Neither Shareholders nor Stakeholders, but a Moral Ecology

Ben Nicka looks at shareholder and stakeholder theory to see whether either of them answer the question of the ultimate purpose of a given business, and concludes that neither are adequate but a moral ecology surrounding the business may be the answer.

Jesus often answered pointed enquiries with stories or questions, involving rather than merely directing his interlocutor. This mode of counsel invited deliberation, responsibility, and trust, not sheer obedience. In the parable of the Good Samaritan, Jesus offers a story and multiple questions, and even his final directive to live by mercy is a general one, requiring application within specific circumstances. His approach suggests the first step in moral discernment is indirect, that before decision and action comes an exploration that draws out a given situation's attributes and moral qualities.

The following is an attempt to apply this mode to theologically address one of business ethics' central questions, namely, 'What is the ultimate purpose of a given business that defines and directs it to its proper end?'

This exploration begins by asking after two contrasting notions in business ethics, shareholder theory and stakeholder theory. These theories invite theology to ask, 'What is the nature of the world in which this business operates?' And this query, in turn, invites a story of sorts that explores the concept of a created moral order. Finally, it is this moral order, or moral ecology, that provides a framework for addressing the question of a given business's purpose.

Such a framework does not produce a direct answer to the question, however. Instead, it suggests a general posture of faith and a theological method of discernment. Such a modest outcome is perhaps best. Each person deliberates and acts within irreducibly complex and specific situations. As such, what is needed most are tools and frames to enable us in this difficult task.

Shareholder theory

Shareholder theory holds that profit defines a given business and directs it to its proper end. It observes that business managers function as agents on behalf of shareholders and so have a fiduciary responsibility to promote the pecuniary interests of the shareholders. Further, because the business is the property of the shareholders, it exists for the shareholders' returns. This view enlists various constituencies (group or entities) impacted by the business as means to this end, including customers, employees, suppliers, lenders, the surrounding community, natural resources, governments, laws, regulations, etc. Milton Friedman, the economist, summarises the position well, writing that a given business's aim is '[T]o 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.'[1]

Milton Friedman receiving the Presidential Medal of Freedom

Photo: Wikimedia Commons

Profit, as the orienting reality in shareholder theory, has the advantage of being measurable and comparable across various firms and settings, and over time. It is seen as an objective fact able to grasp a business's varied operations with a single number, a 'bottom line'. By defining every thing in the business as essentially a cost or benefit, this 'bottom line' incorporates a complex mass of products, services, work, and the constituencies noted above. This allows the inevitable trade-offs in decision-making to be expressed numerically and to be weighed with a mathematical rationality. Also, the financial magnitude or minuteness of a thing defines what is central and what is peripheral.

Shareholder theory holds that profit facilitates the focus and clarity of vision essential to good management and the thriving of a given business. This clarity is contrasted with the notion in stakeholder theory that a given business must embody all the interests of varied constituencies, all of which are open to innumerable subjective interpretations, which to shareholder theory equates to a moral quagmire destroying value.

Lastly, in terms of a business's impact on society, shareholder theory holds that the pursuit of profit is not atomistic. Rather, society itself benefits when a company converts various inputs into higher-value outputs because the resulting profit increases overall wealth and the products and services produced increase overall convenience and satisfaction. In this way, a business can produce wealth, employment, and goods and services, and rightly leave certain other tasks to governments, including law-making and regulation addressing problems like environmental pollution or social degradation.

Stakeholder theory

Stakeholder theory resists the primacy of shareholder return and the 'bottom line'. Instead, it frames a business within responsibilities to a broad set of constituencies, inclusive of shareholders, such that each party is seen as an end, not a means. This view defines the social role of businesses in a way that refuses strict delineation of central and peripheral concerns, rejecting the notion that businesses should focus on profit and let government address other concerns.

Instead of abstracting a business's results to the 'bottom line', stakeholder theory contextualises a firm's operations within a multifaceted political and economic landscape consisting of the interests of a plurality of parties, bounded by the law, regulation, and profitability. This move is a major challenge to the status quo in business ethics: Kenneth Goodpaster, a prominent business ethicist, writes, '[M]any would argue that the most significant normative generalization in post-WWII business ethics is represented by the phonemic shift from *stock*holder to *stake*holder' so that '[T]oday, it is common to claim that the *essence* of business ethics lies in extending *stock*holder concern to *stake*holders generally.'[2]

However, stakeholder theorists struggle to define a normative core setting forth how businesses must act within the broad moral landscape they posit. Because of this lack, it is not uncommon to see certain writers defining stakeholder theory as the politically savvy way to pursue profit, basically re-enthroning shareholder return. Where shareholder theory sets aside the complex moral context of business in its abstraction, stakeholder theory lacks clarity on how to operate within this complexity.

Reframing the debate theologically: 'What is the nature of the world in which business operates?'

Theology can reframe the debate between shareholder theory and stakeholder theory by asking about the nature of the *world* in which business operates. Is it possible in this world to direct a business in terms of profit, defining all that it involves in strictly economic concepts of cost and benefit? Alternatively, is this world receptive to the purpose of business being constructed from the expressed wills and desires of various stakeholders? In the 'world of business', the answer to these questions may be 'Yes!' and paired

Kenneth Goodpaster

Photo: PBS

Oliver O'Donovan
Photo: Huzzaz

with the observation that these things happen all the time. But if we allow ourselves to ask, 'What kind of world and whose world precisely is in view here?', then the foundational nature of moral reality comes into view. And this calls for a story of sorts.

To do this we must turn to the Scriptures and read them with help from Oliver O'Donovan, a British Anglican priest and academic.[3] For brevity's sake, the story will tell only of *nature* as a moral ecology and its interaction with the word 'therefore' in the letters of the Apostle Paul.

Nature as a moral ecology: the only world that exists

O'Donovan, largely echoing ideas also found in Augustine of Hippo, understands nature as the world created by God and currently existing. Nature provides an authoritative and objective *moral order*, knowable in Jesus, that is sufficient to guide human action. The moral order does this by defining the identity and purpose of the world's creatures (animate and inanimate), as well as the relational ties binding them together into a unitary, single reality, a universe.

Now, it must be said that the concept of a moral order feels quite alien or foreign

because the world is experienced, morally and otherwise, as anything but orderly. Reconceiving this order as a moral ecology maps the concept more intuitively to life's contours.

Ecology, as a field, involves the discernment of structures and functions within environments. It investigates systems teeming with complex interrelationships between organisms and their surroundings. At first sight, a given ecosystem often appears chaotic, but patient study unfailingly reveals a deep order and even beauty emerging from within the harmonious interplay between animate and inanimate things, each contributing and serving and being served 'according to its kind', as Genesis 1 puts it. As any viewer of the BBC's *Planet Earth* will testify, beholding this deeper ecological order is never merely intellectual; it elicits notes of joy and wonder.

Ecology, as a concept, evokes this totality of the real. It points to the distinctive character, capacities, and roles of all created things, the intricate dependencies and complex relationships between them, and the mysterious order that both constitutes a given system's flourishing and makes possible the flourishing of individual creatures within this system. More darkly, also

captured here is the truth that when this ecological order is violated, chaos harmful to flourishing ensues.

O'Donovan reads the Bible to describe nature as not only containing a deep ecological order *physically*, in its biology and geology, but also *morally*, for humans. This moral ecology, instituted by God, defines human life morally, and includes all of its actions and pursuits (such as speech, marriage, and work). Here, the essence of human life is given, or created, and from each given essence flows a set of given purposes. This givenness is oriented inward (to one's own flourishing), to other beings, and ultimately to God, so that all of life is defined relationally. This is true both of individuals and of collective pursuits like business.

Critically, for O'Donovan, this moral ecology is centred in and around Jesus Christ, as illustrated succinctly in Colossians 1:15-23. Here, Jesus is the creator (v.16), sustainer (v.17), reconciler (v.20), preeminent head (vv.17-18), and end of all things (v.16). Jesus made all things, giving them their initial essence and purpose, and all things find their ultimate purpose in serving him now and into eternity. As reconciler, he invites humans anew into the goodness of nature (vv.21-22).

Pope John Paul II
Photo: CNN

Colossians also states that in Jesus are 'hidden all the treasures of wisdom and knowledge' (2:3, ESV), implying that only in knowing Jesus and his work can one understand this world and its moral ecology. Echoing Colossians, Pope John Paul II in his 1979 speech in Warsaw's Victory Square described Christ as 'the key to understanding that great and fundamental reality' of humanity, noting that apart from Jesus, understanding eludes us.[4]

Critically, this utter centrality of Jesus reveals that the moral order opposes various aspects of any given society's status quo. Often, societies justify racial or social hierarchies, for instance, by saying they reflect differences rooted in creation (implying they are supported by the authority of God). This confuses tradition or culture with the moral order and is an ever-present error evidencing the reality of sin. The Apostle Paul confronts this error in his so-called 'household codes'. These 'codes' radically challenged the status quo of his time. Importantly, as concerns the moral order, Paul is working from an understanding of reality rather than abandoning the moral order as a guide and so is able to assert authoritatively that the Greco-Roman world of his time had misinterpreted moral reality itself in establishing its various abusive hierarchies.

In sum, the concept of moral ecology states that God has embedded human action within a transcendent moral reality that is expressed immanently and relationally among all things in this world. It is knowable in Christ. It is a frame that stands outside and over humanity. Moral ecology defines all human action as a response to this one reality or world. Human responses reflect either wisdom and faithfulness or their opposites. As such, the ultimate purpose in life, this defining and directing orientation, is found only by 'faith seeking understanding' because moral action is rooted in knowledge of reality, of the nature of things, their purposes, and the relationships into which these purposes serve. And this takes us back to the Apostle Paul.

The Pauline pivot, 'therefore': the move from knowledge to action

The letters of Paul often pivot from theological description to ethical direction on the word 'therefore'. In this transition, Paul makes an explicit connection between the knowledge of what 'is' and the kind of life and actions that are implied by this reality.

In Colossians 2:6, Paul writes, 'Therefore, as you received Christ Jesus the Lord, so walk in him'. A paraphrase might put it this way: 'These realities, of a nature made and sustained by Jesus and of a world set free in Jesus, infer a new way of living'. This means a person exhibits understanding of reality by living in a way fitting with reality: reality itself invites a way of life.

For O'Donovan, this logical connection in Paul provides the basic frame for moral reasoning (the following approach exemplifies generic moral reasoning). First, one discerns the reality, the givenness, that coheres in a given setting, considering the full scope of the animate and inanimate things involved. Next, one weighs the moral essence and purpose inhering in each of these things and the relational realities into which our person or organisation is called by the fact of their proximity. Combined, these first two steps illuminate the moral ecology. Lastly, we chart the best course of faithfulness to the givenness we are encountering and act: this involves prudence and moral courage because a simple and unambiguous path is unlikely to emerge. Ultimately, the goal is to find the course of action best adhering to the love of God and neighbour.

True human life and satisfaction consist in knowing this moral ecology and by embracing its splendour in one's work and life. This knowledge, and the coordination of action to it, is acquired by habit, experience, and intellect, both in community and through the Word, Jesus Christ, who, in his person, is the authoritative guide to human living. The complexity on display in this vision of moral life makes clear the value of cultures which are rightly oriented, by Wisdom hard-won in time, to this reality, which can encapsulate in tradition the right way to live

Theological counsels: a moral ecological approach

Returning to the original question ('What is the ultimate purpose of a given business that defines and directs it to its proper end?'), a few conclusions can be drawn.[5]

First, moral ecology suggests the purpose of a given business is a knowable theological reality, accessible through the process of moral reasoning outlined earlier. Defining the scope of this reality, the moral ecosystem, is a key step, for which the parable of the Good Samaritan is again instructive.

In the parable, the moral duty to help the injured man arises from his proximity or locality. Jeremy Waldron, a distinguished scholar of jurisprudence, notes in making this point about proximity how life throws a person into various relationships and circumstances.[6] The moral ecosystem of a business consists of these proximate relationships and circumstances, given in time and place. Concretely, a business's ecosystem likely involves particular products and services, customers, employees, suppliers, lenders, competitors, surrounding communities, natural resources it uses, natural environments it impacts, the governments and laws overseeing its jurisdictions, and shareholders. The plurality of this list suggests the purpose of a business is a many-splendoured thing.

These constituencies, to borrow a term from stakeholder theory, define a business's purpose(s) and order its work. In its ecosystem, a business has an essential role to play in the flourishing of these constituencies. Further, it is in their flourishing that a business will realise its own flourishing (and vice-versa of course, as these constituencies live within the same moral ecology). This is not a pragmatic consideration, but one flowing from the nature of reality itself, because the essence of a business, or any thing, entails its service of other things: a business exists to serve.

In contrast with shareholder theory, a moral ecological approach asserts it is illegitimate to define a business's purpose narrowly as profit or to define constituencies primarily in terms of cost or benefit. This is because the ecosystem of a business is not reducible to economics alone but involves the totality of moral reality. Further, it is quite common to speak of seeking 'market rate' returns from a business, but moral ecology suggests that the suitable return from a business will necessarily involve the specifics of its ecosystem.

In contrast with stakeholder theory, a moral ecological approach states that the essence and purpose of a business cannot be found by discerning and harmonising the preferences and wills of the various constituencies. Its purpose is not in these, but in the will of God, which is embedded within the given essence, purpose(s), and relational position(s) of each of these constituencies. Stakeholder theory is right to suggest a community is needed, but the communal task is one of discerning the moral ecology rather than the will and interests of groups and individuals.

In closing, it must be said that the moral ecological framework put forth in this article does not provide a direct answer to the question 'What is the ultimate purpose of a given business that defines and directs it to its proper end?' Instead, it provides deliberative and evaluative tools that can help to illumine the moral situation a business faces. The hope is that in so doing, it informs and bolsters our individual and collective moral agency and wisdom, because ultimately all of us are 'on the spot' in various moral ecosystems and must, finally, do the hard work of discernment, decision, and action. ▨▨▨

1. Milton Friedman, 'A Friedman Doctrine – The Social Responsibility of a Business is to Increase Its Profits', *New York Times,* 13 September 1970 Section SM, 17. This article is most fairly read within the then active debate between planned and market economies and concerns over totalitarianism.

2. Kenneth E. Goodpaster, 'Stakeholder Thinking' in *The Routledge Companion to Business Ethics*, eds. Eugene Heath, Byron Kaldis, and Alexi Marcoux (Abington: Routledge, 2018), 186. Emphasis in original.

3. Oliver O'Donovan's key work here is *Resurrection and Moral Order: An Outline for Evangelical Ethics* (Leicester: Inter-Varsity Press, 1986). I also draw on ideas in his 'Evangelicalism and the Foundation of Ethics', in *Evangelical Anglicans: Their Role and Influence in the Church Today*, eds. R.T. France and A.E. McGrath (London: SPCK 1993), 96-197.

4. John Paul II, 'Homily' (Victory Square, Warsaw, 2 June 1979. Holy See, https://www.vatican.va/content/john-paul-ii/en/homilies/1979/documents/hf_jp-ii_hom_19790602_polonia-varsavia.html.

5. These conclusions invite further research, of course, and are set forth here in a tone perhaps not wholly consistent with my own confidence levels but with the hope of engendering dialogue.

6. Jeremy Waldron, 'Who Is My Neighbor? Humanity and Proximity', *The Monist* 86, no. 3 (July 2003), pp. 333-354.

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