

Why Normative Stakeholder Theorists Should Support Stakeholder Democracy

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Draft: February, 2011

Abstract: In early writings, stakeholder theorists supported giving stakeholders formal, binding control over the firm, in particular, over its board of directors. In recent writings, however, they claim that stakeholder theory does not require changing the current structure of corporate governance (which makes boards accountable to shareholders only), and further claim to be “agnostic” about the value of stakeholder control. They emphasize that stakeholder theory is managerial, providing advice to managers about how to run firms as well as a standard for evaluating managers’ actions. The purpose of this paper is to highlight this shift, and to argue that it is a mistake. Stakeholder theorists should support giving stakeholders binding control over the firm, including over its board. That is, they should support stakeholder democracy. A larger goal of this paper is to steer the conversation about stakeholder theory toward questions of governance and control. Stakeholder theorists tend to sidestep these questions, but it is vital that they be addressed.

In early writings, stakeholder theorists – especially Freeman and his collaborators – supported giving stakeholders formal, binding control over the firm, in particular, over its board of directors (Evan & Freeman, 1988, 1990). In recent writings, however, they claim that stakeholder theory does not require changing the current structure of corporate governance (which makes boards accountable to shareholders only), and further claim to be “agnostic” about the value of stakeholder control (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; Phillips, Freeman, & Wicks, 2003). They emphasize that stakeholder theory is *managerial*, providing advice to managers about how to run firms as well as a standard for evaluating managers’ actions (Freeman, Harrison, & Wicks, 2007; Freeman, et al., 2010). This paper’s purpose is to highlight this shift, and to argue that it is a mistake. Stakeholder theorists should support giving stakeholders binding control over the firm, including over its board. That is, they should support *stakeholder democracy*. A larger goal of this paper is to steer the conversation about

stakeholder theory toward questions of governance and control. Stakeholder theorists tend to sidestep these questions, but it is vital that they be addressed.

I am not the first to raise the issue of stakeholder control in the context of stakeholder theory (see, e.g., Gould, 2002; Hendry, 2001; Van Buren, 2001, 2010). Nor am I the first to consider the idea of stakeholder democracy (see, e.g., Matten & Crane, 2005). But I go further than these writers in *detailing* the shift in stakeholder theorists' thinking about stakeholders' role in corporate governance, and *explaining* why it is mistake. I also explain why stakeholder theorists should not fear embracing stakeholder democracy, viz., they are already required to defeat, for other reasons, the most powerful arguments against stakeholder democracy.

Three clarifications. First, I focus on stakeholder theory as applied to for-profit corporations. While stakeholder theorists say their theory can be applied to other types of firms (Freeman, et al., 2010; Phillips, et al., 2003), this is the type to which it is most often applied. Second, I do not attempt to show that stakeholder democracy is independently desirable. My claim is that stakeholder theorists, given *their* goals, should support it. Finally, while I discuss the governance arrangements encoded in U.S. corporate law, my conclusions are ethical, not legal. That is, I argue that, for stakeholders, the *morally best* governance arrangements are ones that include a place for meaningful stakeholder control. I do not claim that these arrangements should be legally mandated, nor do I speculate about what specific changes to corporation law are needed to realize them.

1. Stakeholder theory

Stakeholder theory comes in many versions (cf. Heath & Norman, 2004). I am concerned with what Donaldson and Preston (1995) call "normative stakeholder theory." According to this version, managers are *morally required* to consider the interests of all stakeholders in managing the firm. Normative stakeholder theory differs from *descriptive* stakeholder theory, according to which managers

actually manage firms by considering the interests of all stakeholders, and *strategic stakeholder theory*, according to which considering the interests of all stakeholders helps managers to achieve some other goal (e.g., the maximization of shareholder value). Hereafter, by ‘stakeholder theory’, I will mean *normative stakeholder theory*.

I do not assume that (normative) stakeholder theory is justified. My inquiry is hypothetical: *assuming that* it is, then how should firms be governed, and especially, who should control them? But my inquiry has implications for stakeholder theory’s justification. If I am right that stakeholder theorists should support stakeholder democracy, then our evaluation of the former should depend to some extent on our evaluation of the latter.

My argument that stakeholders theorists should support stakeholder democracy is instrumental. I claim that this form of governance is important for achieving stakeholder theory’s goals. To begin, then, we must get clear about what those goals are. Despite – or perhaps because of – the volume of literature devoted to it, the theory is ripe for misinterpretation (cf. Phillips, et al., 2003). We must proceed carefully. Drawing on key writings, I take stakeholder theory to have two main components: one distributive, the other procedural.

1.1. The distributive component: balance

Stakeholder theory’s distributive component tells managers what *results* to achieve: it tells them to keep the firm *healthy* and *balance* the interests of all stakeholders.¹ As Evan and Freeman say, “management . . . must look after the health of the corporation, and this involves balancing the multiple

¹ A familiar problem for stakeholder theory is that of stakeholder identification. Most writers agree that, to be a stakeholder, one must have an interest or stake in the corporation. But there is disagreement about what, if any, other conditions a subject must satisfy. Various answers to this problem have been proposed (see, e.g., Mitchell, Agle, & Wood, 1997; Phillips, 1997). I do not take a side in this debate, for nothing in my argument hangs on its outcome. For convenience, I use Evan and Freeman’s (1988) original list of stakeholders: employees, consumers, suppliers, community members, and shareholders.

claims of conflicting stakeholders” (1988, p. 103). In saying that managers should *balance* all stakeholders’ interests, stakeholder theorists mean, minimally, that one group’s interests should not always take precedence over other groups’ interests. Evan and Freeman explain: “The task of management in today’s corporation is akin to that of King Solomon. The stakeholder theory does not give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of others. In general . . . management must keep the relationships among stakeholders in balance” (1988, p. 103).

Few would quarrel with stakeholder theory’s claim that managers should keep firms healthy. The theory’s distinctive claim is that managers should *balance* all stakeholders’ interests. This requirement distinguishes stakeholder theory from the theory it was offered to oppose. According to what may be called “shareholder theory,” shareholders’ interests *should* always take precedence over other groups’ interests. The *locus classicus* for this view is Friedman (1970), who says that managers’ sole responsibility is to “conduct the business in accordance with [their employers’] desires . . . while confirming to the basic rules of the society, both those embodied in law and those embodied in ethical custom” (p. 33; see also Boatright, 1994; Hasnas, 1998; Sternberg, 2000). Note that shareholder theory does not direct managers to ignore the law *or* morality.² Instead, it says, managers should maximally promote shareholders’ interests *within the bounds* of law and morality. Note also that shareholder theory does not tell managers to *ignore* other stakeholders’ interests. Trivially, promoting shareholders’ interests *requires* taking other stakeholders’ interests into account. But shareholder theory tells managers to take into account other stakeholders’ interests *merely instrumentally*, whereas stakeholder theory tells them to take them into account *as ends*.

² Sternberg (2000), a shareholder theorist and critic of stakeholder theory, insists on the relevance of morality to managers’ decisions. According to her, managers must, in addition to obeying the law, act in accordance with “distributive justice” and “ordinary decency” (2000, p. 90).

Suppose a manager can do either A or B, but not both. Suppose further that both A and B conform to the legal and ethical “rules of the society.” Suppose finally that A is better for shareholders than B, but B better balances all stakeholders’ interests. According to shareholder theory, managers should choose A over B. According to stakeholder theory, managers should choose B over A. As this makes clear, stakeholder theory is best understood as a thesis about the promotion of stakeholders’ *interests*. Shareholder theorists agree with stakeholder theorists that managers should not violate the legal and commonsense moral *obligations* that they owe to stakeholders. The assumption, however, is that, even after these are met, managers have a choice of actions. Shareholder theory directs them to take the action that maximizes shareholder value; stakeholder theory directs them to take the action that balances the interests of all stakeholders.³

We have ignored so far what is perhaps the most important question: what does it mean to *balance* stakeholders’ interests, other than not always to give precedence to one group’s interests? The concept of balance is not contentless. People often talk about balancing work and family life, or ecosystems that are in or out of balance, and we understand what they mean. But it is vague. Does balancing many groups’ interests require giving the interests of each group equal weight? Does it require giving them weight in proportion to their intensity? Or what? Surprisingly, when stakeholder theory was first proposed, an account of balance was not provided (Evan & Freeman, 1988; Freeman, 1984; Freeman & Reed, 1983). Critics rightly objected (Marcoux, 2000). However, Phillips (1997, 2000, 2003) has recently proposed an account of balance that many stakeholder theorists find attractive. On his meritocratic account, the weight given to the interests of a stakeholder group should be

³ Some might object to my characterization of shareholder theory (cf. Heath & Norman, 2004). They might claim that it requires managers to maximize shareholder value within the bounds of the law only; managers need not be concerned about society’s moral norms. However, this characterization does not match shareholder theorists’ own descriptions of their view, and seems independently implausible. Why suppose that ordinary moral norms should be suspended in the context of business? But even if we grant this as a legitimate interpretation of shareholder theory, my argument is unaffected. There is a set of permissible actions that managers can perform, bounded by either the law alone, or the law and morality. Shareholder theory says to choose the action that, out of all the permissible ones, maximizes shareholder value. Stakeholder theory says to choose the action that, out of all the permissible ones, balances all stakeholders’ interests.

proportionate to the value of its contribution to the firm. A decision thus balances all stakeholders' interests when it allocates benefits (or harms) to them in proportion to the (possibly different) values of their contributions. I will take this to be stakeholder theory's official account of balance. If another account replaces it, my arguments can be adjusted.

1.2. The procedural component: participation

In addition to distribution, or "who benefits from the outcomes of decisions," stakeholder theory is concerned with procedure, or "who has input in decision-making" (Phillips, et al., 2003, p. 487). In particular, Phillips, Freeman, and Wicks say that "[a]mong the prescriptions of . . . stakeholder theory is that relevant stakeholders should have input in the decision-making process of the organization" (2003, p. 487). While the theory's distributive requirement garners more attention, stakeholder theorists have consistently emphasized its procedural requirement. In an early article, Evan and Freeman say that each "stakeholder group has a right not be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake" (1988, p. 97). We have understood stakeholder theory's distributive component in terms of *balance*; let us understand its procedural component in terms of *participation*.

Phillips, Freeman, and Wicks (2003) say that stakeholders "should have input," and Evan and Freeman (1988) say that stakeholders "must participate," in corporate governance. It is unlikely that they think, however, that stakeholder theory imposes a *duty* on stakeholders to participate in corporate governance. It is more likely that they think that it requires that stakeholders have an *opportunity* to participate in corporate governance. Evan and Freeman state the procedural component this way in at least one place. They say "if the modern corporation requires treating others as means to an end, then these others must agree on, and hence participate (*or choose not to participate*) in, the decisions to be used as such" (1988, p. 100, my emphasis).

The procedural and distributive components of stakeholder theory seem connected. If stakeholders have input into the firm's decision-making process, then their interests are more likely to be balanced. But stakeholder theorists do not claim to support stakeholder participation merely for instrumental reasons, i.e., only because it helps managers to balance stakeholders' interests. They seem to think that it is important that stakeholders have input into firms' decisions *whether or not* this result is more likely to obtain (Phillips, et al., 2003).

Stakeholder theorists say little about the form stakeholders' participation should take, except to say that it should be meaningful. "Mock participation" by employees in quality circles, Evan and Freeman (1988) say, does not count. But since stakeholders can participate in corporate governance in a variety of ways (Cotton, Vollrath, Froggatt, Lengnick-Hall, & Jennings, 1988), this leaves many questions unanswered. Here are just a few. (1) What decisions should stakeholders be able to participate in making? Only those decided by the board of directors? Or those decided by low-level managers as well? (2) Should stakeholders' involvement in corporate governance be codified in formal rules, systems, and procedures, or is it enough for there to be substantive informal interaction between managers and stakeholders? (3) Should stakeholders have a chance to participate directly in firm decision-making, or is it enough if their participation is indirect, through representatives? (4) To what lengths should firms go to *actually acquire* stakeholders' input? Participating in corporate governance is not costless for stakeholders; minimally, it takes time. To what extent should firms reduce these costs? These are difficult questions to which I do not try to supply answers.

For our purposes, the key question about stakeholder participation is: (5) What type of *influence* over corporate governance should stakeholders have? Exercising formal, binding control through voting is one form of participation. It is the most common way people participate in the governance of democratic states, for example. But people can also participate in state governance by writing to their representatives, speaking at town hall meetings, and demonstrating in the streets. Participation does

not require exercising formal, binding control. Thus we can see the shift in stakeholder thinking about stakeholder control over the firm as a shift in their thinking about the nature of their theory's procedural component. Let us explore this shift in detail.

2. Stakeholder theorists' shift in thinking about participation

As noted, in early writings, stakeholder theorists claim that stakeholders should be able to exercise binding control over the firm. The clearest statements of support for this view are found in Evan and Freeman (1988, 1990).⁴ In their (1990), they say that "the only logical outcome [of their argument] . . . is that stakeholders be accorded voting rights with respect to deciding how to manage the affairs of the corporation" (1990, p. 338). They propose in particular that "every corporation of a certain size . . . form a Board of Directors comprised of representatives of five stakeholder groups, including employees, customers, suppliers, stockholders, and members of the local community" (1988, p. 104). They further endorse a "stakeholder bill of rights," giving each stakeholder group "the right to elect representatives and to recall representatives to boards" (1988, p. 105).

As also noted, in later writings, stakeholder theorists including Freeman abandon these commitments. Giving stakeholders rights to control firms requires changing the structure of corporate governance, for currently these rights are held exclusively by shareholders. The most important governing body in the corporation is the board of directors, which, under U.S. law, is accountable to shareholders only.⁵ Phillips, Freeman, and Wicks (2003) now say, however, that "stakeholder theory . . . does not require changing the structure of corporate governance . . . The theory can reasonably remain agnostic, for example, concerning stakeholder representation on corporate boards of directors" (p. 491;

⁴ See also Donaldson and Preston (1995), who say that stakeholder theory does not "presume that managers are the only rightful locus of corporate control and governance" (Donaldson & Preston, 1995, p. 67).

⁵ As is well-known, shareholders' power over firms, including their boards, is limited (Bainbridge, 2006; Bebchuk, 2007). I discuss this further in section 4.

see also Freeman, et al., 2010).⁶ They go on: “[t]his doesn’t rule out the possibility, or even advantage, of having stakeholder representation on boards. The requirement of such representation is not, however, theoretically necessary nor intrinsic to stakeholder theory” (2003 p. 491).

Let us be clear about how stakeholder theorists’ thinking about stakeholder participation in corporate governance has shifted. First, in early writings, stakeholder control of the firm is presented as a *requirement* of stakeholder theory. “If the modern corporation insists on treating others as means to an end,” Evan and Freeman said, then “they *must* agree to and hence participate (or choose not to participate) in the decisions be used as such” (1988, p. 100, my emphasis). In later writings, stakeholder theorists *reject* control as a *requirement* of the theory, saying it is not “necessary” or “intrinsic” to it (Phillips, et al., 2003, p. 491). Even if control is not a required element of stakeholder theory, however, it still might be *supported* by stakeholder theorists, perhaps as a valuable supplement to the theory. It is not. Instead, stakeholder theorists claim to be “agnostic” about the value of stakeholder control. They suggest that stakeholder control *may* be advantageous, which means they also think it may *not* be. Since stakeholder theorists do not recommend changing the current structure of corporate governance, they should be seen as being *satisfied* with it.

Now in rejecting stakeholder control of firm decision-making, stakeholder theorists are not rejecting their theory’s procedural component. It is possible for stakeholders to participate in corporate governance in many other ways besides voting on what the firm will do or who will represent their interests on the corporate board. Stakeholders can participate in works councils, advisory boards, quality circles, straw polls, and the like. They can submit proposals or suggestions to the firm. We must assume that stakeholder theorists think that having the opportunity to participate in one or more of these ways is sufficient. But since exercising formal, binding control by voting is also a form of

⁶ Similarly, Harrison and Freeman recommend “‘democratizing’ the corporation, not in the sense of gradually extending voting power to constituencies but rather as thinking through, in innovative ways, how to make our companies more attentive to the moral foundations of capitalism” (2004, p. 53).

participation, stakeholder theorists should be understood as having changed, and in particular *weakened*, their theory's procedural component.

This paper's thesis is that this change is a mistake. Stakeholder theorists should go back to supporting control rights for stakeholders. I have called this view *stakeholder democracy*. 'Democracy' a loaded term and can be given a variety of meanings (Anderson, 2009). Here I understand it in a spare way, exclusively in terms *control*. In a stakeholder democracy, all stakeholders have an opportunity to exercise *formal, binding control* over corporate affairs. I assume, for a start, that in a stakeholder democracy the firm's board of directors will be accountable to all stakeholders,⁷ much as it is now accountable to all, but only, shareholders. In the early statements of stakeholder theory in which they express support for stakeholder democracy, it is this form of control that stakeholder theorists seem especially concerned with. However, they do not say in those statements what, if any, other forms of control over the firm stakeholders should have, and I do not try to fill in the gaps. In particular, I do not try to say whether voting power in a stakeholder democracy should be distributed equally ("one person one vote") or whether some stakeholders should have more voting power than others (as in a system of proportional or weighted voting). It might be thought that only if voting rights are distributed equally does a governance system merit the label 'democracy'. This is not so; some supporters of democracy explicitly endorse giving voters unequal voting power (Brighthouse & Fleurbaey, 2008; Mill, 1998). As I present the case for stakeholder democracy, the form it must take to be effective will begin to emerge, but articulating a detailed theory is impossible here. Some may regard this as problematic, but they should not. We recognize no problem with discussing the merits of democracy at the state level without saying exactly what form it should take: to what extent it should be direct or indirect, what the role of

⁷ Stakeholder democracy is not the same as workplace democracy, as the latter is usually understood. Workplace democracy is control of the workplace by employees, or employees together with shareholders (McMahon, 1994). Stakeholder democracy is control of the workplace by *all* stakeholders, including workers and shareholders, but also community members, suppliers, and consumers.

experts in it should be (e.g., in legal or economic affairs), and so forth. A similar allowance can be made for a discussion of stakeholder democracy.

We might wonder at this point: why did stakeholder theorists originally support stakeholder democracy? And: why did they abandon it? We can find two different arguments for stakeholder democracy in early statements of the theory.

In their (1988), Evan and Freeman argue that stakeholders should have control over the firm on Kantian grounds: “Each person has the right to be treated, not as a means to some corporate end, but as an end in itself. If the modern corporation insists on treating others as means to an end, then at minimum they must agree to and hence participate (or choose not to participate) in the decisions to be used as such” (p. 100). A standard gloss on what it means to be treated as “an end in itself” is to be treated with respect (Darwall, 1977). If so, then Evan and Freeman’s claim is that treating stakeholders with respect requires giving them a right to vote on corporate affairs. In their (1990), Evan and Freeman offer a contractarian rationale for this view. They argue that stakeholder control over firms would be chosen by all stakeholders behind a “veil of ignorance” (cf. Rawls, 2001). That is, if a person did not know to which stakeholder group they belonged, they would choose stakeholder democracy over any other governance arrangement. “It would be irrational,” Evan and Freeman say, for stakeholders “to give up any chance for voice, since other parties to the multilateral contract that is the firm, could unilaterally decide to institute policies detrimental to that stakeholder” (1990, p. 353). Having “voting rights with respect to deciding how to manage the affairs of the corporation,” they explain, is an important “safeguard” of stakeholders’ interests (1990, p. 338).

Since stakeholder theorists have abandoned their support for stakeholder democracy, we might expect them to have rejected these arguments at some point. But I see no place where they have done this. They seem simply to have stopped supporting their conclusions. It would not be surprising, however, if stakeholder theorists did come to see them as flawed, and abandoned their support for

stakeholder democracy as a result. Note these arguments' ambition: they attempt to justify stakeholder democracy *simpliciter*, as opposed to justifying it *given* the theory's other elements (as this paper tries to do). Given this ambition, they are seriously underdeveloped. With respect to the Kantian argument, it is not clear why respect for persons requires giving stakeholders participation rights in corporate governance. It is also unclear why a stakeholder's agreement to enter into a contract (as an employee or supplier) with a firm is not *itself* an agreement to be used "as means to an end" by the firm. With respect to the contractarian argument, we can ask why Rawls's veil of ignorance, which was designed for use in a political context, is appropriately deployed in an organizational context (cf. Child & Marcoux, 1999).⁸ My claim is not that it is impossible to defend Kantian or contractarian arguments for stakeholder democracy, only that the defenses that stakeholder theorists once offered are decidedly incomplete. They may have despaired of completing them.

Since they do not address this matter explicitly, we cannot be sure, ultimately, why stakeholder theorists abandoned their support for stakeholder democracy. But the most likely explanation, in my view, is that they came to believe that stakeholder democracy is (i) not important to their theory, and (ii) too radical. That is, they might have come to believe that stakeholder theory's distributive and procedural goals could be achieved *without* giving stakeholders binding control over the firm, and that supporting this as part of stakeholder theory made the latter too controversial to be widely acceptable, especially in the business community. So there was no reason for stakeholder theorists to try to justify stakeholder democracy, and some reason not to. Below I argue that (i) and (ii) are both false. I address (i) in sections 3 and 4, and (ii) in section 5.

The first step in this project is to say why stakeholder theorists should, once again, support stakeholder democracy. As mentioned, the argument I offer for stakeholder democracy is instrumental, and takes stakeholder theory's goals as given. Thus my claim is that not that everyone should support

⁸ At least one prominent stakeholder theorist, Phillips (Phillips & Margolis, 1999), has expressed this worry.

stakeholder democracy for instrumental reasons, but that stakeholder theorists should support it for instrumental reasons. For the most part, I present a positive case. That is, I say what is valuable about stakeholder democracy for stakeholder theorists. But the most pressing question is not whether stakeholder democracy is a *good* governance arrangement but whether it is *better* than alternatives. The most relevant alternative is the status quo – viz., control by shareholders – which stakeholder theorists seem to be satisfied with. So I will stress how stakeholder democracy is better, given stakeholder theory's goals, than this arrangement.

3. An instrumental argument for stakeholder democracy

My argument is simple and can be summarized briefly. Stakeholder theory's distributive and procedural goals are unlikely to be achieved under current corporate governance arrangements. The main reason is that managers are human beings, with familiar human limitations, not god-like impartial observers and agents. The theory's goals are more likely to be achieved under stakeholder democracy, which mitigates some of these limitations.

The key human failing is self-interestedness. This failing comes in two forms: behavioral and cognitive. I begin with the former.

To say that people are self-interested in their behavior is not to say that they always do what is in their self-interest. It is just to say that we are inclined to do, and sometimes actually do, what is in our self-interest. This is so even when morality requires a different action, and we understand that it does. People understand that that they should not steal or murder, yet prisons house many thieves and murderers. People understand that they should not cheat on their spouses, yet adultery is common. This problem is thoroughly familiar to all casual observers of humanity.

To mitigate it, we *incentivize* the desired behavior. To deter crime, we use prisons. Adultery, once commonly subject to the criminal sanction, is now deterred through divorce laws and social norms.

In general, to overcome the problem of people choosing what is in their self-interest over what is their duty, we make it in people's self-interest to do their duty.

The arena of corporate governance is no exception to this problem (which in this context goes by the name "the agency problem") and attempts to solve it. A manager's duty to (e.g.) do what is best for his firm may conflict with his self-interest. It is unrealistic to think that a manager will always choose to perform his duty, even if he know it is his duty, over doing what is in his self-interest. Incentives must be put in place. Assuming that what is right is what stakeholder theory commands, I suggest, one of these structures is control of the firm by stakeholders.⁹ If managers are not accountable to stakeholders, it is much less likely that stakeholder theory's goals will be achieved. That is, it is much less likely that stakeholders will have meaningful input into firms' decisions and that the outcomes of these decisions will balance all stakeholders' interests.

This idea's appeal is reflected in U.S. corporate law, which directs managers to maximize shareholder value, and also makes them accountable to shareholders (Hansmann & Kraakman, 2001). One of the reasons we can expect managers to maximize shareholder value is that they are accountable, through the board, to shareholders. Managers would have less reason to do as shareholders' wanted if they were not accountable to them. We see it also in democracy at the state level. One of the reasons it is reasonable to expect our lawmakers to promote the public good is that they are accountable to us in periodic elections. Again, we would have less reason to expect them to do what is in our interests if they were not accountable to us. And, for the same reason, we would have less reason to expect our lawmakers to do what is in the interest of the public as a whole if they were accountable to only a subset of the public, e.g., only white males.

⁹ It may not be the only part. Executives' compensation packages may also be designed to try to incent behavior that achieves stakeholders' objectives. There is an enormous literature devoted to understanding whether and how executives' compensation packages affect firm performance. For a summary of the literature and proposals for reform – but which assume that executives should be incented to maximize shareholder value – see Jensen, Murphy, and Wruck (2004).

This is not to say, of course, that stakeholders' interests would receive *no* consideration or protection if managers were not accountable to them. They would be, and are, protected by their freedom to contract, or not, with the firm and, perhaps more importantly, by having certain rights (e.g., against racial discrimination) recognized by the state. But stakeholder theorists do not believe that these protections alone are sufficient to achieve their theory's goals. (If they did, there would be little point in instructing managers to achieve them.) And for good reason: stakeholder theory requires that managers balance stakeholders' *interests*. Since what interests stakeholders have varies from firm to firm, what balance requires is a firm-specific matter. This is why the task falls to managers. My suggestion is that, given managers' natural self-interest, it is implausible to suppose that managers will achieve stakeholder theory's goals unless they are accountable to all stakeholders.

While in recent writings, as seen, stakeholder theorists claim to be "agnostic" about the value of stakeholder control, if we look closely it appears that they are not. Phillips, Freeman, and Wicks (2003) tacitly appeal to stakeholder control to answer the problem of managerial opportunism. According to this problem, if managers are accountable to two (or more) masters, then they will have greater opportunity to advance their own interests at their masters' expense (Easterbrook & Fischel, 1996; Roe, 2001). The thought is, managers will always be able to say to the "losing" stakeholder that, in the case at hand, balance requires benefiting other stakeholders. Phillips, Freeman, and Wicks deny this, saying: "those stakeholders against whose interests the manager has acted will certainly have reasons for doubting her justifications and she will be *answerable* to these groups as well" (2003, p. 484, my emphasis). But in what sense are managers *answerable* to stakeholders, if stakeholders lack control rights over the firm? Stakeholder theory requires that managers listen to stakeholders' input, and the input of the losing stakeholders may take the form of a complaint. It is implausible to suppose, however, that the prospect of *merely listening* to stakeholders' complaints will be enough to incentivize managers to perform their duties. Phillips, Freeman, and Wicks's response to the problem of managerial

opportunism is plausible only if by “answerable” they mean *accountable*, i.e., only if stakeholders have the power – either directly or through the board of directors – to fire managers. This assumes the existence of an effective stakeholder democracy.

My arguments may seem suited to showing that the self-interested bias in behavior is likely to undermine stakeholder theory’s distributive goal of balancing all stakeholders’ interests. But they also show that this bias is likely to undermine its procedural goal of facilitating stakeholder participation in firm decision-making. If managers are accountable to stakeholders, then they will have a greater incentive to listen to what stakeholders have to say, to allow their input to influence their decisions. Otherwise, managers may just “go through the motions,” and be actually influenced instead by the input of those to whom they are accountable.

In addition to behavioral imperfections, human beings are subject to various cognitive limitations (Bishop & Trout, 2005; Kahneman, Slovic, & Tversky, 1982). As a result, we make non-optimal decisions, even when we have full information. One of these is the self-serving bias. As Domsy describes it, we have “a strong, measurable tendency to select and uphold . . . beliefs according to how they stand to benefit us personally” (2004, p. 455). For example, the rich tend to think it is better for society if taxes are lower, while the poor tend to think it is better for society if the minimum wage is higher (Pronin, Puccio, & Ross, 2002). It is not that we *think* we are cognitively biased toward our self-interest; indeed, we tend to think that we are not. It is that we *are* biased in this way. The relevant implication is that managers will tend to think that the correct course of action, by stakeholder theory’s standards, is one that (in fact) gives too much weight to their interests and too little weight to other stakeholders’ interests. This is so even if managers have all the available evidence as to what stakeholders’ interests are. As a result, managers will tend not to achieve stakeholder theory’s goals, even if they desire, and are properly incited, to achieve them.

In a discussion of democracy at the state level, Christiano (2004) shows how the self-interested bias affects judgment in two specific ways. First, people “understand their own interests better than the interests of others,” and so “tend quite reasonably to interpret the interests of others in the light of their understanding of their own interests” (2004, p. 272). This cuts against stakeholder theory’s procedural and distributive components. With respect to the procedural component: even if stakeholders get a chance to *speak*, managers may not *hear* what stakeholders want them to hear. So stakeholders’ input may not be effectively communicated to managers. With respect to the distributive component: to balance stakeholders’ interests, minimally, managers must know what stakeholders’ interests are. But managers’ understanding of stakeholders’ interests will be colored by what they want stakeholders’ interests to be. Second, Christiano says, people are biased towards their self-interest in that they “are more sensitive to the harms they undergo than to those of others” (2004, p. 272). This cuts against stakeholder theory’s distributive component. Balancing stakeholders’ interests requires distributing benefits and harms in proportion to stakeholders’ contributions. But managers are likely to underestimate the significance of the harms they impose on stakeholders other than themselves. The likely result is that stakeholders’ interests will be out of balance.

It might be objected that stakeholder democracy does not solve the problem of self-interested bias in cognition. Managers will still tend to think the result that favors them is the proper result, even if they are accountable to all stakeholders in periodic elections.

Two points can be made in reply. First, the self-interested bias in cognition comes in degrees. Some will have it to a greater extent than others. And, to some extent, it can be corrected. If a firm is organized as a stakeholder democracy, then managers have an incentive to ensure that their self-interested bias does not run rampant. And it gives stakeholders the power to remove managers who they judge to be particularly biased. It is unlikely, however, that this (and other) bias(es) in judgment can be completely eliminated. This brings me to my second point. That is, stakeholder theorists should

support at least some direct decision-making by stakeholders.¹⁰ Managers are likely to think that the right results are the ones that favor their interests; suppliers are likely to think the right results are the ones that favor their interests; and so on. But if each group participates in the decision-making process, then the effects of the self-interested bias in cognition will cancel out. I do not claim that stakeholders should support direct stakeholder voting on all firm decisions. Some decisions should be made by experts (e.g., about how to solve a technical problem with the firm's computer system), and in any case, putting all firm decisions to a vote of all stakeholders would be prohibitively inefficient. At least some decisions should be made by stakeholders' representatives.

I have argued that, for instrumental reasons, stakeholder theorists should support stakeholder democracy. Given human self-interest, this form of governance is likely to be a superior means of achieving stakeholder theory's goals than the status quo. We have also begun to see the form a stakeholder democracy must take. For efficiency reasons, it must be in part indirect: at least some business must be carried out by stakeholders' representatives. But it should also be in part direct: some decisions should be made by stakeholders themselves.¹¹

4. Objections based on existing corporate governance arrangements

The case given so far for making managers accountable to all stakeholders, I think, is strong. Moreover, in early writings, stakeholder theorists recognized the value of democratic accountability,

¹⁰ This is true no matter whose interests managers aim to promote. Writers who think that firms should be managed in the interests of shareholders must recognize a prima facie case for allowing shareholders themselves, as opposed to their representatives, to make at least some decisions about the firm.

¹¹ That human beings are self-interested both behaviorally and cognitively is not only true, it is known to be true. This means that stakeholder democracy is perhaps the best means of making publicly known, or signaling, a firm's commitment to stakeholder principles. Compare (A) a state in which only property holders have the right to vote to (B) a state in which all citizens have this right. Only B will *appear* to be a state in which the government cares about the interests and input of all of its citizens, even if A's government informs its citizens that it will promote the interests and listen to the input of everyone, without regard to whether they own property. A's government's assurances will ring hollow. I do not include this as an argument for stakeholder democracy that stakeholder theorists should accept, because it is not clear that stakeholder theory requires firms to broadcast their commitment to stakeholder principles. On this point, see Marens and Wicks (1999).

and now seem to find it hard to disavow. So why is their official view, at present, one of agnosticism about the value of stakeholder control of firms?

I suggested that stakeholder theorists came to believe that stakeholder democracy is unimportant for the achievement of their theory's goals. Evidence for this view is found in an article by Marens and Wicks (1999), which is cited approvingly in this connection in recent stakeholder writings (Freeman, et al., 2010; Phillips, et al., 2003). Marens and Wicks argue that there is enough flexibility in current U.S. corporate law to allow firms to implement complete stakeholder programs. Managers are required by law to maximize shareholder value, but the business judgment rule gives them considerable discretion about how to accomplish this. As a result, Marens and Wicks say, that "virtually any act that does not financially threaten the survival of the business," including acts designed to promote stakeholder theory's goals, "could be construed as in the long-term best interest of shareholders" (1999, p. 281). If shareholders think that managers are doing what is best for them – or at least cannot be certain that they are not – then it is unlikely that they will sue them or seek to replace them with a different management team.

This result must be deeply unsatisfying to stakeholder theorists. An implication of it is that, given current U.S. corporate law, managers cannot admit to following stakeholder principles. Marens and Wicks concede as much when they say that "no competent attorney would allow her client to argue in court that their corporation made a decision because it 'was the right thing to do' in the face of evidence that management knew of legal alternatives whose impact on the bottom line . . . were indisputably superior" (1999, p. 281). On Marens and Wicks's view, then, managers are free to pursue stakeholder theory's goals as long as they do not tell anyone about it. And if someone asks the manager why she made a particular decision? If she really did make it because she thought it was the right thing to do by stakeholder theory's lights, as opposed to what was best for shareholders, then she must conceal this

information. This does not seem compatible with managers' legal duty of candor; it is surely incompatible with their moral integrity.

Even if Marens and Wicks are right that managers can implement a full stakeholder program given current U.S. corporate law, this does not undermine my argument. If they are right, then it is strictly speaking true that "stakeholder theory . . . does not *require* changing the structure of corporate governance" (Phillips, et al., 2003, p. 491, my emphasis). Of course, given the self-interested bias in behavior and cognition, it is only possible for a manager to achieve stakeholder theory's goals if he is endowed with extraordinary powers of objectivity and moral rectitude (and a willingness to conceal his true motives from curious shareholders). It is doubtful that many managers, or persons generally, have this combination of traits. This paper's argument, however, is not about the circumstances under which it is *possible* for stakeholder theory's goals to be achieved; it is about the circumstances under which it is *probable* that they will be achieved. Stakeholder theory's goals are much more likely to be achieved in a stakeholder democracy than in a governance system conforming to current U.S. corporate law. Stakeholder theorists must recognize this and respond accordingly. They should not be "agnostic" about stakeholder control over firms, including "stakeholder representation on corporate boards of directors" (2003, p. 491). They should embrace it.

Stakeholder theorists might object that I have overstated the value of accountability, especially in the context of U.S. corporate governance. I claimed that managers maximize shareholder value in part because they are accountable to, and only to, shareholders. They might reply that shareholders do not in fact have that much control over managers (Bainbridge, 2006; Bebchuk, 2007). Shareholders cannot vote directors off of the board, and have little power to control who is elected to it. To be elected to the board, one must be nominated, and the board itself controls the nomination process. Typically, the board will nominate just one candidate per open seat. Once a candidate is nominated, there is little shareholders can do to prevent his or her election. Many firms use plurality voting: whoever gets the

most votes wins. So a nominee can win election to the board even if he or she receives just one vote (Fairfax, 2008). It is possible for an outside group to mount a proxy battle – i.e., an attempt to solicit shareholders' support for an alternative (slate of) board candidate(s) – but such efforts are expensive and have uncertain payoffs, and so are rarely attempted (Bebchuk, 2007). Despite the fact the shareholders have little power over directors, the objection continues, their interests *are* protected. They are protected, first, by laws directing managers to promote shareholder value (Hansmann & Kraakman, 2001). If managers act to enrich parties, especially themselves, other than shareholders, then they can be sued. Shareholders' interests are protected, second, by the market for corporate control (Heath & Norman, 2004; Manne, 1965). The less efficient a firm is, the lower its stock price is likely to be. If a firm is very inefficient, then it may be the subject of a takeover bid by an outside management team that believes it can do better. The threat of being ousted gives the existing team an incentive to operate the firm as efficiently as possible. Putting these ideas together, the objection is this. If accountability were important in the way I have said it is, then we would expect, given current U.S. corporate law, for managers to be strongly accountable to shareholders. But we do not see this, so it must not be important. By parity of reasoning, stakeholder theorists need not think that democratic accountability to stakeholders is important for achieving stakeholder theory's goals. They can support other measures to ensure that they are achieved.

In response, first, while some writers argue that there are good reasons for limited shareholder control (Anabtawi, 2006; Bainbridge, 2006; Lipton & Savitt, 2007), others believe it is a *problem*, and diminishes managers' incentives to maximize shareholder value (Bebchuk, 2007). If the latter are correct, then stakeholder theorists should not be satisfied with a governance arrangement in which stakeholders lack significant power.

Second, even if giving all stakeholders a *lot* of power is a bad idea, it hardly follows that giving a little power to a subset of stakeholders, as is now done, is better. It would be conceded, even by people

who favor restricting shareholder power, that giving them *some* power serves an important purpose (Fairfax, 2008). Assuming that shareholders and all stakeholders are parallel cases, it follows that all stakeholders should have exactly as much control as shareholders now have. This is enough to establish a case for stakeholder democracy, albeit of a weak kind.

But, third, there is reason to think that stakeholders and shareholders are *not* parallel cases. Under current U.S. corporate law, we said, shareholders' interests are protected not only by (1) control of the board by shareholders, but by (2) laws directing managers to promote shareholder value, and (3) the market for corporate control. The analog of (1) for stakeholder theory is stakeholder control of the board of directors. It is easy to see how this would work: instead of the board being elected by shareholders only, it would be elected by all stakeholders. What about (2)? The analog would be laws requiring managers to balance all stakeholders' interests and solicit their input, the violation of which would be grounds for stakeholder lawsuits.¹² Few stakeholder theorists have considered what such laws would look like. One who does, Green, says only that he is confident that corporate law scholars can devise the stakeholder equivalent of (2) "after years of painstaking legal reasoning" (1993, p. 1419). He cites as a model the concept of being a "lawyer for the situation." The idea is, instead of advocating for a particular client, viz., shareholders, management would advocate for the correct result in a situation by stakeholder theory's lights. Others are less sanguine. Bainbridge says that the legal profession has had a relatively "poor experience" devising rules for "lawyers for the situation" (1993, p. 1437). It is even less clear what the analog of (3) would be for stakeholder theory. The market for corporate control is based on a positive correlation between the price of a firm's stock and the efficiency with which the firm's management creates value for shareholders. What is needed for stakeholder theory is an adjustment to this market so that the firm's stock price (or the equivalent) is linked to the efficiency with which

¹² These are different from laws *permitting* directors to consider other stakeholders' interests. Many U.S. states have already enacted "other constituency" statutes enabling – but not requiring – boards to consider non-shareholders' interests when deciding, e.g., whether to accept a tender offer (Marens & Wicks, 1999).

management achieves stakeholder theory's goals. But how exactly would this work? How, in general, could "balance" and "input" be valued in a market? And what sorts of investors would care about this valuation? I do not claim that stakeholder analogs of (2) and (3) cannot be developed. Nor do I claim that analogs of (2) and (3) are *necessary* for achieving stakeholder theory's objectives. But without them, its objectives will be more difficult to achieve, and the stakeholder analog of (1), viz., stakeholder control of the firm, takes on increased importance.

There is another reason for thinking that stakeholder theorists should not be satisfied with all stakeholders having the same weak kind of control over firms and their boards that shareholders now enjoy. Advocates of limiting shareholder power claim that doing so is best with respect to promoting shareholders' interests (Anabtawi, 2006; Bainbridge, 2006; Lipton & Savitt, 2007). But they do not claim that it is best with respect to facilitating shareholders' input into firm decision-making. Indeed, restricting shareholders' power over boards seems explicitly designed to *restrict* their input. Under current U.S. corporate governance, boards are meant to be *left alone* to do what they think is best for shareholders. This is not a result stakeholder theorists can accept. It is important for them not only that stakeholders' interests are balanced (the distributive goal), but that stakeholders have meaningful input into firm decision-making (the procedural goal). This is so even if stakeholder theory's distributive goal would be best promoted if stakeholders' input into firm decision-making were limited (just as some advocates of limited shareholder control claim that shareholders' interests are best promoted when their input is limited). Giving stakeholders meaningful control of the firm's decision-making process affords them a robust opportunity to make their voices heard.

5. What does this mean for the evaluation of stakeholder theory?

Let me sum up. In early writings, stakeholder theorists said that stakeholder democracy is an essential part of stakeholder theory. Now they say that it is inessential to it, and further claim to be

agnostic about the value of stakeholder democracy for achieving their theory's distributive and procedural goals. I have argued that this shift is a mistake. Stakeholder theorists should go back to supporting stakeholder democracy.

Does this mean that stakeholder democracy should once again be regarded as an *essential* component of stakeholder theory? We might say yes, since most human beings have a tendency towards self-interest in behavior and cognition, and this thwarts the achievement of stakeholder theory's goals. Or we might say no, on the grounds that it is possible for an *exceptionally* objective and moral manager to achieve stakeholder theory's goals on her own. Ultimately, the question of what is essential or inessential to stakeholder theory is a conceptual matter with little practical import. What has practical import is what governance structure stakeholder theorists should support, and this, I have argued, is stakeholder democracy.

Inquiry into the instrumental case for stakeholder democracy should not stop here. The argument I have given, while intuitively plausible and sensitive to empirical facts, is subject to empirical testing. To see if stakeholder democracy is better at achieving stakeholder theory's goals than the status quo (or any other governance arrangement), we need to see if firms governed this way actually do better in this respect than comparable firms.¹³ The fact that my argument is subject to empirical testing, however, does not undermine it. I am aware of no other governance structures that have been proposed to promote stakeholder theory's goals. And I have shown that stakeholder theorists have better reasons, at present, for supporting stakeholder democracy than they do the status quo. So they should, at present, support stakeholder democracy.

¹³ A useful place to start is by examining whether German co-determined firms are better at achieving stakeholder theory's goals than comparable U.S. firms. The comparison is not at all straightforward. German co-determination, since it involves only shareholders and employees, is not stakeholder democracy. Moreover, it may be difficult to determine whether and to what extent a firm has achieved stakeholder theory's goals. I owe this suggestion to [deleted for blind review].

Suppose I am right about this. A theme of this paper is that stakeholder theory must be evaluated in light of its implications for stakeholder democracy. So, should it change our evaluation of the theory? It might seem to make it harder to justify, for its justificatory burden has been increased. In addition to justifying their theory's distributive and procedural goals, stakeholder theorists must justify stakeholder democracy. Moreover, justifying stakeholder democracy may seem especially difficult, as few writers seem to support it. The apparently radical nature of this view may be a reason, I noted, that stakeholder theorists no longer support it. In conclusion, I will argue that it is not. I consider what are likely to be the two major arguments against stakeholder democracy, and argue that stakeholder theorists should not be too worried by them. This is because stakeholder theorists must answer them whether or not they endorse stakeholder democracy. Stakeholder democracy is not that much, if it is at all, more radical than stakeholder theory itself.

Cost. A common objection to any form of workplace democracy is that it is inefficient. Democratic institutions and processes are costly and time-consuming, and it is unclear whether they yield any compensating benefits for the firm, e.g., more productive employees or better decisions. In a competitive economy, a firm that takes on extra costs will, other things equal, be punished, and in the long run, it will be driven out of business. The relative inefficiency of democratic governance has been cited as the reason that firms do not in fact organize as democracies, given that it is possible for them to do so (Boatright, 2004; Hansmann, 1996).

If we assume that workplace democracy is inefficient, then it might seem clear that stakeholder theory plus stakeholder democracy is more difficult to justify than stakeholder theory alone. But this is hasty. Note first that a version of the cost objection applies to stakeholder theory *without* the addition of stakeholder democracy. According to the theory's procedural component, stakeholders must have an opportunity to participate in corporate governance. But opportunities can be more or less robust, depending on the cost of taking advantage of them. I might offer you the opportunity to go to the

movies with me in the sense of offering you a ride to the theater, or I might offer you this opportunity in the sense of offering you a ride to the theater and to pay for your ticket. While, as seen, stakeholder theorists do not specify how robust stakeholders' opportunities to participate in corporate governance must be,¹⁴ it seems likely that they think they should be substantial. They sometimes express their theory's procedural component as the idea that stakeholders "should have input" (Phillips, et al., 2003, p. 487), or "must participate" (Evan & Freeman, 1988, p. 97), in corporate governance. This suggests that stakeholder theorists think firms should make a significant effort to *actually acquire* stakeholders' input. But acquiring stakeholders' input is likely to be costly and time-consuming. It requires firms to establish and maintain participatory institutions and mechanisms, such as listening sessions, focus groups, quality circles, works councils, and straw polls. Firms may have to further lower the costs of stakeholder participation through incentives.

It might be objected that this misses the point. The issue is not whether stakeholder theory itself is costly, but whether adding stakeholder democracy to it makes it more costly, and hence more difficult to justify. It might be said that it does, since it adds a layer of cost to the already costly participation institutions and mechanisms required by stakeholder theory.

This objection is unsubstantiated. Here stakeholder theorists' failure (so far) to spell out the details of the procedural component of their theory presents a difficulty. It is possible that adding stakeholder democracy to stakeholder theory adds a layer of cost. However, stakeholder theorists may favor participatory institutions and mechanisms that contain all of the elements of stakeholder democracy without the control. Stakeholder democracy could then be understood as a costless addition to stakeholder theory. It might, for example, be simply a matter of replacing straw polls with real polls, or advisory groups elected by all stakeholders with boards elected by all stakeholders. So the most we can say is that, for efficiency reasons, adding stakeholder democracy to stakeholder theory *may* make

¹⁴ See section 1.2.

the latter more difficult to justify. But since stakeholder theorists must already confront a version of it, there is no special reason to think that adding stakeholder democracy to stakeholder theory will tip the balance of reasons against the theory.

The cost objection might be developed in a different way. It might be claimed that, if stakeholders are given control over firms, they are likely to make bad decisions, i.e., decisions that cause the firm to fail. Not all stakeholders know enough about the firm to make wise choices. By contrast, the argument goes, if stakeholders merely have input into corporate governance, then managers can exercise the judgment necessary to safeguard the firm's well-being.

Stakeholder theorists must resist this objection, whether or not they embrace stakeholder democracy. Their belief that stakeholders should have input into firm decision-making implies a belief that stakeholders' input is valuable. But giving stakeholders control over the firm is just a way of making their input *effective*. It does not seem possible to square the belief that stakeholder input is valuable with the belief that, if given control of the firm, stakeholders will make poor decisions. In any case, the objection can be answered. Note first that a democratic organization is not necessarily, or even usually, one in which *all* decisions are made by the polis. Democracy is compatible with control by experts, as we see in democratic states in which experts control aspects of the economy and legal system. There is no reason to suppose that a stakeholder democracy must be different. Second, we must remember the alternative. The status quo is control by shareholders only, but we have no reason to think that the average shareholder will be any better positioned to make wise decisions about the firm than the average non-shareholding stakeholder (Brenkert, 1992).

Single-party control. A variety of writers have argued that control of the firm should be limited to a particular group of stakeholders. These arguments comprise what is likely to be the second major type of argument against stakeholder democracy. Some argue that control of the firm is properly limited to *shareholders*. One argument for this result appeals to the fact that shareholders own the firm

(Narveson, 1992), and that control is an incident of ownership (Honore, 1961). Another, more plausible, argument appeals to freedom. Parties can “contract around” the rules of corporate governance that assign control rights to shareholders; it simply happens that they have not (Easterbrook & Fischel, 1996). Imposing stakeholder democracy on firms thus might seem unjustly to abridge people’s economic freedom. Others argue that control is properly limited to *employees*. One argument for this appeals to employees’ rights to determine their own actions (Gould, 2002). Another appeals to the value of liberty (Archer, 1996). According to the latter, an economic system in which employees, but not others, have the right to control their firms ensures that people have the maximum amount of liberty compatible with everyone’s having the same liberty.

While these arguments present a challenge to stakeholder democracy, they also present a challenge to stakeholder theory alone. And, I suggest, the challenge they present to stakeholder theory is no greater if stakeholder theory is understood to include stakeholder democracy than if it is not. If, as these arguments maintain, shareholders or workers (or any other single group of stakeholders) have the right to control the firm, then intuitively, they have the right to direct its managers to achieve goals *other than* those of stakeholder theory.¹⁵ Or, perhaps more cautiously, they have the right to relieve the firm’s managers of employment if those managers do not pursue their preferred goals (McMahon, 1994). But stakeholder theorists must deny that shareholders or workers (or any other single group of stakeholders) have this right, for they think that firms should be managed to achieve *their* theory’s distributive and procedural goals, whatever goals other parties might wish to pursue. Put another way, to justify their theory’s goals, stakeholder theorists must deny that any other single group of stakeholders, including shareholders and workers, have the right to control the firm. If they succeed in making their theory’s goals safe from the above arguments, then they will have made stakeholder democracy safe from them as well.

¹⁵ Obviously, shareholder theorists need not deny that rights to control the firm are held by *all other* stakeholders. For this result is compatible with, and indeed is, stakeholder democracy.

It might be claimed, in response, that stakeholder theorists could still grant that other parties have the right to control the firm, but *on the condition* that they try to achieve stakeholder theory's goals. These parties would be prohibited from directing managers to achieve goals other than those of stakeholder theory. But they would still have control over the firm in the sense that they could tell managers, within limits, what *means* to use to achieve those goals.

This weak form of control, however, will not satisfy the proponents of the above arguments for single party control. When these writers argue that, for example, shareholders or workers should have control over the firm, they mean that they should have control, within limits, over the firm's *ends*, not just the *means* to those ends. So stakeholder theorists must defeat the substance of these arguments. If they succeed, I suggest, they will have sheltered stakeholder democracy from them. In doing so, they will have paved the way for the justification of this view. If no single party has a right to control the firm in the sense of choose its ends, and if *whoever* controls the firm must manage it to achieve stakeholder theory's goals, the question becomes: what form of governance is most likely to achieve these ends? I have argued that this is stakeholder democracy.

To be clear, my claim is not that stakeholder theorists who support stakeholder democracy should not be worried about the above arguments against their theory. My point here is that stakeholder theorists must defeat versions of these objections whether or not they embrace stakeholder democracy. So they should not fear embracing stakeholder democracy for these reasons. Together with the positive instrumental case detailed above, stakeholder theorists have very good reasons for, once again, supporting stakeholder democracy.

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