**Module 6: Stakeholder Ethics**

**Core Module Issues:**

* **What is the shareholder model?**
* **What is the stakeholder model?**
* **Which is most sensible?**

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| **Module Teaching Notes**  We start this new unit with an overview of the shareholder and stakeholder models. These are more “tools in the toolbox” that you may refer back to throughout the course, if you wish.  The central question for this unit is: what is the purpose of a corporation supposed to be? And, to summarize the two key ways of answering this question:  The shareholder model presents the idea that corporations are supposed to make money for the shareholders, no more and no less. They are not supposed to “be nice”. They are not supposed to “do good” or “take care of people”. They are supposed to maximize the return for their owners/shareholders, and that is the end it. Many businesses have followed, and continue to follow, this model.  If you like, you might spend some time featuring some specific quotes from Milton Friedman here. Most of my students are familiar with him from other courses, and he does give some good, passionate sound bites. Those who fail to follow the shareholder model engage in “pure, unadulterated socialism”, he said.  The stakeholder model holds out that business leaders are obligated to take many groups of stakeholders into account when making decisions. The shareholders are one, but only one, of the stakeholders. Others may include communities, employees, customers, and so on. Even if the shareholders receive a somewhat smaller return on investment, it is sometimes appropriate to “spend a company's resources” on taking care of stakeholders who are not owners.  As always, it is important to present the ideas without seeming to take a side. You will be with this material for several modules, and you will not want large numbers of students merely “agreeing with you” and reflecting what they perceive as your point of view.  I like to stop here and take a few comments on initial impressions of the two models, and which seems more sensible.  I then like to lecture for a bit on the Ford v. Dodge case. This is a terrific old lawsuit in which Henry Ford himself lost tens of millions of dollars (adjusted for inflation) to the Dodge brothers and other major shareholders. Ford and his board of directors gave millions of dollars to charities and worthy causes, and the shareholders won the case because, in those days (this case happened in 1919), you couldn't do that. Incorporation laws required corporate boards to follow the shareholder model.  The Dodge brothers won enough money to start their own car company to compete with Ford, which is still around, of course, as part of Chrysler.  So anyway, I like to cover the case to make the point that the shareholder/stakeholder model debate has only been around for 60 years or so. That is the era in which incorporation laws changed to allow (not require) boards to follow the stakeholder model if they wished.  Having presented the basic ideas, it is time to briefly summarize the six imaginary companies in the scenario and go through the questions that accompany it. |

**Discussion Points for Scenario Questions**

# Of the actions previously listed, which two are the *most* justifiable? Why?

## [TAKE SEVERAL COMMENTS]

# Of the actions listed above, which two are the *least* justifiable? Why?

## [TAKE SEVERAL COMMENTS]

# If you were a decision maker at BetaCo, which of the actions would you actually vote to approve?

## THIS IS THE “WHERE THE RUBBER MEETS THE ROAD” QUESTION. CHALLENGE THE STUDENTS WHO WANT TO APPROVE MANY ITEMS

### ARE YOU CONCERNED THAT YOU ARE SPENDING TOO MUCH OF OTHER PEOPLE'S MONEY?

## CHALLENGE STUDENTS WHO WANT TO APPROVE FEW OR NO ITEMS?

### DOES A COMPANY EVER HAVE ANY OBLIGATION TO ANYONE OTHER THAN ITS OWNERS? WOULD YOU FEEL DIFFERENTLY IF YOUR OWN NEEDS WERE AT STAKE?

# Would you vote to approve any additional items if the unexpected surplus were $3 billion instead of $1 billion?

## cHANGED THEIR MIND: SO, IF THE STAKEHOLDER MODEL A LUXURY, TO BE FOLLOWED ONLY IF A COMPANY IS DOING WELL

## IF THE SAME: IS THERE ANY LEVEL OF SURPLUS AT WHICH YOU WOULD APPROVE ADDITIONAL TEMS?

# Assume that you are a shareholder of BetaCo, and that you received a dividend check for $1,000. Assume further that you learned later that BetaCo had adopted many of the programs in this module, and that if they had not done so your dividend check would have been $1,100. With $100 of your own money in the equation, would you be less supportive of any of the actions?