ABSTRACT. Is it legitimate for a business to concentrate on profits under respect for the law and ethical custom? On the one hand, there seems to be good reasons for claiming that a corporation has a duty to act for the benefit of all its stakeholders. On the other hand, this seems to dissolve the notion of a private business; but then again, a private business would appear to be exempted from ethical responsibility. This is what Kenneth Goodpaster has called the stakeholder paradox: either we have ethics without business or we have business without ethics. Through a different route, I reach the same solution to this paradox as Goodpaster, namely that a corporation is the instrument of the shareholders only, but that shareholders still have an obligation to act ethically responsibly. To this, I add discussion of Friedman’s claim that this responsibility consists in increasing profits. I show that most of his arguments fail. Only pragmatic considerations allow to a certain extent that some of the ethical responsibility is left over to democratic regulation.

KEY WORDS: democracy, ethical responsibility, freedom, free rider

1. INTRODUCTION

Treatments of business ethics and corporate social responsibility often take as their point of departure Milton Friedman’s (1970) famous claim: The social responsibility of business is to increase its profits. In doing this, they read Friedman’s claim as implying that the sole responsibility of a business is to make as much money for its shareholders as possible. Against this perspective the notion of corporate social responsibility is then introduced, often by reference to the notion of a stakeholder. A typical example is found in Morsing and Pruzan (2002: 270). They start by quoting Friedman from Capitalism and Freedom (1962: 133):

Few trends could so thoroughly undermine the foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible.

Then they continue:
A point of departure here [i.e. from the perspective provided by Milton Friedman] is
the question of the viability of the traditional division of responsibility between
the private and public domains. Corporate social responsibility is about the commitment
of enterprises to society. It raises the question: If companies need good societal
conditions for the development of their activities, to what extent is it necessary that
they also contribute to the creation of these activities? Corporate social responsibility
involves in other words a shift from a narrow shareholder perspective to a broader,
more complex and more encompassing stakeholder perspective on responsibility and
success.

Admittedly, Friedman often presents his claims in a sharp and provocative
tone. However, I believe the picture is more complex than depicted by the
above contrast. It is true that Friedman defends the fiduciary duties owed by
managers to shareholders. In this sense, the controversy between Friedman
and stakeholder theory reflects what Kenneth Goodpaster (1991) has called
the stakeholder paradox: On the one hand, as stakeholder theory claims,
ethics seems to require that stakeholder interests are considered as having
intrinsic, not just instrumental value. On the other hand, as Friedman
worries, the dissolution of management’s fiduciary duty to shareholders
seems to threaten the system of private business.

However, Friedman does not deny that a business has a commitment to
society – in fact, he does speak of a “social responsibility.” His position is
rather that this responsibility is best served if businesses concentrate on their
business under respect for the law and the ethical codes of the game, pay
their taxes and leave it either to democratically elected governments or to
private individuals to decide on matters of the common good (cf. O’Higgins,
2002). The higher profits, the higher revenue and taxes, and the greater are
the possible contributions to the common good.

In other words, Friedman sees important ethical reasons supporting the
claim that there should be a division of labor where businesses concentrate
on increasing their profits and the government takes care of setting up the
legal environment in which businesses should operate and decides on public
expenditure – reasons that are largely overlooked by the stakeholder theory
tradition.

This paper reconsiders the controversy between Friedman and stake-
holder theory as point of departure for a closer scrutiny of arguments to the
effect that, for moral reasons, there should be a division of labor between
businesses and government in the exercise of social responsibility. The point
is not to defend Friedman – in fact, I believe most of his arguments are
mistaken. The point is rather to systematically explore the extent to which it
is legitimate for a business to concentrate on profit.
2. STAKEHOLDER THEORY IN OUTLINE

Unfortunately, there has been great confusion about the definition of a stakeholder and the relevance of stakeholders for the objective of a corporation. Donaldson and Preston (1995) introduced a clarifying distinction between descriptive, instrumental, and normative stakeholder theories:

- **Descriptive theories** (sometimes also called empirical) view the corporation as a constellation of cooperative and competitive stakeholder interests. Stakeholders are persons and groups who can affect, now or in the future, the organization’s achievement of its objectives.
- **Instrumental theories** (sometimes also called strategic), typically based on descriptive theory, derive prescriptions for the achievement of certain objectives, e.g., maximizing profits.
- **Normative theories** identify moral guidelines for the organization. Stakeholders are persons and groups with legitimate interests in the organization. The interests of all stakeholders are of intrinsic value, i.e., they merit consideration for their own sake.

Originally, the notion of a stakeholder (appearing for the first time in an internal memo at the Stanford Research Institute) was coined within a descriptive and instrumental perspective as a generalization of the shareholder being the only group to whom management needs to be responsive. Hence, stakeholders were defined as “those groups without whose support the organization would cease to exist” (Freeman, 1984: 31).

The seminal book of Freeman (1984) broadens the notion of groups to whom management should be responsive further by defining a stakeholder in an organization as “any group or individual who can affect or is affected by the achievement of the organization’s objectives.” However, even though Freeman thus talks about being responsive to groups that are affected by a corporation’s actions without any power to influence its decisions, he basically stays within the instrumental perspective (cf. Goodpaster, 1991: 59; Philips, 1997: 53): The reason why an organization should be responsive to such groups is that, in the future, these groups may be able to affect the organization. Thus, for Freeman, the motivation behind the concern for these groups is a sort of insurance, an investment in the future that makes it possible to deal in time with groups that over time may gain power to affect the organization’s achievement of its objectives. Hence, in effect, the definition of a stakeholder becomes any group or individual “who can actually or potentially affect” the achievement of the organization’s objectives (Goodpaster, 1991: 59).

Next, consider normative stakeholder theory. At places, Freeman (1984) has an eye for the ethical dimension in being responsive to groups who are
affected by the organization but has no effect on it. Normative stakeholder theory insists that stakeholder interests have intrinsic value. This means that stakeholders have a claim on the assets and actions of the corporation: Stakeholder interests should – for moral reasons – be considered for their own sake.

From an ethical perspective, one would expect the definition of stakeholder to be “all parties affected by the organization’s actions.” The fact that some stakeholders have power to affect the organization and others have no such power does not appear to have ethical significance. As pointed out by, e.g., De George (1993: 201n.17), this line of thought would reduce normative stakeholder theory to ordinary ethical theory. However, this is not the line taken by most normative stakeholder theories. There is a tendency to concentrate on affected parties who are also able to affect the organization. Thus, the stakeholder groups of an organization are often depicted as involved in a mutual interplay (e.g., Ackoff, 1982).

Another interesting indication of this point is apparent in the way Philips (1997) criticizes Starik’s (1994) extreme ecological definition of stakeholder, which includes “any natural occurring entity which affects or is affected by organizational performance.” When Philips argues against this very broad definition, he does not invoke traditional environmental ethical arguments, e.g., along the line that only conscious being are entitled to moral consideration for their own sake. Rather, he claims that stakeholder theory is not intended to be a comprehensive moral theory but simply a theory that is concerned with obligations arising from a special organizational relationship. The obligations arise when “individuals, or groups of individuals, interact for mutual benefit.” It is these activities that “provide a normative justification (on par with consent) for the idea of stakeholder management” (Philips, 1997: 52).

As the defining characteristic of normative stakeholder theory, I shall, therefore, consider the claim that an organization owes special duties to the stakeholders (or members) that make it up, which obliges the management to act with a moral concern for their interests for their own sake. The management is the agent of all stakeholders and the organization should be managed for the benefit of them all. Stakeholder theory is concerned with private corporations as well as public institutions; however, for the most part, I shall be concerned with private corporations only.

3. FRIEDMAN ON SOCIAL RESPONSIBILITY

For Friedman, a private corporation is simply an instrument for the owners, and the manager is the agent of the owners and his primary responsibility is
to them. “That responsibility is to conduct the business in accordance with their [i.e., the owners’] desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom” (Friedman, 1970: 87).

Thus, it should be made clear that an ethical perspective is present. Firstly, the corporation should conform to “ethical custom.” It is not entirely clear what Friedman includes under ethical custom, but apparently he means something like engagement “in open and free competition without deception or fraud” (Friedman, 1962: 133). This implies, among other things, respect for the ethical codes governing different types of transactions (Arrow, 1973). It is also implied that monopolies should be avoided (Friedman, 1962: 120).

Secondly, the owners, the manager, and everyone else have a full social responsibility as private individuals. However, the only social responsibility of a corporation (apart from conforming to ethical custom) is to increase its profits, says Friedman.

I see no reason why Friedman should object to an instrumental stakeholder perspective. In deciding on the corporate objective, stockholders (or their representatives in the board) will have to balance a number of concerns: Should the objective, for instance, be to provide whatever goods and services the present or future capacities of the corporation will make possible, constrained by the condition that they are profitable (perhaps to a certain fixed degree)? Or should it rather be to make as much money as possible by producing whatever goods or services that would contribute best to this objective? And if the latter, should it be in the short run or in the long run?

Whatever objective they decide on, there is no reason why the organization and its management should not be constrained by a concern for the stakeholder interests that may affect the achievement of its objective. Friedman is even open for now addressing the interests of parties that later may become relevant for the corporation, as the following quotation shows (Friedman, 1970: 90):

[I]t may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects.

However, Friedman clearly objects to the requirement of normative stakeholder theory that the manager rather than serving the interests of the owners should serve the interests of all stakeholders. This is the case where a contribution to some social objective involves costs exceeding what would
be “in the best interest of the corporation” as this is determined by the shareholders. Among the examples he mentions is making expenditures on reducing pollution beyond the amount that is in the best interest of the corporation or is required by the law; another is hiring, at the expense of corporate profits, long time unemployed instead of better qualified available workmen.

From the food production area, one could add examples like: making expenditures on animal welfare beyond the level that is “in the best interest of the farmer” or beyond the level required by the law; or making expenditures on reducing the prevalence of Salmonella in fresh meat below the level “that is in the best interest” of a slaughter house or below the level required by the law. Note that since both the law and ethical codes are likely to develop over time, this naturally affects what it means at a particular time to exercise an ethical responsibility that goes “beyond” what is required by them.

Not that Friedman denies a social responsibility in these cases. But such concerns should be dealt with voluntarily by individuals, or else be addressed by the government. They should not be dealt with by corporations. More precisely, in these cases, there would be a conflict of interest between the owners desiring to increase profits and other stakeholder groups who are to be benefited at the expense of decreased profits. In the first instance, Friedman objects to the manager or executive of a corporation addressing such concerns for other stakeholders, thereby acting against the wishes of the owners.

4. THE ARGUMENT FROM FREEDOM

What then, according to Friedman, is the ethical problem with the corporate executive acting ethically responsibly in the sense that he exercises a responsibility for the common good (the interests of all stakeholders) that may involve a cost not strictly in the interest of the shareholders? The main thrust of the argument is the requirement that ethics should be a personal matter – no one should be forced to act on ethical judgments he or she does not accept.

Suppose, says Friedman, that a corporate executive makes expenditure on reducing pollution beyond the amount that the owners believe to be in the best interest of the corporation or beyond the amount that is required by the law. He would then be spending someone else’s money without their consent for the sake of a general interest. If his actions reduce the return to shareholders, he is spending their money. If his actions raise the price to consumers, he is spending the costumers’ money.
As we have seen, Friedman does not deny that individuals have an ethical responsibility for the common good. Each of these parties could have spent their own money on this action if they wished. He is only objecting to the distinct ethical responsibility implying that the executive should spend the money in a different way than the owners would have spent it.

In effect, Friedman says, the executive would then be imposing taxes and deciding how to spend them. Thereby, he would act as a self-appointed government. But in a democracy, the imposition of taxes and expenditure of tax proceeds is exclusively a governmental function. This function is controlled by the constitution, the parliament, and a range of laws to ensure that taxes are imposed and expenditures enacted after democratically legitimate procedures and in accordance with the preferences of a majority of the population.

However, Friedman is furthermore skeptical about letting the political mechanism act for the sake of the common good. The reason is that the political mechanism involves coercion of the minority. An individual has a vote, but if he is overruled, he is coerced into spending money in ways he would not do on his own. By contrast, the market mechanism does not coerce anyone into spending money in ways they do not want to. All transactions are made voluntarily.

According to Friedman, the political mechanism is a threat to freedom. As individuals, each of us has an ethical responsibility. But this responsibility should be exercised voluntarily. It is wrong if a majority coerces individuals into moral acts they do not consent to (Friedman calls it “socialism”). Hence, the political mechanism should be used as little as possible.

The immediate consequence of Friedman’s objection is that ethical responsibility for the common good, in so far as it involves a cost that the owners (or the customers or employees) do not want to bear, should be dealt with through the political system and not by arbitrary managers acting as self-appointed legislative and executive power. A corporation contributes to the common good through the taxes it pays. If it concentrates on making more profit (within the constraints set by the law and ethical custom), the tax revenue will become higher and thereby the corporation contributes more to the common good in a democratically satisfactory way. In this sense, it does exercise a social responsibility by increasing its profits. However, according to Friedman, it would be even better if more of the ethical responsibility for the common good was left to voluntarily transactions on the market.

5. PROBLEMS WITH THIS ARGUMENT

On the first reading, there is something odd about this argument. The problem is that an executive, literally speaking, does not possess the powers
of a government. On the contrary, Friedman insists that the transactions between an executive and the shareholders are governed by a voluntarily contractual arrangement; similarly, the transactions between an executive and the employees are governed by a contract, and the transactions between a corporation and its customers are voluntary market transactions, governed by ethical customs and law. On this picture, there seems to be no way he can coerce these groups.

Of course, as long as the shareholders are satisfied by his overall performance, he might get away with isolated acts that go against their will. But if the opposition to any such act becomes a cardinal point for the shareholders, they will fire him.

A similar point can be made of the cases of employees and customers. An employee may have to accept that an executive to a certain extent makes priorities contrary to the interests of the employee and his ethics; however, the employee will only accept this as long as he finds the executive’s overall performance better than what he could find in an alternative employment. A customer is free to abstain from buying any product and thereby avoid contributing to a social cause he does not sympathize with.

Friedman (1970: 89) seems to admit this lack of power on part of the executive when he asks,

[C]an he get away with spending his stockholders', customers' or employees' money? Will not the stockholders fire him? [...] His customers and his employees can desert him for other producers and employers less scrupulous in exercising their social responsibilities.

An exception is the case where the corporation possesses monopolistic power. In this case, the corporation can be said to spend the customers’ money against their will. In fact, Friedman appears indirectly to assume monopolistic power as a precondition for the executive spending other stakeholders’ money. An individual proprietor exercising social responsibility, says Friedman, is spending his own money, and there can be no objection to that. Then he adds (1970: 90):

In the process, he, too, may impose costs on employees and customers. However, because he is far likely than a large corporation or union to have monopolistic power, any such side effects will tend to be minor.

In other words, monopolistic power seems to be a precondition for spending the money of employees and customers against their will. But any excess profit based on monopolistic power imposes costs on others against their interests, regardless of how it is spent. The problem here is rather the use of monopolistic power itself.

The main objection thus reduces to the problem that the executive acts against the expressed wish of the owners. If it is the case that the executive
believes in a moral duty to manage the corporation for the benefit of all stakeholders, but the shareholders want to maximize profits, constrained by ethical codes and instrumental concern for other stakeholders, there is a conflict of interest. One problem is how to deal with such conflict. Now, normative stakeholder theory would generally appeal to consensus and dialogue here, but it is reluctant to give precise guidelines on how to deal in practice with conflicts of interests between stakeholders.

Should a manager fulfill his responsibility for the common good even if the shareholders are definitely against it? He might have a responsibility to present clearly to the owners a number of interests that he believes the corporation should deal with. But if the shareholders, after being informed and having considered the matter, decide that they disagree with his suggested policies, does he still have a responsibility to act in accordance with his views against their will? For the sake of his integrity, he might have to leave the corporation. Or he might keep on fighting for his policies. But I doubt that normative stakeholder theory is committed to the claim that a manager has a duty, in the long run, to perform actions that go directly against the expressed wish of the shareholders.

However, the point could be made that shareholders themselves do have a duty to let the corporation serve the interests of all stakeholders; they should recognize this duty and direct the executive to act accordingly. Legally, it may be wrong if the executive violates his mandate from the shareholders. But morally, Friedman seems to beg the question against normative stakeholder theory’s claim that shareholders owe duties to other stakeholders.

6. THE ARGUMENT FROM DEMOCRACY

According to Friedman, the owners of a business have ethical responsibilities as individuals. However, in their capacity of business owners, Friedman insists that they legitimately can use the business as an instrument for earning profits. He claims (1970: 90) that

precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility […] In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employees) to contribute against their will to ‘social’ causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.

Again, it is hard to follow the reasoning. How could someone succeed in getting stockholders to contribute against their will? Corporations are governed by rules. Of course, one stockholder may be overruled by other
stockholders, but how could this be illegitimate? When buying shares in a corporation, the stockholder knows the rules of the game. And he is always free to invest in other companies in accordance with his views. In what sense can he be forced against his will?

There is, however, another way to understand Friedman. He might object to the belief “that collectivist ends can be attained without collectivist means” (Friedman, 1970: 91). When a government imposes taxes and make decisions about expenditure for the sake of the common good, its actions should be governed by constitutional democratic procedures. One of the ideals of representative democracy is equality in political power. Each person’s vote counts the same, and through frequent re-elections there is a control mechanism to ensure that political decisions are as close as possible in accordance with the preferences of a majority of the public.

The problem in letting a corporation serve as an instrument for the common good is that its decisions are not governed by the procedures of representative democracy. Normative stakeholder theory generally claims that a corporation should serve the common interest, in the sense that it should serve the interests of all its stakeholders. If it does so, it “serves a collectivist end without collectivist means,” i.e., it collects resources and decides how to spend them on the beneficiaries without democratic procedures and democratic control.

What exactly is the problem raised by Friedman here? Clearly, it is legitimate for some stakeholders to appeal to other stakeholders for their contribution to the common good. Neither can it be a problem if stakeholders unanimously decide to contribute to some social cause in common. Also, a private organization should, of course, be free to set up a “collectivist” objective. There is no objection, says Friedman, to the individual proprietor letting his enterprise exercise social responsibility at a cost to himself. Even the owners of a corporation are free to prefer the objective of rendering services for the common good to the objective of money profit. In all these cases, the rules of the game are clear to everyone, and nobody can be coerced against his will.

Problems could arise if this condition is not fulfilled. One could argue that this will be the case if normative stakeholder theory is applied. Then the management’s ordinary fiduciary obligation to shareholders is dissolved, and the responsibility for decisions becomes unclear. Decisions are now made in the name of and on the behalf of the entire organization as comprised by all stakeholders; however, it may not be clear exactly who is to count as members and what duties they are expected to fulfill. The rules of the game are unclear, and stakeholders may experience decisions being made on their behalf that involve contributions to a common objective, but against their will.
It is still the question whether someone under these circumstances really can be coerced into contributions against his will. However, another problem could be the lack of democratic control. Decisions are supposed to be concerned with the management of the organization’s common resources to the benefit of all of its stakeholders. Admittedly, normative stakeholder theories often appeal to the notion of democracy, particularly the versions inspired by Habermas and Kant (cf. Friedman and Miles, 2006: 46–50). This means that, in serving the interests of its stakeholders, the corporation is obliged to involve the stakeholders in its decision and strive for their consent. Ideally, at least, all decisions should be made unanimously. Hence, the decisions about the management of the organization’s common stock of resources are supposed to reflect the desires of all stakeholders, but there are no democratic procedures to govern these decisions.

However, often semi-formal democratic procedures are suggested. For instance, Evan and Freeman (1988: 82) call for a stakeholder board comprised of representations of stakeholder groups. They also call for a redefinition of corporate law to recognize managing a corporation for the benefit of all its stakeholders as a legitimate purpose of the corporation.

Even though such procedures could be defended from the point of view of Habermasian discourse ethics, several objections can be raised. Firstly, it could be claimed that democracy is concerned with government and political power. The constitution defines the powers of parliament, government, and the courts. And institutions are only democratically legitimate in so far as their power is delegated from one of these institutions. So even if a corporation were governed by semi-formal democratic rules, it would have no legitimate political power. As Friedman says, it acts as “legislator, executive and jurist” without being governed by a legitimate political process.

Secondly, representation of stakeholders will in practice be more or less arbitrary. Consider e.g., a simple example like a farm. An average Danish pig farm delivers to slaughterhouses, which again sell on the world market for pork. In theory, therefore, such a farm could have customers all over the world, but the farmer can never know who they are. How should his customers be represented as a stakeholder group? We may choose some consumers as representatives, or perhaps exclude end consumers as stakeholders and only consider the slaughterhouse as customer. But any of these choices appear arbitrary. Furthermore, through its effects on the environment, the farm also affects many people. If the farm contributes to the greenhouse effect, as it is likely to do, then it marginally affects the population of the whole world, now and in the future. How should these people be represented?

The charge of arbitrary representation is the charge that some individuals arbitrarily get more power than others, even though they, qua stakeholders, democratically speaking should have equal power. It would be possible to
remedy this by making more formal procedures for election and representation; but this would be very time consuming and costly, not least for an individual farm; and it would not meet the objection that the body thus designed still is not legitimate from the perspective of representative democracy.

I believe this objection has some force. It is worth noting that it also affects the case of a public institution. Public institutions typically have their objective defined by representative democracy through a law. If stakeholder democracy implies that the stakeholder constituency can define an alternative purpose for the institution, it would illegitimately annul the power of representative democracy.

However, the objection only shows that the idea of a corporation acting as a collective unit comprised of all its member stakeholders can be problematic for democratic reasons. It does not show that the shareholders of a corporation, in their capacity of owners, are exempted from a social responsibility involving duties to other stakeholders of the corporation. And of course, if the shareholders recognize a social responsibility in their capacity of business owners, there seems to be no objection to using all sorts of instrumentally relevant forms of participation by other stakeholders in strategic decision making.

Hence, like Goodpaster, I conclude that the solution to the stakeholder paradox consists in accepting that a corporation is an instrument for the owners and that the management has a fiduciary obligation to them. This does not imply that the corporation does not have an ethical responsibility. At least so far, there has been no argument to show that the shareholders, in their capacity as owners of the corporation, should be exempted from ethical responsibility.

This solution also has another advantage. It allows us to define stakeholders as affected parties instead of the ethically dubious definition of stakeholder theory, which put special weight on the interests of members of the organization. This is particularly relevant for farming. From an ethical point of view, many ethical theories would consider the farm animals a party that is affected by the actions of the farm and therefore a stakeholder group. And according to some environmental ethical theories, future generations and perhaps even the environment itself should be considered stakeholders. However, normative stakeholder theory is generally reluctant to include these parties as stakeholders in their own right, because the stakeholder ship in some sense requires membership of the organization, and neither the animals nor the future generations nor the environment can be said to engage in the organization for the sake of mutual benefit. This requirement appears to be a reminiscence of instrumental or strategic stakeholder thinking. Therefore, I find it advantageous if the ethical considerations governing a business are not committed to accept it.
Could there be arguments to the effect that shareholders, in their capacity as business owners, are exempted from ethical responsibility over and above the law and ethical custom such that their business legitimately can concentrate on profit? It is possible to distil some pragmatic considerations out of Friedman. One is about knowledge. If the shareholders were to ask the corporation to discharge a social responsibility in the sense that money or other resources should be spent for the sake of some common good, does the corporation and its management then have the necessary expertise? Friedman's own example is the cause of fighting inflation. The corporation is assumed to possess expertise within its business area, but it does not follow that it also has expertise in fighting inflation. Hence, the argument seems to be that if the corporation lacks expertise in the area, and some public institution or agency has this expertise, the social objective is better achieved if it is left to the public institution or agency. (I shall leave aside the case of some other private institution having more expertise).

This is all right as far as it goes – there might well be such cases. But often the premises of the argument will be false. Often the corporation will have more relevant knowledge than a public agency. Consider for instance reduction of pollution. In most cases, the corporation is more likely than a public agency to possess the relevant knowledge on the sources of emission, the technological possibilities to reduce etc. So in these cases, the argument does not exempt the corporation from social responsibility. At least, the goal can be achieved only with a co-operative effort from the corporation.

Another consideration could be about the need for co-operation. In many cases – reduction of pollution is again a good example – the objective is achieved better if the individual efforts are co-ordinated and the overall effort is made cost-effective. In most cases, a public agency will be responsible for providing overview over the situation and make priorities anyway, so in these cases there seems to be no reason to expect from individual corporations that they make an effort in this regard. Again, however, this goal can be achieved only with a co-operative effort from the corporations.

A final consideration could be concerned with free rider problems. Suppose the common good to which a corporation is expected to contribute is a public good. A public good is characterized as a good that is non-rival in consumption; i.e., the consumption of it by one person does not reduce the amount available for others. A second property is non-excludability: Once the good is made available for one person, it is available for all.

A standard argument points out that a free market by itself is unlikely to produce public goods. The difficulty for a free market in providing public goods stems from the fact that most agents are likely to have the preferences...
of a free rider. Consider a situation where each agent has to consider whether or not to contribute to the provision of a public good independently of others’ decision on whether or not to contribute. It is understood that contributing involves a cost for the agent. A free rider will have the following preference order:

1. I do not contribute, others contribute
2. I contribute, others contribute
3. I do not contribute, others do not contribute
4. I contribute, others do not contribute

If others have the same preference order, we get the following picture:

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<td>I do not contribute</td>
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The numbers in each box indicate the place in the preference order, the first for me and the second for the others. This situation has the structure of a so-called Prisoners’ Dilemma (Pettit, 1985): Even though all prefer the provision of the good (2, 2) to its not being provided (3, 3), it is a dominant strategy not to contribute: Regardless of what others do, I get the more preferred outcome if I do not contribute (1 compared with 2, if others contribute, and 3 compared with 4 if others do not contribute). Since the situation is symmetric, this will be the case for others as well. Consequently, no one is motivated to contribute and the good will not be provided, even though everyone prefers the state where it is provided to the state where it is not.

One possible solution is moral: I and the others come to change our preferences for moral reasons, such that we all prefer to contribute regardless of what the others do. The problem for the moral solution is that it is likely to need help in being brought about. It may be the case that if I believe that many others contribute, I have a moral duty to contribute; but if I seriously believe that others are not going to contribute, do I then still have a moral duty to contribute? If the answer is no – and that seems to be a reasonable view – then the moral solution needs to bring about some form of assurance that others are sufficiently committed to contribute.

Another way to solve the problem is that the state, by enforcing positive and/or negative incentives, can change the preference order of the individuals. Suppose it becomes more costly both for me not to contribute than to contribute, regardless of what the others do, and similarly for all others. Then we get the following picture:
In this situation, the good will be provided, because everyone prefers to contribute rather than not to contribute, regardless of what others do.

Since I am concerned here with the ethical responsibility of businesses, I shall not be concerned with the production of public goods in general, but only with the idea that the state can help bringing about sufficient assurance, such that a moral commitment will be effective. The argument has the rough structure: if agents on a free market are likely to have the preferences of a free rider, a single agent is not obliged to contribute. The state is more efficient in bringing about assurance of general commitment than voluntary methods. Therefore, it is better if the state rather than individual agents takes responsibility for bringing about assurance of commitment.

Note again that the argument does not exempt a business from ethical responsibility. It only claims that if free riders are believed to be widespread, there is no responsibility of an individual agent to contribute, only an obligation to participate in bringing about assurance of commitment to contribute; but this obligation is claimed to be better fulfilled if the state exercises a responsibility through the legal and economic framework it sets up for the market (I assume throughout that this state should be democratic) than if the individual business seeks to bring it about through voluntarily means. To the extent that this argument is not tenable, the responsibility stays exclusively with the individual agents.

I shall consider some limitations of the argument. Firstly, the argument assumes that the problem can be modeled as a Prisoner's Dilemma. This implies that the choice is made only once. We are concerned with a business's decision on whether or not to contribute to some common good that involves a cost that is not in the interest of shareholders. It might be more plausible to model this situation by repeated Prisoners' Dilemmas, because a business typically will face this choice more than once. In repeated Prisoners' Dilemmas, provided that the number of games is unknown to agents, it is possible that the agents might come to see the benefits of cooperation. If they are able to exclude or punish free-riders, this might lead to emergence of cooperative associations among the agents (cf. Axelrod, 1984; Hampton, 1986).

Moreover, the market is often dominated by big international monopoly-like corporations. Since these corporations have strong brands, they

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<td>I contribute</td>
<td>1, 1</td>
<td>2, 3</td>
</tr>
<tr>
<td>I do not contribute</td>
<td>3, 2</td>
<td>3, 3</td>
</tr>
</tbody>
</table>
clearly depend on meeting their customers again. In some cases, therefore, they might perceive an interest in contributing to the common good. However, isolated individual consumers are not likely to have the necessary power to bring this about.

Another problem is that sometimes the good we are concerned about is not a public good. A case in point is food safety. If there are variations in the safety of food products, which are reflected in the price of the products, then higher food safety becomes a private good and the free-rider problem will not arise. Finally, in some cases, voluntary methods may be better to produce the necessary assurance and commitment (Schmidtz, 1991). This is most likely to be the case if the number of agents involved is small.

A particular problem is contributions for the benefit of animals or future generations. In these cases, there are no self-interested reasons to prefer the contribution of all, because it is not the contributors themselves that are benefited but some other groups. This is likely to make it harder to get contributions. Therefore, state intervention appears more important here. On the other hand, these groups are not part of the constituency of representative democracy, so the government might not have the same interest in benefiting them as it has in producing public goods directly for its constituency. Another problem stems from the fact that the political sphere often acts within a rather narrow time horizon. Multi national corporations often work with a much longer time horizon. This could be reason for leveling ethical requirements directly to them.

A common feature of all the pragmatic considerations in this section is that they rely on regulation by democracy. A common restriction of the arguments, therefore, concerns areas where the market is not democratically regulated. To some extent, international trade is regulated by the WTO. However, on the international market, there can still be many problems in countries governed by dictatorships or otherwise democratically deficient states. In these situations, a business cannot exempt itself from ethical responsibility with reference to the argument that state intervention is better.

Interestingly, it is very often multi national corporations that are met with requirements of ethical responsibility. Many people appear to believe that multi national corporations are not working under sufficiently democratic control. Of course, if individual businesses are to exercise ethical responsibility by themselves, free rider problem will pop up. They are notoriously difficult to handle. The only solution seems to be that corporations engage in voluntary agreements on ethical standards and actively try to keep free riders out of the good company.
8. CONCLUSION

I have explored arguments to the effect that it is ethically legitimate for a business to concentrate on profit under respect for the law and ethical custom. I showed that, for democratic reasons, a corporation should not be seen as an instrument for all member stakeholders. It is legitimate for a corporation to serve as an instrument for the owners, and the management has a fiduciary obligation to serve their interests. However, this does not show that shareholders in their capacity as business owners are exempted from ethical responsibility.

Certain pragmatic considerations do to a certain extent make it legitimate for a corporation to concentrate on profit and leave the ethical responsibility to democratic regulation. But there are a number of restrictions to these considerations. And to the extent the considerations are tenable, the corporation still has an obligation to co-operate with the government.

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