakeholders and hence are required to spend business resources on those purposes which are in favour of the stakeholders while ensuring the social benefit. By safeguarding the long term stakes of all the groups it would be possible to ensure the survival and protection of the interests of the organisation. In view of this, the stakeholder theory highlights that managers have a legal obligation to follow stakeholders' instructions. However as it is not practical to follow the instruction of every single person who would be affected by the organisation's actions, therefore to make is realistic it is necessary to define the specific stakeholders of a business who would be significantly affected by the organisation's actions. (Friedman & Miles, 2002)

As soon as the specific stakeholders of a business are identified the process of safeguarding their rights by being socially responsible on part of the organisation begins. Under this concept of business ethics, the profit is not measured in terms of money but in terms of human welfare, and so the aim of this theory is also to maximize the profit but in terms of human welfare, unlike money maximization under shareholder theory. The stakeholder theory aims at balancing the interests of everyone and also focuses on profit maximization but not at the cost of the welfare of society. Therefore under this view, the boundary of an organisation's social responsibility is not limited to the shareholders only but to be socially responsible it is necessary for it to safeguard the interests of all the stakeholder groups. (Weiss, 2009)

3. Discussion and Conclusion

After analyzing the stockholder theory and stakeholder theory it was found that these two theories provide contrasting views on the social responsibility of a business organisation. Although both the theories talk about the social responsibility of a business organisation, however the contradicting point between the two concepts is that the stockholder theory states that a business organisation has social responsibility but only towards the shareholders of the company.

However in stakeholder theory states that a business organisation has a social responsibility not only to shareholders of the company but to all of the groups who could be impacted by the business activities of the company. It was argued that the shareholders of a company may vary depending upon the nature and business activities of an organisation, however generally they can be classified into five groups, namely; customers, community, employees, suppliers, and the shareholders of the company.

The management of an organisation is responsible to maintain the rights of all the stakeholders to be socially responsible and have ethical business practices. Conversely, under stockholder theory, the social responsibility of the managers are only towards the shareholders of the company. The argument in favour of stockholder theory is that a business organisation as an economic engine has the main purpose of maximizing profits and so in this respect, the managers are socially responsible to maximize the profits for the shareholders of the company. Because of this managers are authorized to utilize the resources of the company only if that utilization would contribute towards maximizing the profits of the company. Managers have a fiduciary relationship with the shareholders of the company and are required to act in their best interest.

Therefore under shareholder theory, if the manager utilizes any of the business resources for the social welfare of stakeholder groups other than the shareholders of the company then it would not be regarded as socially responsible behaviour on part of the manager. On the other hand under stakeholder theory managers has a fiduciary responsibility towards all the stakeholder groups and is liable to balance the differing interest of all the stakeholders.

However, the concept of social responsibility under stakeholder theory seems unconvincing as it is impractical to give the right to all the groups which could be impacted by the business activities to direct the activities of the company. Therefore after evaluating the contrasting views of social responsibility under stockholder theory and stakeholder theory it can be said that British Petroleum has a social responsibility towards the shareholders as well as some main stakeholders of the company which have been listed in the report. For BP it would not be sufficient to be socially responsible towards its shareholders alone.

Moreover, it can be argued that sometimes doing charity and public welfare activities for society in the form of corporate social responsibility initiatives can be in the best interest of a company. Therefore BP should take charity and public welfare activities as it could create a good corporate image in the eyes of the public and other stakeholders. Consequently, it could act as a strong marketing stance to attract customers, potential customers and other important stakeholders of the company. Meanwhile, it would help in maximizing profit for the shareholders too. Therefore based on the research it is highlighted that a company like BP in the oil industry has a social responsibility towards the shareholders as well as the stakeholders of the company.

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