Journal of Business Ethics (2010) 91:329–341
DOI 10.1007/s10551-009-0086-0

The Stockholder – A Lesson for Business Ethics from Bioethics?

John Hardwig

ABSTRACT. Business ethics – both stockholder and stakeholder theories – makes the same mistake as the one made by the traditional ethics of medicine. The traditional ethics of medicine was a teleological ethics predicated on the assumption that the goal of medicine was to prolong life and promote better health. But, as bioethicists have made plain, these are not the only or even the overriding goals of most patients. Most of us have goals and values that limit our desire for medical treatments. Similarly, the view of the stockholder in business ethics is that the stockholder has only one interest – profit. If stockholders have no other values or interests that would limit their desire for additional profit, their sole interest is in profit maximization. But investors are real people with interests and values that balance and limit their desire for profit. It would be an extremely odd individual who cared for nothing except more profit. And institutional investors are supposed to serve the interests of individual investors. Stockholders hold many stakes in the firms in which they invest. The conclusion that most stockholders have interests that would limit the pursuit of maximum profit has significant implications both for business ethics and for the management of for-profit corporations. Something like ''informed consent for investors'' is needed. Corporate managers, to the extent that they are to be agents of their stockholders, must not simply pursue profit maximization. They must ascertain the interests and values of their investors that limit the single-minded pursuit of profit.

KEY WORDS: stockholder, stockholder values, stockholder theory, stakeholder theory, bioethics, corporate management, informed consent

One of the exciting possibilities latent in the proliferation of fields in applied ethics is that various disciplines in applied ethics might learn from each other. Bioethics has clearly learned from business ethics. Fifteen years ago, bioethicists commonly claimed that physicians are always to do the best thing for each patient. Considerations of cost were largely just ignored. That is economic nonsense, of course. The attempt to provide the best equipment, medicines and services for each individual patient will bankrupt any health-care system.

And before it does that, this ethic will result in excluding poor and sick people from the health-care system, lest they become patients for whom everything must be done. Because this is so, a bioethics that advocates doing the absolute best for each patient is *unethical*. Considerations of cost and costworthiness must temper the attempt always to deliver the best care that is technically possible. Most bioethicists have by now learned this lesson, a lesson so simple yet so fundamental that it alters bioethical theory in profound ways. Bioethicists could have learned this lesson much earlier if they had spent more time talking with business ethicists. The goal of this paper is to see whether bioethics can partly repay the debt. Is there something bioethicists have to offer to business ethics? I believe there may be.

I

Before the bioethics movement gathered steam beginning in the 1970s, medicine was directed by what is now sometimes called the traditional ethics of medicine.[1] This was a teleological ethics. Medicine was to pursue the goals of curing disease and prolonging life. If someone went to see a doctor or signed herself into a hospital, it was assumed that she was there to obtain the services of the physicians and therefore wanted anything that medicine could offer in pursuit of these goals. The rhetorical question then was, ''If she doesn't want to be treated, why did she come in?''

Though there are still a few advocates of this traditional ethics of medicine, most now agree that this ethics proved to be too simple. Patients usually want much, even most, of what doctors have to offer. But they do not want all of it; they do not always even want very much of it. The goals that governed traditional medicine – better health and longer life – turned out, as the bioethics movement demonstrated, not to be the paramount goals of many patients. Indeed, in hindsight it is easy to see that only a very unusual person has better health and a longer life as her #1 priority. Most people engage in all kinds of life- and health-risking behaviors – smoking, eating too much, exercising too little or too much, rock climbing, hang gliding, motorcycle riding. We do not live like rational health-maximizers, as least partly because we often act like satisfaction-maximizers or even immediate gratification-maximizers instead.

But even more important, most of us have other higher goals, and most of us are willing to risk, even sacrifice, better health and longer life to pursue these other goals. My lifestyle as an academic is far too sedentary and also too pressured for optimal health. That's OK – I acknowledge and accept the risk. Patients also have moral and religious convictions that constrain their pursuit of life and health, most famously, perhaps, when a Jehovah's Witness refuses life-saving blood transfusions or when a pregnant woman with a serious medical condition feels obligated to carry her fetus to term at considerable risk to her own life and health. Finally, very few of us want our lives extended as long as is medically possible. In sum, there are only a very few people who value longer life and/or better health above all else.

Perhaps we could still say that patients *qua patients* desire better health and longer lives. But that would not help much because none of us is simply a patient *qua patient*, and thus real-world medicine cannot be governed simply by an ethic of disease management. We could also still say that better health is the only goal that all patients have in common. But that wouldn't help very much either because the common interest of all members of a group may not be anyone's overriding or primary interest.

Rather, in all but emergency situations, physicians must ascertain the goals and values of the patient before they apply the skills of their trade. Informed consent has become the byword of contemporary bioethics, the central feature of the ethics of medicine and health-care institutions. Informed consent does not mean that the physician must simply do whatever the patient wants, nor does it free the physician from an obligation to educate the patient. But in the end, her skills as a physician must be subjected to the values and goals of the patient. If agreement or acceptable compromise about values and goals cannot be negotiated, the patient usually "fires" his doctor by going to a different doctor. If the patient does not move on to another doctor, the physician must arrange to transfer care of this patient to another doctor. For the physician serves as an agent of the patient.

Both stockholder and stakeholder theory in business ethics rest, I will argue, on a mistake similar to that made by the traditional ethics of medicine. Both misrepresent the stockholder just as traditional medicine misrepresented the patient. Once this mistake is recognized and needed corrections made, stockholder theory becomes much closer to stakeholder theory, both in the goal or purpose of a for-profit corporation and also in the complex directives either theory implies for corporate management. If profit maximization is still thought to be the single or overriding goal of a for-profit company, an argument quite different from arguments based on the interests of the stockholder will be required. I will consider one such argument developed by Jensen (2002). But I begin with stockholder theory because that theory throws assumptions about the interests of the stockholder into bold relief. However, in proceeding this way we are not considering stockholder theory alone – stakeholder theory has almost always thought about the stockholder in exactly the same way as stockholder theory.

II

Boatright (2002) offers what is arguably the best defense of stockholder theory we have. According to Boatright, "that shareholders have the rights to exercise control and to receive the residual revenues is a matter of definition: the shareholders or owners are whatever group or groups have these rights" (p. 43). Further, "in practice, the right of control and the right to residual earnings go together because the right to the residual would be insecure without control. No group without a right to residual earnings would have an incentive to operate a for-profit corporation so as to maximize these earnings'' (p. 42). In principle, any group – suppliers, workers, managers, customers, community – could own a firm, and Boatright acknowledges examples of ownership by each of these groups. Why, then, are most for-profit firms owned by the suppliers of equity capital? Under most circumstances, this arrangement is most efficient, and it has, therefore, usually won out in the competition for survival.[2] This is so because the suppliers of equity capital can most ably bear the ''costs of ownership.'' Following Henry Hansmann, Boatright discusses three such costs: (1) the costs of controlling managers, (2) the costs of collective decision making and (3) the costs of risk bearing (p. 44).

The last of these costs – the costs of risk bearing – is central in most defenses of stockholder ownership and need not detain us here.[3] As Boatright points out, all of the stakeholders in a for-profit corporation bear some risk. Nonetheless,

> Equity capital providers are usually the constituency best able to bear risk. This ability is due primarily to the opportunity of shareholders to diversify their holdings … Employees, by contrast, are not able to diversify the risk of unemployment. In addition, wealthy investors are typically less risk averse than other groups and hence more willing to accept greater risk for the prospect of a higher return (p. 48).

The main focus of Boatright's analysis is on the other two costs of ownership – the cost of controlling managers and the cost of collective decision making. With regard to the first, Boatright observes, ''the agency costs of controlling managers are enormous and constitute a major portion of the total cost of contracting in a firm'' (p. 41). Controlling managers is a very difficult problem for owners precisely because ''the steps to be taken'' in order to run a firm well ''cannot be specified in advance'' (p. 50). Boatright concedes that suppliers of equity capital, wealthy and well-diversified as they usually are, often have little incentive to control managers. Consequently, his analysis must place even more weight on the second cost of ownership – the cost of collective decision-making.

Next comes the crucial point: Boatright asserts that the costs of collective decision-making are much smaller for the suppliers of equity capital than they are for other groups. Any decision-making is a costly process, even more so when decisions must be made collectively because there will inevitably be disagreements. ''Even people with the same interest may differ in their judgment of the most effective course of action, but differences of interest create more profound conflicts. For this reason, the costs of ownership are reduced when only one constituency has control'' (p. 44). If so, which constituency? Here we come to the key argument: ''the members of any given constituency may have conflicting interests,'' (p. 44) but ''equity capital providers are typically the least conflicted group … [E]quity capital providers have the advantage of a single, clear objective that is capable of directing decisions, namely increasing residual revenues or profits'' (pp. 47–48). This is the heart of Boatright's justification of stockholder theory – ownership by the suppliers of equity capital is the most efficient form of ownership because their costs of collective decision-making are so much smaller.

At this point, we might do well to ask, Are the providers of equity capital really the least conflicted group? After all, workers, too, have a fairly unified set of interests – higher pay, better working conditions and job security. So do customers. But for present purposes, the central question is about the providers of equity capital.

Boatright mentions conflicting interests among stockholders in passing, but hurries past it: ''The members of any constituency may have conflicting interests,'' (p. 44) he points out. ''For example, investors may have different risk preferences or time horizons that lead them to favor or oppose certain decisions'' (p. 44). Boatright recognizes only different *financial* interests. Even that is a step forward, for it would save us from the mistake of assuming that they simply have one, clear goal: profit maximization. Stockholders who are relatively more risk-averse will often be unwilling to assume the risks necessary to maximize profits.[4] Different time horizons also imply very different goals as is obvious if we compare a long-term investor with a day trader who bought the stock last week in anticipation of a temporary bump in the price of the stock caused by a favorable quarterly earnings report. The search for short-term profit may, of course, be inimical to the interests of a longer term investor.

But if we could somehow solve the problem of different time horizons and risk preferences, would stockholders then in fact have "a single, clear objective, namely increasing residual revenues or profits," as Boatright claims they do? I think not. It is precisely at this point that I detect the same mistake in business ethics that undid the traditional ethics of medicine.

III

We are now in a position to see something that bioethics might have to offer business ethics. Assume, for a moment, the perspective of stockholder theory. Just as the physician is to serve the interests of her patients, the manager of a firm is, on stockholder theory, to pursue a "fiduciary duty to run a corporation in the interests of shareholders" (p. 54). The next step is crucial. Commonly, it is assumed that there is a very short step from this view to the conclusion that the obligation of a corporate manager is to *maximize profits* within the limits of the law. For the goal of stockholders is profit pure and simple. That is, according to Boatright, the "single, clear objective that is capable of directing decisions" (p. 48). This is a pivotal claim about stockholders: since they have only one objective and thus no other goals that might counteract or balance it, the more profit the better. The goal of a corporation on stockholder theory becomes to maximize profits.

Analogously, patients, we might once have said, "have a single, clear objective that is capable of directing [medical] decisions," namely health. That seems so obvious, so unexceptional. But it is false, and very importantly mistaken. This mistake led doctors to critical mistakes and left patients feeling disrespected and diminished – reduced to mere collections of organs, as in "the kidney failure in room 507D."

As patients were once reduced to the patient *qua patient*, so the stockholder is reduced in theories of corporate governance to the stockholder *qua stockholder*. But stockholders, like patients, are real people. They are much more complex than pure financial calculators. (1) We all make decisions that are unwise from a purely financial standpoint, and we often do so knowingly. We are often economically irrational. (2) Most stockholders have goals and objectives that are more important to them than profit maximization. Indeed, for most people, profit is itself primarily a means to these other goals. Since the well-being of my family, for example, is a higher goal for me than profit maximization, I will do things for my family even at considerable cost to my well-being as *Homo economicus*. (3) Finally, most of us have moral and religious convictions that limit pursuit of profit. There are some things that I simply will not do even if there is an opportunity to make a great deal of money by doing them. Most of us are like that, though the relevant ethical and religious constraints differ greatly from one person to another. Although these constraints do vary, there are also commonalities among many investors. Would any of us invest in childhood prostitution (where it is legal and accepted) or in street drugs that are highly addictive, but not yet illegal if we could be assured that doing so would yield a higher rate of return than our current investments? Why not?

For this reason, it is invalid to jump from the proposition that one or the chief or a fiduciary responsibility of a corporate manager is to pursue the interests of the stockholders to the proposition that the manager's duty is to pursue maximum profits. Not only is that inference not self-evident, it is faulty. And for much the same reason as it was a faulty inference in traditional medicine from the fact that someone is consulting a physician to the conclusion that she wants health-promotion and life-extension simply. Like patients who all want health and life, but not only health and so only *ceteris paribus*, investors may want profits, but not *only* profits and so want them only *ceteris paribus*. But all other things are never equal, either in the medical or in the financial world.

People invest in firms as expressions of values quite unrelated to expected profitability. People invest in a for-profit hospital or imaging center simply because their community needs one. People start businesses primarily because their communities need jobs. People invest in newspapers because their families were always in newspapers, and this investment expresses a family tradition. People – e.g., owners of sports franchises – invest in businesses as hobbies or for the attention that owning them will provide. Indeed, people sometimes invest in businesses without even caring whether they make a profit – they are just looking for something to do with their time and a loss will be a tax write-off, anyway. People invest in businesses because they are (perceived as) Christian businesses. People invest in firms because they are run by racial minorities or serve primarily a minority community. The list of examples could be multiplied almost endlessly.

Many investors also have moral values that limit or are weighed against the pursuit of profit. For example, many investors are not comfortable making money by raping the environment, through sweatshops, from unnecessarily moving jobs overseas, by marketing harmful products or by deceptive advertising. Some are not even comfortable making "excessive" profits by charging whatever the market will bear or through unfair methods of competition – "that's just no way to do business." So, some investors want the company to be green. Some want to invest in companies that engage in fair labor practices or that pay a living wage. Some want the companies they've invested in to be good corporate citizens – locally, nationally and internationally. The point is not that these investors do not want profits, but that they do not want *only* profits and may, in fact, be quite willing to sacrifice some profit to these other goals and purposes.[5]

With this realization of the diversity of interests and values encompassed within most groups of investors, the "single, clear objective, namely increasing residual revenues or profits," which Boatright claims to provide the advantage for managing a firm in the interests of the stockholders, has largely evaporated. Like the workers or the customers or the supplies or the communities in which a for-profit operates, the stockholders, too, embody a wide and often conflicting array of interests and values. Thus, even if the management of a for-profit corporation were seen as having a fiduciary obligation to manage the firm in the interests of the stockholders, there would still be an inescapable need to balance different and divergent interests.

If this is correct, the differences between stockholder theory and stakeholder theory have largely vanished – the stockholders themselves hold many different stakes in the firms they are invested in. Stockholders might, of course, embody a *different* range of interests, goals and values than other groups of stakeholders. But it would be an unjustified oversimplification to assert, as Boatright and many others do, that they have only "the single, clear objective [of] increasing residual revenues or profits."

There is one further point about investors that will become important when we return to the normative level. Many investors would prefer not to know too much about how their profits are made. Not only are there significant costs to becoming informed, but also we would just rather not know about the unsavory practices we're even remotely involved with. This "willful ignorance" testifies to the fact that investors do in fact have other goals and values that would limit profit maximization. We may be tempted by some additional returns on our investments. It's easy money, after all. But if we had no goals other than profit maximization, we would not care how our profits are made and we would have no need to shield ourselves from knowledge of the practices we are supporting with our investments.

The point is not that *all* investors have goals other than profit maximization. But it would be a very odd individual who had only this one goal and no other values. Most people just are not like that.

IV

Even if this point is conceded, it may, of course, still be true that for-profit corporations ought to be managed with the goal of maximizing profits. For example, Jensen (2002) has argued that "any organization must have a single-valued objective as a precursor to purposeful or rational behavior" (p. 237).[6] Since it is "logically impossible to maximize in more than one dimension at the same time" (p. 238), a firm having multiple objectives has, in effect, no objective. "[T]elling a manager to maximize current profits, market share, future growth, and anything else one pleases will leave the manager with no way to make a reasoned decision. In effect, it leaves the manager with no objective. The result will be confusion and lack of purpose that will fundamentally handicap the firm in its competition for survival" (p. 238). Jensen cites a study by Kaplan and Norton (1996) as providing some empirical evidence that this is true.

Jensen goes on to argue that the single objective of for-profit corporations should be profit maximization because "profit maximization leads to a socially efficient outcome" (p. 240).

> … a firm taking inputs out of the economy and putting its output of goods and services back into the

> economy increases aggregate welfare if the prices at which it sells the goods more than cover the costs it incurs in purchasing the inputs. Clearly the firm should expand its output as long as an additional dollar of resources taken out of the economy is valued by the consumers of the incremental product at more than a dollar. Note that the difference between these revenues and costs is profits. This is the reason (under the assumption that there are no externalities or monopolies) that profit maximization leads to an efficient social outcome (p. 240).

Jensen himself repeatedly acknowledges that "when monopolies or externalities exist, the value-maximizing criterion does not maximize social welfare" (p. 239). But this amounts to conceding that his conclusion does not hold in the real world, for our world is a world of externalities and monopolies. Indeed, the question of whether stockholders would object to maximizing profits by all kinds of externalizing practices is at the very heart of the present discussion. Moreover, Jensen's single goal for corporate executives would implicitly direct them to externalize costs, to seek monopolies wherever possible, and to use the power and political influence of their firms to work for a society in which there are greater opportunities for externalities and monopolies, at least for their own firms.

In any case, in Jensen's analysis, the *rationale* for profit maximization is that corporate managers need a "single-valued objective" if they are to engage in rational activity and profit maximization is a good choice. But it is a good choice *not* because that's what the owners want, but because it maximizes social welfare. Investors, for reasons that Boatright points out, usually have little interest in the long-term profitability of the firms they have invested in: "The value of an investor's portfolio of shares in a large number of companies will generally not be affected by the fortune of a single company but will fluctuate with the broader market" (p. 48).

Indeed, the long-term profitability of a firm may not be anything that *anyone* cares about. Investors, employees, customers, suppliers come and go, and they normally care that the firm survive and be profitable *only while they interact with it*. But if there is a group of stakeholders who cares about the long-term profitability of a firm, it is, in fact, most likely to be the workers and the communities in which the corporation operates. The workers cannot, as Boatright points out, "diversify the cost of unemployment" (p. 48). And the *communities* in which the firms operate cannot be relocated when a major employer goes bankrupt. Smaller communities can be almost destroyed when one or two large employers become unprofitable. It is, then, not primarily the shareholders, but the workers and the local communities that are likely to be the stakeholders with the greatest interest in the long-term profitability of the firm. Of course, workers and communities also have goals and values that must be balanced against the profitability of the firm. Just as stockholders hold many different and conflicting stakes in a firm, so do the other stakeholders.

Nonetheless, even if *none* of us values the long-term market value of a firm, Jensen believes we are all profited if we act so as pursue this goal. We are all better off – social welfare is maximized – if we all act (or are motivated by CEOs and managers to act) so as to maximize the long-term market value of the firm. This conclusion is buttressed by the assertion that "an individual is as well off as possible if his or her wealth, measured by the discounted present value of all future claims, is maximized" (p. 241). Jensen is assuming that we are all like the stockholders of traditional stockholder theory! But, again, if we are all people and not mere wealth accumulators, then our well-being may not be maximized by a strategy designed to maximize our economic well-being. Jensen owes us an argument connecting maximum wealth with maximum well-being. And the empirical evidence that is beginning to accumulate strongly suggests that the putative connection between maximum wealth and maximum well-being simply does not hold.[7]

There are problems, then, with Jensen's defense of pursuing maximum long-term profit. But if his argument were to go through, his conclusion would hold even if pursuing maximum profit would be *in opposition to* the interests of most stockholders. As we have seen, almost all individual stockholders have values that would balance or limit the pursuit of profit and most are not very interested in the long-term profitability of the firm. If so, the main question on the descriptive level becomes, Can the stockholders or the various stakeholder groups agree on the goals and values in terms of which they want the pursuit of profit to be limited?

A general proposition about stockholders seems evident: in a large corporation in which there are a vast number of shareholders, we should expect the suppliers of equity capital to display the vast range of different goals, beliefs and values that we would find in any large group of people. For almost any important policy question a manager faces, we would expect that such a large group of people would give contradictory answers. Should we, for example, take advantage of lower labor costs in developing countries by moving our operations overseas? Some investors will think we should; some will oppose such a move if at all economically feasible.

V

The traditional ethics of medicine helped itself out by the simplifying assumption that all that patients want of doctors is better health and longer lives. The ethics of medicine is much simpler if we work on that assumption. It gives medicine one, clear goal and thus makes the practice of medicine more efficient. The only problem is that the simplifying assumption is false. Similarly, business ethics has helped itself through the simplifying assumption that the suppliers of equity capital want only profit and, consequently, maximum profit. Both stockholder and stakeholder theories of corporate management are a lot simpler on that assumption. But it is also false. Instead, if corporate managers are to serve the interests of real stockholders, they face a range of conflicting values and interests.

Hasnas (1998) has developed (without fully endorsing it) a version of stockholder theory that at least takes into account the possibility of other stockholder goals and values … but only when they are explicitly formulated:

> [S]tockholder theory … asserts that the manager is ethically obligated to increase the company's profits … only for those for-profit companies in which it is reasonable to interpret the stockholders' wishes as the maximization of profit. Whenever the stockholders have indicated that they wish their resources to be used for other purposes, the stockholder theory requires managers to attempt to fulfill those purposes, even if doing so comes at the expense of profits (37n).

Hasnas continues:

> [I]f the stockholders vote that the business should not close a plant without giving its employees 90-days' notice, should have no dealings with a country with a racist regime, or should endow a local public library, the management would be obligated to carry out such a directive regardless of its effects on the business's bottom line. In most cases, however, the stockholders issue no such explicit directives and purchase stock for the sole purpose of maximizing the return on their investment (p. 22).

Hasnas is assuming that most investors would approve of giving employees less than adequate notice when plants are to be closed or of propping up racist regimes if they would be able to make a few extra dollars by doing so. As we have seen, the theory has no right to this assumption. The important point at present, however, is that on the conditions Hasnas stipulates, the costs to investors of getting management to do anything other than to pursue profits are very high. If an investor cares about things such as racism, the treatment of employees, or the environment, she must find out whether those companies she has invested in are closing plants without notice, supporting racist regimes or despoiling the environment. It will, of course, be no simple task to find out what Texaco, for example, is actually doing to the Ecuadorian rain forest, how much notice Ecuadorian employees are given when a drilling operation is closed down, or whether the treatment of the indigenous peoples there is racist. But supposing this investor has somehow obtained this information, she must next contact the other investors in Texaco to see if they share her concerns. If a number of them do, she must organize a petition drive or a stockholder initiative to get these concerns onto the agenda at the next stockholder meeting. Then, if the stockholders explicitly vote a directive not to use unnecessarily unecological practices when drilling for oil, then and only then would management be authorized, in Hasnas' view, to do anything at all to limit the environmental costs of its drilling operations. And even after all that, the resulting presumption will be that the investors have no goals or values other than avoiding unecological drilling practices. For the default position is that stockholders do not care at all how their money is made; they care only that their investments be as profitable as possible.

The analogy from medicine would be this: doctors are licensed, even morally required, to do everything that will better the health and extend the lives of their patients unless a patient has explicitly issued other directives. So far, so good. But with analogy with the view Hasnas develops, the doctor need not explain alternative treatments nor inquire into the goals and values of the patient. It's *up to the patient* to discover what the doctor is up to, what alternatives to the proposed treatment are available and what implications there might be for the patient's other goals and values. And the physician need not assist the patient in any way in this process of becoming informed.

But that would be ludicrous. The costs of acquiring that information without any assistance from the physician would be overwhelming, completely beyond the resources of most patients. Similarly, I contend, corporate management must not assume that most investors want to maximize profits regardless of costs to other people and the environment. For maximum profit, like better health, is not the ultimate, overriding goal of most people. For this reason, we cannot presume implicit consent with any and every company policy that will increase profit, nor can we endorse a theory of stockholders that requires them to shoulder all the costs of becoming informed and organized in order to limit the pursuit of profit and only profit.

VI

We seem to need a business ethics analogue of the bioethical doctrine of informed consent. "Informed consent for investors" would enable them to weigh the costs and benefits of an investment choice against their various goals and values, just as informed consent for patients enables them to judge which treatment option best accords with *their* goals and values. Just as doctors and hospitals must not assume that their patients want more health and only more health, for-profit firms must not assume that investors' only interest is profit and more profit. But what would informed consent for investors look like?

It will not suffice that there are investment funds – e.g., TIAA's "Social Choice" fund – for those who care about the ethical implications of their investments. For that leaves all other investors – those who disagree with TIAA's list of social values, who want to invest through a local stockbroker or who prefer to manage their own portfolio – defenseless, without the information or the assurances they may need. And, though it is a step in the right direction, it does not suffice that some for-profit companies post mission statements on their webpages. For important questions remain about how seriously to take such statements. Mission statements may be largely window dressing for public relations purposes, and investors can quite rightly wonder how far corporate activities actually reflect their mission statements – Enron had an excellent vision statement as well as a pretty good code of ethics.

A more promising alternative would be some kind of independent organization that monitored and then reported on the performance of various for-profit companies in the most significant areas of likely concern to investors and potential investors. There are fledgling efforts to do just this. But if such organizations really did collect the kinds of hard data necessary to complete an accurate scorecard for most large companies, they would quickly mushroom into very large organizations requiring very substantial independent funding. Moreover, the data provide only a historical record of past decisions. Investors need to know about decisions being contemplated and plans for the future.

If investors need more than just financial information in order to be able to pursue their interests, perhaps the task of "informed consent for investors" falls most appropriately to the managers. Managers may have an ethical obligation to take steps to find out what limits the stockholders want placed on the pursuit of profit and what policies they wish the company to follow in pursuit of profit. It obviously will not do to object that stockholders can take their equity capital elsewhere, for that requires that they can readily get information not only about the companies in which they are presently invested, but also about the alternative investments they are contemplating. Patients can "fire" their doctors if they don't like the way these doctors are practicing medicine and investors can, similarly, divest. But in both cases, the ability to do that intelligently presupposes something like informed consent; it cannot substitute for it.

If this is correct, managers are confronted with two very large problems: (1) How are the interests of the stockholders to be ascertained? How does one ask them? How often must they be asked and about what? Must the stockholders themselves be asked, or is it sufficient to ask a board of directors elected by the stockholders? (2) How does one serve the interests of the stockholders, given the very real conflicts among the interests of various stockholders in terms of both their goals and objectives, and also the ethical trade-offs or sacrifices they are willing to make to achieve these goals? Unlike physicians who treat their patients seriatim and not en bloc, corporations obviously must pursue a single policy or direction. But it cannot neatly fit all investors. Is it a simple case of majority rule? Or should a substantial minority who cares passionately about (i.e., has a very large interest in) an issue be allowed to carry the day? Are all stockholders equal, in the ''one share, one vote'' sense? Or should some distinction be made between day traders who purchased their shares at 1.30 P yesterday and plan to sell them today and those who have held their shares over a much longer period and thus are in some sense more committed to the corporation?

Business ethics owes us answers to both of these problems. Once we admit that stockholders are real people with all kinds of objectives and values, stockholder theory is in precisely the same position as stakeholder theory with respect to directives for corporate managers. In both cases, a corporate manager is charged with the task of identifying the different interests and trying to devise a policy that optimally balances all of these interests (pace Jensen). Perhaps stockholders will turn out not to have a narrower range of interests than the other constituencies. We'll just have to see. In any case, a tremendous diversity among stockholder interests will remain.

Except in small companies, a small number of stockholders is the exception. In most large companies, there are thousands of stockholders, both individual and institutional, none with a dominant interest in the firm. If my argument so far is correct, all of these stockholders will have different goals, objectives and values. Accordingly, managers face a very difficult problem of finding out what objectives and policies the suppliers of equity capital want to see them pursue. This is far too complex a problem to be solved in the space of this article. But that is not a rhetorical dodge designed to minimize the problem. It is obviously a very real difficulty, and an entire research program in business ethics would be required to address it adequately. Here I can offer just two brief suggestions about coping with the diverse interests of stockholders.

(1) Once we recognize that stockholders have diverse values and interests, we see that corporate management is analogous to decision making by governmental agencies. A different public is involved, of course – stockholders vs. citizens – but in both cases, it is a very diverse public with a wide spectrum of values and interests. Although it obviously cannot be an everyday undertaking, asking people what they want done is not such an impossible task as we might assume. Within government agencies, all sorts of techniques have been developed to get input from citizens about specific decisions and policies – polling, focus groups, citizen panels, public meetings, electronic discussions and the like.[8] Some of these techniques undoubtedly could be adapted to the governance of publicly held for-profit corporations. We do not simply accept from government officials the claim that it is too hard to find out what the affected citizens want and value, or that everyone had the opportunity to vote for representatives 3 years ago. Similarly, we may come to recognize that the complexity of the task of finding out what stockholders want is also not a good enough reason to justify a high-handed approach by corporate management to the interests of the public they are to serve.

(2) Bioethics recognizes that the stated wishes and interests of the patient are not necessarily the final word. There remains an important role for physician education of patients. A patient may come to see that her stated preference is poorly thought through, based on inaccurate information, unwise or inconsiderate of others. Similarly, there may be a role for manager education of stockholders. My off-the-top-of-my-head response to a question about company policy might not be my considered judgment or an accurate expression of my real interests. So, for example, there might be a place in quarterly reports for ''editorials'' by management – e.g., ''In light of the emerging worldwide shortage of

> oil and global warming, the policy I think we should follow is …'' Or, ''I think we should be concerned about the treatment of people in China who are indirectly working for us.''

These are only hints, not even well-developed suggestions for coping with the diversity of investor interests. The fact that there are very many investors in most large firms will mean that asking dramatically increases the costs of collective decision making, just as it has substantially increased the cost of medical decision making to obtain informed consent for treatment from patients. (Indeed, the increased cost of medical decision making is one excuse that doctors still sometimes give for making treatment decisions unilaterally.) And there is no denying that decision making based on the assumption that investors want only more profits greatly simplifies the costs of decision making for corporate managers. The only problem is, they may be efficiently marching in the wrong direction if corporate managers are to serve the interests of the stockholders.

Sometimes, it must be granted, the cost of ascertaining the specific goals, values and preferences of the suppliers of equity capital will be prohibitive or paralyzing. However, the fact that asking the stockholders can sometimes be paralyzing or prohibitive does not establish the general rule that there is never an obligation to ask. (Obtaining informed consent to medical treatment is also sometimes paralyzing or prohibitively time-consuming.) In practice, the trick will be to ascertain when it really is too difficult to ask the stockholders and when that is only a convenient cover story to shield managers who fear the answers or simply do not want to bother to ask.

It must, then, be granted that acknowledging the complexity of stockholders and their interests would increase the costs of corporate decision-making and complicate the lives of corporate managers. Yet it is worth pausing to note that in another way, this more realistic view of stockholders would make the role of corporate managers both psychologically and ethically easier. Corporate managers now often feel themselves obligated to engage in all sorts of complicated justifications whenever they do anything that will cut into the bottom line. Even a decision to do something as inexpensive as supporting a Little League team comes with the suspicion that the manager is illicitly spending someone else's money and abrogating her responsibilities as a fiduciary of the stockholders of the firm. Expensive, but environmentally sound measures require even greater soul-searching. Elaborate arguments are generated about how the Little League team or more environmentally sound practices will contribute to greater profitability of the company in the long run. These arguments are often quite implausible and seem like thinly disguised rationalizations for doing something good – rationalizations seemingly required by the interests of the stockholder and the ethics of a for-profit corporation.

By contrast, in my view, corporate managers would be allowed to recognize that if most people are good citizens or concerned about global warming, then perhaps most of their stockholders would want the companies they are invested in to be good and environmentally responsible citizens, as well. Then corporate managers could engage in socially responsible activities in good conscience. In doing so, they are not being derelict in their responsibility to the owners; they are probably reflecting the goals and values of their shareholders, who are also, by and large, socially responsible people.

There could well be many, many of us who do care about how our money is made. After all, if stockholders are both well diversified and generally wealthier, they are also in the best position to care about, say, the environmental damage or cost to employees of company policy. Just as suppliers of equity capital have little incentive to control managers, they also have little incentive to avoid, for example, costly but environmentally friendly decisions. And for precisely the same reason: it makes so little difference to any one investor.

VII

We close with another important normative point: The view that investors have ''one clear, simple goal'' hides the responsibility of investors. Investors wield a lot of power in a capitalistic economy and culture like ours. And with power comes responsibility. Inevitably. And if informed consent for investors becomes a reality, this responsibility will be increased, for it can no longer be wielded unknowingly and innocently. So, business ethicists need to work to define the responsibilities of investors and try to make plain to investors what those responsibilities are.[9] Without discussion about and awareness of the responsibilities that come with ownership, there is an implicit invitation to investors to wield their power irresponsibly. Business ethics has thus reinforced the very human tendency of investors not to want to know too much about how their profit is made.

Thus, there is another reason why corporate managers must ask suppliers of equity capital whether costs like environmental damage or working conditions in operations overseas matter to them: It is wrong to want not to know how our money is made. Such ''willful ignorance'' is hiding from our responsibilities. It is also wrong for corporate managers to be complicit in helping anyone hide from their moral responsibilities, especially if the corporate manager is an agent for those who prefer not to know.[10]

To say that investors have only one interest – profit maximization – is also to create the expectation that investors will not, and even should not, be concerned with how their profit is made. Their only interest, they are told, is that as much profit as possible be made. Investors are thus treated as an amoral or even an immoral force. *Amoral*, perhaps by virtue of ignorance. Perhaps also by virtue of being such a small contributor to the massive equity capital required by a large corporation, and by lack of real control over the day-to-day operation of the firm. We generally don't like to think about our responsibilities that grow out of small contributions to huge endeavors. Are providers of equity capital, then, not moral agents at all? Just because there are so many of them that any one investor makes so little difference? Surely not!

The other possibility is that, in thinking of profit as a necessary and sufficient justification for business activity, we have tacitly given investors a ''moral holiday.'' If it were true, as Jensen argues, that overall social well-being is maximized when for-profit corporations are managed to pursue maximum profit, then the other goals and values of stockholders, real and important though they be in defining their interests, might be seen as inappropriate intrusions into the world of business. Arguably, these other concerns morally ought to be put in abeyance, for if the other objectives and values of stockholders become operative in business ventures, overall social well-being is diminished. If suppliers of capital have become convinced that they serve the overall well-being of everyone when thy act as if they had no values, goals or interests other than maximum profit, then maximum profit is what they ought to insist on. This is a moral holiday, indeed – despite the great power they wield, investors have no responsibilities other than insisting on maximum profit.

But unless something like this view is true, investors are moral agents and more importantly so insofar as they collectively wield great power. If so, assuming they have only one, clear interest would define them as *immoral*. For any responsible party that pursues just one clear interest – maximization of her own well-being – is immoral, at least in any world in which there are externalities and monopolies.

Business ethicists ought not to assume that providers of equity capital are amoral or immoral.[11] That assumption is insulting and demeaning. This kind of characterization also contributes to making investors immoral. It is only appropriate, then, for an investor to care about nothing except making as much money as possible. Even *business ethics* says we should expect nothing more of them! Perhaps this is the most devastating upshot of the mistake of assuming – as both stockholder and stakeholder theorists have usually done – that investors have just one, clear interest. That view is not only false, but immoral. It helps investors hide from our responsibilities.

Notes

[1] Veatch (2003), Beauchamp and McCullough (1984) and Jonsen and Jameton (2003).

[2] Boatright defends stockholder theory because of the efficiency resulting from the lower decision-making costs of suppliers of equity capital. He asserts, ''in general, the interests of nonshareholder constituencies are best protected by a variety of safeguards that are unrelated to the right of control'' (p. 49). These safeguards include explicit contracts, attempts to avoid lock-in and the protections offered by the legal system. If the interests of other stakeholders are best protected by other means, then, *pace* stakeholder theory, ''the moral requirement that everyone's interests ought to be taken into account does not preclude a fiduciary duty to run a corporation in the interests of shareholders'' (p. 54).

[3] ''Business is an inherently risk activity … Any corporate constituency that provides an asset to the firm in return for a claim on the residual revenues assumes a

large portion of the risk of the enterprise and in so doing provides a service to everyone else'' (p. 44). Although everyone in a private corporation bears some risk, ''the residual risk bearers are uniquely vulnerable because of their inability to write detailed, complete contracts with a firm. The gain for residual risk bearers comes only when a firm is well run, but because of the complexity and uncertainty involved in management, the steps to be taken cannot be specified in advance'' (p. 50). Workers or suppliers or customers or the community can, in Boatright's view, be better protected by laws or carefully drawn contracts. But the interests of the suppliers of equity capital can only be protected by ownership. They are the only group, barring bankruptcy of the firm, that need not be paid for its contribution.

[4] A friend of mine has developed a number of formal systems for investing in the commodities markets. He has found that investors become so uneasy when faced with volatility (which they equate with risk) that they almost universally prefer smaller profits accompanied by less volatility. In fact, he no longer even markets the most profitable of his systems. There are no takers for it.

[5] Obviously, these points apply to *individual* investors who are real people. But there are corporate investors too, of course, and many varieties of asset management firms. Corporate investors are probably simpler, and have simpler goals and objectives than individuals. Moreover, many investment and asset management firms are legally required to pursue maximum profits. Perhaps a law requiring investment funds to pursue maximum profit is the only practical way to prevent financial shenanigans. But we must bear in mind that corporate investments are presumably made ultimately to fulfill the goals and objectives *of individuals*. A large investment fund like TIAA or CALPERS may well be operated simply to generate maximum return on its investment. But, legal requirements aside, this is because TIAA or CALPERS makes the same assumption that governs stockholder theory: this is the only thing the individuals invested in that fund want. The simpler goal structure of corporate investors – even if they do have simpler goals – is not the answer to this problem in business ethics.

[6] I myself find the claim that we must have a single objective ''in order to make a reasoned decision'' (p. 238) singularly unpersuasive. The single-minded pursuit of *anything* strikes me as more like insanity than rationality. Life is just more complicated than an attempt to maximize in any one dimension; it is always an attempt to balance many different and competing values. Though Jensen repeatedly uses the ''keeping score'' or ''scorecard'' analogy, there is not even a single goal or objective in sport. Some teams are more fun to play for. Some teams are more fun to watch – they play a more interesting style even if they don't win as often. Some teams attract more fans and thus are more financially successful. Some teams contribute more to the development or evolution of the game. Some teams win more championships even though their long-term winning percentage is lower. A group of soccer, baseball or football experts could have an interesting discussion about which has been the best team over the past 20 or 30 years. The discussion would hardly be settled – in fact it would hardly even be advanced – by knowing which team had the highest winning percentage over the relevant time span.

[7] For a summary of the work on measuring subjective well-being and its connection or lack thereof with wealth, see Lane (2002). Even satisfaction with one's job is not closely correlated with the amount one is paid.

[8] The 1946 Administrative Procedure Act (S. doc. 248) – and many similar mandates at the level of state government – spawned an impressive array of attempts to invite citizen participation in decisions made by government agencies. An early discussion of some of these methods can be found in the classic article by Sherry Arnstein (1969). A useful recent collection of essays surveying citizen participation within the field of environmental planning can be found in Renn et al. (1995). For a recent example of soliciting participation and discussion in an electronic form, see the National Academies website on Public Participation in Environmental Assessment and Decision Making: http://qp.nas.edu/QuickPlace/publicparticipation/Main.nsf/h_Toc/C5BB3E2FB43610BD85256E70004C0A35/?OpenDocument. Obviously models of citizen participation would have to be adapted, not simply adopted, in stockholder involvement. But this literature does suggest that the problem of soliciting, encouraging and informing stockholder participation may not be insurmountable.

[9] Similarly, I have argued in a bioethics context that empowering patients to make decisions about their medical treatment thrusts weighty moral responsibilities and difficult moral decisions into their hands. And for the same reason – with power comes responsibility. See Hardwig (1990, 1997).

[10] Consider, by analogy, a scientist who knows that the automobile or the drug being marketed by her company is unsafe, but who keeps this knowledge to herself because her boss would prefer not to have to face this troubling piece of information.

[11] It is possible that the mistake we have been examining here comes about because business ethicists tacitly assume that their audience is corporate managers. Corporate managers may be the people whom business ethicists are trying to reform, just as it was doctors whose

behavior bioethicists were initially bent on changing. But audience is one thing, moral agency is another. It is very easy to slide from this assumption about who the key deciders are to the view – however implicit – that corporate managers or doctors are the only or primary bearers of moral responsibility. But that doesn't follow, especially not when the key deciders – in this case, corporate managers – so often see themselves as agents of the stockholders.

Acknowledgements

The author wishes to thank Denis Arnold, George Brenkert, Matt Deaton, Betsy Postow and two anonymous reviewers for helpful criticisms and suggestions.

References

Arnstein, S.: 1969, 'A Ladder of Citizen Participation', *Journal of the American Institute of Planners* **35**(4), 216–224.

Beauchamp, T. L. and L. B. McCullough: 1984, *Medical Ethics* (Prentice Hall, Englewood Cliffs, NJ).

Boatright, J. R.: 2002, 'Ethics and Corporate Governance: Justifying the Role of Shareholder', in N. E. Bowie (ed.), *The Blackwell Guide to Business Ethics* (Blackwell, Malden, MA), pp. 38–60.

Hardwig, J.: 1990, 'What About the Family? – The Role of Family Interests in Medical Decision Making', *Hastings Center Reports* **20**(2), 5–10.

Hardwig, J.: 1997, 'Is There a Duty to Die?', *Hastings Center Report* **27**(2), 34–42.

Hasnas, J.: 1998, 'The Normative Theories of Business Ethics: A Guide for the Perplexed', *Business Ethics Quarterly* **8**, 19–42.

Jensen, M. C.: 2002, 'Value Maximization, Stakeholder Theory, and the Corporate Objective Function', *Business Ethics Quarterly* **12**, 235–256.

Jonsen, A. R. and A. Jameton: 2003, 'Medical Ethics, History: The United States in the Twenty-First Century', in S. G. Post (editor in chief), *Encyclopedia of Bioethics*, 3rd edition (Farmington Hills, MI. Thomson-Gale).

Kaplan, R. S. and D. P. Norton: 1996, *The Balanced Scorecard* (Harvard Business School Press, Boston, MA).

Lane, R. E.: 2002, *The Loss of Happiness in Market Democracies* (Yale University Press, New Haven, CT).

Renn, O., T. Webler and P. Weidemann (eds.): 1995, *Fairness and Competence in Citizen Participation; Evaluating Models for Environmental Discourse* (Kluwer Academic, Dordrecht, Boston).

Veatch, R. M.: 2003, *The Basics of Bioethics*, 2nd Edition (Prentice Hall, Upper Saddle River, NJ).

Department of Philosophy,
University of Tennessee,
Knoxville, TN 37996-0480, U.S.A.
E-mail: jhardwig@utk.edu