For managers, a scholarly theory that other stakeholders should have some duties—
towards the firm, in particular—should be a pleasant relief. However, key lessons for
managers are that responsibilities towards the firm require that managers first con-
duct themselves morally; and that other stakeholder responsibilities often involve
moral and citizenship duties requiring collective action, for which business leader-
ship may be crucial. Mutual and joint responsibilities of stakeholders separate into
four general categories: with the firm; among stakeholders themselves; common
pool resources (especially nature); and the commonwealth. Stakeholder responsibil-
ities are thus separable into those of interdependent actors, moral individuals and
citizens. Interdependent responsibilities are arguably weaker than moral and citizen-
ship responsibilities, and may amount only to benevolence in the stakeholder context
absent those other responsibilities. While actions can be subject to rules, motives
are subject mostly to moral education. Responsibility for consequences—stake-
holder responsibility theory becomes a form of consequentialism—is far more diffi-
cult to trace (because of distant repercussions) and specify. Outcomes will involve
distributive equity, which as J.S. Mill established is a matter of collective action, based
on moral reflection (Heilbroner 1953: 121, 307). A consequentialism framework may
subject stakeholders to Rawls’s (1971) principle that changes from the status quo
must be directed towards the least advantaged in a given situation. The paper directs
attention to the responsibilities of consumers as a very difficult test, for both man-
agers and an emerging academic theory.
Much of business ethics boils down to exhortation concerning proper managerial conduct, in various circumstances, or defences of managerial practices generally based on the economic development benefits of markets (see Wilson 1989). Thinking about ethics from a manager’s perspective is perhaps more difficult. The essential task is learning to reason morally about varying circumstances concerning duties, rights, consequences and virtues. This special issue addresses a perceived, or proposed, imbalance in the prevailing conceptualisation of business responsibilities. The idea is to establish the responsibilities of stakeholders other than managers and owners, including duties to the firm. There is substantial merit in the proposed thesis. Constructs such as corporate social responsibility, corporate social responsiveness, corporate social performance and global corporate citizenship all emphasise—as they were intended to do—the duties of and constraints on the motives (or goals) and conduct (or actions) of firms: i.e. the managers and owners of joint-stock public corporations or privately held companies.¹ In an effort to rebalance conceptualisation of responsibilities, this special issue considers the duties of and constraints on the motives and conduct of stakeholders (other than managers and owners, themselves stakeholders) defined in relationship to both the focal firm and other stakeholders of that firm. Stakeholders also have a collective impact on nature, and either collectively or in national groups joint responsibility for one or more commonwealths.

For managers, that other stakeholders should have some duties—towards the firm, in particular—should presumably be a pleasant relief from widespread assault, on various grounds, by business critics and calls for greater corporate responsibilities and global citizenship activities. This author suggests, however, that there are some key lessons for managers in the proposed reconsideration of stakeholders’ responsibilities. Responsibilities towards the firm will require that managers first conduct themselves morally, and existing notions of corporate responsibility and citizenship do not necessarily obtain that pattern of conduct. Other stakeholder responsibilities often involve moral and citizenship duties requiring collective action, such that managers will often need to lead the way—as in child labour and environmental protection issues.

The stakeholder role cannot be readily separated from general considerations of moral reflection and citizenship. A difficulty is that the stakeholder role must be considered by case and circumstance. While responsibilities towards other stakeholders are arguably stronger than responsibilities to the firm (such that managers must demonstrate by moral conduct worthiness to be the object of such responsibilities by others), those responsibilities, while interdependent, often do not occur at first hand but rather often through a chain of distant repercussions. It is therefore an additional step, conceptually and practically, to add accountability for specific outcomes beyond simple notions.

¹ There is a vital distinction between managers and owners. Owners are, conceptually at least, the organising element of the firm: it cannot come into existence absent owners’ action. At law (not necessarily morally), owners are jointly the residual claimants on the firm’s assets. In a privately held firm, ownership is concentrated; in a public corporation, ownership is more diffuse. In the latter, directors (typically holding shares) are elected as stockholders’ representatives for ‘management’ of the firm; they in turn hire managers. (In German practice, a supervisory board representing more than one constituency selects a management board.) One or more top executives (typically holding shares) commonly are inside directors. (Other managers may or may not hold shares.) Management (whether board, management committee or chief executive officer) has effective control of operations until dismissed. The board’s roles are appointment and dismissal of executives, audit and evaluation of conduct and performance, policy and compensation; the board is typically advisory with respect to strategy. A long-standing dispute concerns whether managers are fiduciary agents of the owners (i.e. representatives) or stewards for the long-term viability of the firm (i.e. trustees). In the US, the wider spread of corporate ownership arguably makes the classic distinctions among types of stakeholder (e.g. customer, employee, owner) hazier.
of motivations and actions. The distinctions among motives, actions and outcomes form the essential thread around which Wood (1991a, 1991b) reformulated the corporate social performance perspective. The simplest approach, which is taken here, is to posit and hold constant the duties of and constraints on managers and owners in order to study those of the other stakeholders of a focal firm. The theme of the special issue is, in effect, that stakeholder interdependence, i.e. a web of positive and negative impacts (or consequences) among individuals generated by interactions beginning with a focal firm, creates ‘mutual engagement and responsibility’.

Stakeholders who make ‘demands’ on firms—or on other non-business organisations (i.e. governmental and non-profit)—presumptively bear ‘some responsibility’ (emphasis added here) of assurance that their ‘demands’ do not generate ‘unintended negative consequences’ for the firm or other (emphasis added here). This paper both expands on this theme and suggests some important caveats to ponder. These caveats become most difficult in the instance of consumers, the firm’s final customers. Other stakeholders form part of the sociopolitical environment within which market exchange occurs, or part of the consumer’s supply chain (i.e. the firm, its distributors and suppliers). Low-cost responsibilities do not create major difficulties for consumers. Responsibilities with significant costs attached do create major problems, not the least of which is redistribution: transfer of consumer wealth and/or welfare to other economic actors. The redistribution is less significant where it is a part of the consumers’ preferences, but preferences are a matter of moral education and bear more strongly on the wealthier. The proposed expansion involves taking account of the circumstance that stakeholders are, in addition to being interdependent (i.e. subject to ‘mutual engagement’), already subject to general moral duties and citizenship duties. That is, taking a stakeholder role with respect to a focal firm—voluntarily or involuntarily—means either additional responsibilities, or giving specific direction (and perhaps reinforcement) to existing responsibilities. Some moral duties and many citizenship duties are joint (i.e. collective) as distinct from mutual, and involve collective action problems (see Olson 1965). Stakeholdership may less impose new duties and more define specific opportunities for benevolence grounded in natural sympathy for others (Smith 1776).

Some serious caveats arise in the nature of consequentialism. ‘Consequence’ must be read here as outcome or result. Consequence must be explicitly defined in order to identify duties and opportunities for benevolence. By the definition generally accepted in the stakeholder literature, any direct or indirect consequence relating to the focal firm defines stakeholdership. Anyone positively or negatively affected by a focal firm, directly or indirectly, is a stakeholder of that firm; anyone who can positively or negatively affect a focal firm, directly or indirectly, is a stakeholder of that firm. Only someone who neither affects nor is affected by a focal firm is not its stakeholder. This classical definition may be too broad including as it does competitors and media (Donaldson and Preston 1995: 86). For the purposes of this paper, nature can be regarded ‘as if’ holding stakeholder status; it has in any case great destructive power (see Fig. 4). Direct consequence means

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2 The distinction between actions and outcomes is the essential problem over which US antitrust law has been and remains deeply divided. ‘To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens’ (Smith 1776: Book I, ch. XI). The profit motive is plain enough, and natural. US antitrust law is confused concerning whether what matters is specific conduct (i.e. deliberate monopolisation through, for example, predatory pricing, on account of expected future consequences) or outcome (i.e. effective monopoly however obtained). Both forms of litigation have been pursued. The case against Microsoft involves, effectively, both complaints. There have been business attempts to use antitrust arguments to stifle competition and innovation.
acting immediately on another. Indirect consequence implies, however, the possibility of a long chain of repercussions on nature and throughout the steadily globalising economy. The consequentialism framework, for that is what the special issue’s theme defines, obliges any stakeholder of a focal firm to consider the various impacts or effects of his or her actions, if not strictly speaking, his or her motives, in addition to considering what rules should govern action or conduct. If a stakeholder’s impacts are negative and unintended, the stakeholder faces a definable moral problem. This language implies prevailing conditions of ignorance concerning impacts of stakeholder conduct, such that a stakeholder has a duty not to act deliberately within a veil of ignorance (to adapt language from Rawls 1971). The issue then becomes one of cost of correction. But, presumptively at least, some intended negative consequences are also suspect, and then cost is no longer the issue.

The most obvious instances of stakeholder responsibility involve the global natural environment, global labour standards and basic human rights; these naturally are the subject of the UN Global Compact (which is discussed further below). But these instances may oblige collective action, such as the Kyoto international accord on climate change, which the Bush Administration has conspicuously declined to approve. There is a strong case for universal moral standards, stated in terms of a minimum set of natural (i.e. inalienable) human rights (see Donaldson and Dunfee 1999); such rights may arguably not include labour standards. Even so, global labour standards may be seen as minimum wage, collective bargaining and public education traditions—well established in the advanced economies—extended to the world economy. The case for environmental protection is the destructive power of nature. The global natural environment is an instance of joint moral responsibility as distinct from stakeholder responsibility (the latter adds little on this score except perhaps to direct attention to specific issues). Definition and enforcement of global labour standards may levy what amount to private taxes on both higher-wage labour and consumers (see footnotes 2 and 4). The special issue’s theme is stated in terms of (1) the dangers of ignorance, and (2) the reasonable standard that a stakeholder should bear at least ‘some’ responsibility for consequences of conduct. ‘Some’ is what requires definition; a general criterion is not likely to suffice. There is sharp division over the advisability of child labour in developing countries, notwithstanding the UN Global Compact statement. The thesis of stakeholders’ responsibilities has a very democratic and ethical ring to it, drawing as it does implicitly on the Declaration of the Rights of Man and the Citizenship (1789, a manifesto adopted by the revolutionary National Assembly of France as preamble for a draft constitution). A principle of the Declaration, criticised and revised later by Mill (1859), was that individual liberty is limited only by harm to others (the idea is older; see Barker 1960: 305 n. 29).3

This paper does not take a distinctly contrarian position on the theme, which has substantial merit. Rather, the paper is cautionary, and addresses the inherent difficulties and limits of the argument. (A sound argument will stand up to criticism.) The key matter is to what forms of actions, by whom, the thesis leads. The argument itself is stated in the weakest and, therefore, most defensible form; it is barely rejectable. Stakeholders voluntarily making demands (in effect, a market demand for purely luxury consumption is voluntary) thereby bear some responsibility (i.e. a responsibility greater

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3 Mill (1859) proceeded (Rapaport 1978: xv-xvii) by seeking to distinguish between harm to others that should be prevented by social coercion and harm to others that should be tolerated (as in effect social coercion would be worse). He first delineated the principle of the French Revolution: that there must be no harm to others. Mill regarded the principle as inadequate. He then defined a second principle that social coercion must be to prevent violation of some ‘distinct and assignable obligation to any other person or persons’. In the context of the present paper, Mill can be read as being concerned with violation of rights held by others, a scope narrower than the notion of harms to others.
than zero), which is otherwise ill defined in general and definable only by reference to specific circumstances, and only for unintended negative consequences. The thesis of the special theme can be restated readily in stronger form: ‘The right to exercise free choice is necessarily accompanied by the responsibility to accept the consequences of choosing’ (Wood 1991b: 71). Thus, the form of the argument might be strengthened to address unavoidable requirements (i.e. of necessity), substantial responsibilities and intended negative consequences. A stronger argument is correspondingly more difficult to justify, and more contingent on circumstances. It would seem appropriate here to consider both the weak and the strong form of the theme. The acid test of the thesis is with respect to consumers and consumption. The impact of economic action on nature and other stakeholders begins with final demand or consumption, from which other economic activities are derived (Smith 1776).

Framework for analysis

Enough difficulties are intuitively identifiable to warrant more careful analysis of the special issue’s thesis. Table 1 presents a simple two-by-two matrix. The horizontal stub distinguishes between the weak form and the strong form of the theme. The vertical stub distinguishes between voluntary demands and necessary requirements. (In effect, the former can be regarded as akin to luxuries, which one could do without; the latter can be regarded as akin to necessities, which one cannot do without. But the difference between luxuries and necessities may prove a matter of dispute and subjective definition. Water is a necessity; the only issue is abundance of supply and hence price of consumption.) As the table illustrates, voluntary demands involve avoidable negative consequences: forgoing the demand can obviate these consequences. The two cells within the row for voluntary demands concern unintended consequences versus intended consequences. The former involves some responsibility; the latter must involve, relatively, more substantial responsibility. The special issue’s thesis is restricted to the north-west quadrant of the table. Necessary requirements may likewise concern unintended consequences versus intended consequences. The former involves some responsibility; the latter must involve, relatively, more substantial responsibility. The special issue’s thesis is restricted to the north-west quadrant of the table. Necessary requirements may likewise concern unintended and intended consequences. But neither can now be said to impose evident responsibility; rather, necessary requirements impose choice (i.e. a genuine moral dilemma). To choose between luxury and duty is one matter; to choose between necessity and consequence is another matter. Unintended consequences may or may not be avoidable at relatively little cost; the matter turns on the nature of the consequences in each instance. Intended consequences do not involve a condition of ignorance.

Table 1  Forms of the thesis

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<thead>
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<th>WEAK FORM</th>
<th>STRONG FORM</th>
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<tr>
<td>VOLUNTARY DEMANDS</td>
<td>Unintended</td>
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<tr>
<td></td>
<td>Avoidable negative consequences imply some responsibility.</td>
<td>Avoidable negative consequences imply substantial responsibility.</td>
</tr>
<tr>
<td>NECESSARY REQUIREMENTS</td>
<td>Unintended</td>
<td>Intended</td>
</tr>
<tr>
<td></td>
<td>Avoidable negative consequences are ambiguous with respect to responsibility.</td>
<td>Avoidable negative consequences are ambiguous with respect to responsibility.</td>
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Figure 1 provides an abstract depiction of the general situation of stakeholders in a focal firm, from a manager’s perspective. The purpose here is to capture the key dimensions or elements of the mutual and joint responsibility notions. The horizontal line depicts a one-way chain (or sequence) of purely economic activities involving the transformation of resources (i.e. inputs) through production and distribution (i.e. throughput) into final consumption goods and services (i.e. outputs). Demand for resources (ultimately resolving into labour and nature) is ‘derived’ from demand for consumption goods and services. There is, coinciding with this economic value-added chain (all economic values are determined by market demand-and-supply exchanges), a question of property rights (who owns what, and also how and why). The vertical line, intersecting the value-added chain at production and distribution, adds issues raised by humanity’s relationship to nature and by human or natural rights (i.e. rights naturally inherent in all human beings). This vertical link (shown as a dashed line for distinction) depicts linkage or connectedness: the relationship of nature and humanity must be described in greater detail. That relationship may be hostile or fruitful, and contingent (see Fig. 4).

The design of Figure 1 yields four quadrants. The north-west quadrant (relating nature as a whole and specific resources) involves considerations of whether resources are strictly limited, partly renewable and expandable by technology (i.e. invention). Resources originate either in nature or in labour, but technology can both extend and create resources (such as a third form of carbon invented by chemists at Rice University). The south-west quadrant involves considerations of property rights (in resources) and also whether human rights supersede (i.e. yield superior claims on) such property rights. The firm functions in a sense as an unavoidable logical linkage (as well as a profit-seeking action entity) between inputs and outputs; it is a market ‘intermediary’ between supply and demand. The north-east and south-east quadrants will be addressed later in
connection with consumers’ roles. The north-east quadrant isolates the problem of overconsumption: the impact of consumption, taken in aggregate, on nature. There is embedded here a free-rider problem, the tragedy of the commons (Hardin 1968; Hardin and Baden 1977): each consumer’s impact is, considered individually, negligible until aggregation of effects strikes an irreversible ecological tipping point (see Fig. 4). The south-east quadrant isolates the problem of the consumer’s responsibilities with respect to human rights of others.

It has long been recognised that there are certain difficulties with the doctrine of liberty, some addressed by Mill (1859; see footnote 3). First, what is the definition of harm? Death, injury and deprivation of liberty or property (‘inalienable rights [of] ... life, liberty and the pursuit of happiness’ in the US Declaration of Independence preamble) are plain enough; but in this context does harm include restriction of freedom of action or economic loss or lack of economic opportunity? Second, is harm objective or subjective? Suppose two individuals disagree over some valuation; if A proceeds anyway, is B then (psychologically at least) ‘harmed’? Harm to nature is reasonably objective; human rights can presumably be an agreed set (see Donaldson and Dunfee 1999); labour standards may turn out to be highly subjective, if not part of human rights. Third, is one obliged to prevent self-harm by another, and, if so, at what cost to one’s self? Mill’s approach (detailed in footnote 3) places limits on personal liberty, but requires that specific rights of others define those limits. In other words, the problem is to identify the rights of others rather than one’s own duties. In retrospect, one may see that Mill could not readily develop a general theory of duty to prevent and/or avoid harm to others. The reasons are discussed below.

There is inherent in a consequentialism approach a danger that, in any sufficiently strong form to matter, it indicates a unanimous-consent principle along the lines of the Pareto no-harm principle for economic efficiency. The danger is reduced, of course, by the weak form of the special issue’s thesis, which serves as a marked limitation. The Pareto principle specifies that a reallocation of resources that increases the welfare of A without reducing the welfare of B is morally acceptable: indeed, B can have no objection, other than envy, to A’s gain. In case of harm, B is morally entitled to veto the reallocation of resources. The hypothetical compensation principle was a relaxation of the Pareto standard along the following lines: a reallocation of resources is acceptable if the increase in A’s welfare is greater than the decrease in B’s welfare such that A could compensate B and still be better off. This compensation is, however, hypothetical: A could act but is not obligated to do so. The US Constitution (Amendment V) requires just (i.e. fair market) compensation for public taking of private property through the power of eminent domain (a clause that avoids the loser’s veto inherent in the Pareto principle); the hypothetical compensation principle in effect would permit public taking of private property without compensation (as one or more states have tried to do in recent years on environmental rationales).

Pushed in this way, the doctrine of universal personal liberty becomes a doctrine of universal personal veto, if the notion of harm is expanded. In effect, before acting, one must ask publicly whether there is any reason to suppose that someone else would object to the action on account of an unintended negative consequence. (To re-emphasise, non-intentionality denotes ignorance here. The strong form of the special issue’s thesis pushes well beyond such a limit.) In principle, one must broadcast one’s intention and discern whether there are negative consequences, direct or indirect, objective or subjective. The doctrine of personal liberty is thus turned, in the extreme, on its head to become a doctrine of global unanimous consent. In strong form, the doctrine of global unanimous consent is akin to Calhoun’s (1853) theory of concurrent majorities in a federal republic, where majorities were defined by the states of the American union. Of course, Calhoun was concerned, under the guise of states’ rights, to preserve the evil of
slavery. Here, however, the presumption is of universal human rights and the ultimately destructive power of nature. In the Kyoto dispute, the US is, in effect, invoking the notion of concurrent majorities. President Bush stated that his primary responsibility was to the economic welfare of US citizens. Business firms favouring the Kyoto provisions do so, according to reports, in part because they hold (relative to the accord) tradable pollution rights whose value might be lost under the US position. The logical extreme of the doctrine of consent is the so-called Polish veto (liberum veto), a problem studied by Rousseau (Considérations sur le Gouvernement de Pologne). In this case any member of the Polish-Lithuanian parliament could veto action; the result, given a corrupt nobility, was disastrous, as no action producing harm could be adopted and, because of corruption, often no action producing even a general benefit (see Lukowski 1991). The weak form of the special issue’s theme does not reach this far, of course; but the direction of the argument becomes clear in pushing the argument in an extreme direction.

Issues of distributive equity and perception of extortion fundamentally explain the opposition of the Bush Administration to the Kyoto agreement on climate change. The US, like other advanced industrial economies, is asked to reduce specified emissions, while developing economies are not. A difficulty is that twin goals are bundled into the agreement—climate change and economic development—in such a way that pollution is shifted from advanced to developing economies, and possibly as a result national wealth. In relationship to the Kyoto agreement, a straightforward example of stakeholder responsibility reasoning concerns the potential of wind power for electricity generation (see Furlong 2001, citing Jacobson and Masters 2001). Wind provides less than 1% of US energy; coal 52%. Wind energy cost per kilowatt-hour is about the same as using coal (3–4 cents), and there are government incentives for coal, gas and oil industries. However, the total social costs of coal are about 5.5–8.3 cents per kilowatt-hour taking into account the deaths of some 2,000 US miners annually and the accumulated taxpayer costs since 1973 of about US$35 billion (in monetary and medical benefits to former miners). Jacobson and Masters (of Stanford University) propose building something between 214,000 and 236,000 wind turbines at a cost of US$338 billion. That level of installation would cut coal-based generation by two-thirds and reduce greenhouse gas emissions below 1990 levels in accordance with the US goal identified in the 1997 UN Kyoto Protocol, which the Bush Administration has rejected. (The present author, for purposes of exposition, simply accepts the viability of the wind generation technology proposal.) For consumers and employees of electricity, the problem is both diffused and concealed within a veil of ignorance. No one consumer can directly influence the situation. Rather the government policy-making process (doubtless dominated by producer interests) must grapple with the problem. (US$338 billion is a lot of money, in the face of a recession, undeclared war and large national debt. Presumably there may be significant land acquisition issues.) The collective action problem is in part a diffusion of moral responsibility.

‘Calhoun denied the whole concept of social contract and natural rights, both of which had had long and respectable careers. Society, Calhoun argued, was not created by contract; society has always existed, and man [sic, humanity] has never existed outside of society. A state of nature, as described by the contract writers, never existed; nor were men [sic, people] ever endowed with natural rights. The only rights men [sic, people] have ever known, were those granted by society. It was thus that Calhoun could repudiate equality and uphold slavery’ (Post 1953: xxi).

One may think of Rousseau in The Social Contract (1762) as stepping around these problems in his notion of ‘the general will’ (volonté générale): a kind of ill-defined supermajority on socially important policy matters (Barker 1960: 260). The notion gets around both representative institutions and unanimity. The citizenry, in the role of a legislature or national referendum, recognises what is, effectively, crystal clear to everyone. (The notion is dangerous, of course.) The advantage of wind technology may be crystal clear (if in fact it is so); that clarity does not result in collective action. Assuming away problems of collective action, Rousseau merely presumes that recognition leads on (that is, it should lead on) to action. Olson (1965) is an important corrective to such a simplistic view.
Stakeholder responsibilities

The weak form of the special issue’s theme may be interpreted, in this context, as arguing that a stakeholder must take account of possibilities of harm, but is not obligated to act: that is, the stakeholder is not obligated to be subject, in advance, to veto or to be obligated to pay just compensation. The weak form of the thesis begins to look a lot like a case for informed benevolence, which can be regarded as a moral duty, particularly for the wealthy, but one much weaker than certain other moral duties, and defined in particular circumstances by stakeholder relationships. If this duty exists, it does so without there being generated a corresponding right on the part of someone else: benevolence is a virtue and not someone else’s entitlement.

It is necessary to address stakeholder responsibilities concretely, by type of stakeholder and within specific circumstances. Otherwise, one cannot answer the vital question: Do customers, employees and suppliers, for instance, have responsibilities to the focal firm, beyond any established at law or by contract; or to other stakeholders, beyond any established by general moral and citizenship responsibilities? Mutual and joint responsibilities for stakeholders separate into four general categories or types of situation:

- Between the firm and its stakeholders
- Among stakeholders themselves
- Concerning common pool resources (including nature as a whole)
- Concerning the commonwealth

These responsibilities are those of interdependent actors, moral individuals and citizens. With respect to other stakeholders, a stakeholder must consider proper conduct and distributive equity. There are identifiable rules for personal conduct, applicable to managers, owners and other stakeholders alike. For example, there is no purpose in personal abuse of a waiter by a customer. Abuse is not the proper conduct of anyone. This rule, however, is a general one rather than one specific to a definable stakeholder status.

How much one should tip a waiter may be a different matter. Tipping is an illustration of Donaldson’s (1989) principle that economic conduct, at least, can vary by stage of economic development of a society. There are generally established local standards for tipping: depending on location and type of service, ordinary service may warrant 10% or 15% or 18% tipping, whereas in some locations taxi drivers are commonly tipped and in other locations they are not; poor service should be undertipped and outstanding service should be overtipped. (In Stockholm, the gratuity is built into the price by established practice and the issue is the effect on service quality.) Is there then a duty to tip, or a duty to tip at the commonly prevailing standard? Is not failure to tip, or undertipping, tantamount to theft of someone’s property right—to a living wage?

The commonwealth, for present purposes, is joint (i.e. collective) action by the citizenry to provide public goods (including justice and security) that markets would not supply (or would undersupply). Does this notion of public goods extend to distributive equity? Is such equity a matter of minimum standards (for wages, social security, medical care, housing, education, etc.) or of greater equality exceeding such minimum

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Donaldson states the principle in the form of what would have been acceptable in a society when it was at a similar stage of development. The principle does not address sufficiently, the present author suggests, the difficulty that more advanced societies may morally prefer to apply their present, and not their historical, standards, unless there are significant economic costs in doing so.
standards? Is distributive equity founded in human rights, or in the need of the majority of citizens for all to be equipped at certain minimum levels of public goods for the safety of society?

The UN Global Compact calls on firms to accept a set of principles on human rights, labour and the environment. Several hundred companies, and other organisations, have pledged support to date in a Global Compact network. There is useful moral authority in the standards of the Global Compact, as targets at which to aim. The nine principles ask business to:

- Support international human rights (see Donaldson and Dunfee 1999)
- Avoid complicity in human rights abuses
- Support freedom of association and collective bargaining
- Support elimination of forced and compulsory labour
- Support abolition of child labour
- Eliminate discrimination in employment and occupation
- Support ‘a precautionary approach to environmental challenges’
- Promote greater environmental responsibility
- Encourage environmentally friendly technologies

The moral authority of these precepts should be self-evident. But commitment by a firm is voluntary. Obviously, where the cost of compliance is low, firms (and hopefully their stakeholders) will tend to adhere to the Global Compact: adherence is good for business reputation and does not materially affect the bottom line. Where cost of compliance is significant, some element of compulsion (e.g. embarrassment, if nothing else) must be added. Added cost must become an added burden to someone somewhere.

Mitchell et al. (1997) identified legitimacy, power and urgency as attributes of stakeholder identification and salience, from the perspective of management. Legitimacy and power can, however, be treated further as objective conditions. Legitimacy is a function of the definition of stakeholdership used above. Power is the capacity of stakeholders to affect the welfare of the firm and each other. Stakeholders, in an interdependent situation, must consider both the reactions of others (what Friedrich (1963: ch. XI) characterised as the rule of anticipated reactions) holding power and also moral duties towards those same others. The relationship between self-interest and concern for others is one of partial overlap. Any individual’s preference function may include concern for others as a dimension of self-interest. The perception of urgency is always the fundamental matter in directing action.

Consumers’ responsibilities

The author argues that it is difficult, at best, to establish clear-cut responsibilities for customers, except by moral education or collective action. Indeed, consumers are likely to be the test case for the limits of the thesis of stakeholder responsibility. The reason is the peculiar relationship of consumers to the firm and its other stakeholders, forming jointly the consumers’ supply chain.\(^7\) Consumers retain a general freedom of choice.

\(^7\) Considered statically, for Adam Smith, *The Wealth of Nations* (1776), there was no justification for monopoly (i.e. economic) rent: ‘Consumption is the sole end and purpose of all production; and the
difficulty is that customer responsibilities may readily become monopoly elements favouring producers, who may not be morally reliable; here, the moral conduct of managers is essential to establishing corresponding customer responsibilities. The argument is addressed below by two cases demonstrating difficulties in developing a general theory of consumers’ responsibilities.

A classic situation is airlines’ treatment, in recent years, of customers with respect to pricing and conditions of service. The prevailing circumstances in the airline industry are by now notorious. Elliott (2001) cites an instance in which a customer could save as much as 60% on the fare between two cities (travelling on business for his employer) by tacking on an extra leg, not used (i.e. a ‘hidden city’ itinerary). The airline, on discovery of this conduct, threatened to remove the customer’s frequent-flier miles and bill his employer for the highest full-fare price. ‘But a backlash against the airlines has begun’ through pressure by consumer groups, Congress and competitors (Elliott 2001: 34). The competition and a revolt by business travellers concerning the common Saturday stay-over rule, together with the slumping economy, may be forcing changes in airline practices. Where in any of this mess is a consumer obligated by self-interested industry rules?

Software piracy is more difficult to defend. The Business Software Alliance (see Barlow 2001) is a non-profit organisation funded by software companies for the purpose of preventing software piracy (i.e. illegal copying). The principal target of the Alliance is other businesses (which avoid purchasing general licences or copies for each computer by illegal copying). The Alliance evidently receives many hundreds of tips monthly (without compensation), most likely provided by disgruntled employees. (It is not operating systems, but popular applications that tend to be pirated. Microsoft already controls most of the PC operating system market by selling directly to PC manufacturers, a matter of recent federal antitrust litigation.) The estimated piracy rates (according to Alliance data) in 2000 were 37% worldwide (down from 46% in 1995), 25% in the US, 34% in Europe and 98% in Vietnam (2% presumably purchased largely for copying). Naturally, the Alliance members would like global enforcement of anti-piracy rules. The Alliance members also work to reduce the lag time for global software introduction and to increase global user support. (In other words, there are defects in supply, in addition to cost to purchasers. Copying is also easy enough, for those with expertise.) US law is, of course, very clear. (It is common practice for US universities to post warnings to students against software piracy.) At law, piracy is an offence; it is doubtless, for a customer with money, dishonourable and potentially hazardous. To label software piracy immoral—an instance of theft of someone else’s property—is rather more awkward (in the author’s view). There is a distributive equity issue: smaller businesses are more likely to practise piracy than larger businesses. The issue becomes rather more problematic in the instance of developing countries, facing difficulties of poverty and defects in supply. In effect, one aspect of reduction of piracy is greater competition—both better supply and lower prices—in the software industry. Theft is presumably less appealing where less profitable. (For issues concerning free, or freer, availability of software code from a social welfare perspective, see Windsor 2002; Jussawalla 1992.)

The matter now becomes one of establishing the essence of these examples as a more general argument, which must include managerially defined ‘cheating’ as acceptable
consumer conduct under certain circumstances as a form of resistance to arguably improper and self-interested business practices, often operating in parallel among firms dominating an industry (cf. Laulan 1981). Figure 2 provides a standard demand-and-supply or market exchange model with conventional downward-sloping demand (i.e. declining marginal benefit or utility of consumption) and upward sloping supply (i.e. rising marginal cost of production and distribution). Market price $P$ is determined simultaneously with market volume $Q$. For the present exercise, the producer enjoys some persistent degree of monopoly power relative to the consumer (depicted in the downward-sloping demand function), arising in barriers to competition and/or information asymmetries favouring the producer, such that the producer extracts a surplus or rent in excess of competitive cost.8

The consumer is ‘entitled’9 to lowest-cost consumption, cost being a function of the profit necessary to obtain supply, whether considered statically or dynamically. The consumer is, of course, not entitled to impose negative externalities (unpriced effects) on others, including nature, any more than the producer would be entitled to do so.

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8 For expositional simplicity, here competition includes ‘ordinary profit’ or competitive profit. It is not the case under atomistic or workable competition that profit, in an accounting sense, is driven to zero, but rather that pure economic profit, or rent, is driven towards zero. Ordinary or competitive profit is just sufficient to prevent the producer from exiting the industry. The manager’s goal is sustainable rent, and the laws can be bent to achieve and sustain that goal.

9 On Adam Smith’s 1776 representation, see footnotes 2 and 4.
Here, however, duties are equally binding on consumer and producer. Negative externalities affecting nature do not involve moral responsibility, as towards other stakeholders, but rather the danger that the commonwealth will be destroyed through the power of nature.

In Figure 2, the demand function is labelled as ignorant (i.e. imperfectly informed): consumers’ willingness to pay is partly a function of information asymmetries, including ignorance regarding unintended negative consequences. Given conditions of ‘monopolistic’ supply and ‘ignorant’ demand, in market equilibrium at point ‘e’, the producer extracts rent (or surplus) (the area marked ‘Pcde’ that is in excess of competitive cost) including ordinary profit (the area marked ‘cdQ0’). Due to absence of perfect price discrimination by the producer, consumers retain some welfare surplus (‘consumers’ surplus’), the area marked ‘aPe’: consumers pay less than they are willing to pay. The consumer has an economic incentive to remain ignorant of certain information, despite the questionable morality of such conduct. If the consumer understood that demand resulted in unintended negative externalities, then the demand function would shift to the left across the quantity axis, towards ‘m’, such that price and rent fell towards the competitive level, or even below, resulting ultimately in the latter instance in the exit of the producer from the industry.

A classic instance was the migrant workers’ effort (under the leadership of Cesar Chavez) to organise a US grape boycott in order to force better wages and working conditions. The intended strategy was a temporary drop in demand compelling producer concessions, followed by a restoration in demand; the change in cost of production and distribution must be absorbed out of the profit margin of producers or passed on to the consumers through higher prices.

Price and quantity are relative, so that a decline in demand in one industry or to one firm presumably is linked to an increase in demand in another industry or to another firm. The consumer presumably has to work out the chain of repercussions in terms of consequences for other stakeholders. For example, Friedman (2001) argues that, in order to address the US trade deficit (US$400 billion), for the preservation of a US manufacturing base, ‘A good place to start would be to insist that the labour, health, regulatory and environmental rules that Americans impose on their domestic producers be observed by our trading partners, too.’ One example would be standards eliminating child labour in developing countries (whether such standards are globally appropriate or not, which is a matter of current controversy). With respect to Figure 2, informed demand shifts to the right along the quantity axis, towards ‘n’, such that price, but desirably not rent, rises relative to the competitive level; in this instance, the intention is that the change in price should go to labour. (Shifts in either demand or supply schedules function to produce ‘m’ and ‘n’; demand and supply simply work in opposite directions.)

10 Increased competition would shift the supply function to the right across the quantity axis, towards ‘n’, such that price and rent would fall towards the competitive level. The incentive of the producer is to find a means to shift the supply function to the left across the quantity axis, towards ‘m’, such that price and rent rise, and consumers’ surplus is reduced.

11 There are limits on consumers’ capacity to handle additional economic burdens. In 1993 (Preston and Windsor 1997: 35, based on World Bank data), the world population was about 5.5 billion and still growing, of which 85% was outside the industrial market economies (accounting for 15%), which with the rest of Europe including Russia (stretching to the Pacific) accounted for 23%. The world gross national product, at market prices, was then about US$23.7 billion (of which 78% was generated in the industrial market economies, and another 3% in the rest of Europe including Russia), or about US$4,293 per capita. The average GNP per capita was about US$22,800 in the industrial market economies, to be contrasted with US$275 in India and US$362 in the Asian socialist economies (including China). As Wilson (1989: 65) observes, capitalism is not moral: it is a process working, however, to a profoundly moral outcome—the alleviation of poverty through wealth creation, over time.
Figures 3 and 4 illustrate two vital aspects of economic development. One aspect is the historical record of presently advanced economies in which, arguably, the welfare of the least advantaged individuals or groups (cf. Rawls 1971) initially declined with industrialisation. There were a number of reasons for this circumstance, associated with the ‘release’ of excess agricultural labour to the growing cities, where supply of labour exceeded demand for labour, and population growth. As Figure 3 suggests, the welfare of the disadvantaged arguably declined to some nadir of fortunes and then recovered, and exceeded, pre-capitalist welfare. (The recovery may reflect both market forces and governmental actions.) The same process, roughly speaking, may be under way in many developing countries. In contrast, the welfare of the more advantaged has risen steadily with economic development. The key issue now is whether the gap between more advantaged and least advantaged is closing or increasing. Moral responsibility is partly a function of the movement of the gap and, even if the gap is closing, the speed of that closing.

As articulated here, a consequentialism conception of stakeholder responsibilities leads on to an anti-consumption posture, one that must be considered carefully before accepting unreservedly. Figure 4 suggests that the welfare of the average individual in relation to usable natural resources per capita could decline in the future, perhaps past an ecological tipping point from which nature is not recoverable. Relative to pre-capitalist welfare, average welfare has clearly increased (at least in the advanced economies), but average welfare may be approaching an apogee, beyond which, absent collective action, decline will set in, perhaps irretrievably. Figure 4 depicts the situation as a function of what happens to renewable resources per capita (shown as a dashed line).
Conclusion

The call for a better understanding of stakeholders’ responsibilities is ultimately: (1) a moral appeal for greater understanding of both *unintended* negative consequences (i.e. unpriced negative externalities occurring in ignorance) and *intended* negative consequences (i.e. morally indefensible losses imposed on others); and (2) either voluntary individual or collective action for redress. Stakeholder responsibilities must be disentangled from general moral responsibilities and citizenship responsibilities. It may be that stakeholder responsibilities, in effect, direct moral attention in specific ways, but direction of attention itself has repercussions or consequences that must be traced and considered. The essential issue is whether the moral appeal is for philanthropy—moral education concerning personal preferences, especially by the wealthy that can afford to reallocate resources from luxuries to benevolence—or for binding moral duties. Under certain circumstances, the moral appeal would be a duty amounting to an involuntary tax on consumption. Any tax may rapidly become extortion: the wealthier must reallocate resources or face higher costs from destructive action by the less advantaged. The latter posture can rapidly become an ‘extraction’ grounded in threat rather than a ‘duty’ grounded in conviction. The decision facing a stakeholder is initially one of greater information concerning that which the stakeholder would not otherwise do except for ignorance; but ultimately one of self-sacrifice for higher purpose.

Two general appeals are possible. Plato, in *The Republic*, dealing with the design of an ideal commonwealth, has Socrates produce arguments demonstrating that a just
person has a better and happier life than does an unjust person. (The unjust person
does self-harm as well as harm to others.) Adam Smith (1776) considered that rising
wealth and moral education would enhance the natural sympathy of humans for the
circumstances of others. These considerations still leave the matter of stakeholder
responsibilities on a tightrope balancing between economic development (for the great
and moral purpose of reducing poverty worldwide) and the negative consequences, for
nature and people, generated by that economic development. That tightrope requires
reflection and choice. The greater one’s wealth, the greater one’s freedom of choice and,
hence, obligation of moral reflection.

The author suggests that the lessons for managers are perhaps more stringent than
the lessons for other stakeholders. Other stakeholders’ responsibilities arguably increase
the responsibilities incumbent on managers themselves, rather than providing some
degree of relief. The duties of other stakeholders to a focal firm are quite weak. Why
should any employee, much less a consumer, exhibit loyalty or commitment to a firm
in a rapidly changing marketplace? The conduct of the airline industry and the problems
in software distribution do not indicate strong duties incumbent on other stakeholders.
Managers must themselves define those duties, concretely, largely through moral
conduct. And managers may find that they are increasingly leading the way—as in the
Global Compact Network—towards collective action efforts, which by definition (Olson
1965) require that someone bears the initial burden of moral leadership (cf. Windsor
and Getz 1999 on the economic costs of moral leadership for the global suppression of
business corruption of public officials).

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