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THE STAKEHOLDER THEORY
AND THE COMMON GOOD

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Abstract

The theory of the social responsibility of the firm oscillates between two extremes: one that reduces the firm's responsibility to the obtainment of (the greatest possible) profit for its shareholders, and another that extends the firm's responsibility to include a wide range of actors with an interest or "stake" in the firm. The stakeholder theory of the social responsibility of business is more appealing from an ethical point of view, and yet it lacks a solid foundation that would be acceptable to a variety of schools of thought.

In this paper I argue that the stakeholder theory could be founded on the concept of the common good. First, I explain the foundations of the theory of the common good, the concept itself, how it relates to the individual good, and its role in the firm. Following that, I explain how the theory of the common good could be applied to the stakeholder theory. Finally, I draw some conclusions.

THE STAKEHOLDER THEORY AND THE COMMON GOOD

Introduction (1)

The theory of the social responsibility of the firm oscillates between two extremes: one that reduces the firm's responsibility to the obtainment of (the greatest possible) profit for its shareholders (Friedman 1970), and another that extends the firm's responsibility to include a wide range of actors with an interest or "stake" in the firm –the shareholders themselves, managers, employees and workers, suppliers, customers, interest groups, unions, competitors and so on, broadening out via the local community to society in general and, eventually, the whole world.

The stakeholder theory of the social responsibility of business is the more appealing of the two from an ethical point of view, at least if we understand ethics in a broad sense (2). And yet it lacks a solid philosophical, sociological and economic foundation that would be acceptable to a variety of schools of thought.

In this paper I argue that the stakeholder theory could be founded on the concept of the common good. The term "common good" has time-honoured philosophical roots but, for our purposes, it has two disadvantages: first, it is liable to vague and contradictory interpretations, and second, it appears not to be accepted by certain schools of thought. Nevertheless, I feel that reflecting on the concept of the common good and applying it to stakeholder theory may help us to clarify not only the theory of stakeholders but also the meaning of the common good itself (3).

In this paper I shall explain the foundations of the theory of the common good, the concept itself, how it relates to the individual good, and its role in the firm. Following that, I shall explain how the theory of the common good could be applied to the stakeholder theory. Finally, I shall draw some conclusions (4).

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- (1) The author would like to thank M^a N. Chinchilla, J. Fontrodona, M. Guillen, D. Mele, J. R. Pin, J. E. Ricart, A. Rodriguez, M. Torres and T. Voltz for their valuable comments.
 - (2) But see the criticisms of Maitland (1994).
 - (3) Velasquez (1992) makes an interesting attempt to apply the theory of the common good to the ethical behaviour of multinational corporations.
 - (4) The main developments in the theory of the common good, building on the ideas of Aristotle, have been the work of Christian writers. The two most important are Saint Augustine (*Confess.*, Book III, Ch. 8; *De Civit.*, Book XIX, Ch. 13) and Saint Thomas of Aquinas (*In Ethicor.*, Book I, Reading 2, No. 30; *S. Theol.*, I-II, q. 29, a. 3 ad 1; q. 39, a. 2 ad 2; q. 66, a. 8). There are some interesting ideas in Calvez and Perrin (1959), Maritain (1966), Millan-Puelles (1968, 1974), Ramírez (undated) and Todolí (undated). Numerous handbooks of philosophy expound the theory of the common good; for example, Wallace (1977). For a general summary, see Millan-Puelles (1971).

Society and sociability

Man is a social being. This assertion belongs to the realm of experience, and yet it also has a philosophical significance: the human person needs a social life, which for him is not an optional extra, nor a whim, nor the product of an instinct. To say that man is a social being means: 1) that he needs others to satisfy his own needs, and 2) that he improves himself (becomes “more human”, exercises and develops his capacities) in his relationships with others. Living in society is not, therefore, a limitation for man but a good.

Sociability leads to the existence of society, not only as a group of individuals, but also as an organic bond between them, as a unifying principle that goes beyond each individual. Now, the key to a correct understanding of the concept of the common good is the order of priority established between society and the individual.

For the advocates of the theory of the common good, the origin, the subject and the ultimate purpose of society and of all institutions is and must be the human person. Thus, we are not talking about a group of “individuals” (like bees in a hive), but of “persons”, who are capable of knowing what society is, what it does for them and what it needs from them, and who also can want to build a society and are free to cooperate to achieve this. This is precisely what sociability demands of people, for the two reasons mentioned above: because society fulfils the needs that the individual cannot fulfil on his own, and because it allows individuals to develop as human beings far beyond what they could manage on their own (that is, of course, if they could survive in such conditions). When they enter into society, individuals retain their essential freedom, because society has no existence independently of that of its members (1).

This concept of society is clearly differentiated from two extreme positions. One of these is the idea of society as a mere conglomeration of individuals, who are obliged to cooperate because they are incapable of surviving on their own, although the fact of belonging to society does not contribute in any way to their development as persons. According to this view, society comes into being as a result of a social contract, a pact between equals for the purpose of mutual self-help, culminating in the surrender of part of each one’s personal freedom to the State, in order to guarantee their collective protection in the pursuit of their personal aims.

If this is the case, it seems reasonable to argue that society itself does not pursue any specific end of its own, but simply guarantees the more or less spontaneous social harmony that makes it possible for each individual to attain his personal goals; it is an open, generalized, abstract social order that facilitates the greatest possible cooperation in the pursuit of individual goals and protection against arbitrary violence by third parties. Accordingly, there can be no such thing as a common purpose of society (a common good), but only individual goods; at best, we could speak of a “common interest”, as the sum total of private goods or interests. In this theory, the law, the exercise of political authority, the institutions, everything in society is oriented exclusively towards individual interests. There is no room for a common good of society, nor –needless to say– for any duties towards stakeholders other than oneself.

(1) According to a widely used example, men are to society as the parts to a whole; but not like the arms are to the body, since the arms have no existence separate from the body, whereas man retains his personality intact in the face of society. The ultimate purpose of the arms is to serve the good of the body, but the ultimate purpose of man is not to serve the good of society.

At the other extreme of the ideological spectrum are the collectivist attitudes (1) that do away with the role of the individual, except as a mere component, a molecule of the social organism. Here, the good of the individual is subordinated to the smooth running of the economic and social mechanism. Man is reduced to his role in society, and the concept of the person as the independent subject of moral choice disappears. This concept of society cannot serve as a foundation for the stakeholder theory. Firstly, because it suppresses the identity of the subject that relates to the stakeholders (the individual good is suppressed or becomes a residual). And secondly, because it obliterates the variety of stakeholders –persons or groups each with their own particular interests– with the result that the only holder of relationships and rights is society as a whole (and ultimately the State, which represents society).

The theorists of the common good, in expounding their ideas, talk about society as a whole, so-called “civil society”. However, the social nature of man also manifests itself in his tendency to associate with other men in the pursuit of all kinds of goals –cultural, scientific, economic, etc.– and all these associations answer more or less urgent needs, from the family to the local community, the sports club, the business enterprise or the political party. Thus, we can see that there is a generic sociability, which expresses itself in society as such, and other specific sociabilities, which give rise to lesser “societies” within society. And this applies to all the communities that human beings are involved in.

The common good

As its name suggests, a common good is everything that is good to more than one person, that perfects more than one person, that is common to all. Strictly speaking, the common good is “the overall conditions of life in society that allow the different groups and their members to achieve their own perfection more fully and more easily” (2). Taking this definition as our basis, we can start to clarify the concept as it is used by the writers we are dealing with here.

- Society’s ultimate goal is the common good, insofar as society affords individuals (with their cooperation) the help they need in order to achieve their personal goals.
- The common good is the good of society and also the good of its members, insofar as they are part of society, since the goal of society is not independent of the goals of its members.
- The common good is not a partial good, but belongs equally to all men (as social beings). Therefore, it is not confined to such things as law and order, civic education or the provision of public goods: all this is part of the common good, but the common good is much more than the sum of all these partial goods.
- Because it is common, it cannot be the good of a few, nor even of a majority, but only of all the members of society and of each one individually (at the

(1) Not to be confused with communitarianism.

(2) The definition is taken from the Second Vatican Council (1965), no. 26. As I have already pointed out, the concept of the common good was developed mainly in the context of Christian social doctrine.

same time and for the same reason): it is the good shared by all precisely because all are members of the same society.

- From a certain point of view, the common good can be understood as the set of social assumptions or conditions that make it possible for the members of society (and also for the lesser societies) to realise their personal objectives. This means that, in the broader view, the common good includes the law and the institutions that uphold the law, the institutions that defend society, such as the army, and those that meet the general need for education, culture, health care, social welfare, etc.
- As a corollary of what I have just said, these conditions clearly do not come about of their own accord, but are created by the members of society themselves.
- The common good can also be seen as the set of means (or aids) that society makes available to its members to enable them achieve their goals: for example, the law, which is designed to safeguard the rights of all.
- The common good is also the sharing of society's members (and of the lesser associations) in the goods resulting from their cooperation. All contribute and all receive (probably not in the same measure as they contribute). This is not a good that individuals do to the collective, or to other individuals; they themselves have a share in it: it is a good given and received by each person.
- It is thus the good of the social whole, realised in its members.
- The common good is not simply the sum of particular interests. Nor is it equivalent to social welfare, however widely distributed; nor is it a social order to be preserved, or a balance of power between groups. It cannot be defined in statistical terms, or in terms of a country's wealth, or the volume of public and private goods and services available to its citizens, or the level of consumption. All of this –along with truth, beauty, peace, art, culture, freedom, tradition, the good life, the “bonum honestum”, etc.– can in one way or another be a part of the common good, but it can never be the whole thing (1). Nor is the common good “something” that is tacked on to our personal wellbeing, much less a burden imposed on us by virtue of some alien dictate. This conception of the common good distinguishes it from the utilitarian and consequentialist conception (Finnis 1983, Velasquez 1992).

At this point, we need to pause and consider an important distinction. A good is particular when it is possessed and enjoyed by a single person, or a limited number of persons, to the exclusion of all others (for example, a dwelling). A good is collective when it is owned by the collective but is not shared by all the members of the collective (for example, a dwelling in collective or state ownership). And a good is common or universal when it can be communicated to or shared by all, at least in theory (everyone can admire the beauty of a dwelling and benefit from the communal life that the existence of the dwelling makes possible). A truth, for example, is a common good: everyone can possess it fully (at least, all

(1) The clubhouse, the course and the equipment of a golf club are part of the common good shared by its members, but the common good is more than these things. Cf. Yepes (1996), p. 252.

those who are able to apprehend it); nobody can be excluded from possessing it; and each can possess it in its entirety, as something personal.

Common good and personal good

Sometimes, common good and individual good are seen as conflicting, as if the pursuit of a personal objective or good were incompatible with the good of society, or as if the latter were a burden to individuals. That is not the case.

The golden rule for understanding the relationship between common good and personal good has already been stated: the origin, subject and ultimate purpose of all institutions is and must be the human person. For theorists of the common good, society is for man, not man for society. The good of individuals does not conflict with that of society, but is part of it. The two are not opposed, nor even separate: man seeks good, but he cannot achieve it except in society; for that reason, seeking the good of society is for him one way of securing his own personal good.

The common good has primacy over the particular good, but not for any quantitative reason; in other words, not because it is the good of more people. The common good has primacy because it is the good of the whole of which individuals are a part –of a whole that is specifically distinct from its parts. It is therefore a greater and better good, more perfective than the good of the parts (in that society enables its members to achieve a greater degree of perfection).

At the same time, the common good is oriented towards man, who does not exist for the sake of society –merely in order to live with others– but has a goal of his own, a transcendent goal, which is higher than that of society. Thus, man’s duty to contribute to the good of society derives from his duty to seek good for himself. The primacy of the common good, therefore, is man’s duty to seek what benefits all, because it also benefits him. What is subordinated to the common good is the private good that man has as a part of society. The primacy of the common good does not exclude the pursuit of private ends as such; it only excludes the pursuit of private ends to the detriment of the common good, using the common good as an instrument for private ends.

The common good is not, therefore, essentially different from personal good. The same thing can be both a common good and a personal good: health, for example, can be a goal for a whole society (hence, for example, the obligatory vaccination campaigns) or for a single person. The common good has primacy when it is equal or superior in kind to the particular good. For example, the duty to bear a part of the economic burdens of society by paying fair taxes takes precedence over the right of an individual or a family to freely dispose of its income; however, if the individual or family is unable to cover its own basic needs, its particular good (survival) takes priority over the good of society. The common good of society has primacy over the good of the individual if it respects his dignity and “flows” back towards the individual, contributing to his improvement as a person.

In summary, the tension between the individual and society, between personal good and common good, is resolved dynamically: the individual has the duty to contribute to the common good of society, which in turn is oriented towards the individual, whose dignity and destiny are superior to the community. And the human person can only achieve this destiny by collaborating in the worldly vocation of society, which is the common good.

The common good and the firm

Naturally, every human society has its own common good. The content of the common good will be different for a family, a company, a union, the local community, a nation, or the whole of human society. It is important to identify the common good of the particular community of persons we happen to be dealing with; in our case, the business enterprise.

If, in line with the definition given above, the common good has to do with creating the conditions that will enable those involved in the business to achieve their personal goals, we can say that there is no conflict between the common good and the individual or personal good.

Indeed, let us consider a very simple enterprise: a group of farmers who agree to market their goods jointly, each contributing money (capital), ideas, labour and produce. What does each one hope to obtain from this common venture? On the most basic level, they hope for better economic results than they could obtain on their own or by selling to a middleman. They also hope to guarantee the future of their business, to gain recognition of their worth, to acquire and improve their professional qualifications, to be able to provide for their family, to build a spirit of cooperation in their locality, to foster the prosperity of their region... And moving on to the deeper motives, they hope that the enterprise will help them to achieve their aims in life: firstly, to satisfy their needs (better than by any other means); and secondly, to develop as persons (or any other definition of this ultimate personal aim in life: saintliness, self-fulfilment, freedom, satisfaction, etc.), all this in a long-term perspective.

So what is the common good of the company as I have just defined it? Not the volume of sales, nor profits, nor job creation, nor the prestige of its directors, although all of this can be part of the company's common good. The common good of the company is the fulfilment of the company's purpose as a company: namely, to create the conditions that will enable its members (that is to say, all those that have a part in the company) to achieve their personal goals. And yet this common good is a good in its own right: it is the goal of the company and, as such, can be distinguished from the goals of the company's members. It is not the sum of the individual goals of the members: firstly, because these individual goals include many more things than the company can possibly provide; and secondly, because the company facilitates the achievement of personal goals indirectly, through the achievement of its own goals.

The simple example of the joint marketing venture could easily be extended. When we make the distinction between shareholders, on the one hand, and employees and workers, on the other, we are suggesting that what each of these groups expects from the company may be something different. The shareholders may be looking for sustained profitability, limited risk, business opportunities, etc. The workers, managers and employees may be looking for decent pay, steady employment, career opportunities, recognition of their worth, a chance to improve their professional qualifications, cover against ill health or old age, and much more besides. Whatever their personal interests, they must all contribute to the company's goals, in other words, to its common good, which will consist in producing useful goods and services, and producing them efficiently (so as to create wealth) and sustainably, so as to guarantee the conditions in which each participant receives from the company what he or she can reasonably expect.

If we accept this view of the firm, it becomes clear that there will always be conflict, but not between the common good of the firm (properly understood) and the individual good

(again, properly understood) of those that have a part in it. If there is conflict, it will be between the particular interests of one person or group and those of another; between particular interests and a misunderstood common good. Because, to the extent that the company develops its common good, all will have a share in it (although in different ways and in different proportions).

As I have already said, the common good of any society is built by the members of that society (in our case, the company); it is realised in that society; and it is shared by the members of the society (and also by other people). The capital provided by the shareholders, the creativity of the managers, and the labour of the employees, for example, make it possible for the company to stay in business in the long term. This long-term success is reflected in specific circumstances, such as the desirability of working for the company, the buoyancy of its shares, or the confidence of financial institutions. And one way or another, all those involved share in this success: some with job security, others with prestige, others with highly valued shares, and so on.

The stakeholders' theory

The stakeholders theory has been presented both within the framework of organisation theories (Freeman 1984, Freeman and Gilbert 1988, 1992, Freeman and Reed 1983, Mitroff 1983) and within that of business ethics (Carroll 1989) as a step beyond the neoclassic theory in which the company's goal is identified as being the maximization of profit and, therefore, the only stakeholders in achieving this goal are the company's owners. Goodpaster (1991) talks of three levels in the stakeholder theory: 1) the strategic level, which advocates "taking into account" the (non-owner) stakeholders' interests as a means of achieving the company's (economic) goals but without any moral content; 2) the multiple-trustee approach, which, on a moral level, attributes a fiduciary responsibility to the company's managers towards all of the stakeholders alike, whether they be owners or non-owners, and 3) the "new synthesis" proposed by Goodpaster, which distinguishes between certain fiduciary responsibilities towards the owners and other restricted, non-fiduciary responsibilities towards the other stakeholders (cfr. also Boatright 1994, Carson 1993, Goodpaster and Holloran 1994).

Who are the stakeholders? According to Freeman (1984, 25), they are any group or individual who may affect or be affected by the obtainment of the company's goals. However, a stakeholder theory based on this definition lacks any regulatory rationale or criteria for identifying who the stakeholders are or for allocating the rights corresponding to each one (Donaldson 1989). In fact: why should stakeholders be taken into account in the company's decision-making? Because they "affect" (or may affect) the company's performance, now or at any point in the future? This answer justifies, at the very most, the strategic approach mentioned above and cannot be used as a foundation for moral duties: it is "prudent" to take them into account but this does not mean that any duties are created towards them (1). And, if we take into account those who "are affected" (or may be affected) by the company's decisions, the situation will become even vaguer.

(1) At the very most, one could discuss what are the means for combining everyone's interests (Brenner and Cochran 1990, 1991, Freeman, 1994, Hosseini and Brenner 1992).

The problem is that the stakeholder theory, as it has been presented, has no solid basis in traditional ethical theories (Dunn 1990, Dunn and Brady 1995). All attempts to find other foundations have been unsatisfactory (1), as has been the proposal to present the theory as a “genre” in which various theoretical rationales could be included (Freeman 1994).

The common good and stakeholders

What I have been saying in the previous pages helps us to understand, against the background of the theory of the common good, in what sense the shareholders, managers, employees and workers of a company are stakeholders, and from where they derive their rights and duties as members of the company. The main duty of each one of them is to play their part in achieving the company’s goal, in other words, to contribute to its common good: firstly, by providing whichever factor (capital or labour) they have agreed to provide; and secondly, by helping to create the conditions in which the common good of the company can develop, which means creating the conditions in which each member of the company receives from the company whatever he can reasonably expect from it, and whatever he has a right to receive by virtue of his contribution (which goes well beyond the payment of a wage or dividend, as I have already said).

However, the common good extends beyond the confines of the company. If the common good comes from human sociability, all the company’s relationships will carry an element of common good. We therefore have to extend the list of stakeholders to include customers and suppliers, banks and unions, the local community, the authorities (at different levels), interest groups, competitors, and so on, until it encompasses all men of all times, by virtue of the unity of the human family (2).

At this point, the concept of the common good again throws light on the nature of the company’s duties towards all of these stakeholders, and their duties towards the company. It is not a question of drawing up a list of duties; such as the duty not to cause pollution, or the duty to create jobs and to practice sponsorship in the local community, or the duty to inform, recognize and talk with the unions; because any such list will always be partial and arbitrary. The important thing is to consider what kind of social relations the company (and its internal members) maintain with the various internal and external stakeholders, in order to identify the common good of the society thus defined, and the rights and duties that emanate from that common good.

It is quite clear that the theory of the common good, as presented here, provides a solid foundation for the theory of stakeholders, their rights and duties, and the company’s social responsibilities, which have been a centre of debate for decades. I say that it provides a “foundation”, which is certainly something, but it cannot provide the entire building, because

(1) See the Kantian (Evan and Freeman 1993), contractualist (Donaldson 1989), feminist (Burton and Dunn 1996, Freeman and Gilbert 1992, Wicks, Gilbert and Freeman 1994), fairness (Phillips 1997), dual investor (Schlossberger 1994), etc. interpretations. Mention should also be made of the attempts to provide more precise definitions of who the stakeholders are (Carson 1993, Langtry 1994), which delimit more specifically the nature (contractual or not, fiduciary or not) of the responsibility but do not enable any progress to be made in providing a foundation for it.

(2) In the 20s, Mary Parker Follet introduced a wide range of social duties that the entrepreneur held with respect to the community but not as something added to his primary economic functions [production, profit, etc.]; she argued that social and economic responsibilities were one and the same (Parker 1996, 289). Cfr. Follet (1996), chap. 11 (this is a lecture given in 1925).

the doctrine of the common good cannot simply be translated into a list of rights and duties of citizens towards society (or any of the lesser societies within society).

In fact, this is a good thing. The duties of a company towards, say, the people living in the immediate vicinity of its factory need to be analysed case by case, taking into account the specific circumstances of the company and the local community, and the type of relationship there is between them (in a word, the type of formal or informal society they have formed). The duties of a construction company that occasionally builds up a block of flats in the town will be very different from those of an animal feed factory that has its premises actually in the town and works mainly for local customers using local employees and local capital; or those of an automobile spare parts factory operating on an industrial estate on the outskirts of the town and selling to companies based in other countries, using qualified personnel from outside of town. In each case, there is a different type of “society”, and therefore also a different common good (and a different nature of the rights and duties of the firm).

However, the theory of the common good introduces a major change in the traditional approach to stakeholders. This approach identifies stakeholders as being those who have an “interest” in the company (so that the firm, in turn, may have an “interest” in satisfying their demands) and this may provide a sufficient basis for a positive theory of the organisation (although, probably, incomplete). The theory of the common good is based on the classic concept of “good”: the company does “good” to many people, to some by obligation and to others more or less involuntarily. And “it must do good” to certain groups by virtue of its obligation to contribute to the common good, which goes from the common good of the company itself to that of the local community, the country and all humankind, including future generations. In any case, the concept of good seems to provide a more appropriate foundation for an ethical theory than the concept of interest.

The doctrine I have been discussing also allows us to draw some practical (although only very general) conclusions regarding the way persons (and firms) share in the common good. In principle, they take an active part, but obviously we have to bear in mind the circumstances and possibilities of each person (or company). We must apply the principles of efficiency or capacity and need: the duty to play an active role increases with the agent’s capacity to act and the recipient’s need.

The possible forms of participation range from trying not to obstruct others in their efforts to promote the common good, or passively complying with the commands of authority, to getting personally and actively involved in the public administration, creating new channels of participation (the media, cultural initiatives, etc.), forming or joining companies or associations and organizations aimed at promoting the common good, etc.

However, it is not necessarily a question of “doing something special”. A company that shows a normal ethical concern for the problems of the local community fulfils most of its duties towards that community in the ordinary run of its activities: hiring employees locally or subcontracting to local firms, avoiding pollution, paying local taxes, obeying the law and encouraging its employees to behave as model citizens (all of which, obviously, goes beyond simply obtaining the greatest possible profit). This is not to say that if the company is aware of a specific need and has the necessary resources it will not do something more, such as joining the board of some social body, sponsoring schools or housing cooperatives, or even nominating its managers or employees for prominent public positions to the benefit of the community (not of the company).

All the same, the theorists of the common good point out that the State justifies itself by the defense and promotion of the common good of civil society, of citizens, and of intermediate institutions. That is precisely the *raison d'être* of public authority, given that private initiative is not sufficient to achieve, maintain and enhance the common good, much less ensure that it prevails over private good. In any case, the common good must be promoted in accordance with the principle of subsidiarity: neither the State nor any other wider society should supplant the initiative and responsibility of persons and intermediate institutions (1).

Conclusion

The critics of the theory of the responsibility of the company towards its stakeholders often complain that the doctrine lacks a theoretical foundation, even though it is very appealing on account of its implications. The lack of solid foundations not only weakens the theory but also makes any formulation of the company's rights and duties towards its internal and external stakeholders somewhat arbitrary.

In this paper I have tried to outline a possible theoretical foundation based on the theory of the common good. I have explained the basis of this theory, its nature, and its implications. The conclusions are, in principle, encouraging: the theory of the common good offers a sufficiently solid basis for the theory of stakeholders, and also the means for determining, in each specific case, the rights and duties of the participants, in accordance with the common good of the company, of the particular "society" it has with its stakeholders, and of society as a whole. □

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(1) This means that the less a social system hinders individuals from achieving their own goals, the better it will be; the more it decentralizes power and devolves decision-making to the lesser instances, the more valuable it will be; and the less it resorts to coercive methods and the more it uses persuasion, the more efficient it will be. This is true of civil authority, and also of businesses.

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