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Much of recent business ethics literature has been devoted to the interests of stakeholders.[1] The question of whether, and to what extent, business managers have obligations to stakeholders has been the principal theme in this literature.[2] The question of whether shareholders have obligations to stakeholders, however, has not been addressed sufficiently.[3] I hope to provide some needed attention to this matter by examining the positions of shareholders in the contemporary world of investing.[4]

The nature of contemporary investing is quite unlike the simple, theoretical picture often envisioned by business ethicists and economists. According to this picture, investment in corporations follows the *direct model* where shareholders research corporations and industries, directly purchase corporate securities, and determine the directions of corporations by voting at shareholder meetings.[5] Although it is a useful model for examining the historical development of investing, the direct model does not account for the positions of most shareholders today. There are many reasons for this, but two are especially important for the purposes here.[6] First, among those shareholders who purchase corporate securities directly, the direct model adequately describes the positions of only those few who are majority shareholders. The remaining shareholders lack the control over corporate activities that is found in the direct model. Second, most shareholders do not even purchase corporate securities directly, but, rather, buy into large institutional funds, the managers of which purchase corporate securities on behalf of the funds.

In this paper, first I will explain the direct model and demonstrate how the question of whether shareholders have obligations to stakeholders is answered with relative ease when the model applies. In such cases, we can derive shareholders' obligations to stakeholders from general claims about agency. Then, I will examine how the nature of contemporary investing causes problems for those who wish to use the direct model because the model rarely describes the positions of shareholders today. Next, I will demonstrate that it is highly questionable whether shareholders have obligations to stakeholders when the direct model does not apply. This presents a significant, and, perhaps, rather surprising, dilemma for business managers. Shareholders either have obligations to stakeholders or they do not. If they do, business managers are obligated to educate shareholders about those obligations. If they do not, business managers are obligated to educate shareholders about the business managers' obligations to stakeholders so that they can better satisfy those obligations. Hence, either way, business managers have a greater obligation than they do when the direct model applies. In the end, I will provide a justification for that obligation and comment on how business managers might begin to fulfill it.

I. The direct model and shareholders' obligations

Business ethicists and economists often employ the direct model of shareholders. According to this model, shareholders research the activities of corporations and industries, purchase corporate securities based on the results of their research, attend shareholder meetings, determine the directions of corporations through their voting decisions, and reap the rewards or suffer the losses that result from those decisions. Business managers, in turn, use their expertise to carry out the wishes of shareholders as directed by voting decisions and are compensated according to their successes or failures.

Although answering the question of whether shareholders have obligations to stakeholders is relatively easy when the direct model applies, it is subject to the same difficulties as is any attempt to identify the various moral obligations of particular persons in any aspect of life. One difficulty is that there is no universal agreement regarding the source of moral principles.[7] In the absence of such agreement, claims concerning moral obligations often meet with resistance and dispute. Another difficulty is that claims concerning moral obligations are often contextual. Appeals are made to circumstances in order to justify or deny claims that moral obligations exist.[8] Unfortunately, appeals to circumstances often are problematic because perceptions and interpretations vary among persons.

Despite these difficulties, however, there is agreement on two points that are significant for the purposes here. First, regardless of which moral principles are the true source of moral obligations, and regardless of what one's moral obligations turn out to be, one cannot escape the scope of those obligations by making use of an agent. Regardless of the true source of moral obligations, it is safe to say that one is obligated not to commit wilful murder. One does not escape that obligation by hiring an agent to perform the act. Whatever one is obligated to do or not to do remains in force after one has hired an agent to act on one's behalf. Second, when one's activities affect the interests of others, there are prima facie grounds for asserting that one has moral obligations regarding those affected persons. If there are no overriding conditions, one is subject to some set of moral obligations with respect to those who are affected by one's activities.

With these points in mind, imagine the direct model and the accompanying activities of shareholders and business managers. The direct model emphasizes both the control shareholders have over corporate activities and the role of business managers in carrying out the directives of shareholders. According to this model, then, shareholders are principals who hire agents to act in their interests. Those agents are business managers whose charge is to increase the wealth of shareholders.[9] The agency role of business managers is a significant aspect of the direct model. It results from a relationship that is recognized as special much like that of attorneys to clients. In fact, often it is characterized as a fiduciary role on the part of business managers, one that is derived from a position of trust. Kenneth E. Goodpaster makes this point by characterizing the duty resulting from the role of business managers as one ". . . to keep a profit maximizing promise".[10] Just as clients place considerable trust in attorneys to act in their interests and attorneys accept the duty to do so, shareholders place considerable trust in business managers to act in their interests and business managers accept the duty to do so. In both cases, the willingness to place trust in the agents stems from the expertise of the agents.

The trust that shareholders place in business managers, however, cannot be to violate shareholders' obligations for them. As Lynn Sharp Paine writes, ". . . if there is an ethical problem with undertaking an action on one's own behalf, there is an ethical problem with hiring an agent to do it in one's stead".[11] Or, as Goodpaster writes, "I cannot (ethically) *hire* done on my behalf what I would not (ethically) *do* myself ".[12] This speaks directly to what actions principals can expect from their agents, and applies to the relationships between shareholders and business managers. Just as clients cannot expect attorneys to act in the clients' interests by performing acts that would be immoral for the clients to perform, shareholders cannot expect business managers to increase the wealth of shareholders through actions that would be in violation of shareholders' own obligations. Imagine a client who is in serious legal jeopardy because of the potential testimony from a witness and expects his attorney to kill the witness. Obviously, it is morally wrong for the client to expect the attorney to take an action that would be morally wrong for the client to take. When the direct model applies, there is no reason to see shareholders and business managers any differently.

The implication is that shareholders have obligations to treat stakeholders in certain ways, and they cannot expect business managers to act in ways that violate those obligations. Corporate activities affect the interests of stakeholders. Since shareholders direct corporate activities and those activities affect the interests of stakeholders, shareholders have obligations to stakeholders as a result of those activities unless overriding conditions obtain. Since business managers are the agents of shareholders and one cannot escape one's obligations by making use of an agent, shareholders cannot expect business managers to act in ways that would violate shareholders' obligations. Certainly, shareholders can expect business managers to produce profits. This is a justifiable goal. Justifiable goals, however, have boundaries within which they must be pursued. Parents' goal to provide for their children as much as they are able is a justifiable goal, but a parent cannot pursue that goal by hiring someone to cause undue harm to her child's cheerleading rival.[13] Likewise, shareholders cannot expect business managers to produce profits by engaging in acts that cause undue harm to stakeholders.[14]

What shareholders can expect business managers to do, however, is not all that can be said about their obligations when the direct model applies. They are obligated to be aware of, as far as is possible, the various acts of business managers who are acting on their behalf. Once aware of such acts, they are obligated, as far as is possible, to prevent those that cause undue harm to stakeholders.

One might object, however, by arguing that this is an unreasonable burden. After all, often we hire agents to act on our behalf precisely because we lack their expertise in specialized areas. It would be unreasonable to expect clients to be aware of the many acts in which attorneys engage and their effects on others.[15] Such acts involve knowledge of legal matters that typical clients lack. Most likely, clients would not recognize any adverse effects of attorneys' acts on others, and, thus, would be unable to prevent them. Presumably, one might conclude, the circumstances are similar for shareholders and business managers.

To an extent, the objector is correct. Similar circumstances can arise for shareholders and business managers, especially in industries that involve frontier science and technology in their production processes. In such cases, it is unreasonable to expect shareholders to discover and prevent undue harm to stakeholders when the business managers' expertise result in corporate activities the effects of which can be detected only by those who possess similar expertise.

Shareholders are not responsible for discovering and preventing undue harm of this sort, however, because their circumstances meet two conditions that are necessary to excuse persons from responsibility because of ignorance. First, they are ignorant of the effects of the activities. Second, their ignorance is not culpable.[16] If either of these features were absent, then shareholders would be responsible for discovering and preventing the undue harm.

The objector is correct, then, only to the extent that shareholders are not culpably ignorant of the undue harm resulting from the corporate activities. Culpable ignorance occurs when one is unaware of some material fact of which one ought to be aware.[17] Suppose that I was in an accident caused by the failure of the brakes on my car. When I applied the brakes, I was ignorant of the fact that the brakes were about to fail. Whether this ignorance excuses me from responsibility depends on whether the circumstances were such that my ignorance was culpable.[18] If I had been driving the car for fifteen years and two hundred thousand miles without ever having the car serviced and that lack of servicing caused the failure of the brakes, then my ignorance was culpable. I was unaware of a material fact, the imminent failure of the brakes, but I should have been aware of it. If I had exercised due care in maintaining my car, I would have known that the brakes were in need of repair. If, on the other hand, I had exercised due care in maintaining my car and the brakes failed because of a faulty part, then my ignorance was not culpable. Due care would not result in me knowing the part was faulty.

To avoid culpable ignorance of the effects of corporate activities, shareholders must exercise due care in executing their investment in much the same way that I must exercise due care in maintaining my car. When the direct model applies, however, shareholders must go a considerable distance to exercise due care. Consider the setting of the direct model and what we reasonably can expect from shareholders. We can expect them to research adequately the activities of corporations and industries before they invest. This provides them with knowledge of the general activities of corporations and the industries of which they are parts. We can expect them to attend shareholder meetings, to cast votes that determine the officers and future directions of corporations, and to read and evaluate business managers' reports to shareholders. These provide shareholders with more specific information regarding past, current, and future activities of corporations. Since all of these sources of information are readily available to shareholders under the direct model, they must utilize them in order to exercise due care in executing their investments.

When the direct model applies, then, shareholders rarely can escape responsibility for the effects of corporate activities. Ignorance of any effects that are discoverable through the means described above is culpable. In most cases, the effects are discoverable through those means.
Only when the effects are unknown to shareholders because of expertise that they justifiably lack are they excused from responsibility because of ignorance.

Suppose that a shareholder believes any type of pornography is immoral because it is harmful to women. He purchases securities in a publishing corporation without researching the corporation or the industry. After years of holding the securities, he is shocked to learn that the corporation publishes a pornographic magazine. He realizes that the investment has contradicted his moral commitment for years, but feels heartened by the fact that ignorance excuses him from responsibility. Under the direct model, however, it is unlikely that ignorance will excuse the shareholder in this case. He likely has access to information about this corporate activity through either his research prior to purchasing the securities or his review of reports to shareholders after purchasing the securities. If so, his ignorance is culpable.

The circumstances of the direct model support the conclusion in the example and the claim that shareholders rarely are excused from responsibility because of ignorance. The circumstances of the direct model, however, do not describe accurately the positions of most shareholders today.

II. Contemporary investing and shareholders' obligations

If what I have argued so far is correct, shareholders have obligations to stakeholders when the direct model applies. Given the nature of contemporary investing, however, the direct model rarely applies. Among the many reasons for this, two are especially important for addressing the question of whether shareholders have obligations to stakeholders.

First, most shareholders who invest directly in corporate securities own a very small percentage of the securities of the corporations in which they invest. The result is that most shareholders have no control over corporate activities. Even if they vote at shareholder meetings, their votes do not carry enough weight percentage-wise to have any control over corporate activities. Only majority shareholders have any real control over corporate activities by voting at shareholder meetings. The direct model, however, describes shareholders as directing the activities of corporations. This description, then, applies only to those few who are majority shareholders.

An advocate of the direct model might suggest, however, that small shareholders can exercise control over corporate activities by coordinating their voting efforts. Once enough small percentages are put together, the result is a large percentage that can be used to exercise control over corporate activities.

Although such an effort is possible in principle provided that no one owns more than fifty percent of the securities of a corporation, the practical difficulties generally are too difficult to overcome. Except in rare cases, small shareholders are unable to cooperate in the ways that would be necessary for them to exercise control over corporate activities. Consider how many would have to cooperate in order to have control over most large corporations. To exercise control, this large number of people would have to know how to contact each other, meet to discuss matters together, agree on desirable directions for corporate activities, agree on voting strategies to promote those directions, and actually attend the shareholder meetings to cast the votes or arrange for proxies. In the cases of small shareholders who own securities in many companies, the last would be most difficult. A small shareholder likely has a career that would prevent regular attendance at the shareholder meetings of the various corporations in which the shareholder invests.

Second, most shareholders choose not to invest directly in corporations. Instead, they invest in funds, the managers of which purchase securities on behalf of the funds. Shareholders own shares in funds which own shares in corporations.[19] In terms of control, shareholders of funds are in an even worse situation than are the small shareholders who purchase corporate securities directly. A greater extent of coordination is necessary in order for them to exercise control over corporate activities. Their ownership interests are further diluted percentage-wise, and, in fact, the legal status of their ownership interests and voting rights is skewed in a way that may well render the question of control moot.[20] The fact that most shareholders invest in funds raises an interesting point regarding the concept of culpable ignorance. Whereas ignorance rarely excuses shareholders from responsibility for how corporate activities affect stakeholders when the direct model applies, it often excuses them when the direct model does not apply because their ignorance generally is not culpable. The normal activities of shareholders are quite different than those described by the direct model. Shareholders research the activities of funds rather than corporations themselves. They seek information about particular funds such as rates of return, diversity of portfolios, and types of securities held. Managers of funds research corporations and industries, and make purchasing decisions within the investment stipulations of funds. The idea that shareholders are principals who hire business managers as their agents is noticeably absent.

Even though the normal activities are different than under the direct model, shareholders still must exercise due care in executing their investments. We can expect them to do the research described. If they do not, they fail to exercise due care, and, thus, are not excused from responsibility for the effects of corporate activities because of ignorance. Ignorance of effects that are discoverable through expected research is culpable.

Exercising due care, however, does not give shareholders of funds access to the effects of corporate activities with the same frequency as it does when the direct model applies. Shareholders do not research the activities of corporations or attend shareholder meetings, nor is it reasonable to expect them to do so.[21] Due to the size of fund portfolios, shareholders would have to research far too many corporations for this to be a reasonable expectation. After all, one of the main purposes of fund investing, from the perspective of shareholders, is to minimize risk through a degree of diversification that cannot be achieved readily by investing directly in corporations.

This is where the difficulties of fund investing lie. One might say, quite rightly, that not expecting shareholders to research corporations causes shareholders to judge business managers by standards that often encourage business managers to overlook how corporate activities affect stakeholders. Business managers know that fund managers are concerned primarily about return on investment because that is the primary concern of shareholders in funds. Circumstances often arise where it is difficult, because of financial and career pressures, to avoid acts that will increase return on investment when they cause undue harm to stakeholders.

This is not meant to suggest, however, that shareholders have no other interests besides return on investment. Paine describes their interests well when she writes:

> While few would doubt that shareholders wish to acquire wealth, it cannot be assumed that wealth enhancement is their only or even their overriding interest. Shareholders are also citizens of society, parents of children, consumers of goods and services, and employees of companies. As such, they have multiple interests and varying priorities, including an interest in a coherent and effective system of social morality.[22]

Undoubtedly, shareholders have these other interests. In fact, one of the benefits of those cases where the direct model applies is that shareholders can promote these interests directly. At the very least, they can influence corporations to promote these interests through votes cast at shareholder meetings.

Notice, however, the problems associated with these interests when shareholders invest in funds. Shareholders have no direct influence on corporations. They rarely know much about the activities of corporations. Instead, they know about the successes and failures of funds in which they invest. They do not attend shareholder meetings, so they do not cast votes that influence corporations to pursue certain directions over others. Instead, they influence corporations only indirectly by investing in funds that happen to purchase particular corporations' securities. This raises the very worry that many business managers might have. Even though shareholders have other interests, it is return on investment that actually drives their decisions. A business manager might say, "shareholders claim to care about the effects of corporate activities on stakeholders, but return on investment determines whether they provide the capital that allows me to keep my position".

This does not mean that it is impossible for shareholders to have obligations with respect to the effects of corporate activities that increase return on investment by causing undue harm to stakeholders. The analysis of shareholders' obligations, however, is much more complex than when the direct model applies. Consider a situation where a business manager can increase return on investment by an act that causes undue harm to the interests of stakeholders. In such a case, either shareholders know about the act and its effects or they do not.

If shareholders know, then it is reasonable to suggest that shareholders are obligated to take steps to prevent the act, report it to the proper authorities, or, at the very least, withdraw their investments from the fund that supports the corporation whose manager is engaged in the act.

Shareholders who do not take one of those steps are analogous to the person who observes the commission of a crime without trying to prevent it, contacting the police, or walking away.[23]

If shareholders do not know, on the other hand, then the analysis becomes especially difficult as culpable ignorance must be considered. To determine whether the fact that the shareholders do not know is a case of culpable ignorance, two possibilities must be considered: either it is reasonable to expect shareholders to know about the act and its effects or it is not reasonable to expect them to know. If it is reasonable to expect shareholders to know, then their ignorance is culpable. For that to be the case, the information must be accessible to shareholders.[24] Information is far less accessible when the direct model does not apply. It is not reasonable to expect shareholders to research corporations and attend shareholder meetings. It is reasonable to expect shareholders to read and evaluate prospectuses and reports of funds, but the chances of these providing access to information about the act and its effects are slim. They allow shareholders to know the particular corporations and industries in which securities are purchased, so shareholders should know if particular funds invest in industries to which shareholders have moral objections. In such cases, shareholders are culpably ignorant if they do not know of such investments. Beyond this sort of case, information about the effects of corporate activities is likely to be inaccessible to shareholders, and, thus, such that it is unreasonable to expect shareholders to know.

In cases where shareholders cannot be expected to know, it is hard to suggest that they have obligations to stakeholders with respect to the act and its effects. Business managers, however, do have such obligations and must avoid the act. With regard to the claim that business managers are judged by return on investment, they must recognize that contemporary investing places a greater burden on them to educate shareholders about their activities and the effects of those activities on stakeholders. Business managers cannot justify their acts that cause undue harm to stakeholders by pointing to shareholders' emphasis on return on investment. Instead, they should give considerable effort to showing shareholders the aspects of corporate activities that are not captured by return on investment in order to educate them about business managers' own obligations to stakeholders.

Even if I am incorrect and shareholders do have obligations to stakeholders, however, the obligations of business managers do not end at avoiding acts that cause undue harm to stakeholders and educating shareholders about business managers' obligations to stakeholders. They must help shareholders see the obligations that the shareholders themselves have to stakeholders. They must show shareholders that, by considering the interests of stakeholders and avoiding acts that cause undue harm to those interests, they are simply acting as the shareholders themselves would be required to act.

This obligation is a great burden on business managers. Whereas providing reports to shareholders and making presentations at shareholder meetings generally are sufficient to educate shareholders when the direct model applies, far more is necessary when it does not. This raises two significant issues. First, it is important to provide a justification for this obligation. Second, it is important to provide business managers with methods to fulfill this obligation. I will develop a justification for the obligation in the next section and close the paper by commenting on how business managers might begin to fulfill this obligation.

III. Justification for business managers' obligation

To demonstrate that this obligation is justified, one must provide a good reason for requiring business managers to go beyond the steps that are sufficient when the direct model applies. More specifically, one must provide a good reason to reject the possible claim by business managers that such a burden is unfair. Business managers might suggest that contemporary modes of investing arose precisely because they benefit shareholders by allowing them to invest in securities with less risk. Business managers should not shoulder a greater burden simply because modes of investing arose to benefit shareholders.

It is true that contemporary modes of investing greatly benefit shareholders, but that is far from the only reason they arose. They greatly benefit business managers as well. They have access to capital that simply would not be available to them if shareholders could invest in corporate securities only directly. Many conservative shareholders who are comfortable with investing in funds because of the lower risks associated with their diversification would not invest in corporate securities without the availability of funds. The added capital allows business managers to pursue various activities more easily. Expansion in production, research and development, and more extensive marketing are just some of the activities that can be pursued more easily because of the additional capital.

Since business managers benefit greatly from contemporary investing, there is a good reason to require them to go beyond what is sufficient under the direct model. Fairness justifies this obligation. Robert A. Phillips provides an examination of fairness in the context of stakeholder theory that is helpful here. He writes:

> *Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of freeriding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted.*[25]

This account provides some insight that is useful in providing a justification for this obligation.[26] The notions of voluntarily accepting the benefits of a system, sacrifice on the parts of some participants, and free-riding are particularly useful.

Business managers and shareholders voluntarily accept the benefits of contemporary investing. Without due care, business managers and shareholders could benefit from the model while the interests of stakeholders are sacrificed. To avoid this free-riding, both business managers and shareholders must recognize and fulfill their obligations to stakeholders. In the case of business managers' own obligations, this is straightforward enough in the sense that business managers must recognize these obligations themselves and act accordingly.[27] The circumstances of contemporary investing, however, make it next to impossible for shareholders to recognize and fulfill their obligations to stakeholders, if they have any, unless business managers take greater care in educating them about their obligations. Only business managers have the necessary access to information that is related to these obligations. Shareholders simply do not have the access because of the complexities of contemporary investing. Thus, to prevent business managers and shareholders from reaping the benefits of contemporary investing by sacrificing the interests of stakeholders, business managers must shoulder the additional burden in question.

The sticking point of this argument is defending the view that it is proper to categorize stakeholders as participants in a scheme of cooperation with business managers and shareholders. The circumstances of contemporary investing make it easy to defend the view that business managers and shareholders are participants in such a scheme. Through investing in funds, shareholders provide business managers with large amounts of capital. Due to the risk aversion of many shareholders, much of this capital would be unavailable without contemporary modes of investing. Shareholders benefit from the model by being able to invest in corporate securities with less risk, while business managers benefit from the model by having access to levels of capital that otherwise would be unavailable to them. Since each group benefits from the actions of the other, it is easy to defend the view that they are participants in a scheme of cooperation. It is less obvious, however, why stakeholders should be viewed as participants in such a scheme.

Although some business ethicists approach this problem by appealing to the concepts of consent and social contract theory, I will approach it in a different, more simple way.[28] Instead of basing my argument on the claim that stakeholders somehow consent to the conditions that are necessary for business managers to pursue their activities through corporations, I will base my argument on who stakeholders are today.

Remember that contemporary investing has opened securities investment to shareholders who, under the direct model, would be uncomfortable with such investment. Often, shareholders are people, such as university professors, whose securities investment is limited to their retirement funds, or others who have very little active investment in securities markets. This is the case so often that it has an important implication for how we should conceive of stakeholders. By and large, stakeholders are the shareholders themselves. The employee who invests her retirement monies in funds is a stakeholder in the corporation that employs her, and, quite likely, many other corporations as well.
The same is true generally of the typical shareholder today. Given that, however, stakeholders are properly classified as participants in a scheme of cooperation with business managers and shareholders since they are the shareholders themselves.

This argument does not rely on the unlikely circumstance that every stakeholder of a particular corporation, Y, is a shareholder in a fund that owns securities in Y. Just as two baseball players on different teams are participants in a cooperative scheme known as Major League
Baseball even if their teams do not play each other in a given season, stakeholders of Y are participants in a scheme of cooperation with the individuals who constitute Y even if the funds in which they invest do not own securities of Y. Y is using the markets to obtain much needed capital that is being supplied by stakeholders when they invest in funds. Even if funds do not currently own securities in Y they potentially provide capital to Y in two ways. First, when they buy securities that are sold by other shareholders, they provide capital to those other shareholders who might use it to buy securities of Y.[29] Even if they do not, some shareholder, somewhere down the line of transactions, will buy securities of Y with capital that is available only because of the initial fund investment. If not, Y eventually will fail as a business enterprise. Second, the funds could provide capital to Y directly by buying its securities at a later date.

IV. Concluding remarks

If what I have argued is correct, then business managers are obligated to do more to educate shareholders about the business managers' obligations to stakeholders as well as the shareholders' obligations to stakeholders, if they have any. This obligation results from the nature of contemporary investing. Because of the benefits business managers reap from contemporary investing, this obligation is justified.

This has an important implication for business ethicists. We should try to provide business managers with methods for educating shareholders about obligations to stakeholders. Providing those methods, however, is a difficult task. Certainly, we cannot recommend that business managers simply provide shareholders with more reports. The volume of paperwork that shareholders must peruse is already part of the problem. There is so much of it that typical shareholders lack the time to read and evaluate the reports business managers prepare.

Perhaps the answer lies in better use of media outlets. Business managers are quite accomplished in making use of various media forms to bring their products to the attention of consumers. Applying that same skill to bringing their impact on stakeholders to the attention of shareholders might be rather beneficial. Consider a corporation that must go through a difficult transition in order to eliminate an adverse impact its operations have on the interests of stakeholders.

Imagine the marketers in the corporation using their talents to make shareholders aware of the impact on stakeholders in a way that effectively appeals to the compassion of shareholders, explains what must be done to avoid this impact, explains how abandoning the corporation now would have the effect of treating stakeholders as nothing more than a means to shareholders' own ends, and asks them to influence the managers of funds to bear with the corporation during the time of transition. Such an idea might seem somewhat idealistic, but similar marketing efforts have been successful in the past, such as in the case of Tylenol's recovery after the tampering incident in 1982.[30]

This is only a suggestion as to how business managers might begin the process of fulfilling this obligation. I have great faith in the abilities of both business managers and business ethicists to identify the weaknesses in this suggestion and either to modify it or to develop alternatives that will enable business managers to educate shareholders about obligations to stakeholders.

NOTES

[1] Shareholders are affected by corporate activities and can be considered one class of stakeholders. For ease of exposition, however, I will use the term "stakeholders" to refer to those persons who are not shareholders, but, nevertheless, whose interests are affected, either positively or negatively, by corporate activities. Stakeholders include, but are not limited to, employees, customers, creditors, suppliers, competitors, environmental groups, and communities.

[2] For a work that has been the catalyst for many business ethicists concerned with stakeholder interests, see Freeman (1984). For further examinations, see Boatright (1994), Freeman (1994), Friedman (1962 and 1970), Goodpaster (1991), Langtry (1994), and Schlossberger (1994).

[3] For an interesting psychological study of the attitudes of shareholders regarding their obligations, see Mackenzie and Lewis (1999). The study illustrates the contradictions in the

attitudes of shareholders who consider themselves ethical and who believe they have obligations to stakeholders.

[4] Even though the general usage of the term "investing" includes both equity and debt securities, for ease of exposition I will use it even though I have only equity securities in mind. Likewise, whenever I use the term "securities", it will refer to only equity securities.

[5] For a classic exposition of the direct model, see Friedman (1962 and 1970).

[6] Schrader (1996) argues that the position of shareholders today does not accord well with an adequate concept of ownership. Although I will not examine the concept of ownership, I will argue that the nature of contemporary investing causes problems for those who try to use the direct model to address issues in business ethics.

[7] There are many different aspects to the disagreement on this subject, and only a few are mentioned here. For the classic debate over whether moral judgments are derived from feelings or from reason, see Hume (1975 and 1978) and Kant (1964). For the claim that moral judgments should be based on the consequences of acts or rules, see Brandt (1963) and Mill (1957). For the claim that moral rules spring from guiding principles that are chosen under specially described circumstances, see Gauthier (1986) and Rawls (1971).

[8] For example, Ross (1930) demonstrates how one might find oneself in circumstances where one's prima facie duties conflict and one must determine one's actual duty in the circumstances.

[9] This is not meant to advocate the principal/agent view of shareholders and business managers, but, rather, it is meant to illuminate an important aspect of the direct model. Later, I will argue that the direct model, and the principal/agent view, rarely captures the positions of shareholders and business managers today.

[10] Goodpaster (1991, p. 63).

[11] Paine (1996, p. 483).

[12] Goodpaster (1991, p. 68).

[13] As many readers may know, the cheerleading rival example is an actual case that occurred in the state of Texas.

[14] Business managers might produce profits by causing undue harm to stakeholders in a variety of ways. Dumping toxic waste in a river might be more profitable than proper disposal but unduly harmful to those who depend on the river for water. Likewise, a business manager might increase profits by developing land that is the last remaining habitat of an endangered species rather than another alternative site, thereby causing undue harm to environmentalists.

[15] Attorneys serve as useful examples when examining agency relationships precisely because they are agents with expertise in an area of which most people have only a modest understanding.

[16] Aristotle's examination of the role of ignorance in the distinction between voluntary and involuntary acts is a good starting point for this topic. See Aristotle (1985, pp. 136–139). Also see Aquinas (1969, pp. 143–157), Moody-Adams (1994), Smith (1983), and Zimmerman (1997).

[17] This is not meant to be a complete account. Culpable ignorance is far more complex than this account indicates. Some of the complexities will arise as the examination proceeds.

[18] Moral responsibility, not legal, is at issue here. The question is whether the ignorance excuses me from moral blame, not legal accountability with regard to insurance, financial damages, and the like.

[19] This is a claim about the practical implications of ownership, not about the correct legal description of ownership.

[20] I will ignore the legal issues regarding the status of fund investors' ownership interests. Instead, I will focus on practical and moral considerations.

[21] Since some funds are marketed as socially responsible, it is reasonable to expect shareholders to have basic knowledge about the types of securities in which these funds invest. Nevertheless, it is unreasonable to expect them to have the specific knowledge of fund activities that is at issue here.

[22] Paine (1996, p. 484).

[23] In both cases, the appropriate action is determined by the circumstances.

[24] Although it is in the context of insider trading, Moore (1990, pp. 172–174) provides a nice examination of the accessibility of information.

[25] Phillips (1997, p. 57).

[26] This is not meant to suggest that Phillips's account is universally accepted, but, rather, that it points to some concepts that are helpful in constructing the required justification.

[27] This is not meant to suggest, however, that fulfilling these obligations is an easy task for business managers. On the contrary, often it is a daunting task.

[28] See Donaldson (1982, pp. 18–35) and Donaldson and Dunfee (1994 and 1999).

[29] The other shareholders can be either individuals or other funds.

[30] See Cannon (1983).

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