The Common Good, Stakeholder Theory And The Theory Of The Firm

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EXTENDED ABSTRACT

The common good theory was presented in Argandoña (1998) as a possible foundation of the stakeholder theory. Since then, a number of papers have discussed the common good of the firm but usually they do not relate this concept to the stakeholder theory (Alford and Naughton 2001, 2002; Alford and Shcherbinina (2008), Clarke and Lyons 2007, Gates 2002, Kennedy 2007, Koslowski 2002, 2006, McCall 2010, Melé 2002, Naughton 2004, Naughton et al 1995, Sison and Fontrodona 2008). And as far as I know nobody has developed the relationship between common good and stakeholder theory.

My 1998 article attempted to offer an ethical foundation for the stakeholder theory, and I still think that the theory of the common good can be that good foundation. But the thesis of this paper goes further away: I propose that the concept of common good is also an appropriate basis for the stakeholder theory as a theory of the management or governance of the firm. This means that those who have authority in a company should exercise this authority for the common good of the company, not just for the individual interest of some stakeholders, be they shareholders, managers, employees, bondholders or clients. And this is the ultimate definition of the task of the managers.

This is not a novelty for those that propose that a firm should be managed not only for the interest of the shareholders, but also for that of different stakeholders. But the common good theory adds at least three points to the stakeholder management theory (Argandoña 2011c). And the development of these three points will be the core of this proposed paper.

The first point is a discussion of what is the “good” of the company, as different from the “interest” and even the “good” of its members, the stakeholders. What does it mean that a firm has a “common good”? Which is the “common good” of a firm? Why should its managers and even all of its members aim to attain this common good? Is this something different from the personal interests of the stakeholders – the profits of the shareholders, the wages and salaries of the employees, the prices and quality of the goods bought by the consumers, the contribution of the company to the GDP, etc.? Is the common good of the company something opposite of the interests of the stakeholders? (Argandoña 2009, 2011a).
The second point that the theory of the common good adds to the stakeholder theory of management is a broader concept of the firm. If it is a nexus of contracts, or a vehicle for the joint ownership of a pool of economic assets, the “good” of the company should be the good of the owners of those assets or of those who sign the contracts, and there can be no “common good” in which all the stakeholders must agree. But if the firm is a community or a society of persons, then they need to agree on something that is “good” for all of them, not in general but as they participate in the common activities of the firm, i.e. as far as they are stakeholders of the company.

And this gets us to the third dimension that the theory of the common good adds to the theory of the firm: a discussion of the role of the managers of the company and, in the last analysis, a number of insights about what does it mean to “manage” a corporation (Argandoña 2011b). If the company is a community of agents who have personal interests, but that also look for a common good, the role of the manager should be related to the coordination of all of them – because the common good is “produced” through a communal action. To manage a firm must be the coordination of those personal motivations and interests (that probably are mutually opposite or at least problematic) with the common good of the company, that is that the good that all the stakeholders should attempt because it is what they are collectively looking for when they participate in the company. This is an infrequent way to define what it means to manage a company.

And it is also a good basis for the discussion of many issues relevant for the task of the managers. For example, which criteria should be applied to the solution of conflicts among stakeholders, when there is a common good that all should take into account? Which should be the proportion between what each stakeholder contributes to the firm and what she receives from it? What does it mean that a company should provide value for all its stakeholders? How is the common good of the company related to the common good of society? (This question is related to the definition of the corporate social responsibility of the organization). Is there an act of “production” of the common good and an act of “consumption” of it, or are they one and the same act? Which is the “fair” participation of each stakeholder in the common good?
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Abstract

Argandoña (1998) suggested that the theory of the common good could be a good basis for an ethical stakeholder theory. This paper builds on that suggestion, starting from the concept of the common good in the philosophical tradition of Aristotle and Thomas Aquinas, but applied not to the polis in general but to a particular human community such as the company. The Aristotelian concept of “good” serves to introduce the variety of goods that people seek in organizations, the goods that are created in organizations, and how those goods satisfy those people’s desires and expectations. The result is a view of stakeholder theory that is an ethical theory, a theory of the firm, and a theory of management.

Keywords: Common good, Company, Ethics, Goods, Management, Stakeholders, Stakeholder theory, Theory of the firm.

Introduction

Stakeholder theory has been the object of many interpretations. Initially, it was a strategic management theory (Freeman 1984), which said that companies must be managed in accordance with the interests not of their shareholders but of their stakeholders. The reasons for this were probably pragmatic, in that profits are likely to be higher if the needs of the people or groups that can have an impact on the company’s efficiency are met. However, this reduced stakeholder theory to an enlightened version of profit maximization for shareholders (Jensen 2002; cf. Alford 2007).

1 This study is part of the work of the “la Caixa” Chair of Corporate Social Responsibility and Corporate Governance at IESE Business School.
The alternative was to add social or moral reasons why management should not be oriented exclusively toward profit. Stakeholder theory thus became a theory of ethical business management (Phillips et al. 2003): the best way to manage a company was to maximize value for all stakeholders, beyond the remuneration negotiated in the various factor markets. This could not take us very far, though, unless sufficient ethical foundations were provided. Accordingly, various ethical interpretations of stakeholder theory started to appear.

One such interpretation was the theory of the common good (Argandoña 1998), a concept of social and political ethics developed centuries ago (Argandoña 2011a), applied mainly to civil society (the polis) but also, though to a lesser extent, to other communities (Kennedy 2006). As far as I can tell, there have been no direct criticisms of the attempt to found stakeholder theory on the theory of the common good. Various authors have discussed the common good of the company. Some have even proposed it as an alternative to the theory of profit maximization for shareholders (Alford and Naughton 2001, 2002; Alford and Scherberbinina 2008, 2009a,b; Argandoña 2009; Arjoon 2000; Clarke and Lyons 2007; Fontrodona and Sison 2007; Gates 2002; Kennedy 2006, 2007; Koslowski 2002, 2006; McCall 2011; Melé 2002; Naughton 2004; Naughton et al. 1995; O’Brien 2008; Sison and Fontrodona 2008). None of them, however, relates the concept of the common good to stakeholder theory. Moreover, there is no lack of criticism of the ethical foundations of stakeholder theory, suggesting that the common good theory and the stakeholder theory are incompatible.

The “common good” is a term widely used by social scientists, policymakers and communicators in the field of social and political philosophy. Nowadays, however, it is almost always a rhetorical concept and is identified with some form of “common interest” shared by the members of a community. As such it is readily accepted, but of no use as the foundation for a theory of the governance of a community. What we are proposing here is a stricter concept, in accordance with the anthropology of Aristotle (1984) and Thomas Aquinas (1981, 1997), which was maintained in Catholic social teaching (Pontifical Council of Justice and Peace 2004, no. 160) and was recovered in the last century, mainly by the contributions of Jacques Maritain (1966), among others.

This article thus revisits the thesis that “the theory of the common good offers a sufficiently solid basis for stakeholder theory” (Argandoña 1998, 1100). My purpose here, though, is not

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2 The term “theory” is not entirely appropriate in relation to the common good. The concept of common good has given rise to various theories, not all of which agree with one another (Argandoña 2011a). What I here call the “theory” of the common good is more properly described as a conception of man which is richer than the one that underlies the usual theories of human behavior, society, organizations and the economy and which therefore is capable of sustaining a critique of those theories and a proposal for revising them.

3 Cf. brief mentions to the common good theory in Freeman et al. (2010), Garriga and Melé (2004), Phillips (2003), Phillips et al. (2003), Rusconi (2007), among others.

4 For example, Alford (2007) criticizes the deontological (Freeman and Gilbert 1988) and social contract (Donaldson and Dunfee 1994) approaches.

to evangelize in favor of this thesis. I simply think that the theory of the common good offers a good basis on which to build a theory of the firm that will mesh well with stakeholder theory. Or rather, the other way around: stakeholder theory may be a way of making operational a richer concept of the firm, based on the common good, than the one provided in many textbooks. In short, the theory of the common good invites us to interpret stakeholder theory in three relatively new ways (Argandoña 2011c):

1) A view of the firm as a community of persons who unite to achieve personal goals that converge in a common good which they must pursue jointly: something that is “good” for all of them precisely as stakeholders of the firm.

2) A view of what is “good” for the firm, which will be distinct from the interests of the firm’s stakeholders (profits for shareholders, pay and employment security for workers, quality goods for consumers, etc.), but which will also be a good for them as stakeholders of the firm.

3) A view of what it means to “manage” a company (Argandoña 2011b), which will have to do with coordinating the stakeholders’ personal interests in order to achieve the good that is common to all, which is “produced” through communal action and in which all the stakeholders give and receive.

In the following section we present a theory of the “goods” – private and common – that are “produced” and “consumed” in an organization in order to identify “the” common good of the organization. After that we introduce the concept of the common good as the guiding principle of stakeholder theory, ending with the conclusions.

The company seen from the perspective of the common good

An organization is “a group of people who coordinate their actions to achieve goals in which they all have an interest, albeit for different reasons” (Pérez-López 1993, 13). The building blocks of this elementary definition are: 1) the group of people, 2) the common purpose, and 3) the coordination of all their actions (the authority: Aristotle 1984).

People seek “goods”

The people who take part in (whose actions are coordinated in) an organization – who can quite properly be called “members” of the organization – can be said to be the internal stakeholders (owners, employees, managers) and some of the external stakeholders.

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6 Here we use the term organizations, without any claim to precision, to refer to what Aristotle calls “imperfect societies”, which are imperfect because they “lack internally all the means to achieve their end and are dependent on the rest of civil society to attain it” (McCall 2011, 2). They therefore include companies, but also non-profit organizations, civil and religious associations, clubs and many others.

7 “Primary stakeholders” in Clarkson’s (1995) terminology.
(investors, suppliers, some customers), at least insofar as they perform actions that need to be coordinated. As we said, what motivates these people to take part in the organization will vary widely, as they will be seeking at least three different types of “goods”:

1) “Extrinsic” goods, which may be material goods, provided by the company as compensation for their work (in the case of employees, a salary, for example); or non-material goods, such as recognition, social relationships and so on, provided by the firm or by other people in the organization.

2) “Intrinsic” goods, which are not provided directly by the company but which are generated within the employee and which can be psychological (satisfaction with the job or with the results achieved, for example) or operational (knowledge or capabilities acquired).

3) Goods intended for other people, such as satisfaction of customers’ needs, achievements of other employees, profits for shareholders, etc. When an agent procures such goods for other people, he is obtaining other goods for himself, namely, “transcendent” goods (so called because they extend beyond the agent who produces them). What the person obtains, in this case, is “evaluative” learning, so called because it improves his ability to evaluate his own actions, so as to ensure that they create the conditions in which his future actions produce goods for him and for others, and in which the future actions of others also are good for them in the sense of developing their moral virtues.

Clearly, what we are referring to here as “goods” are much more than what economics understands by the term. We are referring to what Aristotle calls “the good”, which he describes as “that at which all things [or all people] aim” (Aristotle 1941, 935). What is important for us is that each member of the company may seek one or other of these goods at any given time, and those goods will obviously be different for each agent, and even for the same agent at different times.

People produce and consume “goods”

In a company, goods are obtained through collaboration among the company’s members. Each member therefore helps to “produce”, “create” or “generate” goods, in a process that goes far beyond the production of economic goods.

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8 Here I follow the ideas of Juan Antonio Pérez-López (1991, 1993). Although Pérez-López did not explicitly formulate a theory of goods, his model is compatible with the one I describe here. Cf. also Argandoña (2008a,b,c, 2011c).
9 “Anything that serves as the object of intentional human action is a good, or at least an apparent good” (Kennedy 2006, 15). The good is, at the same time, the end of action: “every agent acts on account of an end, and to be an end carries the meaning of to be good” (Aquinas 1981, I-II, q. 94, art. 2).
10 In the common good literature, extrinsic goods are variously referred to as instrumental, foundational, extrinsic, proximate, etc., while intrinsic and transcendent goods are called final, excellent, intrinsic, inherent, ultimate, etc.; cf. Kennedy (2007), Alford and Naughton (2001, 2002), Yuengert (2001).
The process of producing “goods” starts with a contribution of “goods” on the part of the agents: extrinsic (labor, capital)\(^{11}\), intrinsic (knowledge, capabilities), and transcendent (moral virtues). And it ends with the production of other “goods”: extrinsic (products or services for customers), intrinsic (employee satisfaction or new knowledge and capabilities), and transcendent (ability to take account of one’s own and other people’s present and future needs, material or otherwise, i.e., moral virtues) (Argandoña 2009). Some of these goods are the result of an intentional process. Others, however, are like unexpected or unintended byproducts.

People produce “goods” because they expect to “consume”, “use”, “possess” or “enjoy” those or other "goods". From this point of view, the “goods” a person “consumes” may be “private”, or “particular”, in that they cannot be shared; or they may be “common”, in that they can be shared, at least partly\(^{12}\). This means that extrinsic goods are private (the salary received by one employee cannot be received by another); intrinsic goods can be either private (the satisfaction a person gets from his work is specific to him) or common (knowledge can be shared); and transcendent goods are always common (although it may seem as if virtues are acquired for the perfection of the agent himself, they always relate to others and have meaning in a social relationship).

When an agent seeks a good, he anticipates the satisfaction he will derive from it (Pérez-López 1991). In other words, the good the person seeks to obtain is a “potential” or “anticipated” good. What the person wants, however, is the “actual” or “realized” good, which will satisfy his need (if it is an extrinsic good) or perfect him as a person (if it is an intrinsic or transcendent good). Anticipated goods are those that move a person to act; that is, they are the basis of the person’s “motivations”\(^{13}\).

As noted earlier, however, the realized goods are quite likely not to coincide with the anticipated goods. Whatever goods a person seeks, he cannot avoid obtaining intrinsic and transcendent results, which may be positive (goods) or negative (evils: boredom, bad practices, moral vices). And as the person always seeks the good, as defined by Aristotle, some goods – and all evils – will inevitably be unintended, or unanticipated, to some extent.

In the process of producing and consuming “goods”, people learn. And their “learning” will also be a good (or an evil). Agents learn through evaluating extrinsic goods. But, above all, they learn through evaluating intrinsic goods (operational learning) and, even more, transcendent goods (evaluative learning). Furthermore, an agent’s actions give rise to learning in other agents. And all this influences the future decisions of all those involved. Therefore, if an agent wishes to obtain certain goods now without limiting his ability to obtain goods in the future, he must make decisions that provide him with those goods today without

\(^{11}\) Kennedy (2006) calls these instrumental goods, which are necessary conditions for promoting collaboration in the company, “constructive” goods.

\(^{12}\) Economics classifies goods according to other criteria, because, besides considering whether they can be shared or not, it also considers whether or not others can be excluded from enjoying them.

\(^{13}\) As there are three types of goods, extrinsic, intrinsic and transcendent, so there are three types of motivation, named likewise. Cf. Pérez-López (1991, 1993).
neglecting the learning that will make it possible (or at least not make it more difficult) for him to obtain goods in the future (Pérez-López 1991; Argandoña 2008a)

In summary, we assume that an agent (an employee, for instance) seeks one or more anticipated goods for himself or others. The expectation of obtaining the goods motivates him to act. He brings certain goods (extrinsic, intrinsic and transcendent) into play in his action, which he coordinates with the actions of other agents to produce the goods that the company will sell to its customers. As a result, the agent obtains realized goods, which may or may not coincide with the goods he expected to obtain and which will include goods (or evils) that he may not have intended or anticipated: extrinsic (other people’s gratitude, for example), intrinsic (personal satisfaction, knowledge and capabilities), and transcendent (evaluative learning or moral habits, i.e. virtues, or their opposite, vices).

Organizations produce and consume “goods”

We are assuming that the agents act in an organization, i.e., a group of people who have agreed to engage in an activity together in order to achieve outcomes which could not be achieved – or not so easily – without such collaboration. As we said earlier, the motives that lead each person to engage in this common activity (i.e., the goods that each seeks to achieve) will vary, but the people’s actions should have a “common purpose” (Pérez-López 1993, 14-15). And there will be two dimensions to this purpose: an external dimension, which will be to satisfy the needs of consumers (the “external mission”, which legitimates the company in the eyes of society, i.e., what is the company for?); and an internal dimension, which will be to satisfy the needs of the company’s members (which will constitute its “internal mission”, justifying it with regard to its members, i.e., what is company for as regards the people who work in it?) (Pérez-López 1993, 111-112).

Both dimensions are important. The external dimension provides the resources (revenue) that will enable the company to satisfy its members’ extrinsic needs (salaries, profits, etc.) while also giving meaning to their work in the organization, through the organization’s role in society. The internal dimension enables the company to meet its members’ needs for extrinsic and, above all, intrinsic and transcendent goods, thus securing their current willingness to participate and, above all, developing in them the capabilities and virtues that will enable the organization itself to develop its distinctive capabilities and survive over time.

At this point we should note that the organization, through its activity, generates both private and common goods. Private goods are necessary for the organization’s collective activity. They are the goods that justify the organization’s external mission and are also part of its internal mission insofar as they satisfy important needs of the organization’s members.

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14 Thus, the analysis of the different types of goods allows us to establish the necessary conditions for human activity not to be counterproductive or inconsistent with the development of the person and the survival and development of human organizations (Argandoña 2008b).

15 It makes no sense, therefore, to contrast private goods with common goods (Argandoña 1998) nor to describe private goods as selfish and common goods as altruistic (Alford and Naughton 2001). The private
Here, however, we would like to draw attention to the role of common goods, which are not mere byproducts because “underlying any genuine collaborative action (as opposed to an aggregate of individual actions aimed at the same good, such as a gold rush) there must be at least a potential common good” (Kennedy 2007, 173).

The following is an illustrative example of the relationship between types of goods, based on Sison and Fontrodona (2008, 9). The motivations that lead the citizens of a town to work together to build a water reservoir will probably include the desire of each citizen to ensure access for himself to the private good of water (an extrinsic good), although some may also (or even primarily) seek the benefit of their family or fellow citizens (a transcendent good). In any case, the joint action generates not only private goods for all (water), but also a set of common goods, such as the exercise of distributive justice, social harmony and a spirit of cooperation in the community. The water in the reservoir is not a private good, but a collective one (Argandoña 1998, 1096); that is, it belongs to the community. But when each citizen appropriates part of it for his own consumption, it becomes a private good, so that if the number of participants increases, each person’s share is reduced. In contrast, the common goods that are created do not diminish as the number of participants increases – although they may diminish, and even disappear, if there are disputes, enmities or injustices.

There is a “common good” of the firm

We shall use “the” common good of a company to refer to a subset of the goods generated in a company. Specifically, it is the ordered set of transcendent (virtues) and intrinsic (knowledge and capabilities) goods that are generated, voluntarily or otherwise, by all the company’s members as a result of their taking part in the company’s collective activity (subjective dimension) aimed at satisfying human needs (objective dimension), in accordance with the economic, social and moral conditions of the process, and that (at least potentially) are shared by all the members of the company (Argandoña 2009). Let’s go through this definition in more detail:

1. The common good of an organization cannot be an extrinsic good (sales, production or profits), which cannot be shared, but must be qualities or perfections that are intrinsic to the person (knowledge, capabilities and virtues).

goods must, however, be authentic human goods and must be sought by morally correct means (Kennedy 2007; Pérez-López 1993).

16 From the point of view of consumption, common goods cannot be extrinsic goods, which cannot be shared. Therefore, they must be either intrinsic or transcendent goods, i.e., perfections of the person, which the person receives precisely when he collaborates in the activity that produces them and which remain in the person, at least so long as he does not lose them. Therefore, at least potentially, they benefit everyone in the organization and may also benefit people outside the organization.

17 The economic requirements ensure that the process is efficient; the social requirements, that it is attractive to the agents involved; and the ethical requirements, that decisions are consistent (Pérez-López 1993, Argandoña 2008a,b,c).
2. Therefore, the common good of an organization is oriented to the person, not to profits, nor even to the organization: it is the common good of the organization insofar as it is a good of persons.

3. The common good, thus defined, can be a goal in itself (a final good), although usually it will be instrumental, i.e., a means of achieving some other end, such as the human development of the company’s members. Although the company deals with the good of persons, it does not deal with their “whole good”.

4. The common good of an organization is produced through communal action within the organization or in pursuit of the organization’s purpose (e.g., in interaction with its customers). What contributes to the excellence or perfection of people is their participation in the production process, the joint activity, because that is what generates the common good and perfects people.

5. This communal action should form part of the company’s principal activity. The common good cannot be peripheral, as would be philanthropy.

6. Although it takes place in the contractual exchange between the company and its members, the common good goes beyond that exchange. When we consider extrinsic goods, we always find a certain proportion between what people give and what they receive: owners, for example, will try to ensure that the final value of their property is greater than what they contributed initially, plus the opportunity cost (what they would have earned in another activity involving similar risk). Such proportionality is not necessarily to be found in intrinsic and transcendent goods, however. The common good therefore always implies, in the people who produce it, an attitude of doing something for others, of taking the needs of others into account, and of helping others to improve as people. This breaks the equivalence of value given and received and enters the “logic of gift” (Benedict XVI 2009; Argandoña forthcoming).

7. The common good of an organization is not a single good, but rather a set of goods that the company creates or makes possible. Promoting the common good in an organization does not consist of establishing a list of actions that must be taken as necessary or sufficient conditions to achieve it. What an organization can aim to do is:

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18 Material goods have an important contribution in the common good of the organization, though not as material goods as such but on account of the giving, the attitude or the relationships they entail. “Products and services ‘bring us into a relationship with other people’ (…) and can be the ‘major means of integrating us into a community, of giving us a place, status, belonging and value’. They are a means of binding us together in mutual concern and mutual service, and a crucial part of promoting and preserving the common good” (Alford and Naughton 2001, 184, quoting Ike 1986, 243-244).


20 If “the organizational common good is the promotion of all the goods necessary for integral human development in the organization” (Alford and Naughton 2001, 45), companies will be properly ordered to the common good if they promote those goods, even if they do not achieve them (e.g., because their employees, exercising their freedom, refuse to act virtuously).

21 For example, an employee may create new knowledge in the organization and benefit from it; but other employees, and perhaps even people unrelated to the company, will also benefit, and there does not have to be any remuneration for these externalities. The same occurs, with all the more reason, in the case of transcendent goods: an agent develops his virtues while working with the organization and those virtues benefit other agents, because virtues are essentially other-oriented; for the organization they are a form of “moral capital” (Sison 2003).
establish conditions in which that common good, in which all participate, can be created.  

8. Private goods must be subordinate to common goods in the sense that the loss of transcendent goods in an organization will eventually destroy its consistency and, ultimately, its ability to provide goods of any kind for its members (Pérez-López 1993; Argandoña 2008b).

9. The common good of a company does not consist of the company’s direct contribution to the common good of the whole society (Kennedy 2007, 177-178), although the goods it pursues contribute indirectly to that social good or at least they do not harm it.

10. Participating in creating the common good is to some extent a duty (and a right) of all the people in the organization.

11. The specific content of the common good of an organization at any given time does not have to be the same as that of any other organization, or of the same organization at a different time.

We could continue to clarify the concept of the common good in firms; the important thing, though, is to show how the theory of the common good helps us understand in what sense a company is a community of persons, what types of goods are created in companies, how some of those goods are common goods (which are created and shared by all), and how those goods constitute the core of the organization’s management action, as we shall see later.

The theory of the common good and stakeholder theory

If, as we suggested at the beginning, “the theory of the common good offers a sufficiently solid basis for stakeholder theory” (Argandoña 1998, 1100), what does the theory of the common good add to, or change in, the various stakeholder theories? Probably nothing definitive. Stakeholders are persons, i.e., remarkably complex beings which cannot be understood from only one point of view – although some points of view are more useful than others. Therefore, any theory of stakeholders will limit itself to reflecting certain dimensions of the (descriptive or normative) behavior of these people who are part of a company. The theory of the common good can, however, add certain aspects that help to better understand what we mean when we say that a company is a community of persons (stakeholders), or that the interest of these persons must be taken into account in managing a company.

The theory of the common good is, above all, a way of understanding the company as a community of persons who pursue different goals but work, or should work, together in a common task, which is what gives unity to what they do. These people seek “goods”, contribute “goods” for the production of other “goods”, distribute certain “private goods” among themselves, and share other “common goods”, and in this way collaborate in the

22 Just as, for instance, a manager may promote conditions under which his employees are able to acquire a virtue and yet cannot guarantee that they will do so.
production and consumption of “goods” in the company, including their participation in the “common good” of the company. And from what we said before it emerges that the word “goods” means different things in each of these phrases (and includes the concept of “evils” or “negative goods”).

If a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman 1984, 46), all those who contribute, produce, receive and share “goods” are stakeholders. This does not alter the traditional lists of those who “affect” or “are affected by” the organization, but it does make them more precise in various ways:

1) What justifies their inclusion as stakeholders are the (positive or negative) “goods” they contribute, produce, receive or share. The concept of “interests”, which is often used to describe stakeholders, is too restrictive.

2) The “goods” we are referring to are extrinsic, intrinsic and transcendent and therefore include material goods, satisfaction, learning, capabilities, values and virtues.

3) Given that the company’s members seek potential “goods”, the theory of the common good ties in with the theories of motivation in organizations. The most important thing that happens in an organization is not the pursuit or production of extrinsic goods, but the pursuit or production of intrinsic and transcendent goods. The latter are always produced, but are not always actively sought.

4) Talking about “goods”, when intrinsic and transcendent goods are included, entails using ethical categories. A stakeholder theory based on the common good is therefore an ethical theory of stakeholders and of the firm.

5) It is not only an ethical theory, though. If an organization is a community of persons who contribute “goods” in order to produce other “goods” in a coordinated manner and with a common purpose, a stakeholder theory based on the common good is also a theory of the firm – a descriptive theory of how companies are managed and a normative theory of how they must be managed.

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23 This broadens the scope of some stakeholder theories, such as those that emphasize the acquisition of competitive advantages, those based on the organization as a center of power, and libertarian theories (Garriga and Melé 2004).

24 And when they are sought consciously and voluntarily, with effort, they give rise to “positive learning”, which helps to develop the consistency of the firm (Argandoña 2008b, Pérez-López 1993).

25 But not every ethics is compatible with this way of understanding the firm. Polo (1996) points out that ethics has three facets: goods, norms and virtues. An ethical person seeks goods, observes norms and practices virtues. All three are necessary: an ethics of goods alone degenerates into hedonism; an ethics that is concerned only with norms runs the risk of ignoring inner change in people and becoming consequentialism; and an ethics that is interested only in virtues and people’s character may lose sight of the good.
6) The categories of stakeholders can now be defined in terms of the goods the stakeholders contribute and receive (for example, the “members” of the company are those who create “common goods”, which makes them more important)\textsuperscript{26}. They all therefore have “rights”, but not the same rights.

7) Stakeholders are persons “with names and faces” (McVea and Freeman 2005). The “goods” that are shared are not collective or public goods; they are not attributed to collective entities.

8) The act of creating “goods” is not separate from the act of “receiving” or “sharing”. It is a collective activity. All are responsible for creating “goods” (to differing degrees, of course): it is a shared responsibility (Argandoña 2008d).

9) From the point of view of “consumption”, private “goods” allow trade-offs between stakeholders, whereas common goods do not (Freeman et al. 2010).

10) There may be opposition between the private good of some stakeholders and that of others (a wage increase for employees vs. an increase in profits for shareholders), but not so with the common good of the company, which consists of intrinsic and transcendent goods, which contribute to the company’s goal, are shared by all (though perhaps in different proportions), develop people’s distinctive capabilities, and make it possible for the organization to survive and prosper\textsuperscript{27}.

11) If a company is a group of stakeholders or members with different interests but a common purpose, managing will consist mainly of coordinating the action of all these people in order to achieve the common purpose, which includes the “common good” of the organization\textsuperscript{28}.

12) Managing in the service of stakeholders will not mean building friendly relations with them, nor distributing extrinsic goods in accordance with some criterion of justice, but helping them to create the goods which they need as persons (not only the extrinsic goods they demand) and which the organization needs in order to ensure its survival (Pérez-López 1993).

\textsuperscript{26} This adds a new dimension to the “instrumental” classification of stakeholders according to variables such as power, legitimacy and urgency (Mitchell, Agle and Woods 1997).

\textsuperscript{27} An employee may harm the common good of the organization, its unity and its continuity, but in doing so he will harm himself as a person and, also, if he intends to stay in the company, as a member of the company.

\textsuperscript{28} And that task, in turn, breaks down into three sub-tasks: 1) operationally define the purpose, i.e., establish the results the organization must achieve through the joint action of its members; 2) structure the purpose, through which the activities that each person must perform are determined; and 3) implement the purpose, through which each person is motivated to want to do, and to effectively do, what he must do (Pérez-López 1993, 19).
13) Creating value for stakeholders means not only maximizing the creation of social value, but creating a range of “goods”, including intrinsic and transcendent goods (Argandoña 2011c).

14) Managing a company in accordance with the theory of the common good does not consist of starting from a predefined project of what is “good” for each person and for the company and then putting it into practice. Rather, it means actively seeking, in every action and every decision, what in those specific circumstances is extrinsically, intrinsically and transcendentally good for all the stakeholders, and translating it into strategies, policies, rules and cultures that are capable of continuing to achieve the good for all in the long run.

15) And as this is an open-ended task, the person who manages will have to continuously redefine that project\(^{29}\). In other words, the common good is not a restriction, imposed from outside, on what a manager must do.

Conclusions

The various theories on stakeholders are not exclusive, but focus on different aspects of the same reality: the complexity of human organizations aimed at satisfying needs and providing “goods” for persons. What we have tried to do here is once again present a stakeholder theory based on the common good (Argandoña 1998), in order to show that it can add some relevant elements to the theory of the firm and the theory and practice of management.

References


\(^{29}\) Hence the importance of the virtues, which enable the manager to understand, in each decision, what is the good and gives him the ability to do it, even though it is arduous and difficult (Argandoña 2008a,b,c; Pérez-López 1991).


Naughton , M.J., 2004, “The common good and the purpose of the firm: A critique of the shareholder and stakeholder models from the Catholic social tradition”, www.stthomas.edu/cathstudies/ faculty/Naughton/cgood.htm


THE COMMON GOOD, STAKEHOLDER THEORY AND THE THEORY OF THE FIRM

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Motivation of the paper

Stakeholder theory: strategic or ethics, positive or normative

“The theory of the common good offers a sufficiently solid basis for stakeholder theory” (Argandoña JoBE, 1998, 1100)
- The firm as a community of persons
- The good of the company vs the interests of the stakeholders
- How to manage the company?

Different points of view on the person, the company and the manager
I SEEK
Remuneration

I RECEIVE
Remuneration*

I CONTRIBUTE
Work

PRODUCTION PROCESS (firm)

CONSUMERS
Goods and services
Money
I SEEK
Remuneration
Satisfaction, operational learning
Results for other people

I CONTRIBUTE
Work
Knowledge, abilities, capacities
Virtues

I RECEIVE
Remuneration*
Satisfaction, Operational learning
Virtues

CONSUMERS
Goods and services
Money

PRODUCTION PROCESS (firm)
MEMBERS SEEK GOODS

Extrinsic (private)
Remuneration

Intrinsic (private or common)
Knowledge, capacities, satisfaction

For other people (common)

MEMBERS CONTRIBUTE GOODS

Extrinsic (private)
Labor, capital

Intrinsic (private or common)
Knowledge, capacities

Transcendent (common)
Evaluative learning: virtues

PRODUCTION PROCESS (firm)

MEMBERS RECEIVE GOODS

Extrinsic (private)
Remuneration

Intrinsic (private or common)
Knowledge, capacities, satisfaction

Transcendent (common)
Virtues

OTHER STAKEHOLDERS RECEIVE GOODS
### The process

#### COLLABORATIVE ACTION

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<th>Objective dimension: Satisfaction of needs</th>
<th>Private non-shared goods</th>
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<td>The role of the firm in society</td>
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<td>Subjective dimension: Participation in the process of production</td>
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**Intrinsic and transcendent goods**
- Oriented to the person
- Sharing: the logic of gift
- No proportionality
- Part of the core of the activity
- Produced by all
- Potentially shared by all
- A duty and a right
- Overflow to other stakeholders
Stakeholder theory and the common good

Who are the stakeholders?
• Those who contribute, produce, receive or share goods (or bads)
• Categories of stakeholders: according to the goods they contribute or receive

Which goods or values?
• Extrinsic (private), intrinsic and transcendent (common: shared)
• Private goods allow trade offs, common good not
• No opposition between stakeholders in common goods

Why take part?
• Extrinsic, intrinsic and transcendent motivation

The key is the participation in the process of production
• Rights and duties according to the goods
• A shared responsibility
Connected with an ethical theory of stakeholders

- Which ethical theory?

It is also a theory of the firm

- The firm as a community of people

Management: coordination of people to get common goods

- Helping the stakeholders to create goods
- Continuously redefining the project
Thank you!

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