Chapter 5
Care Ethics and Stakeholder Theory

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Introduction

When considering the implications of care ethics for business affairs, few questions have more immediate and practical importance than those concerning the responsibilities of firms to their investors, employees, customers, and other individuals. How firms—or more precisely the managers of firms - conceive of their ethical responsibilities to others will determine in large part whether they recognize any obligations to their local communities, the attention they give to worker and product safety, their attitudes toward employee wages and benefits, and other similar matters. Classical liberal theorists argue that the only ethical responsibilities firms have are to increase their profits, provide stockholders with high returns on their investments, obey the law, and avoid deceptive business practices.[1] Care ethics presumably expects firms to do more than just fulfill these minimal responsibilities, but how much more? What in practical terms does it mean for a firm to conduct business in a caring manner?

Over the last few decades, many business ethicists have drawn on stakeholder theory to identify the ethical responsibilities of firms.[2] In contrast to classical liberal

[1]The stockholder view described here is most famously defended by Milton Friedman (1970).

[2]The main concepts of stakeholder theory and even the term "stakeholder" existed prior to the 1980s, but the origins of contemporary stakeholder theory are generally associated with the publication of R. Edward Freeman's *Strategic Management: A Stakeholder Approach* (1984). For a brief account of the pre-history of stakeholder theory, see Freeman and Reed (1983), Freeman (1984), and Friedman and Miles (2006). The literature on stakeholder theory is by now quite extensive. R. Edward Freeman's works have continued to hold a central place in this theory (See Freeman 1994, 2004; Freeman and Reed 1983; Freeman and Evan 1990; Freeman and Gilbert 1992). A collection of important writings on stakeholder theory can be found in Zakhem et al. (2008). A comprehensive survey is provided by Friedman and Miles (2006).

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economic thought, stakeholder theory suggests that businesses have an ethical responsibility to consider the interests and attend to the needs of all individuals and groups who are affected by their policies and operations, including employees, consumers, suppliers, the local community, and others. In developing stakeholder theories, several business ethicists have specifically identified care ethics as a fruitful resource for elucidating the responsibilities of firms to their stakeholders (Burton and Dunn 1996; Freeman and Gilbert 1992; Freeman and Liedtka 1991; Hendry 2001; Liedtka 1996; Machold et al. 2008; Wicks, Gilbert, and Freeman 1994; White 1992). Brian Burton and Craig Dunn (1996), in particular, have most fully developed the principles of care-based stakeholder theory with the goal of providing managers with ethical guidelines for conducting their everyday business operations according to caring values (134).

While Burton and Dunn offer important insights for applying care ethics to business affairs and identify some useful guidelines for a care-based stakeholder theory, their theory nonetheless suffers from a number of weaknesses. They do not offer a very convincing philosophical justification for their care-based stakeholder theory, for example, or provide very clear accounts of who should count as a stakeholder or how managers should prioritize different stakeholder claims. As a result, their argument is vague in crucial areas and fails to provide managers with the concrete practical guidance they set out to define.

In this article, I build upon the work of Burton and Dunn in order to extend and clarify a care-based stakeholder theory. My central aim is to elaborate a more cogent and concrete care-based stakeholder theory that spells out more fully what it means for a firm to conduct business in a caring manner. My argument also, however, has a broader purpose. Stakeholder theory in general suffers from some of the shortcomings I point out in Burton and Dunn's theory. Critics have noted that many stakeholder theories offer only broad and vague definitions of who should count as a stakeholder and do not explain very clearly how managers should make decisions when the interests of different stakeholder groups come into conflict (Goodpaster 1991; Hasnas 1998; Marcoux 2003). By addressing the weaknesses in Burton and Dunn's argument, I hope to show how a care-based stakeholder theory can overcome these problems and contribute to the viability of stakeholder theory in general. In the next chapter, Daniel Palmer and Mary Lyn Stoll further show how care ethics can supply a richer account of moral agency to support stakeholder theory.

I begin by discussing Burton and Dunn's article on care ethics and stakeholder theory and highlight a number of shortcomings with their argument. Since many of the shortcomings of Burton and Dunn's theory stem from their underdeveloped account of care ethics, I next offer a fuller account of certain elements of this theory. In the third section, I develop a stakeholder theory based upon my revised account of care ethics. I conclude by highlighting the various ways in which a care-based stakeholder theory can help to address some of the central criticisms that have been leveled against stakeholder theory generally.

Care Ethics and Stakeholder Theory: Foundations

While the stakeholder concept has long existed, R. Edward Freeman is generally credited with developing the first full account of stakeholder theory.[3] In *Strategic Management: A Stakeholder Approach* (1984), Freeman defined a stakeholder as "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose" (vi, 46). Initially, Freeman outlined his stakeholder theory as a management tool to help executives manage their organizations more effectively. In his later works, however, he turned his attention to the normative implications of this theory (Evan and Freeman 1988; Freeman 2004; Freeman and Evan 1990; Wicks, Gilbert, and Freeman 1994). In "A Feminist Reinterpretation of the Stakeholder Concept" (1994), he and his co-authors singled out a care-oriented feminist theory as an especially valuable resource for drawing out the normative insights of stakeholder theory and providing ethical guidance to business activities.

In "Feminist Ethics as Moral Grounding for Stakeholder Theory" (1996), Burton and Dunn developed this idea of a care-based stakeholder theory. They begin by noting that stakeholder theory rests on a very different vision of business activity from the dominant liberal view. Rather than seeing business transactions as a series of discrete voluntary contracts, stakeholder theory sees business transactions as existing within a larger web of (stakeholder) relationships. In this regard, they note that stakeholder theory shares a natural affinity with care ethics. Like stakeholder theory, care ethics makes existing relationships the starting point for moral thinking, and as such, Burton and Dunn claim that it represents a fruitful source for developing a stakeholder theory (136). Drawing on the works of Carol Gilligan (1982) and Nel Noddings (1984), Burton and Dunn next define care ethics as a moral framework that gives priority to sustaining relationships and avoiding harm to others. In contrast with Noddings's theory, they nonetheless argue that care ethics need not eschew all justice principles. By their account, care ethics can identify some general principles or guidelines for business activity, and in this way, serve as a more useful guide to ethical business practice.

From these premises, Burton and Dunn develop their care-based stakeholder theory. They argue most generally that care ethics supports a "more cooperative, caring type of relationship" in business: "Firms should seek to make decisions that satisfy stakeholders, leading to situations where all parties involved in a relationship gain" (140). Specifically, they claim that firms should be primarily concerned to satisfy the interests and needs of individuals and groups with whom they have established relationships. In a care-based stakeholder theory, it is not a matter of dealing with " 'competitors,' 'suppliers,' 'buyers,' and other firms in abstract terms" but with "this supplier or that product, raw material, or service. The question is the type of effect your decision has on that particular supplier, not 'suppliers' in

[3] A brief history of stakeholder theory can be found in Freeman and Reed (1983), Freeman (1984), and Friedman and Miles (2006).

general" (140–141). Burton and Dunn further maintain that a care-based stakeholder theory also gives some value to our emotions when making business decisions. We should pay attention, for example, if we feel badly about some decision since this may be a sign that our proposed course of action violates important relational values. Moreover, a care-oriented manager will communicate with stakeholders about important business decisions and involve them whenever possible in the decision-making process (141).

While the above rules offer some general guidelines for conducting everyday business affairs in a caring manner, Burton and Dunn acknowledge that they do not provide clear guidance about what a manager should do when faced with difficult decisions. In order to address these hard cases, they specify an additional set of moral rules for resolving conflicts among stakeholder interests. The first rule, which they borrow from Wicks, Gilbert, and Freeman (1994), is the "rule of consensus:" "First, the attempt is made to find win-win solutions to the issue confronting the firm and its stakeholders. If this seems impossible, communication is urged to encourage understanding of others' positions and eventual acceptance of a 'second best' result" (142). While consensus decision-making should be used whenever possible to mediate stakeholder conflicts, Burton and Dunn admit that it may not always be practical. Consensus decision-making can be time consuming and easily undermined if even just a few individuals are not committed to reaching consensus with others. Thus, Burton and Dunn offer a second, more practical rule for resolving conflicts: "Privilege those with whom you have a close relationship" (142–143). When trade-offs must be made and consensus cannot be reached, managers should favor those individuals and groups with whom the firm has the closest relationship. Yet, Burton and Dunn note that this rule, too, can be problematic. This relationship rule would seem to justify a company's shipping hazardous waste materials to other countries with weak environmental and worker safety regulations for the sake of protecting and promoting the interests of its own employees, stockholders, and local community. Burton and Dunn argue that this action is wrong because it harms individuals "who will suffer more from harms than the more advantaged in society" (144). Drawing on Rawls's difference principle, Burton and Dunn thus suggest a third decision-making rule: "special attention [should] be given to the least advantaged members of the moral community." They formulate this third moral rule as follows: "Care enough for the least advantaged stakeholders that they not be harmed; insofar as they are not harmed, privilege those stakeholders with whom you have a close relationship" (143–144). Altogether, then, Burton and Dunn argue that: (1) companies should never harm more vulnerable individuals for the sake of favoring their close relations; and (2) companies should favor their close relations over others when harming the least advantaged is not an issue. In choosing a supplier, for example, we should "give our business to the supplier with whom we have a close relationship—a relationship built upon trust, experience, and mutual accommodation over the years" (144). Even if other suppliers may suffer from our decision, Burton and Dunn argue the relationship principle justifies our decision.

Burton and Dunn's article represents an important contribution to the literature on feminist business ethics. They not only provide a general account of a care-based stakeholder theory, but also offer some specific rules for applying care ethics to particular management decisions. There are nonetheless a number of weaknesses in their theory that ultimately undermine its practical usefulness. First, their theory offers only a vague explanation for why businesspeople should embrace care ethics and a care-based stakeholder theory in managing their firms. Aside from noting that Noddings believes a caring attitude is universally accessible to human beings, Burton and Dunn offer no justification for why businesspeople should conduct their operations in a caring manner. Secondly, although Burton and Dunn suggest that businesspeople should privilege their close relations, they do not very clearly define what they mean by a "close relationship." At one point, they do write that a close relationship is one based on "trust, experience, and mutual accommodation over the years" (144). But these characteristics provide only loose criteria for determining which stakeholder interests should be prioritized. Thirdly, Burton and Dunn's relationship rule seems an overly blunt instrument for guiding many management decisions. Burton and Dunn suggest that we should give our business "to the supplier with whom we have a close relationship—a relationship built upon trust, experience, and mutual accommodation over the years" (144). Presumably, this rule would hold even if another supplier were to offer us a higher quality product at a significantly lower price. But this is problematic. Maintaining our relationship with the existing supplier in this case might mean lower profits for our stockholders, lower wages for our workers, and lower quality products for our consumers. In fact, this principle could easily become a justification for cronyism. At the very least, then, a more nuanced account of a firm's different obligations to different stakeholders seems necessary for developing a more viable care-based stakeholder theory. Finally, Burton and Dunn do not clearly define the idea of the "least advantaged" stakeholder. In discussing the case of the hazardous materials, Burton and Dunn simply assert that workers in less developed countries are the least advantaged stakeholders and thus should be given special consideration. Yet, we are never told why exactly these workers are the least advantaged. Surely it would be disadvantageous for these individuals to work with hazardous materials under unsafe conditions, but it might also be disadvantageous for the firm's stockholders, employees, and customers if the firm were to dispose of these materials at home. Suppose, for example, the firm could safely dispose of the hazardous materials at home but, because of the costs involved, would have to lay-off ten workers from their jobs. Who, then, is the least advantaged stakeholder? Both the firm's employees and the foreign workers have much to lose. Burton and Dunn fail to give any indication of the criteria that managers should use to identify the least advantaged stakeholder, and consequently leave a key concept in their theory undefined.

Care Ethics Revised

Many of the problems with Burton and Dunn's care-based stakeholder theory can be traced back to their definition of care ethics. When Burton and Dunn published their article, care ethics was still a relatively new theory, and Gilligan's and Noddings' approaches to care ethics still dominated the field. As numerous critics have noted, however, Gilligan's and Noddings' early definitions of care ethics were ambiguous.[4] They did not provide a very clear definition of what it means to care for others, offer plain criteria for distinguishing good forms of care from bad, or indicate explicitly which relationships generate responsibilities to care and which do not. Some of this ambiguity underlies Burton and Dunn's theory as well.

Since the mid-1990s, numerous theorists have developed more rigorous definitions of care ethics that largely avoid these problems (Bubeck 1995; Clement 1996; Engster 2007; Fineman 2004; Held 2006; Kittay 1998; Noddings 2002; Slote 2001, 2007; Tronto 1993; Walker 1998; White 2000). While there is still no single universally agreed upon definition of care ethics, there is a good deal of consensus about its core aims. When we care for individuals, we usually aim to help them to meet their basic needs, develop or maintain their basic capabilities, or alleviate their pain and suffering (Engster 2007, 21–36). A number of activities that are usually understood as caring, including parenting, teaching, nursing, counseling, and elder care, all pursue these goals. Since the precise nature of an individual's needs usually vary from person to person, situation to situation, care theorists further emphasize the importance of attentiveness, responsiveness, and respect in caring for others. Unless we attend to the particular circumstances of others, respond to their particular needs and preferences, and show them some respect, we usually will not be able to care for them effectively. Most generally, then, care ethics may be defined as a theory that associates moral action with meeting the needs, fostering the capabilities, and alleviating the pain and suffering of individuals in attentive, responsive, and respectful ways.

In addition to more clearly defining the aims and virtues of care ethics, recent care theorists have also identified some principles for the distribution of care (Engster 2007; Friedman 1993; Held 2006). Since we cannot care equally for everyone, care ethics must be able to identify some priority rules for determining how we should distribute our always limited caring resources (time, energy, money, etc.). Without some priority rules, care ethics would collapse into a general exhortation for everyone to care for everyone, and hence lose any specific action-guiding value. Burton and Dunn touch upon this point in explaining how managers should address conflicts among stakeholders, but as noted above do not very fully develop any distributional guidelines. Based on the definition of care ethics offered above, three guidelines can be identified for the distribution of resources:

(1) *The proximity principle*: We are generally justified in (a) caring for ourselves before others; (b) caring for individuals who are geographically and temporally close to us before those who are far away; and (c) caring for individuals in our own culture or state before those in foreign cultures or states (Engster 2007). The justification for this principle follows from the notion that we should

[4]For other criticisms of Gilligan's and Noddings' early theories, see Bubeck (1995), Card (1990), Flanagan and Adler (1983), Goodin (1996), Tronto (1993).

generally aim to put our always limited caring resources to the best possible use. Since we can attend more directly to individuals who are close to us and usually have a better understanding of their circumstances, customs, and needs, we can usually care better for them than for distant others. Our limited resources are therefore usually best used in caring for individuals who are in some way close to us before attempting to care for distant others.

(2) *The relational principle*: We are usually justified in caring for individuals with whom we have a close personal relationship over others. Burton and Dunn also appeal to this relational principle but do not very clearly define it. Although there is no simple way to define a "close relationship," one relevant criterion rooted in the definition of care ethics provided above is the dependency of one party on the other for his or her survival and functioning, particularly when the dominant party bears some responsibility for the other's dependency. Parents have a close relationship with their children and special responsibilities toward them in part because their children are radically dependent on them. When parents take children under their direct care, they further signal to others that they will meet their children's needs so that others need not concern themselves directly with them. Parents thus have an obligation to give priority to their children's needs before others because if they do not do so there is a high probability their needs will not be met. The parent-child relationship represents, of course, only one form of close relationship. Close relationships can also be forged through friendship, pledges, contracts, and so forth. What makes a close relationship especially morally salient from the perspective of care ethics, however, is one party's dependency on the other for meeting his or her survival and developmental needs. These sorts of close relationships deserve priority under care ethics because they are so closely tied up with the goals of caring itself.

(3) *The urgency principle*: We are also justified in caring for those individuals who have more urgent needs over those with less urgent needs. The urgency of a need can be judged by the effect that meeting or not meeting it would have on a person's survival and functioning. If a person is likely to die or have his or her life blighted without our help, he or she may be judged to have a particularly urgent need. In expending our caring resources, we should thus consider how grave or urgent the different needs of different individuals are, and give some priority to the needs of those individuals who will not survive or function without our care. Even though parents have special responsibilities to meet their own children's needs, for example, they would be justified or even morally required by care ethics to temporarily set aside some educational activity that they were engaged in with their own child for the sake of saving another child from drowning.[5]

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[5] While each of the distributional guidelines outlined above indicates when it is permissible to favor one individual or group over others, they cumulatively generate binding obligations. The combination of proximity and relationality, proximity and urgency, or relationality and urgency usually places an obligation on individuals to meet an individual's or group's needs before attempting to care for others.

The three priority rules will often pull us in different directions. We might find ourselves conflicted about whether we should devote our caring resources to individuals in our local community, helping a close relation in need who now lives far away from us, or meeting the urgent needs of a distant stranger. Much here depends upon the particular details of the situation, and there may not always be one best solution. The above principles nonetheless do provide some guidance and justification for the distribution of our care resources. We are, for example, justified in meeting (or even obligated to meet) the urgent needs of a close relation or someone in close proximity to us before attempting to address the urgent needs of distant others (Engster 2007, 54–64).

Care Ethics and Stakeholder Theory: Revised

The account of care ethics outlined above can support a stronger and clearer account of a care-based stakeholder theory in a number of ways. To begin with, the revised account of care ethics provides a stronger philosophical justification for why businesspeople should orient their business practices and decisions around care ethics. Most generally, the moral and social value of business activity, including productive work, may be said to stem from the support it provides to human life. We farm, mine, manufacture, transport, and buy and sell goods most fundamentally in order to produce and obtain the goods necessary for our survival and functioning. Caring, in turn, is the activity that we engage in when we put the goods generated and obtained through business activity directly to use to support human survival and functioning. As defined above, caring includes all those activities that we engage in to directly meet the basic needs, develop the basic capabilities, or alleviate the pain and suffering of individuals. When we use food products to meet our needs for nourishment, use clothes products to cover and protect ourselves and others, or use books or educational products to develop our own capabilities or those of others, we are caring for ourselves and others. The moral and social ends of business activity and productive work are thus mediated by care. Care translates the products of business activity into usable goods that can support human life and functioning. As such, the most fundamental moral and social purpose of business activity may be said to lie in supporting care (Engster 2007, 119–127). Inasmuch as business activity supports the ability of human beings to care for themselves and others, it helps to sustain human life and society and may be considered good. Inasmuch as business activity undermines or impedes the ability of individuals to care for themselves and others, it thwarts human survival and reproduction and may be considered bad.

The intimate connection between productive work and caregiving provides one reason why businesspeople should consider the impact of their activities on the ability of people to care. If the fundamental moral and social purpose of business activity is to support caregiving, then it would seem wrong by the moral and social logic of business activity itself to engage in activities that controvert this goal. When business practices thwart caregiving, they undermine their own internal moral and social justification. Even worse, they corrode the basic social practices and relationships necessary for the reproduction of human life, society, and business activity itself. It might be claimed that businesspeople can best support caregiving by single-mindedly pursuing their own self-interest and profits, since such activity will ultimately generate the greatest supply of goods for caring. Given the distributional principles outlined above, however, we are generally required to care for those who are in close proximity to us or directly dependent on us before concerning ourselves with distant or abstract others. When the pursuit of profits and production of goods directly interferes with the abilities of individuals who are close to us or dependent on us to care for themselves and others, it violates caring values. In order for business activity to fulfill its fundamental social and moral purposes, businesspeople thus need to take account of the impact of their actions and policies on the ability of individuals who are most directly affected by them to care for themselves and others. Business practices that lose touch with this goal can be rightly condemned as immoral and antisocial.

In addition to providing a stronger justification for a care-based stakeholder theory, the revised account of care ethics can also provide a clearer definition of who should count as a stakeholder. Burton and Dunn say very little about how we should determine who counts as a stakeholder. For the most part, they simply take over from other stakeholder theories the standard list of stakeholder groups: stockholders, employees, the local community, customers, suppliers, and others. Standard stakeholder theories, in turn, tend to define stakeholders very broadly. Freeman (1984), for example, originally defined a stakeholder as "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose" (vi, 46). Based on this definition, he included government regulatory agencies, the media, public interest groups, and others as possible stakeholders in firms. The revised account of care ethics provides sharper focus to the definition of stakeholders. Given the definition of care outlined above, stakeholders may be defined as any groups or individuals whose ability to care for themselves or others is directly dependent upon a firm's actions or decisions. The media, government agencies, and other groups who are sometimes included in lists of stakeholders thus fall out of this definition. Care ethics directs managers to give their attention strictly to groups and individuals whose capacities for care are in some way directly tied up with their firms' activities.

Among traditional stakeholder groups, care ethics thus identifies two groups as deserving special moral consideration: stockholders and employees. Both groups are privileged in a care-based stakeholder theory because both are directly dependent on firms for the resources necessary to care. The stockholder-firm relationship is based on an explicit agreement whereby the stockholder provides the firm with capital (or more usually takes over the capital loan from another party) in exchange for a fair return on his or her investment. The firm's special obligation to stockholders stems in part from this agreement, which establishes the terms of their relationship, but more basically from the stockholders' dependence on the firm for financial resources. While few investors would go hungry without a significant annual return on investment from any particular firm, many people do depend on their investments in general for a significant share of their income or as insurance in case of emergencies. Many people also have pension funds and personal retirement accounts that are heavily invested in stocks, and most of these individuals will eventually depend on their investments to support themselves during old age, sickness, injury, and other periods of need. Care ethics thus suggests that managers generally should give some priority to stockholder interests in making corporate decisions because stockholders depend on their firms for the resources necessary to support their care.

The employee-firm relationship is also based on an explicit contract: the firm agrees to pay an employee a certain amount of money in exchange for a certain amount and type of labor. From the perspective of care ethics, however, the employee-firm contract implies more than just a voluntary exchange of wages for labor. A number of other responsibilities are implicit in it. First, firms have a responsibility to provide their workers with a safe and healthy workplace environment, meaning that workers should not be exposed to unnecessary or unreasonable risks or harm in carrying out their work responsibilities. Free market advocates sometimes argue that any worker who finds the health or safety conditions of a particular workplace inadequate should look for another job. The ethical grounding for this position is, however, highly dubious. It abstracts economic activity from its most fundamental purpose: provisioning for human life. It further assumes a degree of freedom, voluntariness, and information on the part of workers that they often lack. Care ethics suggests that firms have a duty to make sure that their work processes and conditions meet high health and safety standards on the grounds that any work processes or conditions that unnecessarily or unreasonably endanger the lives or health of their workers are contrary to the fundamental normative purposes of business activity. The only case where some dangerous or unhealthy productive activity might be tolerated is when it is absolutely necessary to support caregiving, and even then, every reasonable precaution should be taken to protect the workers.

Care ethics further suggests that employers have an obligation to pay their workers at least a living wage, meaning a wage sufficient to meet their basic needs and sustain their functioning. Work that does not pay even a living wage falls short of the fundamental purpose for which work exists, and thus may be seen as immoral and antisocial. Employers should likewise make sure that their workers have adequate time to care for themselves and others by setting reasonable limits on daily and weekly work hours, not requiring overtime, providing workers with vacations, and offering a number of paid sick days each year. If workers lack the opportunity to care adequately for themselves and others, the ultimate purpose of productive work is once again undermined. Finally, a caring firm should foster a work environment that allows workers to exercise their basic capabilities for reason, imagination, communication, and sociability, and avoid assigning mind-numbing or back-breaking work that erodes workers' basic capabilities. While some theorists (O'Brien 2005) have gone further and argued that care ethics requires establishing a system of worker ownership and control over the workplace, this reform would appear to be neither necessary nor sufficient to achieving the goals of a caring workplace. Caring managers can create conditions for meaningful work outside a system of worker control, and worker control does not necessarily guarantee that workers will implement workplace reforms that will enrich production methods. Managers nonetheless should do what they can to enhance the nature of work for their employees within the constraints of their work processes.

Any further responsibilities that firms may have toward their employees depend on a number of circumstantial factors, such as the amount of time an employee has worked for a firm and the nature or an employee's work. These factors determine the closeness of the relationship between the firm and an employee, and thus the responsibility of the firm to the employee. Individuals who have worked for the same firm for a long period of time or developed specialized skills for a highly specific job may find it difficult to find another job. A firm has special obligations to look after these workers' job security because they are highly dependent on the firm for their livelihoods and the firm is at least partially responsible for this dependency—via the type of work it has assigned them and the length of time it has employed them. This does not mean that firms can never legitimately fire or lay-off workers. It means only that the more dependent a worker has become on a particular firm for a job, the greater the firm's responsibility to retain the employee or help him or her to find another job.

While firms generally have the strongest responsibilities to stockholders and employees, they also have some important but more limited responsibilities toward two other stakeholder groups: the local community and customers. Much of a firm's impact on the local community will take place through its relations with its employees. Yet, firms also some moral responsibilities to members of the local community based on their close proximity to the firm. For example, firms can have a significant impact on the survival and functioning of individuals in surrounding communities through their environmental practices. Harmful emissions or waste materials can cause birth defects, sickness, and death. Just as firms have a responsibility under care ethics to look after their workers' health and safety, so they also have a responsibility to make sure their production or disposal methods do not negatively impact the health and safety of community members. Production methods that cause sickness and death once again violate the basic purposes for which business activity exists. When local communities invest significant public resources in firms—by building access roads, providing free land, offering tax incentives or exemptions—firms may also be said to have a close relationship with the communities similar to their relationship with stockholders. At least until they have repaid the communities' investment, these firms have strong responsibilities to consider the local community's interests in making business decisions.

The main responsibility that firms have to their customers is to provide them with safe and reliable products or services and truthful information. When customers buy a product or service, they can generally be expected to understand the main trade-offs involved: a small, cheap car is likely to be more fuel efficient but less safe than a bulky, four-door model. It is not the firm's responsibility to dictate to consumers what they should want based on some preconceived idea of what is best for them, but rather to respond to their preferences and needs. It is nonetheless incumbent upon firms to provide accurate information to customers about their products or services and to make sure their products and services meet at least minimal safety requirements and do not have any hidden dangers or flaws. Marketing a dangerous or flawed product can inflict harm or death on consumers or cause them serious inconvenience and loss. A caring firm will therefore be forthcoming about the products and services they offer and produce and sell only goods that are reasonably safe and reliable.

Most stakeholder theories suggest that firms have responsibilities to a number of other groups. Burton and Dunn particularly focus on the responsibilities that firms have toward their suppliers, but the grounds for this special relationship seem questionable. A firm stands in relation to its suppliers much as a customer stands in relation to a firm. The firm no doubt depends upon its customers for its continued existence and success, but this does not obligate customers to continue buying from it. Customers have much stronger obligations to care for themselves, their families, their friends, and others than they have to continue buying any product from any firm, and may in any case come to regard a particular product or service as unsuitable to their needs because of quality, price, or personal tastes. The same considerations apply to the relation between a firm and its suppliers. If a firm can buy better quality or lower priced goods from a new supplier, it would seem permissible, and perhaps even obligatory, for it to do so given its stronger obligations to its stockholders, employees, and customers. There may be exceptions to this general rule. If a firm has taken actions to make a particular supplier highly dependent on it for its survival by pledging, for example, to continue buying a certain product for some number of years, then it would bear some special responsibility to continue to buy goods or services from this supplier and phase out its relationship only over time. In most cases, though, firms may be said to have only weak responsibilities to their suppliers that are usually trumped by their much stronger obligations to stockholders, employees, customers, and local community members.

An interesting question arises as to whether competitor firms should be considered stakeholders. One firm certainly can affect the sustainability and success of competitor firms through its decisions and actions. However, competitor firms are not directly dependent upon one another, but instead rivals for market share and goods. Moreover, based on the relationship principle outlined above, the managers of a firm always have much stronger responsibilities to their own stockholders, employees, local communities, and customers than to other firms. Indeed, in a competitive market system, the primary responsibility of all managers is to promote the success and profitability of their own firms.[6] If the firm fails, its stockholders, employees, and others may all face difficulties in obtaining the recourses necessary to care for themselves and their dependents. Managers nonetheless do have some general responsibilities to competitor firms. Inasmuch as a competitive market system can be justified under care ethics, it is because the market represents an efficient and flexible system for the production and distribution of goods and services necessary for care. Managers are therefore under a general obligation

[6]I discuss elsewhere the question of whether a competitive market is consistent with care ethics (Engster 2007, 134–140).

to avoid illegal or unfair business practices (e.g., collusion, sabotage) that might undermine fair market competition.

Firms have one other important general responsibility under a care-based stakeholder theory. Although firms need not continue purchasing goods or services from existing suppliers, they nonetheless do have a responsibility to ensure that whichever suppliers they purchase goods or services from follow at least minimally caring business practices. When a firm purchases products or services from a supplier, it becomes partially responsible for, or complicit in, the employment, safety, and environmental practices of the firm. In effect, it becomes the indirect manager of these firms. Consistent with the aims and values of care ethics, firms therefore have some responsibility to make sure their suppliers act responsibly toward their employees and local communities in the areas of worker health and safety, wages, and responsible environmental practices. Burton and Dunn propose the notion of the least advantaged stakeholder to explain why it is wrong for managers to contract out work to firms that exploit their workers or expose them to harm, but one need not resort to this special principle to reach the same conclusion. Even if a firm does not directly oversee the work processes of its suppliers or partners, it is still responsible in part for their workplace and environmental practices. Contracting with a firm that exploits its workers or exposes them to unhealthy work conditions is wrong for the same reasons it is wrong to treat one's own workers in this way.

While the above discussion provides a sharper focus for stakeholder theory, some key issues still remain to be clarified. In particular, there still remains the question of how firms should deal with conflicts among stakeholder interests. Which specific stakeholder interests should have the highest priority when there are conflicts among them? As a general rule, managers should orient their decisions around protecting and promoting the success and continuation of their firms. If the firm fails, stockholders lose their investments, workers lose their jobs, the local community loses a source of employment, and so forth. Thus, the goal of staying in business has high priority. As long as this first goal can be met, firms should aim to balance the interests of their main stakeholders: providing fair returns to their stockholders; guaranteeing their workers a safe and healthy work environment, a living wage, and adequate time to care for themselves and their dependents; making sure production methods and emissions meet safe environmental and health standards; offering consumers a reasonably safe and reliable product or service; and buying products and services only from suppliers that conduct their businesses in reasonably caring ways. When conflicts arise among these different interests, care ethics dictates that the highest priority be given to the health and safety of employees, community members, customers, and others. Indeed, these interests trump even the importance of the firm's survival. Since the firm exists at root to promote the survival, health, and functioning of its stakeholders, any action that directly infringes on these goods falls outside the scope of moral business activity. While a strong commitment to worker health and safety and high environmental standards may result in lesser profits for investors and possibly even the loss of jobs for some workers, individuals are likely to suffer much greater and immediate threats to their survival and functioning when health, safety, and environmental standards are compromised.

For similar reasons, if managers must choose between cutting jobs or reducing profits, they should generally favor jobs over profits, at least in the short term. Even though stockholders depend on their investments to support themselves, workers are usually much more dependent on the income from their jobs to support themselves and their dependents. There are, however, obvious limits to this policy. Over the long term, a manager who consistently favored jobs over profits would likely endanger his or her own job and perhaps the solvency of the firm. Thus, when some cuts are necessary, managers should resort to the "rule of consensus" discussed by Burton and Dunn (1996, 142). The rule of consensus has two elements: (1) managers should try to find solutions to stakeholder conflicts that are acceptable to all; and (2) managers should communicate with stakeholders both by explaining proposed solutions to them and soliciting alternative proposals from them. Suppose, for example, a firm is losing money in part because of high payroll costs. The best solution would be to increase productivity and profits without job or pay cuts (Bulger and Gessner 2001).[7] Alternatively, managers might consider gradually reducing payroll costs by leaving jobs vacant after employees voluntarily leave or retire. If more immediate or radical cuts are required, managers might propose a variety of options to workers in an effort to retain jobs: pay reductions, pay freezes, shorter work hours or weeks, job sharing, voluntary leaves of absence, or early retirement programs. They might also see if the workers have any cost-cutting proposals of their own. Finally, if layoffs are unavoidable, managers should follow the relationship principle outlined above. If an employee is essential to a firm's success, he or she would have to be retained regardless of age or experience. Otherwise, managers should try to protect the jobs of individuals who might have difficulty finding work elsewhere or transferring their skills to a new firm.

The Value of a Care-Based Stakeholder Theory

The care-based stakeholder theory outlined above leaves a number of questions unanswered. What exactly is a fair return on investment for stockholders? What are reasonable standards of workplace health and safety? These are important questions that unfortunately cannot be addressed here. Another set of questions relates to the sorts of benefits a firm should provide to its employees: Do firms have a responsibility to provide their employees with health insurance, pension programs, and paid parental leaves? Ultimately, I think these sorts of programs are best supported by the state rather than individual businesses. However, I cannot pursue this argument here.[8]

My goal in this chapter has been to develop a care-based stakeholder theory that can clarify in general terms what it means for a firm to conduct business in a caring

[7] A number of the following solutions are taken from Bulger and Gessner (2001).

[8] Requiring businesses to pay the costs of these programs for their employees unfairly burdens them with a general social responsibility and further provides a disincentive to hire new employees.

way. While my theory incorporates insights from Burton and Dunn's discussion of care ethics and stakeholder theory, I have extended their argument in several ways. In particular, I have provided a stronger explanation for why managers should consider the impact of their business decisions on their stakeholders, offered a narrower and more concrete definition of who should count as a stakeholder, discussed the precise nature of a firm's obligations to different stakeholders, and outlined some rules for prioritizing stakeholder interests. In this way, I hope to have provided a more practically-useful and applicable set of ethical guidelines for managers interested in conducting their firms' activities according to care ethics.

Beyond just elaborating a clearer care-based stakeholder theory, my argument also contributes to the general literature on stakeholder theory in a number of ways. One important weakness of traditional stakeholder theories based in Kantian, utilitarian, or other traditional moral principles is that they do not provide any rationale based in business affairs themselves for why managers should conduct their affairs according to stakeholder guidelines. If a manager is a confirmed Kantian or utilitarian, then he or she might be persuaded to follow stakeholder ideals; otherwise not. Care ethics provides a justification for stakeholder theory rooted in the moral and social aims of business activity itself. The most fundamental aim of business activity is to generate the resources necessary to supporting caregiving. Managers should therefore pay attention to the effects of their actions on their stakeholder's ability to care for themselves and others because the moral and social integrity of business activity itself depends on it. While this argument may not convince all businesspeople to conduct their affairs according to stakeholder theory, it at least engages them on their own terms to a far greater degree than Kantian or utilitarian principles do.

Existing stakeholder theories also have suffered from the lack of a clear account of who should count as a stakeholder and how different stakeholder interests should be ranked. Many definitions of stakeholders (e.g., those of Freeman) tend to be very broad, and most stakeholder theories offer little guidance about which stakeholder interests should matter most. This has led to a common misunderstanding about stakeholder theory. Many critics have argued that stakeholder theory demands that managers should treat all stakeholder interests equally and impartially, which in most cases is both impossible and undesirable (Friedman and Miles 2006, 61; Hasnas 1998; Humber 2001, 116; Marcoux 2003, 126). The care-based stakeholder theory outlined above provides clearer guidelines on who should count as stakeholders and which stakeholder interests are most important. Individuals or groups are considered stakeholders in this theory if their ability to care for themselves and others, survive and function, is directly dependent on or tied up with firm decisions. A stakeholder's dependency can be gauged, in turn, by their proximity to the firm, the closeness of their relationship with the firm, and the urgency of their claims. Thus, the interests of stockholders and employees are generally more important than those of other stakeholders, but the urgency associated with the health and safety of workers, customers, and other individuals means that these interests should always receive the highest priority.

Finally, traditional stakeholder theories have been criticized for being unrealistic. Critics have charged that existing stakeholder theories fail to give sufficient attention to the firm's goals of making profits and providing investors with fair returns on their investments (Goodpaster 1991; Hasnas 1998; Marcoux 2003). As a result, they claim that stakeholder theory does not give adequate attention to the practical constraints that most managers labor under in a competitive capitalist system. A care-based stakeholder theory is more sensitive to these concerns. As emphasized above, one of the central responsibilities of managers under a care-based theory is to ensure the firm's continued survival and prosperity. One of the manager's main priorities further consists of providing investors with a fair return on investments. These responsibilities do not override all others. Managers would be remiss if they approved the sale of defective products or neglected health and safety standards in order to increase profits or generate higher dividends. But traditional business goals do find a central place in a care-based stakeholder theory. In fact, care ethics does not see the traditional goals of business activity as necessarily opposed to its own concerns, but rather as supportive of them. Business pursuits must succeed in order for care to flourish. Managers simply need to keep in mind the ultimate moral and social purposes of their activities.

Burton and Dunn took some important initial steps toward developing a care-based stakeholder theory. My goal in this chapter has been much the same as theirs: to offer a care-based stakeholder theory that can serve as "a viable option for those managers interested in operating according to moral principles" (134). To this end, I have offered a fuller justification of a care-based stakeholder theory and provided clearer guidelines for business decision-making. Most generally, I have attempted to demonstrate that business practices and care activities are not nearly as opposed as one might initially suppose. In the final analysis, there is no deep conflict between business success and care ethics. Real business success involves contributing to and supporting the caring activities that sustain and propagate human life. A care-based stakeholder theory can provide managers with the ethical guidelines for achieving just this sort of morally and socially responsible business success.

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