

The end justifies the means, but what justifies the end?

Reflection on Sternberg; stakeholder concept as a teleopathy

A questionable concept?

In *Just Business*, Sternberg regards the stakeholder concept as a teleopathy. By this she means that any business that applies the stakeholder concept, does not realize maximum long-term value for his owner. It introduces other goals into the business, which undermines its 'health'. Any other goal than this long-term owner value is the wrong end for a business to pursue.¹ The stakeholder concept is thus not teleologic but teleopathic. In this essay I will reflect on the stakeholder concept as a teleopathy. Is it indeed a questionable concept? My reflection will be concerned with two fallacies of Sternberg's definition of business and her rejection of the stakeholder concept as an unsound business theory.

In the first paragraph I will make clear what Sternberg's definition of business is and why it is confusing. She argues that the stakeholder concept is a teleopathy, because it undermines the teleological basis of her definition of business. If this definition does not hold, than her critique misses its central argument. I will conclude that Sternberg ends up with the same fallacies of which she accuses the theorists of the stakeholder theory. However, these fallacies are not sufficient to reject her definition nor are they sufficient to classify the stakeholder concept as a teleopathy. In the second paragraph I will explore why the stakeholder concept is a teleopathy. If the stakeholder theory introduces the principle of equality into the private sphere of business, Sternberg is justified in her critique. In the following paragraph I will uncover the implications of her claim that the business is a property, thus bridling the owner with property rights. It enables an evaluation of Sternberg's argument that the stakeholder theory undermines the property rights of a owner. In the penultimate paragraph, the stakeholder concept is cured from its teleopathy by arguing that the limiting power of the stakeholder is acknowledged by the duty of prohibition of harmful use. In the last paragraph I will conclude that Sternberg isolates one link of the never ending chain of means and ends. By exemplifying this chain, the stakeholder theory can be classified as a teleologicality.

Business: a confusing definition

Sternberg defines business as: 'a very specific, limited *action*, whose defining purpose is maximizing *owner* value over the long term by selling goods or services'. Does this definition help to clarify² what

business is or does it confuse our understanding of business?

The first confusing aspect of this definition is the element that business is an action. How can business be an action when business is not a verb? It cannot be an activity as such. 'Doing business' on the other hand is one of the activities that humans can undertake. Why is it important for Sternberg to include action in her definition? As ethics is only relevant for human action, it is important to stress the fact that business is a human activity. If business cannot be considered as action, ethics would be of no relevance to business. By defining business as an activity, she is bending grammatical rules. Sternberg criticizes theorists of the stakeholder concept by claiming that these theorists confuse 'the desirable with the essential'³. By adding desirable aspects (*action*) to her definition, she is doing the same thing of which she accuses the theorists of the stakeholder concept.

What also adds to the confusion, is the unclear notion of the *owner*. To whom does she refer in this definition: the owner of what? When Sternberg says that a business is an organization, an association⁴ that wants to maximize financial value for its owner(s)⁵, it can be assumed she refers to the owner of a business. Since a manager or a salesperson are also 'doing business', but do not own the business, it can be concluded that not only the owner but all other actors who are doing business, ought to maximize the owner's long-term value. Sternberg could alter her normative definition into 'a very specific, limited action, whose defining purpose is maximizing value over the long-term *for the owner of a business* by selling goods or services'. The tacit aspect of the definition of business is than explicit. Unfortunately, this means that Sternberg is using the *definiendum* in the *definiens*. Her definition can be classified as a 'begging the question' argument, which is a fallacy.

Sternberg could solve this fallacy by stating that business can have multiple meanings. She could add that the meaning of doing business is not the same as owning a business but that they have the same purpose. This would turn out to be problematic as well, for Sternberg is quite clear in her intention with defining business. Sternberg wants to stress the unchanging nature of business, which is everywhere and always the same.⁶ The fact that a concept can have multiple meanings at the same time is something she is trying to overcome by strictly defining business in a unequivocal manner.⁷



The end justifies the means, but what justifies the end?

Reflection on Sternberg; stakeholder concept as a teleopathy

By distinguishing business from other kinds of human activities and associations, Sternberg is stripping business of all accidental properties. The remaining properties, which she includes in her definition, are exclusive and essential for business, whether it is an action or a thing. Assuming that in both the *definiendum* and the *definiens*, business means the same, Sternberg actually provides a confusing definition.

With her definition of business, Sternberg confuses our understanding of this concept. First, 'business is action' is bending grammatical rules as well as confusing the desirable with the essential. Secondly, her definition contains a fallacy. Sternberg's definition is thus not the unequivocal definition as she claims it to be. Again, Sternberg is doing the same thing of which she accuses the theorists of the stakeholder concept: constructing the definition of a phenomenon to serve here purpose⁸. And if this is reason enough to reject the stakeholder concept, should we do the same with her business concept?

The equivocal definition of business surely weakens Sternberg critique of the stakeholder concept. If she uses the equivocality of the stakeholder concept as an important reason for rejecting it, does this mean that her concept of business is to be rejected as well? As her critique comprises a multiple argumentation, the conclusion is that her argument of the teleopathy cannot be rejected on basis of a confusing definition alone. In the next paragraph I will explore why the stakeholder concept is a teleopathy and focus on another part of the argument.

The stakeholder concept: a teleopathy

The striking aspect of Sternberg's theory is the teleological basis of it. Any business is teleological when its goal is maximizing the long-term value of its owner. Any other goal, that does not attribute to the long-term value of its owner, is not teleological. What does Sternberg understand by the stakeholder concept and why is it a teleopathy?

A stakeholder is any group or individual in which the business has a stake. In other words, a stakeholder is any group or individual without which the business cannot survive. Sternberg advances that in the teleopathic stakeholder concept the holder of the stake has shifted⁹. No longer is the business the holder but the group and the individuals. The consequence of this shift is that every stakeholder becomes as important to the business. The stake of the owner is of no more importance than that of a

employee, a customer of any other stakeholder. This assumed equality of stakes is not suitable for the context of a business but is exclusively suitable for a government. As the principle of equality applies both to business and to government, which has to treat all citizens alike, than the primacy of the government gets blurred. This political argument is also used by Arendt, who claims that the guiding principle of the public is equality and of the private variety.¹⁰ The distinction between the public and the private is coherent with Sternberg's distinction between government and business¹¹. Grounded by the principle of variety, a business owner is justified to distinguish between different stakes of stakeholders and prioritize between them. Introducing the principle of equality into the private sphere is teleopathic. Under the assumption that the stakeholder concept is based on the principle of equality, does this lead to rejecting all claims of stakeholders as teleopathic? For answering this question, we need to go into Sternberg's argument in more detail.

Business and property rights

Sternberg argues that the stakeholder theory is a teleopathy, because it undermines private property: 'it denies owners the right to determine how their property will be used'¹². If Sternberg posits the business as a property, what does she mean by this concept? And is the right to determine how a property is used a sufficient and necessary condition for the property right of a owner? Sternberg does not answer these questions.

Sternberg's conclusion that the stakeholder theory is teleopathic as it undermines the rights of the business-owner as proprietor, needs further argumentation. The only argument Sternberg offers, is that the stakeholder theory cannot impose limitations on an owner, beyond those imposed by property rights. Stakeholders are not to determine how a business owner can use his property. By forcing a business owner to accept responsibility for the stakes of stakeholders, a stakeholder determines how a business owner uses his property. This limitation does not only go beyond justified property rights but it also goes far beyond the purpose of the business and is therefore a teleopathy. But what if the limitations of stakeholders do not go beyond those of property rights? In order to settle this problem, we will have to find out what a property right is.

In *Property Rights*, Becker addresses this issue. He



The end justifies the means, but what justifies the end?

Reflection on Sternberg; stakeholder concept as a teleopathy

argues that there are three justified lines of argument¹³ for property rights. Each of these lines includes a specification of a just limitation of the rights of an owner. What is a property right and how is it limited?

A property right¹⁴ is an aggregate of rights that an owner of a thing can claim. From the right to own a thing as private property, as the owner of a business does, follows the duty of the non-owners (i.e. the stakeholders) not to interfere with this property. The question, what a sufficient condition of a property right is, can be answered by Becker's definition of a property right. He argues that the right to use a property (viz. Sternberg's argument) is just one of the constituting rights within the aggregate. Other elements are the right to the capital, the right to possess, the right to income and the right to manage.¹⁵ In order to claim a property right, it is sufficient to establish the right to the capital in combination with one of the other rights. Sternberg's argument, that the stakeholder theory undermines the property of the owner, is not sufficient for it does not interfere with all the rights a business owner has. Furthermore, the right to use a business is of less relevance for the purpose of the business, namely maximizing the long-term value, which can be classified as a right to the income.

Does this mean that a stakeholder is morally allowed to impose limitations on a business owner, within his property rights? Becker also gives an answer to this question. The only duty a property owner has is the prohibition of harmful use. This means that each stakeholder has a legitimate claim on the business owner, when the owner affects him in a harmful way. The business owner has a moral responsibility to any stakeholder, on whom he inflicts harm. Each of the three lines of argument provides an explanation of this limiting duty. What do these lines of argument enlighten on the duty of the business owner?

Justified limitation: harmful use

The first line of argument is derived from the labor theory. Each worker or producer can appropriate the profits of his labor if they exceed moral requirements. The point here is not that the business owner deserves the fruits of his property but that nobody else does. When a business owner is not giving a stakeholder what he deserves, he can be justifiably limited by the stakeholder. Means of production that are taken away from somebody else without compensating him with what he de-

serves, cannot be claimed as a property. Becker argues that this duty is more stringent in competitive situations. For example, when a producer deliberately uses natural resources in order to reduce costs, without compensating present or future stakeholders, he can be morally limited by stakeholders. This duty is also relevant in the international business context; (child)labor cannot be a morally justified resource, when the employee does not get what he deserves. The absence of laws does not dismiss off this moral duty. The most problematic aspect is to determine what a (future) stakeholder deserves and who is to decide upon the compensation due.

The second line of argument supposes that people need to acquire and use certain things for their individual happiness and wellbeing. It is 'a good thing' that people fulfill their needs. The business is a useful instrument for this aspiration. The business owner has a moral duty to limit himself when his individual happiness and wellbeing is secured. From this argument it follows that a business owner has a moral duty to limit his owner-value. Sternberg will certainly oppose to this argument for it will enhance the limitations a stakeholder can morally impose. What Sternberg needs is another purpose of the business, which can influence this claim of stakeholders. Could it be possible that a business has a social purpose, such as 'producing goods and services under the conditions of a fair income for the business owner'? Is Sternberg neglecting a business purpose beyond the interest of the owner, that can influence this limitation? This question can only be answered by exploring the existence of intrinsic or other values of the business. As Sternberg is explicitly rejecting any other value of the business besides the value of the owner, she does not have an additional argument to address this limitation.

The last line of argument is a political one: people as business owners have the liberty to exclude others from their properties and use it for their own welfare. Property rights cannot be limited, for it eliminates political liberties. This limitation is a negative one, for it supposes that is bad to limit the political liberty of people.¹⁶ The business owner can maximize his long-term owner value as long as he does not harm the political liberty of stakeholders. This argument is in line with Sternberg's argument that the business owner can pursue his goal as long as he abides by the law.

The three lines of argument provide three inter-



The end justifies the means, but what justifies the end?

Reflection on Sternberg; stakeholder concept as a teleopathy

pretations of the duty of prohibition of harm. The stakeholder can impose limitations on a business, when he does not get what he deserves, when the business owner exploits his business beyond his personal happiness and wellbeing and when the business harms his political liberties. Which duty prevails, depends on the situation.

When Sternberg argues that the stakeholder theory cannot restrict the owners long-term value beyond those limitations imposed by property rights, she cannot but acknowledge the duty of prohibition of harmful use. With this acknowledgment she introduces an ambiguous element into her theory of business ethics. Each line of argumentation carries with it another interpretation of harmful use. What the exact content of this duty is, depends on the situation. Furthermore, it is not a simple matter of choosing between the three limitations, that follow from this duty. This choice is preceded by a moral judgment. And this moral judgment cannot be evaluated against Sternberg's definition of business, for it surpasses the private sphere. Assuming that this judgment falls within the boundaries of the public sphere, than the principle of equality applies¹⁷. It is not just up to the business owner but as a moral judgment, it is up to all the stakeholders to make this judgment. And that is not a teleopathy but a teleologicality.

Stakeholder concept: a teleologicality

In this essay I reflected on the stakeholder concept, that Sternberg calls a teleopathy. My first reflection was aimed at her definition of business as the central argument of her critique. I had to conclude that despite the fallacies in her argument, her confusing definition could not be rejected on basis of these fallacies. Bending grammatical rules, confusing the desirable with the essential and a 'begging the question' reasoning do result in a confusing definition but not in an argument for rejecting this definition all together.

My second reflection dealt with the teleopathy of the stakeholder concept. After exploring the stakeholder concept and its teleological problem, I concluded that Sternberg has a point. Transferring the principle of equality from the public into the private sphere blurs the demarcation between the two spheres. Sternberg is trying to uphold this demarcation.

Having concluded that, I could not proceed rejecting all claims of stakeholders as teleopathical before getting into Sternberg's argument in more

detail. Arguing with Sternberg, the stakeholder concept is teleological as long as it does not limit the purpose of the business, the maximizing of owner-value, beyond the owner's property rights. On basis of the same property rights, Sternberg cannot but admit the duty of prohibition of harm. From this admittance, it follows that any stakeholder is justified in limiting business' purpose when it is doing him harm. Sternberg's teleopathy shifts to a teleologicality.

The stakeholder concept is not a questionable concept, as long as it respects the rights and duty of the business-owner as proprietor. Not until the stakeholder theory introduces into the private sphere the principle of equality, does it become a teleopathy.

Sternberg is defining business in a teleological way. She places the category of means-ends in the heart of her theory. The end of a business is maximizing long-term value for the business owner; the means are the goods and services it produces. The stakeholder concept is, according to Sternberg, not the just means to this end. But, as each end becomes a means to a higher end, is business the ultimate end of the chain of human society? Or is business a means to some higher end? As Sternberg extricates just one link out of the chain of means and ends, posing it as a solitary link, she seems to imply that business is the ultimate end of society. The question what justifies this end, becomes unanswerable. From a broader perspective, the stakeholder concept is metaphorically another link; with it a clearer picture of the chain comes to light. One of the pitfalls of the means-ends category is that it can be captured in a never ending chain. What counts as means at one point, is an end from another perspective. From the perspective of the stakeholder theory, Sternberg has fallen into this pitfall. She has switched the means of business with its end. Another definition of business can follow from this perspective: 'a very specific, limited action, whose defining purpose is selling goods or services by maximizing long-term owner value'. Does this definition capture the essences of business better than Sternberg's definition? The stakeholder concept does not supply this answer, neither does Sternberg. But what the stakeholder perspective does show, is that there is more to business than just business.



The end justifies the means, but what justifies the end?

Reflection on Sternberg; stakeholder concept as a teleopathy

Bibliography

- Arendt, H. (1970) *Lectures on Kant's political philosophy* (Chicago: University of Chicago Press 1992)
- Arendt, H. (1951) *The origins of totalitarianism* (New York: Harcourt 1985)
- Arendt, H. (1959) 'Overpeinzigen bij Little Rock' in *Responsibility and Judgment* vertaald in *Verantwoordelijkheid en oordeel* (Rotterdam: Lemniscaat 2004)
- Becker, L.C. & Becker, C.B. (ed) (1992) *Encyclopedia of ethics* (New York/London: Garland Publishing)
- Becker, L.C. (1977) *Property rights; Philosophic foundations* (Boston: Routledge&Kegan Paul 1980)
- Hume, D. (1739-1740) *A treatise of human nature* vertaald in *Traktaat over de menselijke natuur* (Amsterdam: Boom 2007)
- Kaptein, M. & Wempe, J. (2002) *The balanced company, a theory of corporate integrity* (New York: Oxford University Press)
- Roothaan, A. (2005) *Terugkeer van de natuur; De betekenis van natuurervaring voor een nieuwe ethiek* (Kampen: Klement)
- Sternberg, E. (1994) *Just business; Business ethics in action* (New York: Oxford University Press)
- Sternberg, E. (1999) 'The stakeholder concept: A mistake doctrine' *Foundation for Business Responsibilities* paper no 4
- Werff, S. van der (2010) *Vloeibaar eigendom* (Paper Wijsbegeerte Vrije Universiteit Amsterdam)

¹ Sternberg (1994), pag 111

² Sternberg (1994), pag 33, 'the purpose of defining a term is clarification'.

³ Sternberg (1994), pag 33

⁴ For the discussion, whether a business is an ontological collectivity or not, I refer to Kaptein&Wempe (2002). They explore the moral implications of this ontological assumption and conclude that it is essential for the stakeholder concept. Sternberg would not accept this ontological assumption but she also does not make clear what she ontologically means by an association.

⁵ Sternberg (1994), pag 6, my italics

⁶ Sternberg (1994), preface

⁷ Sternberg states that she has a naturalistic, positive position. It can be questioned whether a normative definition is compatible with a naturalistic approach. This position can also be criticized for its monological view of concepts, as Roothaan (2005) does: a monological view of concepts does not allow for differences in meaning; the world is knowable to all in the same manner. The person who uses a concept in a monological manner, can be accused of infringing his opinion on others. The dialogical view of concepts accepts that meaning of a concept is fluid and rejects the assumption that definitions are timeless and static. Another relevant question is which

criterion Sternberg uses to decide between different definitions? The answers are beyond the scope of this essay.

⁸ Sternberg (1994), pag 49

⁹ Sternberg (1994), pag 49-52

¹⁰ Arendt uses this distinction in several texts, for example in *Origins of totalitarianism*, pag 301 and *Responsibility and judgment*, pag 190-197

¹¹ Sternberg notices the existence of hybrid organizations, who have a public function but are privately owned or with a private function but publicly owned. She does not reject that the stakeholder concept is teleological for public and hybrid organizations. But the problems hybrid organizations face with conflicting purposes are irrelevant of the defining purpose of businesses and the teleopathy of the stakeholder concept for the private sector. Questioning the possibility of a strict demarcation of the public and private is beyond the scope of this essay.

¹² Sternberg (1999), pag 31

¹³ Becker (1977) mentions two lines of argumentation according to the labor theory. As the essence of both with regard to limitations are the same, I just mention three lines of argument, pag 107: 'conflicts between utility and desert form of the argument form labor may be similarly analyzed'.

¹⁴ Becker (1977), pag 12-23 states that a right of a person is a moral capacity to possess rights and that it regulates the moral relationship between right-holders and right-enablers or duty-bearers. What Becker assumes as a prior definition of a property is Hume's definition of a property: a moral relation between a person and a thing (Hume (1739-1740), Book II/Part/Section 10; Book III/part 2/Sections 2 and 3); Becker solely addresses the personal-part of the relation and neglects the thing-part of the relation. I refer to my essay *Vloeibaar eigendom* (2010) for a critique on Becker.

¹⁵ Becker (1977) mentions 11 rights and duties that are necessary rights for full liberal ownership. The right to the capital is the most fundamental one. This right is not mentioned by Sternberg. The three other rights I mention are classified by Becker as an addition to the right to the capital as sufficient condition for the establishment of a property right. For an explanation of these rights, I refer to Becker (1992), lemma Property Rights and Becker (1977), Chapter 2.

¹⁶ Becker (1977) pag 75, political liberties are all liberties guaranteed by the state

¹⁷ I refer to Arendt (1970) for this argument. This political argument is beyond the scope of this essay.

