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BA 3102

Business Ethics Analysis

1**. Stakeholder vs. Stockholder Theory**

a.) The stakeholder theory of business outlines how the purpose of a business is to create as much value to the stakeholders as possible. The theory addresses the importance of how a corporation should focus their efforts on encompassing all of the company’s stakeholders, not just the shareholders. Referring back to the article we read in class*, The Stakeholder Theory of Modern Corporation* by Freeman, he describes two definitions of what stakeholders are—a narrow definition and a wide definition. The “narrow definition”, Freeman states, includes those groups who are vital to the success and survival of a corporation. The “wide-definition” includes any group or individual in an organization that affects, or is affected by the corporation. Primary stakeholders in an organization include a company’s managers, directors, employees, shareholders, customers and vendors. Governments, nonprofit organizations, communities and even competitors are also included as stakeholders. In the reading by Freeman, he presents “The Stakeholder Model of A Corporation”, which depicts the stakeholders in a typical large corporation all connecting to each other. The model describes how “the stakes of each are reciprocal, affecting the other in terms of harms, benefits, rights and duties” (Freeman, 2001, p.42). According to the Freeman article, the stakeholder enabling principle states that “corporations shall be managed in the interests of its stakeholders defined as employers, financiers, customers, employees, and communities” (Freeman, 2001, p.48). The main idea of the stakeholder theory is that for a corporation to achieve success the leaders must identify what factors and values bring all of the company’s primary stakeholders together. They can then define the organization’s purpose, decide how they want to conduct business and develop the types of relationships they need with different stakeholders. Freeman states in the reading, that “management must keep the relationships among stakeholders in balance.” When there is an imbalance or problem within these relationships, the survival of the corporation is in jeopardy. Another example of the importance of these stakeholder relationships is “when wages are too high and product quality is too low, customers leave, suppliers suffer, and owners sell their stocks and bonds, depressing the stock price and making it difficult to raise new capital” (Freeman, 2001, p.44). Thus, there is a link or chain between these groups and when there is a shared sense of the value that the business creates; management can get stakeholders to help the company achieve its goals.

The stockholder theory of business, in contrast to the stakeholder theory, describes how the main purpose of business is to generate profits and increase shareholder’s wealth. Instead of focusing on the stakeholders in a corporation, Milton Friedman states in his article, *The Social Responsibility of Business is to Increase Profits*, “the only social responsibility of business is to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the games…engages in open and free competition without deception or fraud” (Friedman, 1970, p.5). This is in short, the core concept of the stockholder theory of business. This theory calls for limited government and regulatory intervention in business with the idea that markets are best regulated by working in their own self-interest by maximizing profits, and thus, society will benefit from this. Milton Friedman discusses in his article we discussed in class, that solving social problems is the responsibility of the state. He also discusses how corporate philanthropy and other activities unrelated to generating shareholder wealth are a waste of shareholder’s money and that it steals from owners. Friedman states in the article, “in accord with his social responsibility, reduce returns to stockholders, he is spending their money…his actions raise the price to customers, he is spending the customers money…his actions lower the wages of some employees, he is spending their money” (Friedman, 1970, p.2). Milton Friedman believed that firms are created to make money, and that “business is business” in contrast to the stakeholder theory where corporations are focused on defining a company’s purpose, how they conduct business, values and relationships within based on their stakeholders. When wealth is inefficiently used, it negatively affects society which is another important concept of this stockholder theory by Friedman.

b.) There can be many potential benefits to the Stakeholder theory as well as many challenges. The first potential benefit that I’d like to discuss is how the stakeholder theory addresses morals and values as a central concept of managing organizations. Paying attention to the interests and well-being of those in a company who can help achieve or negatively affect the organizations objectives contributes to the “common good” factor. “The common good of a company is the fulfillment of the company’s purpose as a company…to create the conditions that will enable its members to achieve their personal goals” (Argandona, 1998, p.1097). The main duty of each member of the stakeholders group is to contribute to achieving the company’s goal, or in other words, the common good. A company that is formed on the basis of the common good and uses the stakeholder approach is a benefit to society. A company that shows a normal ethical concern for society can “fulfill its duties to the communities just by doing its regular activities: hiring employees locally or subcontracting, avoiding pollution, paying local taxes, obeying the law, and encouraging employees to act as model citizens”(Argandona, 1998, p.1100). Another potential benefit of the Stakeholder theory is that it helps a firm devise a communication plan. A huge problem is communication in companies so the Stakeholder theory helps with this issue as it puts force on communication between the many different stakeholders since they all link to one another. When stakeholders actively participate in a firm’s decision, it helps create closer relationships between the stakeholder and the firm. Thus, communication between the stakeholders and the firm improves and is another great benefit to this approach.

Aside from some great benefits that the stakeholder theory poses, there are also many challenges with this approach. One major problem that poses with the stakeholder approach is that it doesn’t determine who are and aren’t stakeholders in a moral sense. It seems as if the theory is unable to rule out any group from stakeholder status. There are no guidelines as to whom or who doesn’t qualify as a stakeholder. “There is an inability to distinguish stakeholders from no stakeholders which threatens the meaningfulness of the term. The principle of stakeholder fairness more clearly defines the concept of a stakeholder in such a way as to distinguish which groups are and which are not stakeholders in the sense of being owed additional moral obligations over and above those one is presumed to have due to them as human beings in general”(Phillips, 1997, p.53). Thus, this theory has a huge problem with stakeholder identity. Another problem with the Stakeholder theory is that it is very vague. If you read through the theory as many times as I have, you see that it’s overall very vague in descriptions. The goal of the stakeholder theory is to balance the interests of stakeholders. My questions are what stakeholders and which interests? What is considered balanced? These are questions that anyone approaching this theory could ask. It doesn’t tell us who to consider as a stakeholder or how we determine when appropriate balancing has occurred. This can ultimately cause a lot of confusion to our goals and what we initially want to accomplish.

c.) I feel as if there is a lot of criticism and many more challenges with the Stockholder theory than benefits. Even though there may be more challenges with this theory, an unbiased perspective can at least give one or two benefits to this theory. The first potential benefit I would like to discuss is that maximizing profits will represent the contribution the firm makes to the social good and therefore the profits should be made as large as possible. Friedman even states that a firm “ought to maximize their profits” as it is part of their social obligation to do so. In the long run, the stockholder approach generates the most cash for satisfying investor demands—maximizing shareholder value. Friedman describes the main responsibility of a company “is to conduct the business in accordance with their (shareholder’s) desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom” (Friedman, 1970, p.5). Again, as long as they follow the basic rules of the society, there are great benefits to the investors, the firm, and even society while maximizing profits is the main focus. Another benefit that I’d like to point out is that this theory obviously also benefits the owners of the company. The stockholders benefit by having ultimate controlling rights of the company. For example, if holders of a majority of shares of a corporation are unhappy with how it is being run, they can replace the existing board and existing management with people who will run it more efficiently as they wish. Giving shareholders more power to influence management will only really benefit themselves although it is a way for them to manage the firm so it can prosper. This theory does a good job at clarifying who does what in a corporation and for what purpose, especially when stockholders hold power.

On the other hand, there are many challenges and problems that arise from this theory. One conflict with this theory is that it is outdated because the laws have evolved over time. The origins and ideas that shape this theory alone are more than 200 years old with roots from Adam Smith’s doctrine in 1776. The whole idea of this theory is based on free-market capitalism which again, is outdated because today, businesses are regulated by governmental who dictate the form and format of an enterprise. It can be perceived to have many moral consequences in today’s era, and because of this it gets a lot of criticism. This theory has also been regarded as an unethical practice in a business environment. According to the article by Milton Friedman, he quotes that “there are no values, no social responsibilities in any sense other than the shared values and responsibilities of individuals” (Friedman, 1970,p.2). The ethical choices of those who hold power in running the business are limited to disbursing business resources in ways that meet the stockholders interests and thus the stockholders rule over any other social responsibilities. For example, if stockholders or management believe that they should hire cheap laborers regardless of the pay or circumstances, some could consider this an unethical business practice. The stockholders would look at this example as a way to minimize cost so they can maximize profits.

d.) One successful organization that exemplifies use of the stakeholder theory model is McDonald’s. McDonald’s is one of the world's leading fast food restaurants and has locations in almost every country. Even with the company’s success, they continue to take consideration of all the stakeholders and their interests. McDonald’s is a company that exemplifies the stakeholder model because it includes the interests of suppliers, governments, shareholders, environment, local community, customers, employees, franchisees, managers and so on. The company truly cares about their customers and the community as they have recently made efforts to revise their menu, adding healthier choices and labeling calorie content. “Customers are also becoming more interested in having information about their food, its production methods, and the companies who supply it. McDonald's has responded to customer demand by making nutrition and other information easily available, ensuring customers can access information whenever they want”("McDonald’s: Creating effective”). This revision of the menu has driven their sales up drastically with some of the highest growth figures they’ve seen in years. The company’s improvements and increase in performance is also great for the interests of shareholders, customers, employees, and management. McDonald’s also does a great job at investing in their employees, which are another important group of stakeholders for them. “Investing in employees leads to greater [employee retention](http://www.afrbiz.com.au/learning-resources/glossary/e.html), which reduces recruitment costs, keeps cumulative knowledge in the company and ensures that there are always enough fully-trained employees to deliver McDonald's high level of service. The investment in training and development allows McDonald's staff to offer customers optimum service, increasing customer loyalty, and, ultimately, company profitability”(“McDonald’s: Creating effective”). Another example of how McDonald’s exemplifies the stakeholder model is how they make important investments to the franchisees—a crucial aspect to the success of the company. McDonald’s “takes great care in the recruitment, training and retention of its franchisees. The key to success for McDonald's is a consistent quality of product and service” (“McDonald’s: Creating effective”). The franchisor and the franchisee work together to achieve sustainable profit growth and this achievement can happen because of how well the company invests into the franchisee program. On the website for McDonald’s, they have a “social responsibility” page which explains their vision and how they believe being a responsible corporate citizen is important. Taken right from their website, McDonald’s states “Being a responsible corporate citizen, McDonald’s firmly believes in giving back to the communities it operates in. We love to provide support and encouragement to the people who need it the most”(“Our responsibility”). This page alone just shows how important the stakeholders are to this company and the ways they give back and support those around them. Just from taking courses in college, and even high school, I have learned about the corporate side of McDonald’s. I have learned enough in school alone to understand how they always try to make decisions based on their stakeholder’s best interests. This is just another example that backs up my explanation of how McDonald’s uses the stakeholder model in their business approach.

e.) My opinion of the stakeholder approach that McDonald’s uses is favorable. I am one of those in favor of the stakeholder approach in general and I think it is definitely important that a company includes the interests of these groups when making important decisions. I believe that a company can be highly successful when using this stakeholder model especially in this day in age rather than staying focused only on the shareholders. Taking a business ethics course and just having a general knowledge about fair business practices helped me understand that the stockholder model isn’t truly ethical anymore and that the stakeholder model is. In my opinion, socially responsible companies earn a good name in the market due to the work they do to help people and McDonald’s represents this undoubtedly. The company also has a strong reputation for loyal employees and management as well as making sure that cultural and regional barriers are kept in mind when providing locations in other countries. Not only is the fact that McDonald’s dedicates a lot of time into social responsibility important when keeping the stakeholder approach in mind, but also the ways they engage their stakeholders. For example, McDonald’s recently built a website based on stakeholder engagement. The website, “What Makes McDonald’s?” invites stakeholders to find the facts, share their views and ask McDonald’s a question or two. “The new website will feature a broad range of articles and videos that go behind the scenes of McDonald’s, covering topics including food sourcing, the charities that McDonald’s supports, the truth about jobs at McDonald’s and what McDonald’s is doing to reduce its impact on the environment”(Godelnik, 2012). This is just another example of how McDonald’s is interested in their stakeholders and engaging them into their business model. Having communication and relationships with stakeholders is the whole idea of the stakeholder approach and McDonald’s creating this website to engage them is a very good effort at communicating with them. McDonald’s believes that asking stakeholders questions and engaging them will bring them closer to their customers, a key strategy in their business model. It’s apparent that the company is trying to open up to their stakeholders so they can get to meet the real McDonalds. Lastly and like I’ve mentioned earlier, McDonald's has responded to customer demand by making nutrition and other information easily available, giving customers access to information whenever they want. This again proves that the company cares about its customers and continuously makes improvements for them. McDonald’s uses a wide range of communication channels that ensures the company is able to reach every demographic which include television, brochures, magazines, radio commercials, public relations, speaking opportunities, newsletters, and websites. This is another example of the communication they have with their stakeholders. All in all, the success of McDonald's contributes to success for all its stakeholders and the economy as a whole. McDonald’ is a good representation of a company that uses this stakeholder model efficiently and are continuously seeking ways to improve the use of this model.

**2.) Ethical Theories/Decision Making**

a.) In my opinion, I do not believe that Mackey’s actions were ethical at all. Mackey wasn’t wrong about voicing his opinion about whether he liked the company Whole Oats or not, but he should’ve disclosed whether he worked for Whole Foods or not, owned stock, and was a decision maker in acquiring other companies. Instead of using a pseudonym as his reasoning for what he did, Mackey should have acted like a man and taken responsibility for his actions. He should have admitted where he was wrong, and lost his arrogant tone when it came to confessing what he did. I believe that John Mackey knew what he was doing was wrong which is why he didn’t use his real name. I think concealing his identity and influencing others to only benefit himself is cowardly. In class we discussed many different types of ethical theories. I believe that Mackey portrayed the consequentialist theory of ethical egoism. Ethical egoism is described as being “free to do otherwise, but we ought to put ourselves and our own interests first. We should deliberately choose to do what is best for ourselves, despite what might happen to others” (Ziniewicz). Ethical egoism suggests that the interest of others should never be a factor in moral decision-making. I believe Mackey portrayed ethical egoism in this case because he put himself first rather than the interests of his company, employees, customers, investors, etc. It just shows that Mackey had no consideration or respect for the position in his company. As a result of Mackey’s actions, I would imagine that he would lose the company’s trust. If I were an employee of Whole Food’s I would be deeply disappointed and skeptical of John Mackey. After his scandal, I could definitely understand why he would no longer have employee’s trust. Thus, this would affect employee performance and then company productivity would decline. John Mackey did not portray the true qualities of a leader and I believe that honesty is the most important quality of a leader—he obviously failed to depict this quality. As a CEO of a company, I believe that you are being held at a very high standard not just to employees, but to customers and investors as well. Employees would lose faith, but also investors would then have little faith in the company and decide to invest in a different company. Mackey has the responsibility as a CEO to act ethically and not deceive customers and investors, and by pretending to be someone else he was acting unethically. In class, we also discussed how ethical decision making is an obligation today rather than an option whether it’s in business, education, government or our daily lives. We also learned how some of the top types of unethical or illegal behaviors were cutting corners on quality, covering up incidents, lying or deceiving customers, and putting inappropriate pressure on others. Of these top types of unethical behaviors, John Mackey portrayed most or even all of them. It just shows that he doesn’t make ethical business decisions and this could be due to certain pressures around him. In the article that we were assigned to read in class, *Psychology of Fraud: Why Good People Do Bad Things*, "If you'rethinking about a business decision, you are significantly more likely to lie than if you were thinking from an ethical frame”( Joffe-Walt & Spiegel, 2012). This quote from the article can relate back to the Mackey situation as he clearly wasn’t thinking from an ethical frame. It’s interesting how even the most ethical person can just throw ethics out the window when it comes to making important business decisions. Since I do not know much about John Mackey, I can’t say whether or not he normally made ethical decisions prior to this incident.

b.) As I explained prior, I would not want to work for Whole Foods after this incident because I would feel a lack of honesty and feel as if I were being deceived. This behavior would definitely affect my willingness to work for the company as I would have no trust or faith in management or the CEO himself. Not only that, but Mackey’s actions were damaging to the image of the company once his identity was revealed. I would be curious if the company behaved that way as a whole because actions of a CEO tend to speak for the company. Why would I want to work for a company where the CEO’s actions can be a direct reflection on how he runs his business overall? If John Mackey would have portrayed a more Utilitarianism approach, I would think differently. We learned in class about the Utilitarianism approach in which decisions are based on what achieves the greatest good for the highest number. The outcome of this approach is supposed to benefit more people rather than harm them. I am a supporter of this approach and I strongly believe that companies should incorporate this into their decision making. In contrast to this approach, I believe that Mackey didn’t care about the outcome and what benefited the highest number. He was only worried about himself and potentially even his investors when it came to maximizing profits regardless of the behavior he posed.

As for investing in the company, I personally may still invest regardless because money itself has no feelings or morals. From the readings and research I have done while taking this class, I learned a bit about Whole Foods and that basically it could have been a good investment. From an investor’s perspective, this behavior may look as if he put the shareholders first. Cutting the competition and trying to acquire another business at the lowest price so he can maximize his shareholder’s wealth doesn’t seem so bad when you look at it from this perspective. If you research the company itself, you find that some investors look at it as a good investment because the company is considered “socially responsible.” “Whole Foods retains a first-mover advantage in the organic grocery space and has a stronger brand. And with the company's plan to expand from 300 stores to 1,000, Whole Foods has plenty of room for growth…Whole Foods looks like an excellent, straightforward choice for the socially responsible investor” (Kannel, 2012). So although, the CEO has had a lot of criticism in the media for his unethical behaviors, the company still has a strong reputation for being socially responsible—social responsibility in business is important in today’s society.

c.) Given what I already know about John Mackey from taking this course, I am very surprised by his actions in this case. In the article we read in class, *Rethinking the Social Responsibility of Business*, Mackey makes a debating argument towards Friedman’s views on the social responsibility of business. He disagrees with Friedman in this debate and says that he focuses on putting the customers ahead of investors. What is shocking to me is that he states in this article, “The business model that Whole Foods has embraced could represent a new form of capitalism, one that more consciously works for the common good instead of depending solely on the "invisible hand" to generate positive results for society. The "brand" of capitalism is in terrible shape throughout the world, and corporations are widely seen as selfish, greedy, and uncaring…” (Friedman, Mackey & Rodgers, 2005). This sounds pretty hypocritical in my defense because John Mackey displayed this type of selfish, greedy, and uncaring behavior in the recent case with the pseudonym he used. Another thing he said in this debate that sounded very hypocritical after the unethical behavior is that, “Human nature isn't just about self-interest. It also includes sympathy, empathy, friendship, love, and the desire for social approval. As motives for human behavior, these are at least as important as self-interest” (Friedman, Mackey & Rodgers, 2005). Again, this to me shows inconsistency with his views and his so called, “business model”. Why would you lie and deceive your stakeholders after putting such emphasis on your business model and vision in this debate? It just doesn’t make sense to me at all. For example, Mackey states, “This is why we put satisfying and delighting our customers as a core value whenever we talk about the purpose of our business” (Friedman, Mackey & Rodgers, 2005). Well, if this were true, then Mackey wouldn’t have lied to the customers or just the stakeholders in general and he wouldn’t have ultimately deceived them. Reading his debate against Freidman and Rodgers, I felt that Mackey was trying to prove that he used the ethic of care and virtue ethic theory a lot when making business decisions. He was trying to persuade others into thinking that his decisions were sensitive to the needs of others and that he was ultimately a “good person” when it came to his business .Overall, I think that John Mackey is a hypocrite and based his business decisions on his own self-interest in contrast to what he may have said in his debate against Freidman and Rodgers.

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