Viability: Background Readings Related to a Daniels Fund Ethics Initiative Principle

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Viability: Create long-term value for all relevant stakeholders

Stakeholder Theory

Stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It was originally detailed by R. Edward Freeman in the book Strategic Management: A Stakeholder Approach, and identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts play to address the "Principle of Who or What Really Counts." [1]

In the traditional view of the firm, the shareholder view, the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them. However, stakeholder theory argues that there are other parties involved, including governmental bodies,
trade associations, trade unions, communities, financiers, suppliers, employees, and customers. Sometimes even competitors are counted as stakeholders - their status being derived from their capacity to affect the firm and its other morally legitimate stakeholders. The nature of what is a stakeholder is highly contested (Miles, 2012), with hundreds of definitions existing in the academic literature (Miles, 2011).

The stakeholder view of strategy is an instrumental theory of the corporation, integrating both the resource-based view as well as the market-based view, and adding a socio-political level. This view of the firm is used to define the specific stakeholders of a corporation (the normative theory (Donaldson) of stakeholder identification) as well as examine the conditions under which these parties should be treated as stakeholders (the descriptive theory of stakeholder salience). These two questions make up the modern treatment of Stakeholder Theory.

Development

There have been numerous articles and books written on stakeholder theory. Recent scholarly works on the topic of stakeholder theory that exemplify research and theorizing in this area include Donaldson and Preston (1995) and Mitchell, Agle, and Wood (1997). Friedman and Miles (2002) and Phillips (2003).

Thomas Donaldson and Preston argue that the normative base of the theory, including the "identification of moral or philosophical guidelines for the operation and management of the corporation", is the core of the theory. Mitchell, et al. derive a typology of stakeholders based on the attributes of power (the extent a party has means to impose its will in a relationship), legitimacy (socially accepted and expected structures or behaviors), and urgency (time sensitivity or criticality of the stakeholder's claims). By examining the combination of these attributes in a binary manner, 8 types of stakeholders are derived along with their implications for the organization. Friedman and Miles explore the implications of contentious relationships between stakeholders and organizations by introducing compatible/ incompatible interests and necessary/contingent connections as additional attributes with which to examine the configuration of these relationships.

Robert Allan Phillips distinguishes between normatively legitimate stakeholders (those to whom an organization holds a moral obligation) and derivatively legitimate stakeholders (those whose stakeholder status is derived from their ability to affect the organization or its normatively legitimate stakeholders).

Critics

The political philosopher Charles Blattberg has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. Blattberg argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. He recommends conversation instead and this leads him to defend what he calls a 'patriotic' conception of the corporation as an alternative to that associated with stakeholder theory. Stakeholder theory is defined by Rossouw et al. in Ethics for Accountants and Auditors and by Mintz et al. in Ethical Obligations and Decision Making in Accounting.

According to Mansell (2013), by applying the political concept of a 'social contract' to the corporation, stakeholder theory undermines the principles on which a market economy is based.

Implementation in other fields

Stakeholder theory succeeds in becoming famous not only in the business ethics fields. It is used as one of the main frameworks in all corporate social responsibility methods. For example, ISO 26000 or GRI (Global Reporting Initiative) use similar methods that the one suggested by Freeman. In fields such as law, management, human resource, stakeholder theory succeeded in challenging the usual analysis frameworks, by suggesting to put stakeholders' needs at the beginning of any action. More surprisingly, some authors, such as Geoffroy Murat, tried to apply stakeholder's theory to irregular warfare.

References

2. Miles, Samantha (2012). "Stakeholders: essentially contested or just..."
Stakeholder Theory

Stakeholder theory has been articulated in a number of ways, but in each of these ways stakeholders represent a broader constituency for corporate responsibility than stockholders. Discussions of stakeholder theory invariably present contrasting views of whether a corporation’s responsibility is primarily (or only) to deliver profits to the stockholders/owners. Milton Friedman’s (1912-2006) now-famous pronouncement that the only social responsibility of corporations is to provide a profit for its owners stands in direct contrast to those who claim that a corporation's responsibilities extend to non-stockholder interests as well.

One very broad definition of a stakeholder is any group or individual which can affect or is affected by an organization.” Such a broad conception would include suppliers, customers, stockholders, employees, the media, political action groups, communities, and governments. A more narrow view of stakeholder would include employees, suppliers, customers, financial institutions, and local communities where the corporation does its business. But in either case, the claims on corporate conscience are considerably greater than the imperatives of maximizing financial return to stockholders.

Stakeholder theories have grown in number and type since the term stakeholder was first coined in 1963. According to R. Edward Freeman, whose work in stakeholder theory is well known, the stakeholder concept was originally defined as including "those groups without whose support the organization would cease to exist." As a part of management theory and practice, stakeholder theory takes a number of forms.
Descriptively, some research on stakeholder theory assumes that managers who wish to maximize their firm’s potential will take broader stakeholder interests into account. This gives rise to a number of studies on how managers, firms, and stakeholders do in fact interact. Normatively, other management studies and theories will discuss how corporations ought to interact with various stakeholders.

From an analytical perspective, a stakeholder approach can assist managers by promoting analysis of how the company fits into its larger environment, how its standard operating procedures affect stakeholders within the company (employees, managers, stockholders) and immediately beyond the company (customers, suppliers, financiers). Freeman suggests, for example, that each firm should fill in a “generic stakeholder map” with specific stakeholders. General categories such as owners, financial community, activist groups, suppliers, government, political groups, customers, unions, employees, trade associations, and competitors would be filled in with more specific stakeholders. In turn, the rational manager would not make major decisions for the organization without considering the impact on each of these specific stakeholders. As the organization changes over time, and as the issues for decision change, the specific stakeholder map will vary.

Again, the contrast with Friedman’s view should be evident: if the corporate manager looks only to maximize stockholder wealth, other corporate constituencies (stakeholders) can easily be overlooked. In a normative sense, stakeholder theory strongly suggests that overlooking these other stakeholders is (a) unwise or imprudent and/or (b) ethically unjustified. To this extent, stakeholder theory participates in a broader debate about business and ethics: will an ethical company be more profitable in the long run than a company that looks only to the “bottom line” in any given quarter or year? Those who claim that corporate managers are imprudent or unwise in ignoring various non-stockholder constituencies would answer “yes.” Others would claim that overlooking these other constituencies is not ethically justified, regardless of either the short-term or long-term results for the corporation.

Inevitably, fundamental questions are raised, such as “What is a corporation, and what is the purpose of a corporation?” Many stakeholder theorists visualize the corporation not as a truly separate entity, but as part of a much larger social enterprise. The corporation is not so much a “natural” individual, in this view, but is rather constructed legally and politically as an entity that creates social goods. Robert Reich has noted that for many years, the tacit assumption of both corporate chiefs and U.S. political leaders was that “the corporation existed for its shareholders, and as they prospered, so would the nation.” Yet that “root principle” may no longer be valid, according to many critics of corporate aims and activities in a global economy.

Moreover, the assumption that the corporate pursuit of profit would inevitably lead to social gain is a fairly recent one. In the first century of the United States, it was widely assumed that the corporate form could only be used for public purposes. Charters were not given out by legislatures as a matter of right, but only for public convenience or necessity. Sometime in the 1880s, states (such as New Jersey and Delaware) began to grant charters for nonpublic purposes, enhancing state revenues in the process. For most of the 20th century, the assumption has been that what is good for corporate America is also good for America. But, as Reich has noted, that assumption is being reconsidered.

Half the states in the United States have put into law “corporate constituency statutes” that make it permissible (but not mandatory) for corporate managers to take non-stockholder constituencies (stakeholders) into account. The legal effect of such laws may be to insulate officers and directors from liability for failing to maximize profits to shareholders, though it may be too early to predict the impact of such statutes. Moreover, such statutes are fairly open-ended, as they do not specify the weights that managers ought to assign to various corporate stakeholders. In this respect, the statutes are much like stakeholder theory itself: beyond the basic insight that corporations ought (as a matter of profitable prudence or morality) to consider non-shareholder interests, the competing claims and priorities of various constituencies are seldom defined or prioritized.

On an even more general level, there are various proposals and studies on reinventing the corporation, requiring federal charters for corporations, or adding a social responsibility
amendment to the U.S. Constitution to require corporations to prove that their activities serve the common good. Legally, such proposals will have little momentum as long as corporate activities are perceived to provide social goods (jobs, new and useful products) without excessive social harms (pollution, socially suspect messages, harmful products). The public perceptions of the ethics or business in general and corporations in particular have gone through several cycles in U.S. history, and further restrictions on U.S. corporations are unlikely as long as most Americans participate in economic gains.

In the meantime, business managers may beneficially consider non-shareholder constituencies. The motivation for doing so may be pragmatic (for the long-term well-being of the company) or normative (for moral reasons), but the law does not currently require corporations or their managers to implement stakeholder theory.

Further Reading


Creating Value for All Stakeholders: A Critical Leadership Role

Source: Meirc Training and Consulting (Dr. Farid A. Muna)
http://www.meirc.com/meirc-consultants/1012-creating-value-for-all-stakeholders-a-critical-leadership-role-.html (Edited)

Leaders and CEOs realize that they need to know much more about creating long-term value for their stakeholders, especially in the aftermath of the housing crisis and the world-wide economic meltdown of 2008-2009, which overshadowed the accounting scandals, imprudent financial investments, and lax corporate governance at the turn of this new century.

However, corporate leaders are under great pressure to produce short-term results rather than focus their efforts on long-term strategies and value creation. This overemphasis, especially in the USA, on short-term considerations imposes high costs on stakeholders (including shareholders) and the economy. Short-term outlook (known as short-termism) is the result of several factors which boards of directors, stakeholders, and CEOs can address to help alleviate the negative consequences of this phenomenon.

Let us begin by examining the factors contributing to short-termism and provide some recommendations to reduce its destructive effects. Needless to say, some of these recommendations fall outside the CEO’s power and authority. Some recommendations would require changes in policy and regulations; others would require determined efforts by boards of directors and other stakeholders.

- Many organizations have been highly criticized for not putting enough time, effort,
or emphasis into succession planning and the development of their internal managerial talent. This lack of long-term planning is forcing organizations to recruit outside executives for the top job, who are increasingly hired on short contract basis which, in itself, causes more short-termism. Boards of directors and CEOs should be held accountable for succession planning and career development of their top managers.

- Executive compensation and incentive plans (including stock options) are linked to short-term results. Boards of directors should strengthen the link between long-term performance and executive compensation, especially when making decisions on a CEO’s recruitment, retention and termination.

- Lack of support by the board of directors for strategic, long-term plans (longer than five years). Corporate governance should define and promote metrics and measurements of long-term performance in order to guide top executives in their strategic thinking and long-term planning.

- Many organizations provide quarterly guidance on revenues and earnings per share. Wall Street analysts, hedge fund and asset managers, private equity funds and other investors are often looking for short-term results, sometimes making huge stock trading decisions based on quarterly earnings or earnings outlooks. Recently, nearly half of large publicly-traded organizations have stopped the practice of providing such estimates to Wall Street. The quarterly earnings obsession is not healthy for long-term strategic planning.

- In the USA, the role of chairman and CEO is usually occupied by the same person…. Separating the roles allows the chairman and board members to keep an eye on the executive team and in turn the company’s overall performance on behalf of the stakeholders. Separating the roles also allows the Chairman and the CEO to focus on different, equally vital aspects of the company’s long-term performance.

- By law, the US Securities and Exchange Commission requires large public companies to report their financial results quarterly (Form10-Q) and annually (Form 10-K). In contrast, many organizations, for example in the UK, Europe, and Japan, report earnings only on a bi-annual basis. Should the USA eventually follow the reporting practices of overseas companies? Will semi-annual reporting lesson the pressures of short-termism? One comparative study (comparing the quarterly reporting of the USA and Canada with the semi-annual reporting of the UK and Australia) suggests that semi-annual reporting leads to less volatility in stock prices (Mensah and Werner 2008). This subject is worthy of further research.

Recently, we have witnessed a movement on the American scene spearheaded by prominent groups of business leaders, public policy leaders, and academics calling on organizations to take a longer-term view of corporate performance and to fight short-termism. These groups include the Aspen Institute’s Corporate Value Strategy Group (2008), the Conference Board (2006), and the Business Roundtable (2006). Their publications, cited below in References, should be mandatory reading for current and aspiring leaders.

Recognizing that corporate leaders have limited power to implement some of the above recommendations, the question becomes: “What else can the CEO do to create long-term value for stakeholders?” Well, there has been a fair amount of debate in the last decade on innovation and value creation.

The CEO and Innovation

During the first decade of the 21st Century, innovation has become the fashion—the latest strategic weapon for organizations. In a 2004 survey of global CEOs, The Economist stated that in most global companies around 25% of revenues came from products and services less than three years old; most companies must innovate to meet new customer demands. The Economist concluded that, “Innovation is now recognized as the single most important ingredient in any modern economy.”

The 36th World Economic Forum (WEF) held in Davos, Switzerland during January 2006 witnessed a new and unusual theme. In addition to the normal topics on world economic and political conditions, the theme of “Innovation,
Creativity, & Design Strategy” was included on that year’s agenda.

There is no doubt that innovation requires a corporate culture of creativity and learning reinforced by top management’s active involvement and support. When a culture of innovation becomes a critical success factor, innovation becomes a way of life! People should be allowed to experiment, think outside the box, tolerate failures and risk, learn from their mistakes, and work in multidisciplinary teams.

One more thing has become clear about innovation; you do not merely ask potential customers “would you like us to invent a Walkman, post-it notes, an MP3, an iPhone, a Wii video game console, a flat panel HDTV, an iPad, or a GPS for the car?” Customers simply cannot imagine all new possibilities and products, nor are they familiar with the current or upcoming technical capabilities of organizations. Nevertheless, customers should be intimately involved in the development of new products, services and design from the start; and not only through questionnaires, surveys, and study groups.

Innovation and creating value must involve the customer; give the customer an experience that will keep driving the business. This is not a new concept: being customer-friendly has always been advocated as another way to create value to both customers and companies. The authors of The New Age of Innovation (Prahalad and Krishnan 2008) state that there is a fundamental transformation of business underway that focuses on customers’ experiences with a certain product or service. The authors wrote “Value is based on unique, personalized experiences of consumers, one consumer at a time. Firms have to learn to focus on one consumer and her experiences at a time, even if they serve 100 million consumers.

Apple Inc. is one of the numerous companies cited by the authors where the focus on customers’ experiences is practiced. Apple’s entry to the digital music space with iPod and iTunes software allows users to personalize their experiences with their music selection one song at a time. The iPod’s capacity to store a great number of songs allows individual users to personalize specific music lists depending on their mood or the time of the day, which they can select from whether at the gym, in a park, at home or school, or in their cars while driving around.

Meanwhile, more and more large companies are making innovation part of their corporate culture and structure. Consider how companies such as Toyota, General Electric, Procter & Gamble, 3M, Microsoft, Sony, Hewlett-Packard, DuPont, IBM, Whirlpool, and Google (to name a few) are approaching the subject. They have taken key actions in order to structure and incorporate innovation efforts into their organizations. Most have created innovation teams with considerable decision-making power. They have also set aside special innovation budgets that are independent from other departments and divisions. For example, Procter & Gamble (P&G) has established an innovation fund which provides financing for the development of disruptive innovations and for new businesses. P&G’s Crest Whitestrips were financed by this type of fund.

A.G. Lafley, former Chairman and CEO of P&G, in an interview with Fortune magazine (2006) explained how his company views innovation and why they use outsiders as partners in innovation. “We’re good inventors but probably not better in a lot of areas than others outside. What we’re really good at is developing, qualifying and commercializing for our industries and our channels. So we just opened up the front end. In 2000, a little more than 10 percent of our innovation was partnered with at least one external partner. We set a goal of 50 percent. Last year a bit more than 40 percent of what we commercialized had at least one external partner.” In hard economic times, it is becoming more common for companies to place some of their research and development projects with outside firms or partners. Chesbrough and Garman (2009) call this strategy “the inside-out open innovation”, which is practiced nowadays by Eli Lilly, Unilever, Philips Electronics, SAP, to mention a few.

In an interview with Harvard Business Review (2006), Jeff Immelt, CEO of General Electric, described his future vision of imagination breakthroughs as “…a protected class of ideas—safe from the budget slashers because I’ve blessed each one. They help make organic growth real to the company and to the Street. At this point, there are about 100 of them, half involving brand-new products and half involving changing commercial structure. Ultimately, I’d
like to see the concept morph and spread into the organization so that we have 1,000 imagination breakthroughs and the focus is less on these big elephants and more on creativity throughout the business.”

Without a doubt, innovation and improvement initiatives have to be closely linked to financial measures and long-term value creation for stakeholders. What is urgently required at both the national and organizational levels are long-term investments and long-term thinking.

References


Some Key Questions about Stakeholder Theory
Source: The Workplace, March/April 2004 (Robert Philips)
http://www.iveybusinessjournal.com/topics/the-workplace/some-key-questions-about-stakeholder-theory#.UZvEMrVwqo0 (Edited)

When it comes to ethics in business, many accept that standards can not only be different from, but even lower than, ethics in everyday life. That should definitely not be so, argues this author. In fact, a corporation’s obligations to its stakeholders bind it to those stakeholders, in turn creating new and specific moral obligations.

As businesses emerge as some of the most powerful institutions in the world, business ethics have never been more important, and given very recent history, more open to question. Corporations are relative newcomers to power, and for evidence of this we can look to Europe, where the oldest, largest, most elaborate buildings are the churches and cathedrals. For thousands of years, the church and its leaders were arguably the most powerful institution, but as the liberal notions of the Enlightenment supplanted church orthodoxy, the state supplanted religion as the more powerful institution. But at the dawn of the third millennium, the newest, grandest buildings are the corporate headquarters and facilities, an architectural phenomenon that neatly illustrates the transfer of power through history.

It is not clear, however, that the business community has lived up to its obligations and responsibilities in proportion to its rapid increase in power. Witness the number of organizations and executives that are being exposed for immoral and fraudulent conduct. This is why the time is ripe for an in-depth examination of ethics in business. In this article, I will apply the principles of stakeholder theory to discuss questions that are central to the business ethics debate, specifically:
Why should managers pay attention to stakeholders?

Who are an organization’s stakeholders and what is the basis for their legitimacy?

What do stakeholders want?

How should managers prioritize among stakeholders?

Are the ethics of business different from everyday ethics? If so, how and why?

Why Pay Attention to Stakeholders?

Any convincing justification for maximizing shareholder wealth must, at its core, be a moral argument. The most convincing case is the property rights argument popularized by Milton Friedman. Briefly, this posits that shareholders own a firm by virtue of owning equity shares, and, moreover, that they wish to maximize the value of those shares. Managers who fail to maximize shareholder wealth are violating a moral property right by spending—if not stealing—shareholders’ money.

In my opinion, equating share ownership with firm ownership is unjustified because the firm is an independent entity that is not “owned” by anyone. By way of comparison, selected individuals are responsible for administering churches, universities and even nations, but there is not a compelling need to discern who “owns” these institutions. Why should business organizations be any different? And without the concept of ownership, maximizing shareholder wealth are violating a moral property right by spending—if not stealing—shareholders’ money.

If organizations are entities unto themselves, capable of bearing legal obligations, then they are also capable of bearing moral obligations. One such obligation is stakeholder fairness—that is, organizations become obligated to their contributors when they accept the benefits of mutual co-operation, although only a small portion of this obligation is codified in laws. Shareholders are significant contributors to organizations, and from this perspective they are owed a significant obligation. Typically, this obligation takes the form of dividends and/or an increase in the market value of shareholders’ equity. However, there is no special (e.g., fiduciary) obligation due to shareholders that supersedes the firm’s obligations to lesser (e.g., nonfiduciary) stakeholders. Company executives are responsible for administering the affairs of the organization, including the moral obligations entailed in stakeholder fairness.…

Who Are an Organization’s Stakeholders and What is the Basis for Their Legitimacy?

The question of who is, and who is not, a stakeholder has long been a point of contention. Should stakeholder status be reserved for constituencies that have a very close relationship with the organization? Or, should stakeholder status be broadly interpreted and take into account all of the groups that can affect, and be affected by, the organization? Should activists/competitors/the natural environment/the media be classified as stakeholders? How are managers to decide?

At a minimum, stakeholders are those groups from whom the organization has voluntarily accepted benefits, and to whom the organization has therefore incurred obligations of fairness. Typically, this includes groups such as financiers, employees, customers, suppliers and local communities.

But what about the more controversial candidates for stakeholder status? For example, most organizations have not accepted benefits from their competitors or activist groups, although theories of strategic management would surely grant these constituents some consideration because they can significantly influence the organization’s success. Stakeholder theory maintains that normative or legitimate stakeholders are owed an obligation by the organization and its leaders, while derivative stakeholders hold power over the organization and may exert either a beneficial or harmful influence on it.

Competitors can certainly affect an organization and should therefore be considered legitimate stakeholders, but the organization and its managers have no moral obligation to attend to their well-being. An organization may expend resources on managing media coverage for the sole purpose of advancing its own goals, and not for the sake of the media’s intrinsic worth. Similarly, the natural environment is not a normative stakeholder, but an organization may
choose to care for the environment because its legitimate stakeholders may care deeply about it.

What Do Stakeholders Want?

The fact that different people want different things from their relationships with organizations makes it impossible to know with certainty what stakeholders want. Stakeholder discussions often focus on allocating some measure of organizational value or outcome (e.g., who gets how much money from the firm). The question of how the organization creates this value usually gets less attention, but it is certainly not less important. Not all stakeholders want a voice in organizational decision making, but those who do desire a voice should have it.

Too often, managers sit in an office trying to divine what stakeholders want from their relationship with the organization. Someone in Human Resources has the job of finding out what employees want and then representing their wishes, while someone in Public Relations communicates the interest of the local community to managers in other departments. But stakeholder interaction and discourse should be the responsibility of managers at all levels of the organization, not simply the purview of specialized departments.

The call for stakeholder communication is nothing new. The bestseller *In Search of Excellence*, by Tom Peters and Bob Waterman, popularized “management by walking around” as early as 1988, and management approaches too numerous to list have promoted this theme. However, the significance of stakeholder communication does bear repeating in the context of this article.

Stakeholder communication is certainly good for the organization. Managers who are in constant contact with stakeholders are in a better position to assess organizational goals, to take advantage of unforeseen but mutually advantageous opportunities (e.g., cost reductions throughout the supply chain), and possibly to avert conflict before it reaches a critical stage (e.g., communication with dissatisfied employees or activists. But stakeholder communication is more than good for the organization. It is a matter of moral obligation. Individual and groups who contribute to the organization should be permitted some say in how that organization is managed.

Advocating stakeholder communication does not necessarily demand organizational democracy, stakeholder boards of directors, or any other specific institutional structure. But neither does it rule them out. How a particular company creates and reinforces stakeholder dialogue is best left to the managers and stakeholders themselves. The important point is that communication should be as frequent and as thorough as feasible.

How Should Managers Prioritize Among Stakeholders?

Another issue that has historically plagued stakeholder theory is the question of how managers should allocate their limited time, energy and other scarce resources to stakeholders. While there is no determinate algorithm, stakeholder theory can provide some broad direction on making these decisions. Normatively legitimate stakeholders (those stakeholders to whom the organization has an obligation) take moral precedence over derivatively legitimate stakeholders. Certainly, managers need to know what the stakeholders believe to be in their best interests prior to trying to make this happen—a first priority of sorts.

Complicating the matter, however, is the fact that advancing the interests of the organization and its normative stakeholders may involve spending a lot of time and resources attending to the demands of derivative stakeholders—often with the blessing of normatively legitimate stakeholders. If some activist group or competitor threatens the viability of the organization, managers should expend as much time and effort as necessary to deal with this threat. Other stakeholders generally accept these activities as being a priority when they are understood to be in their own best interests as well as in the best interests of the organization.

This raises the important point that there are many ways of translating the concept of priority. For example, individuals may spend more waking hours at work than they spend with their family, but this does not necessarily mean that work has a higher priority than family. Time at work may make time with the family possible,
and, in this case, time is a misleading indicator because the individual’s priority still lies with the family. Similarly, managing for stakeholders may, for a limited time, involve spending a majority of time and resources contending with the issues raised by derivative stakeholders.

Of course, a person who continually claims to be working for his or her family, but instead moves from one work crisis to another, failing to spend any time with them, may be genuinely confused about their priorities. Likewise, managers who do not devote time and resources to normative stakeholders for an extended period may have reason to find that their commitment is in doubt.

There is one final way that stakeholder theory can provide some managerial guidance in prioritizing stakeholders. Many stakeholder critics—and some advocates—have interpreted the concept of “balancing” stakeholder interests as implying that all stakeholders should be treated equally. But this is not a particularly convincing interpretation of stakeholder theory. Rather, meritocracy and the equitable distribution of organizational input and resources are perfectly consistent with managing for stakeholders. Balance does not imply equality of voice or share of outputs. Voice in decision-making and share of organizational outcomes should be based on contribution to the organization. The more a stakeholder group contributes to the organization, the greater their voice and share of value created should be.

I recognize that both inputs and outcomes are typically incommensurate. There is no easy prescription for how a manager can evaluate the relative contributions of financier capital, employee effort and expertise, and customer loyalty when making allocation decisions. But prescribing equitability, rather than equality, as the criterion for distribution provides some guidance.

Are the Ethics of Business Different from Everyday Ethics?

Stakeholder theory is also helpful in assessing whether business ethics is distinctive from ordinary, everyday ethics. Both commentators and managers alike have suggested that the ethics of business are less strict than the ethics that pervade day-to-day life. Albert Z. Carr’s polemic of more than 30 years ago sums up this belief. In comparing the ethics of business to the ethics of poker, he writes:

Poker’s own brand of ethics is different from the ethical ideals of civilized human relationships. The game calls for distrust of the other fellow. It ignores the claim of friendship. Cunning deception and concealment of one’s strength and intentions, not kindness and openheartedness, are vital in poker. No one thinks any the worse of poker on that account. And no one should think any the worse of the game of business because its standards of right and wrong differ from the prevailing traditions of morality in our society. (Albert Z. Carr, “Is Business Bluffing Ethical?” Harvard Business Review, January/February 1968).

A large segment of the world contends that the ethics of business are of a lesser grade than those of the rest of society. Some even believe that this should be the case. I contend the opposite.

Running an organization does not license a manager to violate the norms and standards of society, but instead introduces a brand-new set of moral considerations based on stakeholder obligations. In respect of normatively legitimate stakeholders (e.g. financiers, employees, customers), the ethics of business implies more obligations rather than less, exactly the opposite of what Carr professed. His suggestion that “bluffing” is merely part of business may be true in some limited contexts, but in my opinion these situations are not nearly as common as Carr indicates.

As business organizations gain more power, they will be under increasing pressure to recognize and act upon their obligations and responsibilities. The recent actions of some executives and firms in the business world have intensified the need for greater emphasis on ethics, but the need is nevertheless present and should be met.