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Chapter 3

Is Shareholder Empowerment a "Good Thing"?

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From an agency theory perspective (Fama, 1980; Fama & Jensen, 1983; see Lan & Heracleous, 2010, for a recent review), shareholder empowerment can be seen as a means of enhancing the balance of power between owners and managers, controlling managerial power, reducing the effects of information asymmetries, and keeping agency costs in check (Bebchuk, 2005). Critics of this view argue that changing regulatory arrangements (including shareholders' voting rights and decision influence) would have unanticipated negative effects. Concerns include the introduction of inefficiencies in corporate governance and uncertainty as to how shareholders would be held accountable for their decision influence (Bainbridge, 2006; Bratton & Wachter, 2009; Sharfman, 2012). The equivocal outcomes of shareholder activism on both firm performance and shareholder returns (Goranova & Ryan, 2014) make an evaluation of the desirability of shareholder empowerment even more complex.

As a complement to considerations of this question in the finance, economics, and law literature where robust arguments have been presented on both sides of the fence, we argue that it would be fruitful to examine this question from a more foundational viewpoint: that of ethics. In this chapter, we examine the basic question, "Is shareholder empowerment a good thing?" from four normative (ethical) perspectives: laissez-faire, utilitarianism, deontology, and virtue ethics. Our analysis can complement finance, economics, and law-based analyses by asking fundamental and, we believe, critical questions related to motives, outcomes, and values in relation to shareholder empowerment.

Asking the Right Questions

The comic book *1066 and all that* (Sellar & Yeats, 1998) parodies a style of teaching English history based on events, battles, and kings at the expense of any contextual understanding or critical perspective on Empire. It is a jumble of confused but confidently asserted nonsense, much of which depends on loose tethering to erroneous or misremembered facts. Among other things, the book

tells us that Henry IV part one and Henry IV part two form an unusual case of a "split king" (rather than two plays); that we had an Industrial Revelation (rather than revolution); and that ancient Britons buried themselves in wheelbarrows (rather than barrows). Although the original intention of the book was to include four "genuine" dates, the authors tell us at the beginning that, at the last minute, only two are included because the other two were "not memorable" (the first of the two included dates, is seen in the book's title *1066*, referring to the Norman invasion; the second, 55 BC, refers to the Roman invasion of Britain).

One of the reasons this book appeals to us is that it repeatedly asks a very simple, and intentionally inappropriate and naive, question. With reference to the broad sweep of history, the authors repeatedly use as their acid test for evaluating an event the overall question: Was it a "good thing"? The fuller title makes clearer the role that this refrain "good thing" plays in their spoofing history: *1066 and All That: A Memorable History of England, comprising all the parts you can remember, including 103 Good Things, 5 Bad Kings and 2 Genuine Dates.* For example, the Roman Conquest of Britain, this book tells us nonsensically, was a "good thing" because until that point Britons were just natives.

How is this relevant to understanding shareholder empowerment? Well, our suggestion is that the question, "Is shareholder empowerment a good thing?" is simultaneously too important to be ignored, and too generalized to be usefully analyzed in its overall, unreflective form. In considering both aspects of this question, it is useful to have the model of *1066 and all that* in our minds. It can serve as a caution that on occasion, important though this basic question is, it always needs to be grounded in an understanding of the context, and of the contingencies that make history more than a succession of dates and superficially noted events. Otherwise, we risk too abstract and glib an assessment of situations that are invariably complicated, nuanced, and have rich and troubled histories: for instance, the Global Financial Crisis.

This question, "Is shareholder empowerment a good thing?" is too important to be ignored because if we pause to ask whether something is a good thing then we are ultimately asking questions about values (which will likely also force us to take a position on the question we are asking). Asking this question is important given the central role that corporations play in society and their substantial but often unfettered power, and given our own responsibilities as investors and consumers. But, as stated, it is also too generalized as a starting perspective to adopt, given the various types of shareholders, various sources of complexity and variation of business environments in different institutional settings, and various perspectives that such a question could be investigated from.

Even so, this implicit assumption (that shareholder empowerment is a "good thing") seems to be at work in several, not always mutually compatible understandings of what is good corporate governance. These include agency theory (Bebchuk, 2005), stakeholder-oriented analyses (Sjostrom, 2010), stock exchange regulations related to disclosure and corporate responsibility (New York Stock Exchange, 2014), and also the popular press. The case for this perspective, in terms of desired consequences, is both simple and understandable. Bratton and Wachter (2005) briefly summarize the case for shareholder empowerment from an agency theory perspective (before arguing against it, in terms of its potential to encourage managers to follow high-risk strategies): "Enhanced

shareholder rights provide accountability and that accountability means lower agency costs, higher market prices, and, accordingly, a more competitive equity marketplace" (Bratton and Wachter, 2009: 655).

Furthermore, Bebchuk (2005) notes that creating a conducive context for the exercise of shareholder power would encourage management and board actions in the interests of shareholders, something that in his view is currently lacking (Bebchuk, 2007). "A regime with shareholder power to intervene . . . would address governance problems that have long troubled legal scholars and financial economists. These benefits would result largely from inducing management to act in shareholder interests without shareholders having to exercise their power to intervene" (Bebchuk, 2005: 833). Indeed, companies have been more proactive in engaging their shareholders on topics such as executive compensation (Georgeson, 2013).

These statements rest on the need to address implications arising from the central problem in agency theory: the potential for a divergence of interests between shareholders (ownership) and managers (control). Shareholder empowerment is seen as a "good thing" because it aligns otherwise divergent interests and could serve as a mechanism for improved governance (Bebchuk, 2005).

Below we outline four normative perspectives to ground consideration of what is "good." These are: laissez-faire, utilitarianism, deontological ethics, and virtue ethics. These lead us to different answers to the question, "Is shareholder empowerment a good thing?," not only across but also within perspectives. Given the absence of an absolute answer, and the contextually bound nature of these respective answers, we then argue that the way ahead is through an appropriate process that involves productive dialogue among stakeholders and continuous reflexivity into one's motives and position.

Laissez-faire

We employ the term "laissez-faire" in its literal sense, meaning to leave things be. Laissez-faire approaches suggest that markets and actors (firms, individuals) should be left alone by the state and free from other forms of interference as far as possible, and that all that is required of market actors for productive functioning of the market is to obey the law, or stay within the rules of the game and pursue profit. It is consistent with Friedman's (1970) view of the firm, that "the social responsibility of business is to increase its profits," with this responsibility being discharged by executives whose "responsibility is to conduct the business in accordance with (shareholders') desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."

Laissez-faire could be described as a neoliberal, or a free-market perspective, associated with the belief that capitalism is the most effective way to allocate resources and goods and that interference by the state impedes the otherwise efficient workings of the market. This perspective is often interpreted as suggesting that questions about right and wrong are somehow separate from economic considerations about the market. Laissez-faire is nonetheless just as value-laden and normative as the other three perspectives that we will discuss. For instance, the notion that capitalism with minimal checks is the best way to

allocate resources is contentious, given frequent abuses of market power, unethical business practices, asymmetry of information among stakeholders, and other situations that require careful checks and balances.

The French phrase "laissez-faire," as well as having an elegant simplicity, signals normative aspects to this form of economic governance. One connotation is an implicit acknowledgment of resignation, or an attempt to relinquish responsibility by the state. A state pursuing laissez-faire in its purest form will have already taken a moral position by avoiding regulation or intervention, with one risk being, for example, that no checks or balances are necessary for effective market functioning. Therefore, it is not free from responsibility attached to any negative consequences arising from this decision.

Applying the laissez-faire approach to the more specific question of shareholder empowerment would suggest that the state should impose minimal regulations beyond the protection of property rights, that shareholders should be left to decide on the means of exercising their power, and that companies should be left to self-govern and compete in their own interests as the most efficient way to maximize shareholder value. Under laissez-faire, companies could always choose to involve shareholders in their governance as part of their competition for resources; they would simply be left free to exercise that choice. Predominantly, though, what is implied by a laissez-faire model is that corrective influences on inefficient, or perhaps unethical, corporate behavior will emerge without having been designed by the state. These influences are exercised as shareholders switch their investment to other firms and exert collective pressure, thus imposing both economic and reputational costs on errant corporations. Shareholder activism relating to corporate performance, corporate governance, and social dimensions of corporate activity has indeed become more prominent in recent years (Goranova & Ryan, 2014).

The assumption under laissez-faire is that the market will determine and gradually encourage socially responsible behavior because companies who act unethically and have a bad reputation will suffer as shareholder activism increases and shareholders employ their options to replace management or invest elsewhere. A challenge with this argument is that it still assumes a degree of involvement on the part of investors who may well be passive, unconcerned, or uninformed, or they may be only investing as part of a large institution such as a pension fund. Another challenge is that, contrary to the shareholder primacy perspective, directors are not required by law to maximize shareholder value but rather have a wide range of discretion to act in the best interests of the corporation (Lan & Heracleous, 2010; Stout, 2012).

We have suggested that laissez-faire, although ostensibly value free, is actually value laden. This is, because the choice of the state to relinquish control in selected spheres of activity, and give sovereignty to market mechanisms, is itself a moral and ideological choice. Other perspectives begin more explicitly with consideration of ethical principles. To illustrate this, we now draw from three major normative ethical traditions in business ethics: utilitarianism, deontological ethics, and virtue ethics. A number of other ethical systems can be nested within these (such as perspectives based on notions of rights, or those that emphasize justice, or principles of care). For reasons of space and clarity of argument, we concentrate on the three major strands mentioned above.

Utilitarianism

The two people most associated with utilitarianism are Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873). We have cited these two date ranges here not because they are "memorable" or "genuine" (as the two dates in *1066 and all that* are described), but because it is important to bear in mind that when Bentham and Mill were advocating utility as a guiding principle, they were writing in a society that—although relatively developed at the time—did not have basic amenities such as sewerage, quality housing, public libraries, electric light, or gas heating. The context for their work was one in which a series of widespread legal and societal changes and reforms were implemented by national governments in Europe. Bentham and Mill sought principles that could improve decision making in public policy and enhance the general standard of living.

Utility is quite often translated as happiness, but is more accurately a measure of welfare, net benefit, or summum bonum (Mill, 1987: 272): the greatest good. In the purest version of utilitarianism, we are evaluating a decision solely on its consequences. The question we would ask when confronted with an ethical choice would be something like, "What course of action results in the greatest net benefit to society?" It is worth signaling an error that people commonly make in using the phrase, "greatest happiness for the greatest number" to refer to utilitarianism. Utilitarianism is not necessarily democratic. If one person is ecstatic about a decision, this could outweigh ten people being mildly upset by the same decision (even if they could otherwise outvote the one person supporting the decision). This becomes relevant in considering questions in social policy: a utilitarian perspective could suggest that administrations should invest funds from general taxation in services that only very few citizens benefit from, if that boosts net utility.

Some other familiar questions are prompted by utilitarianism. One set of questions arises from problems related to measurement. How exactly do we quantify utility, which is seemingly necessary to weigh up different choices? We might not be able to compare two different outcomes easily; for instance, utility might come about through spending on a public library service, or it might come about through investing in health care research: which do we choose? An action may also benefit some, and directly or indirectly harm others, but are the two commensurate? That is, can they be translated into the common measure of utility? Is it possible to weigh up one person's sorrow against another's joy, or one person's intellectual enlightenment or education over another's potential physical pain? Another measurement issue concerns the time frame over which we evaluate net utility: how do we weigh up the value of short-term gains against gains that may be greater, but take longer to realize, over generations perhaps? A final consideration is what if the initial benefit of a decision in a single case is outweighed by the harm it later does in society as people learn that this is how another person, or their governments, or leaders have behaved?

These problems are quite well known and they are not as serious a threat to Mill's version of utilitarianism (which is more sophisticated than Bentham's) as might be supposed. Outlines of utilitarianism tend to be caricatures missing essential subtleties, a little like the misremembered account of history in *1066 and all that*. What is often overlooked is that Mill emphasized that for the vast majority of decisions, existing systems (like deontological and virtue ethics,

described below) were adequate. For most decisions, most of the time, existing ideas about morality were sufficient because it is rare that we have the power to act in situations that will directly affect society's interests. Correspondingly, as investors it may be rare that we can influence corporate policy meaningfully, and so we could, as it were, sign up to a utilitarian logic in exceptional situations posing real dilemmas, but frame the majority of our individual decisions about ethical investment in terms other than net utility.

Most of the time we do not influence society's utility, we influence other individuals' utility, and we have well established principles for how to behave toward others. Utilitarianism thus could be thought of as the system that we invoke as a last resort, when we are in the comparatively rare position of deciding something that will affect social welfare, or when other systems do not provide an answer. Mill himself is also careful to say that critics who assume that utility simply means happiness, as a kind of pleasure, are mistaken. He summarizes this in his memorable phrase, "It is better to be Socrates dissatisfied than a pig satisfied" (Mill, 1987: 281). Refinements to utilitarianism, or second generation accounts, sometimes differentiate between "act" and "rule" utilitarianism. In the former, the consequences of a single action are considered, whereas in the latter the consideration is whether a rule should be followed because it leads to net benefit. From an act-utilitarian perspective, it might be permissible to break a law in one instance if it leads to net benefit. From a rule-utilitarian perspective, we would need to consider the wider societal consequences if people did not follow that law in particular or even laws in general.

Applying this perspective to the question of whether shareholder empowerment is "a good thing," we could simply ask which situation results in greatest net benefit. We might then either employ an act-utilitarian perspective to decide on the form shareholder empowerment takes on a case-by-case basis, or a rule-utilitarian perspective where we might decide that a general principle or position in relation to shareholder empowerment is more widely beneficial.

An important consideration here is that corporate profit is not equivalent to utility, nor is it the sole measure of whether any particular form of shareholder empowerment is optimal. Profit could increase, for example, at the expense of other things that are unethical or cause harm (for instance, through collusion, polluting the environment, or through various forms of exploitation). If net utility gain (partly made up of profit) resulted from exploitation in time period A, it could lead to net utility loss over time period N, because such corporate conduct could gradually become the norm. Act utilitarianism would permit this for time period A, but rule utilitarianism would prohibit it due to its longer term consequences.

Importantly, utility is not just calculated in terms of the consequences for those who are directly involved; it is something that applies to society as a whole. Benefits to companies and shareholders could well be outweighed by broader considerations of what costs are incurred by stakeholders: employees, suppliers, communities, other organizations, and also the environment and future generations. The most profitable outcome, yielding the highest return, could result in net losses in utility overall. In essence, utilitarianism is not really a stockholder model that considers the firm but one whose central concern is society. Let us now consider a deontological system.

Deontological Ethics

The deontological tradition of ethics emphasizes duty (the Greek *deon* means duty or principle, and *logia* means discourse). Though, in theory, a deontological perspective could include any kind of universal standard of conduct based on a set of rules, in practice in business ethics the term is most associated with the work of Immanuel Kant, and so here we will draw from the Kantian approach to deontology. It is useful to contrast deontology with the utilitarian perspective, since from a deontological perspective what we emphasize is not the consequence of an action or the outcomes, but the process and the motives. In other words, we examine the means by which we act, and the reasons, rather than the ends. We observe principles and consider the potential effects of generalizing our actions. Following Kant, the two main kinds of questions deontologists are interested in are to scrutinize whether an action is good relative to (i) universalizability and (ii) reflexivity. In other words, we would ask (as firms, managers, shareholders): What would the world be like if everyone acted in this way? And, how would I feel if this were done to me? Codes of ethics such as those included in the Ten Commandments or the Quran are deontological in that they are generalizable sets of rules (they set out duties) that are based on pure motives.

The main problem with deontology is that it has no definitive basis for determining ultimate principles, or ranking principles, and accordingly we may face dilemmas when principles collide. Quite often different normative principles do conflict and no single principle may apply on its own in a situation in isolation. For instance, a lie may stop someone from coming to harm, but we are faced with the dilemma that to achieve a righteous end we need to violate a basic ethical principle (tell the truth). Otherwise, if we tell the truth, we violate another key ethical principle (do no harm, directly or indirectly).

Once we start to try to refine rules (tell the truth unless it means someone will come to serious harm, especially if that person does not deserve the harm), it becomes harder to see how universal principles apply. As a result, rather than having a definitive rule to rely on, we may simply swap one ethical dilemma for another. Another problem in the Kantian perspective is that it can place an almost impossible burden on our conduct. If we evaluate every one of our actions and imagine the entire world acting in the same way, and the likely consequences, we are constantly aspiring to perfection, perhaps even omniscience.

As with utilitarianism, Kantianism is also often criticized for being unrealistically impersonal. It implies that we should act toward complete strangers in the same way as we do to our family, because we are asked to consider an abstract principle of universalizability. The notion of a perfect, abstract principle may be unrealistic because ethical problems are usually dilemmatic and bound up in considerations of contingencies and the nature of an individual event. Any number of ethical debates and controversies exemplify this complexity: should individuals have a right to own guns even if research suggests that it increases accidental gun deaths? Should people have the right to smoke if it could harm others? Should we let people decide if they want to smoke, knowing that it will harm them? Should we legalize some drugs if doing so reduces crime and improves prospects of treating addicts? If so, which ones should we legalize and on what grounds do we decide: on the latest evidence or other principles?

Even so, Kantian maxims offer the benefit of imposing clarity on us. In some spheres of practice normative, Kantian principles are indeed in daily use, for example, in medicine, to do no harm (despite cases where these principles still don't provide answers, as in the ethical minefield of euthanasia). In conducting our own research, conventionally that same principle of do no harm applies, together with making sure that all participants in research have informed consent. This is despite seminal insights delivered by research where the principle of do no harm was stretched, such as the Milgram experiments (which might not be allowed under current ethical guidelines).

Ethical shareholders would seem to be motivated by deontological principles. If we go back to the basic idea of a *deon* (duty or principle), a deontological position could support specific principles relating to shareholder empowerment, such as transparency, the view that companies have a duty to inform shareholders about certain decisions and be amenable to releasing further information if requested.

Applying this perspective to the question of whether shareholder empowerment is "a good thing" is quite complicated, however. If we believe that shareholder empowerment is a good thing, could this position ever be elevated to the status of a universalizable principle? In order to be a *deon*, we would need to assume that it would cause universal positive effects on individuals and societies (that the world would be better if everyone acted in that way). But, in addition, we would need to rely on shareholders being motivated, at least some of the time, to benefit society rather than simply themselves. But shareholder empowerment has both proponents and critics because both of these things are contested, and each camp can marshal figures and examples to support its position. More broadly, Kant might well be interested in such problems as how we could ensure that individuals (such as shareholders) retain some control that enables them to avoid or minimize the harm that a corporation might do in pursuit of profit. But, Kant had no interest in corporations or profit; he was interested in human beings as "ends in themselves." This position makes the very idea of profit problematic because in business individuals are often understood, and explicitly defined, as resources, with the implication being that they have to be organized, optimized, or otherwise put to best use.

Any attempt to apply Kantian reasoning by shareholders would undeniably be influenced by other ethical considerations in individuals' minds, which do not have a simple answer. For example, is it ever right to make people redundant even if they are loyal and hardworking? What if it seems necessary to the firm's survival? And what if such an action greatly benefits shareholders? Different answers to these questions could be obtained, by applying different ethical principles. Utilitarianism could condone making people redundant; for example, if reducing headcount by 10 percent safeguards the other 90 percent of jobs. This would depend on calculating net utility (assuming that such a calculation were possible). To do this we would ask: Does the intensity of anguish caused to the 10 percent who are fired (and to their families, etc.) outweigh the benefit or cost of other outcomes, including the utility to the other 90 percent who keep their jobs (and their families, the local businesses they can continue to support, etc.). We would also need to consider another cost: the overall suffering if all employees were to lose their jobs.

As an aside, one interesting consideration here is that it makes a difference in considering the consequences of an action whether the manager or the firm is viewed as the moral agent. If managers are seen as moral agents (rather than seen simply as representatives of the firm) then part of our utility calculus could also factor in the suffering that they experience in taking a painful decision.

Returning to our example, a utilitarian calculation may seem straightforward if we think about a 10-percent reduction in headcount versus a firm going under, but decisions are rarely this clear-cut or categorical. What if cutting a handful of jobs in a large corporation might temporarily improve its share price (perhaps because this action can be portrayed as decisive leadership, realizing efficiency gains, or "rightsizing") and make a potential takeover bid by a rival firm less likely? What if reducing headcount leads to more efficiency, increasing profits and share prices in the short to medium term? What if reducing headcount offers significant short-term gains, but reduces morale, ultimately reducing profits and share price? In each case the influence on the relevant actors, including shareholders, is difficult to predict. The equation quickly becomes exponentially more complicated.

From a deontological perspective, faced with the same question (should 10% be sacked for the sake of the firm as a whole) one could oppose it on the grounds of principle if corporations are seen as having an inviolable duty toward their employees—as individuals—to safeguard their jobs, in return for loyalty and exertion of discretionary effort (in a sense this is a "strong" version of the psychological contract). This principle could force the pursuit of alternatives, such as reducing salaries or inviting employees to arrive at a solution. Of course, alternative deontological ethical principles could be considered. For instance, does the firm have a duty to employ as many people as possible? Potentially, then, firing some people could be justified, but it would be associated with certain duties: that one should do so in a way that could be a model for all firms in similar situations, that it did not discriminate unfairly, that it was not motivated by self-interest, and that it was performed through a process that respected employees as people, and not as just mere "headcount" or "resources." Very soon, though, we might have principles that collide in deciding who the 10 percent were. One principle could be that high performers should be rewarded, another could be that those who put in more effort (who fulfill the psychological contract better) should be retained, or the criteria could be length of service, seniority, and so on.

In terms of the principle that firms have a duty toward shareholders to maximize the share price, then, as we have seen, the behavior would still not be clear, since reducing headcount can have variable short- and long-term effects on efficiency, morale, and performance, obscuring any linear effect between reducing headcount and higher profits and share price.

We can easily see how one can move in circles with such questions, without arriving at clear answers, unless one makes a value judgment concerning which ethical principle is the most important or applicable, or at least concerning which one to use (with the danger of post-rationalization). Selection of ethical principles is subject to abuse, given that one can use them to support the decision that one always wanted. Doesn't this pitfall make a mockery of the effort to develop and uphold an ethical system? Does it mean that shareholder empowerment is good if we want it to be, and bad if we oppose it? Can we engage in

ethical alchemy to produce whatever answer we want? The risk is that, in a very real sense, the answer is yes.

As we argue in the next section, the distorting effects of subjectivity and personal agendas imply that reflexivity could be a most productive way of trying to determine whether shareholder empowerment is a good thing. We can examine our own value systems, and explicitly ask why we support it, or why we oppose it. If we put our cards on the table, together with actors who have different ideas, and have an open discussion, we may appreciate each other's position and reach a common understanding on key principles.

Virtue Ethics

As the oldest system of ethics, some of the earliest works of literature that we have in the Western world provide us with illustrations of virtue (Nussbaum, 2001). When we consider virtue we are not so much interested in specific problems or challenges, but in the development of character: the way in which actions over time contribute to the development of a person (or perhaps an organization or society) as a moral agent. Questions of virtue are "not so much on how to resolve problems [but] how to live one's life" (McCracken, Martin, & Shaw, 1998: 26). Indeed, sometimes this inquiry is expressed in terms of a simple question: "What does it mean to live the good life?" Virtue ethics, moreso perhaps than with Kantian and utilitarian ethics, takes on a number of different approaches (Slote, 1997).

While the Aristotelian tradition is the most well known and the originating source for subsequent accounts (MacIntyre 1984a, 1984b, 1988), later accounts embody more important differences, such as placing greater emphasis on individual liberty. Virtue ethics remains of contemporary, indeed growing, interest within business ethics (Beadle, 2013; Fontrodona, Sison, & de Bruin, 2013; Morrell & Brammer, 2014). It is widely applicable in part because this simple question about how to live the good life can be considered as compatible with both deontological and consequentialist approaches (Dierksmeier, 2013; Morrell, 2004). This approach is more holistic and encompassing than the basic tension between utilitarianism (a focus on ends) and Kantian deontology (a focus on motive and means) (Crisp & Slote, 1997).

At the same time, virtue ethics presents some well recognized problems. For virtue ethicists, no universal or overarching principle or rule can be called upon to evaluate action (MacIntyre, 1984a, 1984b). Notwithstanding the problems with utility, or Kant's categorical imperative, we are confronted in virtue ethics with the problem that, among a potentially indefinite number of virtues, none is a crowning or supreme virtue. Partly because context is so important, no universal agreement exists concerning their order: who is to say whether courage is better than honesty, for instance?

Also (which reminds us of the central problem with utility), we cannot have a common measure for virtues. If we are trying to say whether something is virtuous, things such as traditions, history, and the development of character are all important. This issue makes virtue ethics both socially and temporally complex in a way that none of the other perspectives here is. It is true that even though some theorists (including Aristotle) have put forward the idea of especially key,

or crowning, virtues, their precise meaning and nature are inevitably going to vary over time and with respect to context. Any virtues that are appropriate for the "good life" of a seventeenth-century Japanese Warlord cannot be compared to the virtues appropriate to the "good life" of a twenty-first-century venture capitalist (however much that comparison may appeal to some of the latter!).

Despite the conceptual difficulties, we can employ virtue ethics at different levels. It can be used to examine, for example, a company's development and history over time, or an individual's history of investing and share ownership, from the perspective of whether they cultivate and display particular virtues. We might examine a company's patterns of actions to see whether they promote fairness across shareholders or broader social "goods" such as the preservation of life through safeguarding the natural environment. We might examine shareholders' patterns of investment decisions to see whether they display particular support for companies that are recognized as virtuous, and patterns of their voting decisions to see whether they support virtuous resolutions. This approach would use the root term "virtue" generously (it is debatable whether Aristotle would use it to refer to business), but the virtuous investor might seek out greater power to influence corporate decisions and use it appropriately, or they might be able to judge that they can trust the character of agents or institutions investing on their behalf. The virtuous company would not knowingly deceive or mislead investors, and its executives would be mindful in turn of how they exercise their company's power as an employer, supplier, producer, and investor. We might also consider comparing different systems of corporate governance across sectors, or within national traditions of governance, to see whether these systems are underlain by similar virtues or whether we can identify any common characteristics of markets recognized as virtuous.

Shareholder empowerment would be desirable if it were shown to be consistent with the possession and exercise of virtue. Shareholders' ability to oppose company resolutions and to draw management's attention to wasteful corporate actions could be virtuous, unless shareholders' sole purpose were to increase returns on their investment, given that a primary motivation of self-interest would not be considered virtuous. As Bratton and Wachter (2009) argue, shareholders' aiming for stock price maximization can encourage managers to follow high return/high risk strategies, which was a key perpetuating reason for the financial crisis. Managers took too much risk partly to satisfy shareholders, when shareholders, due to their external status and asymmetry of information, were not in a position to evaluate that risk. Virtue ethics would demand a broader, longer-term agenda on behalf of empowered shareholders. Shareholder power would need to be used for the betterment of society to be considered virtuous.

A complication, which is a classic problem in virtue ethics, is whether it might be possible to have a system that led to beneficial outcomes and was in that sense virtuous, but that was sustained by vicious (non-virtuous) action. Indeed, this, one could say, is the logic of the laissez-faire model. What if, for example, in some situations we need shareholders to act utterly selfishly and with selfish motives because this might prove to be the most effective way to keep a company honest? As mentioned, it is problematic to use virtue in the way that we have been. Aristotle would suggest that the whole concept of doing business to make profit was "devoid of virtue" (Solomon, 2004: 1022): it did not even merit ethical

Table 3.1 Ethical approaches and implications for shareholder empowerment

	Laissez-faire	Utilitarianism	Deontological ethics	Virtue ethics
Main propositions	Minimal regulation facilitates the efficient and effective functioning of markets. Actors are self-motivated and proactive in pursuing their ends. Ethics is not a central issue with regulation decisions	The best course of action is the one that results in the greatest net utility for society. Act-based utilitarianism considers consequences of single actions; rule-based considers longer-term consequences	An action is right when it follows a general principle or duty, and is based on good will or altruistic motives that are oriented to others' and society's benefit. Rules, motives, and means, rather than consequences, are the primary ways to evaluate the ethicality of an action	An action is right when it accords with the pursuit of virtue, as exemplified in developing moral character. Virtuous agents cultivate good habits, aim for the broader social good, and support others in pursuit of the "good life" conditions where all can realize their potential
Implications for shareholder empowerment	Shareholders can exercise their collective power to shift their investment to other firms and to exert reputational costs on errant firms by voicing their concerns. Firms will be proactive in terms of keeping shareholders content. The best course of action for governments is to stay out of the way	From a rule utilitarianism perspective, shareholder empowerment and associated rules are desirable when they increase net utility over the longer term. However, profits do not equate with net utility, and shareholders are not the only relevant actors	Shareholder empowerment can be a universal principle, if its motives are altruistic and it has positive effects on society. It can be supported by further principles such as transparency and fairness. Reflexivity and dialogue are key in mitigating the distorting effects of personal agendas	Shareholder empowerment would be desirable if based on virtue and if it aspires to broader, societal outcomes than the maximization of investment. Patterns of shareholder (and company) actions can be examined in terms of whether they display particular virtues
Challenges with perspective	Most shareholders (barring selected institutional investors) are passive and do not voice their concerns. Laissez-faire is ethically simplistic Economics and ethics are not separate spheres, since normative positions are implicit in every action or inaction	Difficult to measure utility or to evaluate different types of outcomes against each other, particularly as they pertain to different actors. Act- and rule-based utilitarian approaches could lead to divergent recommendations. The greatest utility might be achieved via a debatable course of action	Different principles may conflict, leading to divergent action recommendations. Universal principles are unlikely to apply in all contexts, especially situations characterized by dilemmas. Actions taken with ethical intent may have perverse, unintended consequences	It is not clear which virtues would be most applicable in particular situations, and their short-term versus long-term effects. Even the identification of "crowning virtues" might still lead to divergent action recommendations in particular situations

consideration because trade was essentially exploitation (his views on this are close to the Marxist position that profit results from extraction of surplus value). Indeed, he has very little to say about "business" (Morrell, 2012). However, he was also writing at a time when most people in the Athenian city-state, or polis, had no say in government, and when slavery and female marginalization from government were the norm.

Contemporary investors do have some (albeit limited) power over a company and therefore some responsibility when it comes to issues such as how that company acts, perhaps in relation to such issues as corporate pollution, fair pay for employees and suppliers, whether a corporation supports or undermines just government, and whether a corporation pays taxes. As investors, we can behave more, or less, ethically, and once this is appreciated, a virtue perspective may be just as relevant as other ethical systems. What if shareholders are indeed apathetic or if specific shareholders want to use the corporation for unethical means? Then managers and directors have the responsibility to act against these behaviors, even though this should be done very sparingly and not on the basis of institutionalized rules, since if such rules existed they might be abused by agents for their own benefit.

Table 3.1 portrays the main ethical approaches and their implications for the issue of shareholder empowerment.

Why Can't We Have a Straight Answer?

We have argued that, while shareholder empowerment may simply be a given under laissez-faire, whether shareholder empowerment is desirable depends on further questions of likely outcomes (utilitarian ethics); of intent, motive, and means (deontological ethics); and of whether the actions enabled by empowerment arise from and display moral character (virtue ethics).

Shareholder empowerment presents additional challenges, of how exactly it would manifest, what its effects would be on fundamental aspects of how firms are managed, who should bear decision-making rights, and how shareholders would be held accountable for their decision influence. The prevailing legal system ultimately places decision rights, as well as accountability, within the context of the business judgment rule, legal statutes, and legal precedents, on the board of directors (Lan & Heracleous, 2010). As Bratton and Wachter (2009: 727) note, however, "shareholder empowerment remains what it has always been—a strategy that looks to regulatory reform that enhances market control over the zone of discretion in which directors make business judgments." A pertinent question is: If regulatory reform leads to a shift of decision rights, how would shareholders be held accountable for their influence on corporate decisions? Bainbridge (2006: 1741) argues that director primacy, even though not perfect, has been functional, and that shareholder empowerment would create unanticipated problems and inefficiencies: "In a complex and interdependent system, inefficiencies in one part of the system should be tolerated if 'fixing' them would create greater inefficiencies elsewhere in the system."

The situation in practice is made more complex by the different types of shareholders having varying motives, influence, and desired outcomes (Goranova & Ryan, 2014). Shareholder empowerment manifests in different actions if carried

out by an individual retail investor versus an institutional investor versus a hedge fund. In each case, motives and desired outcomes might vary. We might ask: Should considerations such as virtue even have a place in this discussion? Isn't it about simply economic outcomes? We have argued that the economic sphere cannot be delineated from the normative sphere, as economic decisions are bound up with both motives and consequences with ethical dimensions.

Despite the various conceptual and practical challenges, we need a system that takes shareholders seriously and we need ways to incorporate this belief into decisions and actions. However, this evolution must take place without unduly distorting the relationship between decision rights and accountability, and any changes should incorporate safeguards against domination of corporate decision making where personal agendas are dressed as deontological principles or virtues. Consistent with our deontological analysis, the main motivation for taking shareholders seriously should be to help guard against the kind of corporate and public policy decisions that led to the recent financial crisis, rather than to ensure unfettered maximization of shareholder returns. But how can we avoid a situation where questions lead to even more questions, infinite conceptual divergence exists, and relativism arises: when utility is hard to define, when obligations conflict, and when no crowning virtues appear? How can we arrive at a position where we can take action based on motives that go beyond personal interests dressed up as moral decisions?

We suggest that such a situation can be fostered through integrating (social) process with (ethical) substance, that is, by engaging in the process of authentic dialogue among stakeholders (shareholders, the board, managers, employees, suppliers, the community, and the wider public) on issues of substance, and by continuous reflexivity among respective parties in terms of their positions and aims.

Engaging in dialogue with other stakeholders can enable the appreciation of alternative perspectives, the enrichment of decision parameters, the potential for changes in cognitive maps (Jacobs & Heracleous, 2005), the growth of trust, and the development of networks that may be engaged periodically to foster dialogical exchange. This dialogue can usefully be informed by Jurgen Habermas's (1970: 371) account of the "ideal speech" situation. Ideal speech requires a forum in which power inequalities are flattened; where everyone has an equal chance to speak, agree, and disagree; and where all can empathize with and inhabit the other's world. These features of ideal speech situations foster the potential development of consensus. We acknowledge that the vast majority have no voice, even though they experience the effects of contemporary multinational firms and shocks in the financial markets. They are excluded from an ideal speech situation, and not party to dialogue, but, in terms of shareholder empowerment, ideal speech offers a useful way forward. It means that shareholders' voices are heard, but that they also hear the voices of their corporations' managers and directors. Shareholder empowerment is not an entitlement with no strings; it is an invitation and a responsibility to join a conversation with mutual respect and in pursuit of common understanding to address common problems. When it comes to operationalizing authentic dialogue, we can usefully seek to integrate the three normative traditions.

First, in terms of utility, authentic dialogue prompts us to consider diverse perspectives from different stakeholders and respective accounts of gain or cost.

The purpose that dialogue serves here is in making it possible to consider the widest possible set of effects from decisions, so that actions are not taken or justified in terms of the simple criterion of shareholder return. It also allows the possibility for consensus to emerge over the crucial problem with utilitarianism, where different parties can articulate different versions of utility and come to recognize the value and validity of alternative versions of utility.

Second, in terms of duty, what we call authentic dialogue involves observing principles conducive to such exchanges, such as a responsibility to contribute without prejudice and the duty to respect other points of view, as well as to ensure that communication is not thwarted by power or wealth inequalities. Central to Habermas's theory of ideal speech is the role of intersubjectivity, "a symmetrical relation between I and You . . . unlimited interchangeability of dialogue roles demands that no side be privileged" (1970: 371). This point is compatible with Kant's ideal of reflexivity, because, without some basis for common understanding, reflexivity is not possible.

Finally, in terms of virtue, one needs to consider the context, history, and traditions underpinning dialogue, and the end goal of a common good for society, as well as the cultivation of character among agents participating in dialogue. More broadly, from a virtue perspective, the kind of communication that we would want to foster and would think of as "authentic" could not simply be a periodic forum for the resolution of dilemmas or quandaries. It is a more fundamental ongoing and unfolding process, a gradual shift in governance that recognizes interlocking roles for firms, managers, the state, and shareholders.

To pursue authentic dialogue, firms would need to make a better argument for decisions than simply appeal to profit. Given that stakeholders would be heard, firms would need to be sensitive to utility, not as profit, but as a much more rounded consideration of a broader good. Shareholders would also need to articulate what "return" meant in these terms. To realize these utilitarian considerations impose duties on firms, shareholders, and stakeholders to have forums that are a meaningful and regular basis for exchange; to make every effort to empathize with different points of view; to be informed; and also to participate. Considerations of virtue then come in when we think about the effects of such systems over time, about the cultivation of good habits and character by various agents, and about how to articulate the case for change. This discussion could occur through richly contextualized accounts of distinctively un-virtuous financial crises of shameful corporate actions. A richer understanding of shareholder empowerment, through the means of authentic dialogue, can draw from and integrate each of the three perspectives of utility, duty, and virtue.

Through authentic dialogue, reflexivity can foster a critical examination of motives and of one's own position, and of their effects within broader systems (Guillemin & Gillam, 2004). Shareholders would ask what their motives and the anticipated consequences are in undertaking actions enabled by empowerment. Are their positions virtuous and consistent with moral character? Do they appreciate the complexities of governing large corporations, or are they willing to engage in good faith with those who do? Are they tolerant of decisions that compromise short-term gains but promote a broader good? Corporate directors would ask why they would support or oppose, or even meaningfully recognize, shareholder empowerment. What are their motives and anticipated consequences

in doing so, and are their decisions and actions consistent with virtue and moral character? Do they listen to and welcome dissent, or suppress it in pursuit of having a clear message, based on one-way communication? The State would ask whether they create the infrastructure conducive to symmetrical exchange. Do they succumb to influence and lobbying by corporations but ignore the voices of stakeholders? Are their decisions and the bases for policy open to scrutiny as is proper in a democratic system? These are considerations often overshadowed in public policy by things such as the desire for being reelected, and in the corporate world by the lure of outsized bonuses, urgency of releasing quarterly results, competitive pressures, and day-to-day fluctuations of the Dow Jones, FTSE, or Hang Seng indices. But falling prey to these pressures at the expense of a critical awareness of the motives and effects of corporate actions is exactly what has led to catastrophic financial crises. The pursuit of the "good life" and of authentic dialogue are not easy, but they are necessary.

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