THE POLITICS OF STAKEHOLDER THEORY:

SOME FUTURE DIRECTIONS†1

R. Edward Freeman

Business Ethics Quarterly 4:4 (1994): 409-421

Abstract

The purpose of this paper is to enter the conversation about stakeholder theory with the goal of clarifying certain foundational issues. I want to show, along with Boatright, that there is no stakeholder paradox, and that the principle on which such a paradox is built, the Separation Thesis, is nicely self-serving to business and ethics academics. If we give up such a thesis we find there is no stakeholder theory but that stakeholder theory becomes a genre that is quite rich. It becomes one of many ways to blend together the central concepts of business with those of ethics. Rather than take each concept of business singly or the whole of "business" together and hold it to the light of ethical standards, we can use the stakeholder concept to create more fine-grained analyses that combine business and ethics; or more simply, we can tell many more, and more interesting, stories about business.

I

Several recent papers have raised important conceptual questions about the idea of "stakeholder management" or "stakeholder theory." Kenneth Goodpaster has sounded a significant challenge by diagnosing a "stakeholder paradox" at the heart of stakeholder theory.†2 James Kuhn and Donald Shriver have attacked the very idea that stakeholder relationships are to be managed at all, proposing instead a "constituency view" that sees the corporation and its stakeholders as a voluntary community.†3 Martin Meznar, James Chrisman and Archie Carroll have straddled this controversy by explicitly connecting stakeholder management to business strategy and adopting a utilitarian ethic for its defense.†4 And, John Boatright has argued that while the special nature of stockholder claims can't be justified—there is no argument for the special nature of stakeholder claims.†5

The purpose of this paper is to enter this conversation with the goal of clarifying certain foundational issues. I want to show in Part II, along with Boatright, that there is no stakeholder paradox, and that the principle on which such a paradox is built, the Separation Thesis, is nicely self-serving to business and ethics academics. In Part III I suggest that if we give up such a thesis we find there is no stakeholder theory but that stakeholder theory becomes a genre that is quite rich. It becomes one of many ways to blend together the central concepts of business with those of ethics. Rather than take each concept of business singly or the whole of "business" together and hold it to the light of ethical standards, we can use the stakeholder concept to create more fine-grained analyses that combine business and ethics; or more simply, we can tell many more, and more interesting, stories about business. In Part IV I shall sketch one such story based on some recent papers on stakeholder theory. And, finally in Part V I want to suggest that the way that the debate on the stakeholder concept has proceeded is illustrative of how we can recast the role of business ethics along more pragmatist lines.

II

In "Business Ethics and Stakeholder Analysis" Kenneth Goodpaster suggests that "stakeholder analysis" (as he calls it) has two competing interpretations. The Strategic Interpretation says that managing stakeholders is a means, perhaps a mere means, towards the achievement of both stockholder or managerial ends. So, managing stakeholder relationships makes good business sense, in that it allows the firm and its managers to achieve its objectives understood, according to Goodpaster, in narrow economic (profit-maximizing) terms. On the other hand, the Multi-Fiduciary Interpretation says that managers and directors have fiduciary obligations to stakeholders, one of which is stockholders, and that managing stakeholder relationships is non-optional, it is morally required.

From these two competing interpretations Goodpaster deduces the Stakeholder Paradox:†6 It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones." While it may be difficult to see this sentence as paradoxical, Goodpaster does so presumably because:†7

It can be argued that multi-fiduciary stakeholder analysis is simply incompatible with widely-held moral convictions about the special fiduciary obligations owed by management to stockholders. At the center of the objection is the belief that the obligations of agents to principals are stronger or different in kind from those of agents to third parties.

Plainly, unless this "argument" has some merit, there is no paradox, for the Multi Fiduciary Interpretation need only hold that managers bear fiduciary, or "special fiduciary" obligations to stakeholders. What John Boatright has rightly shown is that such "widely held" moral convictions cannot be sustained. So this interpretation just denies what the Strategic Interpretation claims. There is no paradox, just difference, to be resolved by way of justification. That Goodpaster thinks that the above argument has some merit, at least as far as discrediting the multi-fiduciary view, is clear from his analysis. He cleverly delivers the punch line as "strategic stakeholder synthesis (business without ethics) or the effective loss of the private sector with a multi-fiduciary stakeholder synthesis (ethics without business)."†8

Put in these terms there is clearly a paradox, one that Goodpaster resolves by creating "nonfiduciary obligations to third parties surrounding any fiduciary relationship."†9 These obligations are moral ones, but not fiduciary. These are made real by a kind of projection principle, called the "Nemo Dat Principle" that says that stockholders can't expect managers to disobey reasonable community standards of ethics. Goodpaster concludes that:†10 "the foundation of ethics in management—and the way out of the stakeholder paradox—lies in understanding that the conscience of the corporation is a logical and moral extension of the consciences of its principals. It is not an expansion of the list of principals, but a gloss on the principal-agent relationship itself. Whatever the structure of the principal-agent relationship, neither principal nor agent can ever claim that an agent has 'moral immunity' from the basic obligations that would apply to any human being toward other members of the community".

While this last sentence is surely correct, what Goodpaster fails to see is that moral immunity is in fact what gets claimed and justified in an invisible utilitarian sleight of hand.†11 None of this will do—and I want to recommend that the stakeholder concept can provide a more than adequate dissolution of the so-called paradox. At least part of the difficulty is in the way that Goodpaster has set up the dichotomy between the Strategic Interpretation and the Multi-Fiduciary Interpretation. It is surely true that some, myself included, have written as if managing stakeholder relationships is just good business. It is common sense to spend time and attention worrying about those groups and individuals who can affect you or whom you can affect. The problem lies in the question "What is a stakeholder?"

In much earlier work, there was very little philosophical sophistication. Stakeholders were just generic groups, unindividuated without clear membership conditions. A number of people began to suggest that stakeholders had to be seen in a nominalist fashion. They were individuals who stood in a certain relationship, via membership in some group, or via some role-related activity, to the corporation. Once they are seen as individuals, human beings, they must be seen as moral beings, without

moral immunity, initially on the same rather level playing field. The question now becomes what principles should govern their interaction.†12

One such principle, which I will call "The Principle of Who and What Really Count,"†13 says that the primary function of the corporation is to enhance the economic well-being, or serve as a vehicle for the free choices of, the owners of the corporation. And, owners are defined as those who hold legal title to shares of stock in the corporation. This principle is embodied in the law of corporations which has historically directed managers and directors to "manage the affairs of the corporation in the interests of stockholders, using sound business judgement." So, the only possible interpretation of "stakeholders" given the Principle of Who and What Really Count, is Goodpaster's Strategic Interpretation. Given this principle we have to find some way to build ethics into the discussion or we have Goodpaster's "business without ethics."

But, the law of corporations is not the only law, and as I have argued elsewhere†14, managers and directors have ignored the rights of stakeholders on peril of legislation in a free political system. So, we have protections in the form of the Wagner Act, the Consumer Product Safety Commission, the Uniform Commercial Code, the Foreign Corrupt Practices Act, the Securities Exchange Commission, the Environmental Protection Agency, and many more. These laws and agencies have arisen chiefly because the Principle of Who and What Really Count has not been called into question. The mythology of laissez-faire capitalism is unfortunately easily propped up by arguments that claim, of course managers have the same moral obligations that you and I have, even if they often disregard them in favor of invisible hand explanations. Economists, business theorists and evidently some business ethicists think that it is enough to see morality as a side-constraint on the maximization of stockholder wealth, justifiable only if a greater good or other moral end is served.

Goodpaster's version of this error is to claim that morality governs any principal-agent relationship, and while that is surely true, he does not go on to ask the obvious question: What really is the nature of the principal-agent relationship in business? Now John Boatright has argued that Goodpaster is wrong in using principal-agent language to unpack the moral nature of business. But, the use of agency theory is not the main issue. One can be careful in articulating the obligations and duties to both principals and agents to obtain a model of the firm that is a multiple principal/multiple stakeholder model. Or, one can subject the agency model to a careful reinterpretation that makes ethical issues quite explicit.†15

In fact, the very idea of the Multi-Fiduciary Interpretation is to call the normal way of thinking about business into question. It suggests that we reject a principle which is implicit in both Goodpaster's and Boatright's analysis, and is indeed prevalent in most of

the business literature, including the business ethics literature. Let me call this principle, "The Separation Thesis" and describe it as follows:

The Separation Thesis

The discourse of business and the discourse of ethics can be separated so that sentences like, "x is a business decision" have no moral content, and "x is a moral decision" have no business content.

Obviously, I am using "moral" and "business" as descriptive terms picking out decisions for analysis. But, it is ingrained in all that we do in business schools to separate the discourse of business from the discourse of ethics. The Separation Thesis pervades business ethics. As long as we can separate the discourse of business and the discourse of ethics there will be room for people to connect them—to hold particular business concepts up to the light of ethical discourse and to do criticism on a large scale either condemning or glorifying business as a practice. We in essence subscribe to a cousin of the Principle of Who and What Really Count, which we may call "The Principle of Make It Up As You Go Along." As long as the discourse distinguishes "business" and "ethics" we will need business ethicists to make it up as we go along—holding business, piece by piece, to the light of reason. And, as long as business ethics is separate, business theorists are free to make up supposedly morally neutral theories such as agency theory which can be used to justify a great deal of harm.

Now the whole point of the stakeholder approach is to deny the Separation Thesis, reject the Principle of Who and What Really Counts, and to set aside the Principle of Make It Up As You Go Along. This approach borrows from Quine and other pragmatists, "Sentences (particularly sentences about business) do not confront the tribunal of experience alone." There is always a context to business theory, and that context is moral in nature. It is only by recognizing the moral presuppositions of business theory, refining them, testing them by living differently, and revising them that we can invent and reinvent better ways to live. All of this is just Dewey updated for business, but the Separation Thesis runs the gamut from managerial decision making to Nobel decorated economists. And, we should make it optional.

So, the argument among us goes like this: Goodpaster wants the Separation Thesis to save business from ethics, and a version of moral theory to save ethics from business.†16 Boatright suggests that there is no argument for treating stockholders (or stakeholders) in a special way. And I want to suggest that if you give up the Separation Principle and its subsidiary principles, then the argument between Goodpaster and Boatright is beside the point.

III

I want to suggest how things would look if we dropped the idea that we can meaningfully talk about business and ethics by keeping the concepts, ideas and theories of each autonomous. In other words I want to suggest, it is not meaningful to talk about either stockholders or stakeholders without engaging in discourse that is at once normative, descriptive, instrumental and metaphorical.

In an important recent paper, Tom Donaldson and Lee Preston†17 have argued, like Boatright, that the normative ground of any adequate theory of business is inconsistent with a stockholder theory. They turn to an analysis of the various uses of "stakeholders" and conclude that the stakeholder theory is consistent with a modern view of property. They rightly suggest that the "stockholder theory" is an idea whose time has come and gone, and that we should get on with the task of connecting the stakeholder theory with traditional normative conceptual schemes. Given Boatright's analysis, and Donaldson and Preston's summary of the arguments against the stockholder theory I believe we can safely say that the stockholder theory is or at least should be intellectually dead. If so, I want to suggest something that seems paradoxical: There is no such thing as the stakeholder theory.

The temptation has been for a long time to depict the stakeholder concept as a kind of rallying cry against the stockholder theory. Armed with stakeholder maps on our shields and banners, we have marched forth to browbeat the infidels, mostly economists and finance theorists, and others who want to be like them, such as marketing theorists and accountants, and show them that the stakeholder theory is "better" than the stockholder theory. This certainly is the tone if not the intent of Brenner and Hosseini, as well as Meznar, Chrisman, and Carroll, as well as the intent of some of my earlier writing.†18 But, if the Separation Thesis cannot be maintained, then the issue is what kind of moral content a theory has, not whether it has any moral content or not.

"The stakeholder theory" can be unpacked into a number of stakeholder theories, each of which has a "normative core," inextricably linked to the way that corporations should be governed and the way that managers should act. So, attempts to more fully define, or more carefully define a stakeholder theory are misguided. Following Donaldson and Preston, I want to insist that the normative, descriptive, instrumental, and metaphorical (my addition to their framework) uses of 'stakeholder' are tied together in particular political constructions to yield a number of possible "stakeholder theories." "Stakeholder theory" is thus a genre of stories about how we could live. Let me be more specific.

A "normative core" of a theory is a set of sentences that includes among others, sentences like:

(1) Corporations ought to be governed...

(2) Managers ought to act to...

where we need arguments or further narratives which include business and moral terms to fill in the blanks. This normative core is not always reducible to a fundamental ground like the theory of property, but certain normative cores are consistent with modern understandings of property. Certain elaborations of the theory of private property plus the other institutions of political liberalism give rise to particular normative cores. But there are other institutions, other political conceptions of how society ought to be structured, so that there are different possible normative cores. Such a "reasonable pluralism" is what I had in mind with the idea of "enterprise strategy," but even that concept was filled with the language of the Separation Thesis, and too much in the instrumental/descriptive mode.†19

So, one normative core of a stakeholder theory might be a feminist standpoint one, rethinking how we would restructure "value-creating activity" along principles of caring and connection.†20 Another would be an ecological (or several ecological) normative cores. Mark Starik has argued that the very idea of a stakeholder theory of the firm ignores certain ecological necessities.†21 Exhibit 1 is suggestive of how these theories could be developed.

Exhibit 1: A Reasonable Pluralism

In the next section I shall sketch the normative core based on pragmatic liberalism. But, any normative core must address the questions in columns A or B, or explain why these questions may be irrelevant, as in the ecological view. In addition each "theory," and I use the word hesitantly, must place the normative core within a more full-fledged account of how we could understand value-creating activity differently (column C). The only way to get on with this task is to see the stakeholder idea as a metaphor, in addition to the normative, descriptive, and instrumental uses as per Donaldson and Preston. The attempt to prescribe one and only one "normative core" and construct "a stakeholder theory" is at best a disguised attempt to smuggle a normative core past the unsophisticated noses of other unsuspecting academics who are just happy to see the end of the stockholder orthodoxy.

IV

In several recent papers William Evan and I have struggled with articulating a more explicitly moral basis for the stakeholder idea.†22 In one paper we suggested a kind of neo-Kantian principle for treating stakeholders as ends rather than mere means. And, in the second we attempted to show how such a Kantian conception is consistent with a reinterpretation of Oliver Williamson's transaction-cost economics. Each attempt was problematic precisely because it juxtaposed a single stakeholder theory with the orthodox stockholder theory. The intuitions behind these attempts were sound, namely, that a new narrative for how we understand the human process of joint value creation was necessary. The Kantian framework, however, ought to impose an order on this process which did not admit the pluralism in which we are so obviously enmeshed.

The central insight of these ideas is that the usual story of value-creation is suspect. Stories which depict the firm as either (1) the private property of owners; (2) the necessary arrangements if we are to maximize the greatest good for the greatest number; or, (3) the result of a voluntary contracting process, all appeal to the Separation Thesis to rule out certain effects of the firm on other stakeholders.†23 We need new narratives which recognize these effects from the beginning and which do not appeal to the Separation Thesis.

If we begin with the view that we can understand value-creation activity as a contractual process among those parties affected, and if for simplicity's sake we initially designate those parties as financiers,†24 customers, suppliers, employees, and communities, then we can construct a normative core that reflects the liberal notions of autonomy, solidarity, and fairness as articulated by John Rawls, Richard Rorty and others.†25 Notice that building these moral notions into the foundations of how we understand value creation and contracting requires that we eschew separating the

"business" part of the process from the "ethical" part, and that we start with the presumption of equality among the contractors, rather than the presumption in favor of financier rights.

The normative core for this redesigned contractual theory will capture the liberal idea of fairness if it ensures a basic equality among stakeholders in terms of their moral rights as these are realized in the firm, and if it recognizes that inequalities among stakeholders are justified if they raise the level of the least well-off stakeholder. The liberal ideal of autonomy is captured by the realization that each stakeholder must be free to enter agreements that create value for themselves, and solidarity is realized by the recognition of the mutuality of stakeholder interests.

One way to understand fairness in this context is to claim a la Rawls that a contract is fair if parties to the contract would agree to it in ignorance of their actual stakes. Thus, a contract is like a fair bet, if each party is willing to turn the tables and accept the other side. What would a fair contract among corporate stakeholders look like? If we can articulate this ideal, a sort of corporate constitution, we could then ask whether actual corporations measure up to this standard, and we also begin to design corporate structures which are consistent with this Doctrine of Fair Contracts.†26

Imagine if you will, representative stakeholders trying to decide on "the rules of the game." Each is rational in a straightforward sense, looking out for its own self-interest. At least ex ante, stakeholders are the relevant parties since they will be materially affected. Stakeholders know how economic activity is organized and could be organized. They know general facts about the way the corporate world works. They know that in the real world there are or could be transaction costs, externalities and positive costs of contracting. Suppose they are uncertain about what other social institutions exist, but they know the range of those institutions. They do not know if government exists to pick up the tab for any externalities, or if they will exist in the nightwatchman state of libertarian theory. They know success and failure stories of businesses around the world. In short they are behind a Rawls-like veil of ignorance, and they do not know what stake each will have when the veil is lifted. What groundrules would they choose to guide them?†27

The first groundrule is "The Principle of Entry and Exit." Any contract that is the corporation must have clearly defined entry, exit, and renegotiation conditions, or at least it must have methods or processes for so defining these conditions. The logic is straightforward: each stakeholder must be able to determine when an agreement exists and has a chance of fulfillment. This is not to imply that contracts cannot contain contingent claims or other methods for resolving uncertainty, but rather that it must contain methods for determining whether or not it is valid.

The second groundrule I shall call "The Principle of Governance" and it says that the procedure for changing the rules of the game must be agreed upon by unanimous consent. Think about the consequences of a majority of stakeholders systematically "selling out" a minority. Each stakeholder, in ignorance of its actual role, would seek to avoid such a situation. In reality this principle translates into each stakeholder never giving up its right to participate in the governance of the corporation, or perhaps into the existence of stakeholder governing boards.†28

The third groundrule I shall call "The Principle of Externalities," and it says that if a contract between A and B imposes a cost on C, then C has the option to become a party to the contract, and the terms are renegotiated. Once again the rationality of this condition is clear. Each stakeholder will want insurance that it does not become C.†29

The fourth groundrule is "The Principle of Contracting Costs," and it says that all parties to the contract must share in the cost of contracting. Once again the logic is straightforward. Any one stakeholder can get stuck.

A fifth groundrule is "The Agency Principle" that says that any agent must serve the interests of all stakeholders. It must adjudicate conflicts within the bounds of the other principals. Once again the logic is clear. Agents for any one group would have a privileged place.

A sixth and final groundrule we might call, "The Principle of Limited Immortality." The corporation shall be managed as if it can continue to serve the interests of stakeholders through time. Stakeholders are uncertain about the future but, subject to exit conditions, they realize that the continued existence of the corporation is in their interest. Therefore, it would be rational to hire managers who are fiduciaries to their interest and the interest of the collective. If it turns out the "collective interest" is the empty set, then this principle simply collapses into the Agency Principle.†30

Thus, the Doctrine of Fair Contracts consists of these six groundrules or principles:

(1) The Principle of Entry and Exit

(2) The Principle of Governance

(3) The Principle of Externalities

(4) The Principle of Contracting Costs

(5) The Agency Principle

(6) The Principle of Limited Immortality

Think of these groundrules as a doctrine which would guide actual stakeholders in devising a corporate constitution or charter. Think of management as having the duty to act in accordance with some specific constitution or charter.

Obviously, if the Doctrine of Fair Contracts and its accompanying background narratives are to effect real change, there must be requisite changes in the enabling laws of the land. I propose the following three principles to serve as constitutive elements of attempts to reform the law of corporations.†31

The Stakeholder Enabling Principle

Corporations shall be managed in the interests of its stakeholders, defined as employees, financiers, customers, employees, and communities.

The Principle of Director Responsibility

Directors of the corporation shall have a duty of care to use reasonable judgment to define and direct the affairs of the corporation in accordance with the Stakeholder Enabling Principle.

The Principle of Stakeholder Recourse

Stakeholders may bring an action against the directors for failure to perform the required duty of care.

Obviously, there is more work to be done to spell out these principles in terms of model legislation. As they stand, they try to capture the intuitions that drive the liberal ideals. It is equally plain that corporate constitutions which meet a test like the doctrine of fair contracts are meant to enable directors and executives to manage the corporation in conjunction with these same liberal ideals.

I have only been able to sketch how one normative core could be used to construct a new narrative about how we create value. In the following section I want to suggest that how this construction has proceeded, from the early work on stakeholders in the 1960s to the rich ground we currently till, offers some rather different ideas about how business ethics ought to proceed.

V

Much of business ethics has proceeded under the influence of the Separation Thesis. Philosophers have been hesitant to get their hands dirty by understanding the day to day life of value-creation activity. Business theorists have been loathe to enter what they see as the intellectual morass of moral theory. Happily this scenario is

changing as there is more dialogue among philosophers, business academics and managers.†32 Yet the shadow of the Separation Thesis looms large. Unless we can reinvent business from the ground up, we remain open to the charge of reserving a special place for business ethicists ready to "make it up as we go along." Thus, our task is to take metaphors like the stakeholder concept and embed it in a story about how human beings create and exchange value.

To see the role of the business ethicists as reinventing the corporation and describing and redescribing the complex human beings who work in the corporation is to become a pragmatist. For the pragmatist, the question is less, "what is true," than, "how should we live," or better still, "how does this narrative allow us to live," or "what does this way of talking allow us to do." So, for instance, on pragmatist's grounds the stakeholder idea is part of a narrative about how we do and could live, how we could experiment with different institutional arrangements, and how we do and could organize a sphere of our lives built mostly around something we have come to call "work."

Seeing the stakeholder idea as replacing some shopworn metaphors of business with new ones—such as stakeholders for stockholders, humans as moral beings for humans as economic beings, and the Doctrine of Fair Contracts for the current panoply of corporate chartering laws—is to give up the role of finding some moral bedrock for business. Finding such bedrock, required by the Separation Thesis, is especially fruitless on pragmatist grounds for there are no foundations for either business or ethics. All we have is our own history, culture, institutions, and our imaginations. For the pragmatist it is "just us" rather than "justice" or "justification" in any sense of foundational bedrock. The cash value of our metaphors and narratives just is how they enable us to live, and the proof is in the living.

There is a great deal of important intellectual work to be done in business ethics. For too long philosophers, ethicists, liberal theorists and others have looked down their noses at business as not worthy of serious intellectual attention. Liberals carp about business, conservatives carp about liberals, and radicals bemoan the good old days when in appeared as if the work of redescribing the good society and the good life had been done by Marx and others.†33

It is time to get on with it, and get on with it in the pragmatist vein. Redescribing corporations means redescribing ourselves and our communities. We cannot divorce the idea of a moral community or of a moral discourse from the ideas of the value-creation activity of business. To do so, entails the acceptance of a principle, the Separation Thesis, which has for too long been used to close off discussion and to silence conversation. Likewise, if business as an institution is immune to such redescriptions as have been redescribed in this paper, we have only the Separation Thesis to blame. Unless we get on with this work of redescription that crosses the bright

lines between discourses that have been established by theory and practice, talk of human progress, as difficult as it is, is likely to come to a rather immodest and abrupt halt.

Notes

1. This paper has had a long gestation period. I want to acknowledge the comments and conversations of a number of people. The main ideas in this paper have been refined over a number of years via seminars at Georgetown University, the Society for Business Ethics, Dartmouth College, Loyola University, the Wharton School and others. I am especially indebted to Max Clarkson, Michael Deck and the Canada Council for Social Sciences for sponsoring a workshop on Stakeholder Theory in May of 1993, and to Peter Pruzan, Ole Thuyson, and Werner Peterson and the Danish Council for Social Science for sponsoring a conference on ethics and stakeholders in Copenhagen in the Fall of 1993. Participants at both of these conferences produced many more refinements and suggestions than I can individually attribute. Also, I have benefited from conversations with Kendall D'Andrade, John Boatright, Steve Brenner, Archie Carroll, Phil Cochran, Robbin Derry, Tom Donaldson, Ken Goodpaster, Ron Green, and Terry Halbert, as well as my colleagues at The Darden School, Rosalyn Berne, Andrea Larson, Jeanne Liedtka, Tara Radin, and Patricia Werhane. It is now difficult to separate out how much of these ideas I owe to Daniel R. Gilbert, Jr.

2. Kenneth Goodpaster, "Business Ethics and Stakeholder Analysis," Business Ethics Quarterly, Vol. 1, No. 1, 1991, pp. 53-73.

3. James Kuhn and Donald Shriver, Beyond Success, New York: Oxford University Press, 1992.

4. Martin B. Meznar, James J. Chrisman, and Archie B. Carroll, "Social Responsibility and Strategic Management," Business & Professional Ethics Journal, Vol. 10, No. 1, Spring 1991, pp. 47-66.

5. John Boatright, "What's So Special About Stakeholders?" Business Ethics Quarterly, Vol. 4, No. 4, October 1994 (this issue).

6. Goodpaster, op. cit., at 63.

7. Ibid.

8. Ibid. at 67.

9. Ibid.

10. Ibid. at 68.

11. We need look no further than any introductory finance book to find such claims of moral immunity.

12. In Strategic Management: A Stakeholder Approach I made a rather limited attempt to articulate these principles. Daniel R. Gilbert, Jr. showed me that once stakeholders were treated as moral agents, nothing less than a thoroughgoing redescription of corporate life would suffice. He and I have been engaged in various aspects of this project for the last 10 years.

13. I owe the formulation of these principles to a long-standing conversation of many years with Professor Jesse Taylor of Appalachian State University.

14. Cf., R. Edward Freeman and William M. Evan, "Corporate Governance: A Stakeholder Interpretation," The Journal of Behavioral Economics, Vol. 19, No. 4, 1990, pp. 337-59; and, William M. Evan and R. Edward Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism," in T. Beauchamp and N. Bowie, (eds.) Ethical Theory and Business, 4th Edition, Englewood Cliffs: Prentice Hall, 1993, pp. 75-93.

15. See for instance the essays in N. Bowie and E. Freeman (eds.) Ethics and Agency Theory, New York: Oxford University Press, 1993.

16. My colleague Professor Patricia Werhane has rightly point out, that on his own positive account of the moral nature of the corporation, Goodpaster does not need to accept the Separation Thesis. That he does, is evidenced by his formulation of the so-called "paradox."

17. Thomas J. Donaldson and Lee Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications," College Park: CIBER Occasional Paper #37, January 1994, forthcoming in Academy of Management Review.

18. See Steven N. Brenner and Jamshid C. Hosseini, "The Stakeholder Theory of the Firm: A Methodology to Generate Value Matrix Weights," Business Ethics Quarterly, Vol. 2, No. 1, April 1992, pp. 99-120.

19. Creating a "reasonable pluralism" is a straightforward Rawlsian project whose whole point is to ensure that there exist multiple worldviews. Rawls' argument is that only a liberal society, such as "justice as fairness" describes, makes such a reasonable pluralism possible.

20. See for instance A. Wicks, D. Gilbert and E. Freeman, "A Feminist Reinterpretation of the Stakeholder Concept," Business Ethics Quarterly, Vol. 4, No. 4, October 1994 (this issue); and E. Freeman and J. Liedtka, "Corporate Social Responsibility: A Critical Approach," Business Horizons, Vol. 34, No. 4, July-August 1991, pp. 92-98.

21. At the Toronto workshop Mark Starik sketched how a theory would look if we took the environment to be a stakeholder. This fruitful line of work is one example of my main point about pluralism.

22. Infra note 14.

23. To show this rather than just claim it, one would have to examine how each of these three normative grounds of the stockholder theory themselves are used to justify the Separation Thesis. Such an analytic task is important, but beyond the scope of my present purposes. I claim here that each of these three reasons are used to justify treating stockholder claims as different from stakeholder claims, and used to separate the affairs of business from the affairs of ethics. I examine these issues in Managing for Stakeholders, forthcoming.

24. In private correspondence, David Schrader has recently argued correctly that "owners" is a misnomer, and that its use subtly cuts against the stakeholder idea. I have adopted "financiers" to call to mind Theodore Dreiser's novel as well as recent events on Wall Street.

25. J. Rawls, Political Liberalism, New York: Columbia University Press, 1993; and R. Rorty, "The Priority of Democracy to Philosophy" in Reading Rorty: Critical Responses to Philosophy and the Mirror of Nature (and Beyond), ed. Alan R. Malachowski, Cambridge, MA: Blackwell, 1990.

26. Notice that one could equally give a conservative notion of fairness, that a contract is fair if it is in fact agreed upon. On such an argument, the real world would assume a large element of fairness. While there would be a disagreement over which normative core is better, the argument around the legitimacy of the corporation would be moot. The question would be what constitutes fairness, not what constitutes the corporation. The stakeholder genre in fact makes moot this large question of corporate legitimacy. It is a genre that is inherently liberal, rather than radical.

27. I am especially grateful to Professor John Hasnas for critical comments on these principles.

28. This principle has been much criticized in a number of seminars, but I remain convinced that it is necessary. It ensures the liberal ideal of citizenship for all. Each stakeholder is sovereign in the matter of their own interests and they are jointly

sovereign in matters of their mutual interests. Think of this principle as ensuring that no stakeholder can sell another into virtual slavery. It is also possible to invent actual mechanisms that rely on unanimous consent of representatives rather than individual stakeholders.

29. Again, this principle has been criticized as failing to understand that opportunity costs are pervasive. My reply is that we should build our understanding of economics on a reasonable moral order, rather than vice-versa; or, so much the worse for the idea of "opportunity cost."

30. The presumption of a reasonable future is an important yet overlooked area of democratic theory. The idea of "race relations" depends on a shared understanding of "reasonable future" or more poignantly a "philosophy of hope."

31. For a recent and thorough analysis of the current state of so-called "constituency statutes" see Eric W. Orts, "Beyond Shareholders: Interpreting Corporate Constituency Statutes," George Washington Law Review, Vol. 61, November 1992, p. 14.

32. So, Andrew Stark's recent lament "What's the Matter with Business Ethics," Harvard Business Review, Vol. 71, No. 3, May-June 1993, pp. 38-48, misrepresents and misunderstands the current landscape of both business and ethics, though his main points were true enough 10 years ago.

33. I explore the difficulties inherent in these dynamics in an unpublished paper, "The Business Sucks Story."