Stakeholder Happiness Enhancement: A Neo-Utilitarian Objective for the Modern Corporation

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ABSTRACT: Employing utilitarian criteria, Jones and Felps, in “Shareholder Wealth Maximization and Social Welfare: A Utilitarian Critique” (Business Ethics Quarterly 23[2]: 207-38), examined the sequential logic leading from shareholder wealth maximization to maximal social welfare and uncovered several serious empirical and conceptual shortcomings. After rendering shareholder wealth maximization seriously compromised as an objective for corporate operations, they provided a set of criteria regarding what a replacement corporate objective would look like, but do not offer a specific alternative. In this article, we draw on neo-utilitarian thought to advance a refined version of normative stakeholder theory that we believe addresses a major remaining criticism of extant versions, their lack of specificity. More particularly, we provide a single-valued objective function for the corporation—stakeholder happiness enhancement—that would allow managers to make principled choices between/among policy options when stakeholder interests conflict.

KEY WORDS: utilitarianism; happiness; normative stakeholder theory; shareholder wealth maximization; shareholder primacy; corporate objective function

WHAT SHOULD BE THE OBJECTIVE of corporations in a modern market capitalist economic system? Put somewhat differently, what should the managers who govern corporations try to achieve? These questions embody what Walsh, in an introduction to a recent “shareholder vs. stakeholder” exchange, described as “arguably the most important theoretical and practical issue confronting us today” (2004: 349). In a recent article, we argued for the need to replace the widely-accepted objective of the corporation—shareholder wealth maximization (SWM) (Jones & Felps, 2013). We argued: 1) that there are serious problems with twenty-first-century US capitalism, 2) that some of these problems are related to the single-minded pursuit of corporate profits, and 3) that there are serious flaws in the logical sequence that leads from corporate profit maximization to maximal social welfare, a utilitarian goal. However, although we proposed some criteria for evaluating competing corporate objectives and suggested that some variant of nor-

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mative stakeholder theory (NST) would lead to superior social welfare outcomes, we did not present an actual alternative to SWM, leaving this difficult task to future work. In this article, we provide such an alternative by articulating and defending a new corporate objective that represents a significant refinement of NST in terms of specificity, thus allowing managers to make principled choices between/among policy options. In terms of the old warning, “If it ain't broke, don’t fix it,” Jones and Felps (2013) established the existence of a problem—i.e., “it’s broke.” In this article, we aim to present a solution—i.e., “how to fix it.”

The article is structured as follows. First, we briefly summarize our extended critique of the moral soundness of SWM from a utilitarian perspective. We then outline the basic tenets of NST, a theoretical alternative to SWM, highlighting an important weakness in extant versions. Following this discussion, we propose that stakeholder happiness enhancement (SHE), a version of NST with substantially improved specificity, could serve as an alternative to SWM as a corporate objective. After elaborating on several facets of SHE, we compare it to SWM “head to head” in terms of their ability to improve social welfare, concluding that SHE fares quite well. We then discuss a number of managerial implications of SHE, focusing on the sorts of attitudes, actions, and obligations that differentiate SHE from SWM. This analysis is followed by a section in which we raise and discuss some lingering theoretical and empirical issues that both circumscribe the application of SHE and suggest directions for future research. In the final section, we conclude that SHE represents a viable new credo for an economy that has experienced enormous changes since the reigning corporate objective, SWM, was first articulated.

THE MORAL LIMITATIONS OF SHAREHOLDER WEALTH MAXIMIZATION

Jones and Felps (2013) positioned SWM in the context of an integrated set of economic institutions intended to improve social welfare for US society as a whole. These institutions, including SWM, are morally justified by a rule utilitarian system in which, if the rules (means) are appropriate to the task and if everyone follows the rules, the desired outcomes (ends)—maximal social welfare—should obtain. In addition, these authors drew six conclusions that are relevant to this article. While this article builds on these points, it does not formally revisit them.

1) Although advocates of corporate social responsibility and proponents of normative versions of stakeholder theory have made some highly credible arguments in support of corporate obligations to stakeholders in addition to shareholders, SWM remains the dominant perspective regarding the objective of corporate activities in the US economy.

2) The existence of a number of problems in twenty-first-century market capitalism—e.g., large numbers of unemployed/underemployed workers, recurring scandals like the collapse of the subprime mortgage “bubble,” the increasingly unequal distributions of wealth and income in the US, significant transfers of employee wealth to shareholders through cuts in company benefits—and their relationship to
the quest for greater corporate profitability justify a critique of SWM and a search for a credible alternative.

3) There are two general approaches to improving the functioning of modern US market capitalism: (a) reforming the institutional context in which SWM operates to allow market forces to provide improved outcomes, or (b) focusing on normative corporate governance directly by modifying the corporate objective itself. Focusing directly on modifying the corporate objective makes sense because: (a) talented economists and policy makers have had limited success trying to “perfect” the institutions surrounding SWM over several decades, and (b) the theoretical and political impediments to meaningful institutional reform are enormous.

4) Since advancing social welfare has been considered to be the primary function of the economic system at least since the era of Adam Smith, and since existing versions of NST are concerned with social welfare in a general sense, the moral justification of SWM from a utilitarian perspective was examined in depth.3

5) Social welfare ought to be seen in terms of human happiness rather than simply equated to economic welfare. From this perspective, economic welfare is simply the means to the end—human happiness—sought through the economic system. In addition, evidence from a number of sources attests to a weak empirical link between income and happiness.

6) Since contemporary supporters of SWM are quite vague regarding the theoretical link between SWM and social welfare maximization, it was necessary to interpret the arguments of one prominent advocate, Michael Jensen (2002), as follows: “In the context of competitive markets, shareholder wealth maximization leads to economic efficiency. Efficient markets, because they make the most productive use of society’s resources, lead to greater levels of aggregate economic wealth. Greater economic wealth leads to greater social welfare” (Jones & Felps, 2013: 216). This logical sequence was found to contain several empirical or theoretical claims, most of which were found to be empirically and/or conceptually weak. Furthermore, since the claims are sequential, the validity of the entire argument is highly suspect, leaving the functioning of market capitalism and the behavior of the firms that populate it with seriously compromised moral foundations. NST, in some unspecified form, was suggested as a viable corporate objective, potentially providing greater social welfare than SWM. Since we continue to believe that a refined version of NST could serve as a corporate objective superior to SWM, we begin our analysis with a brief review of the major tenets of extant normative stakeholder theory.

NORMATIVE STAKEHOLDER THEORY

With respect to questions regarding what managers should strive for in directing firm activities, two categories of answers dominate the controversy, leading to what some have called the shareholder/stakeholder debate. The conventionally accepted objective, SWM, holds that corporate managers should increase the wealth of the firm’s shareholders to the greatest extent possible. The principal challenger, NST, holds that corporate managers should consider the interests of constituent groups who contribute to the firm’s existence in their decision making processes. In recent
years, stakeholder theorists have provided considerable refinement of this general theme—e.g., feminist ethics (e.g., Wicks, Gilbert, & Freeman, 1994), Kantian capitalism (Evan & Freeman, 1987), and principles of fairness (Bosse, Phillips, & Harrison, 2009; Phillips, 1997, 2003). While these scholars may disagree on the details, the general “normative core” of stakeholder theory, as stated above, is widely accepted (Donaldson & Preston, 1995; Jones, Felps, & Bigley, 2007). However, of the seven major moral philosophies reviewed by Jones and colleagues (2007), only utilitarianism has yet to be identified as a potential foundation for NST. The omission of utilitarianism stands out because, as Jones and Felps (2013) have argued, utilitarianism—expressed as social welfare—is widely thought to be the moral foundation of market capitalism. Among other things, this article aims to correct this omission.

Although the language of NST certainly suggests a concern for improving social welfare—e.g., “take the interests of stakeholders into account” or “balance the interests of the firm’s stakeholders”—any assessment of the theory’s utilitarian value depends on how its normative elements are articulated. After discussing a key criticism of NST, we will present a formal statement of our chosen alternative along with discussions of its key characteristics.

THE SPECIFICITY OF THE CORPORATE OBJECTIVE

One facet of the shareholder/stakeholder dialogue is the ability of NST to provide practicing managers with a single-valued objective function—i.e., an analog to the normative mandate that managers should maximize the value of the firm’s equity owners—that allows managers to make principled choices among policy alternatives. Advocates of SWM have argued convincingly that NST has no such function, leaving the theory vague and underdetermined and managers employing it without an objective specific enough to guide managerial action (Jensen, 2002; Marcoux, 2000; Sundaram & Inkpen, 2004). Normative stakeholder theorists have yet to provide either: (1) the desired single-valued objective function or (2) a vigorous argument as to why one is not needed.

Indeed, an ideal corporate objective would give managers specific behavioral guidance regarding how they should direct firm activities. Assertions about the importance of specificity are consistent with findings in the organizational behavior literature that a goal must be specific in order to direct and motivate action (for a review, see Latham, 2004). As compared to vague “do your best” goals, specific goals allow actors to know what they are aiming for. Moreover, specific goals facilitate the development of feedback mechanisms, whereby progress towards goals can be assessed (Erez, 1977). Thus, a common refrain in the goal-setting literature is “that which gets measured gets done” (Latham, 2004: 109).

As proponents of SWM have pointed out, NST fares poorly on the specificity dimension. For example, Jensen argues that NST: (a) is “fundamentally flawed because it violates the proposition that any organization must have a single-valued objective as a precursor to purposeful or rational behavior” (2002: 237), and (b) offers “no conceptual specification of how to make the tradeoffs among stakeholders that
must be made" (2002: 242). Here Jensen is concerned that the normative mandates provided by NST, often articulated as "balance stakeholder interests," give little guidance to managers regarding what they should do in practice. Marcoux (2000) has similar concerns. After detailing how the notion of balance is at the heart of many formulations of NST, he suggests that the word balance is too vague because it doesn't specify what is to be balanced or how balance is to be achieved.

In particular, NST could plausibly be suggesting that managers: (1) distribute benefits equally among stakeholders, (2) distribute benefits such that the ratio of inputs to outcomes is equal—i.e., stakeholders get out what they put in (Phillips, 2003), or (3) design a procedure that gives each stakeholder group roughly equal input into the decision making process (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). Marcoux worries about the practical implications of this theoretical multiplicity.

The practical problem is that the concept of balance will radically underdetermine the proper course of action in real-life decision situations faced by managers. This radical underdeterminism leaves well-meaning managers in a quandary and ill-meaning managers essentially free to do as they wish. (2000: 93)

We agree that a mandate to "balance stakeholder interests" provides vague guidance to managers. Moreover, the rhetorical ambiguity associated with these terms may mean that scholars perceive more consensus than actually exists about what constitutes normative stakeholder theory (cf. Kaler, 2003; Jones & Wicks, 1999).

Some proponents of NST have addressed the specificity critique. A first reaction of stakeholder scholars is to go on the offensive and suggest that SWM is less specific than it seems—i.e., that the "specificity gap" is smaller in practice than it is in theory. According to this argument, while stock prices are clearly observable, they are also affected by macro-economic forces and investor fads that have little to do with managerial performance. As such, they are woefully vague as signals regarding how to create or capture value. In other words, NST advocates concede that while the end goal is very specific—i.e., increase share value—the intermediate goals that detail how managers might assess progress towards that objective are much less specific (Freeman, Wicks, & Parmar, 2004; Phillips, Freeman, & Wicks, 2003).

Second, some have attempted to reduce the specificity gap by proposing extensions to stakeholder theory. For example, Phillips (1997) develops a meritocratic "principle of fairness" that argues that benefits should be distributed in proportion to the relative contributions made to the organization's success—i.e., in equity theory terminology, that the ratio of inputs to outcomes should be balanced (the same) across stakeholders. However, this particular proposal is difficult to put into practice, because both the inputs (e.g., capital, labor, investments in relationship-specific knowledge) and outcomes (e.g., safe working environment, product quality, dividends) are disparate and incommensurable. Without some common metric on which to compare these variables, it would be difficult for managers to achieve a rigorous "balancing" of stakeholder input to outcome ratios.
Another attempt to add specificity to stakeholder theory is offered by Hosseini and Brenner (1992), who propose a complex procedure (an analytic hierarchy process) for making the choices that most satisfy stakeholder preferences. The sheer complexity and informational requirements of this procedure (e.g., gathering data from every stakeholder about their preferences on every possible outcome type) have meant it has not been operationalized by scholars, much less adopted by managers. In summary, while these reformulation efforts may be notable for other reasons, none of them significantly closes the specificity gap between SWM and NST.

Although SWM may not be perfectly specific, stock value does provide a scorekeeping device along with visible and dynamic feedback about progress toward the objective. Under the NST mandate, managers must balance the interests of stakeholders; that is, they must make important tradeoffs, not only between the interests of shareholders and other stakeholders, but also among such stakeholder interests as employee benefits, customer service, and supplier prices. With no common metric, this is a challenging task indeed.

Finally, a third reaction is exemplified by Phillips and colleagues, who concede the battle—"stakeholder theory does fail to provide an algorithm for day-to-day decision making" (2003: 485)—but claim victory in the war because stakeholder theory has a broader set of benefits. As noted by Phillips and colleagues, "simplicity is not the lone criterion of usefulness" (2003: 486). If one's objective is undesirable, then the diligent and rapid pursuit of that goal will not produce desirable outcomes. Those who doubt that SWM is good path to enhanced social welfare might prefer to move haltingly and imprecisely in the right direction rather than proceed quickly and directly in the wrong direction (e.g., Freeman et al., 2004). While a specificity gap is likely to persist to some extent, the next section outlines a version of NST that is substantially more specific than extant versions and, we believe, will provide social welfare outcomes superior to those provided by SWM, thus better fulfilling the utilitarian function of the economic system.

**STAKEHOLDER HAPPINESS ENHANCEMENT**

We propose that, for publicly-held corporations in developed economies, the direct pursuit of social welfare, through a corporate objective we call *stakeholder happiness enhancement* (SHE), should replace the profit motive as the driving force behind economic activity. A formal statement of our refinement of NST follows a discussion of some adaptations we regard as useful in light of neo-utilitarian thought.

Our proposed objective function contains elements of both classical utilitarianism and neo-utilitarianism. By focusing on the promotion of human happiness instead of economic wealth, our normative theory restores one element of classic utilitarianism. Early moral philosophers (e.g., Aristotle, 2000; Aquinas, 1947) and, in particular, utilitarians (e.g., Bentham, 1823; Mill, 1863; Sidgwick, 1879) saw human happiness as the ultimate end of moral systems. However, starting with Marshall (1920) and formalized by Samuelson (1948), economists have equated "utility" with the preferences economic actors reveal through their exchanges.
Utility is taken to be correlative to Desire or Want. It has been already argued that desires cannot be measured directly, but only indirectly, by the outward phenomena to which they give rise: and that in those cases with which economics is chiefly concerned the measure is found in the price which a person is willing to pay for the fulfillment or satisfaction of his desire. (Marshall, 1920:78)

Equating happiness and economic preferences greatly facilitates the creation of certain kinds of economic models, but it also conflates economic activity (the means) and happiness (the desired end) even though the empirical correlation between the two in developed economies is modest at best. Recently, there has been a movement to disentangle these concepts, as expressed by the initiative to replace Gross Domestic Product with a National Wellbeing Index (Diener & Seligman, 2006). We echo the view that happiness and economic welfare are distinct concepts.

However, while a focus on happiness is classic utilitarianism, our approach is best described as neo-utilitarian. The prefix neo refers to an updated version of a classic idea. Neo applies to our utilitarian objective for two reasons. First, our normative theory is new in that it draws on findings from the nascent field of happiness studies to inform its utilitarian calculus. Second, the tenets we develop are neo in that they follow recent philosophical extensions of utilitarianism, which acknowledge the limitations of human cognition and the uncertain relationship between intentions and outcomes (Hardin, 1988, 2003). To attempt to cope with these limits, neo-utilitarian thinking seeks to develop some rules that simplify and bound the utilitarian calculus. In what follows, we develop such bounding rules in the context of managers who direct firm activities in a market economy.

Defining Happiness

For the purposes of this article, we define happiness as the sum of positive feelings (e.g., contentment, satisfaction, pleasure, joy) net of negative feelings (e.g., agitation, anxiety, fear, anger, pain). Originally articulated by Epicurus, this conception of happiness is consistent with classic (Sidgwick, 1879) and more recent (Broome, 1991; Griffin, 1986; Hare, 1981; Hardin, 1988, 2003; Kagan, 1991; Singer, 1981, 2011) versions of utilitarianism. It is also consistent with modern approaches to measuring happiness within psychology, economics, and management (Kahneman, Diener, & Schwarz, 1999; Kahneman, Wakker, & Sarin, 1997; Wright & Cropanzano, 2004). As with any concept important enough to span several disciplines, the social sciences have a number of terms for happiness. Depending on home discipline, personal preference, and publication outlet, scholars may refer to what we are calling happiness as subjective well-being, welfare, quality of life, or utility. We treat these terms as synonyms. In addition, following Kaplow and Shavell (2001), we regard aggregate happiness over time as the equivalent of social welfare.

However, we do not regard the term interest as synonymous with happiness. At least as used in the academic literature, "interest" usually refers to an individual's preferences between competing options—i.e., employees may prefer income to safe working environments or engaging work (Evan & Freeman, 1987). However, a good deal of work on emotional forecasting suggests that people sometimes prefer (i.e.,
are interested in) options that undermine happiness (Gilbert, 2006; Offer, 2006). Moreover, as noted above, in choosing between options, the things that different stakeholders have interests in are often incommensurable—e.g., safe working environment, product quality, dividends—with no common metric to allow meaningful choices between/among competing interests. In addition, since interest usually is based on discrete preferences, it is an ordinal concept, thus allowing only the ranking of options; in contrast, as a continuous concept, happiness is more refined because it incorporates the intensity of pleasure/pain (Ng, 1997). In sum, while related, interest and happiness should not be treated as synonyms. Our choice of stakeholder happiness as the relevant measure of social welfare thus has three distinct advantages over the use of interests. It obviates: (1) the uncertain link between preferences and welfare (by focusing directly on welfare), (2) the problem of ordinal rankings, and (3) the problem of incommensurability (by using a continuous common metric). Nonetheless, since the measurement of happiness is a nascent and developing process, we discuss some measurement-related issues later in the article.

**Neo-Utilitarian Refinements**

Classic utilitarianism (Bentham, 1823; Mill, 1863; Sidgwick, 1879) is nicely summed up by Posner as follows:

Utilitarianism . . . holds that the moral worth of an action (or of a practice, institution, law, etc.) is to be judged by its effect in promoting happiness—'the surplus of pleasure over pain'—aggregated across all of the inhabitants . . . of "society." (1979: 104)

Modern—i.e., neo—utilitarianism (Broome, 1991; Griffin, 1986; Hare, 1981; Hardin, 1988, 2003; Kagan, 1991; Singer, 1981, 2011) draws on findings from the emerging field of happiness studies to inform its utilitarian calculus (Layard, 2005) and acknowledges the limits of human cognition and the uncertain relationship between intentions and outcomes (Hardin, 1988, 2003). In so doing, neo-utilitarians attempt to clarify and reformulate classic utilitarianism by adopting a variety of heuristic boundary conditions that simplify the moral calculus. In particular, neo-utilitarians address two concerns regarding applications of the greatest happiness principle. First, some are concerned that happiness is a subjective intrapersonal experience, arguing that there is no way to make comparisons across individuals (for a review and refutation, see Bailey, 1997). Second, even if interpersonal comparisons of well-being are possible, some critics suggest that we simply do not have enough information, time, or cognitive capacity to know how our actions might relate to the welfare of everyone else in the world (Hayek, 1976: 17–23). This has been called the "ideal observer" critique, because it suggests that only an ideal observer could appropriately execute utilitarianism (Rawls, 1999: 161). These concerns are considered in turn below.

**Commensurability.** The neo-utilitarian response to concerns about interpersonal comparisons is that the human experiences of happiness and suffering are not radically different across people and can be compared (Ng, 1997). Here, the neo-utilitarians draw on research suggesting that, due to biological and cultural evolution, human
brains register pleasure and pain in reliable and interpersonally comparable ways (Buss, 2000; Singer, 1981). Indeed, happiness is strongly associated with physiological experience. Subjective measures of happiness correlate negatively with cortisone levels and cardiovascular symptoms (e.g., high blood pressure) (Blanchflower & Oswald, 2011, Steptoe, Wardle, & Marmot, 2005). At the national level, suicide rates also correlate negatively with happiness measures (Blanchflower & Oswald 2011). Therefore, while we may have to rely on subjective measures of well-being (e.g., Diener, Suh, Lucas, & Smith, 1999), this does not mean that comparing one person’s happiness to that of another is like comparing apples and oranges. Instead, neo-utilitarians see happiness as ontologically objective, but requiring a subjective methodology of assessment. Furthermore, the astounding robustness of research results across cultures on the determinants of happiness increases confidence in the interpersonal comparability of findings (Blanchflower & Oswald, 2011). Thus, the neo-utilitarian rejection of radical versions of experiential relativism is supported by empirical evidence.

**Bounding the Moral Calculus.** Equally important for our stakeholder happiness objective, is the fact that neo-utilitarians assert that real observers with bounded rationality and imperfect information can apply utilitarian principles (Singer, 2011). That is, evidence can be used to formulate heuristic boundary conditions that simplify the moral calculus to levels that are compatible with the limits of human cognitive capacity. Thus, while the core moral impulse of utilitarianism—i.e., to motivate people to pursue good consequences for all—is invariable, how to act on that impulse is an ongoing and context contingent project. “[Utilitarian] theory is constantly subject to revision and improvement as social scientific understandings of psychology and social interactions advance” (Hardin, 1988: 168).

The most generic adaptations of neo-utilitarianism attempt to recognize the limitations of our rationality, awareness, time, and will-power. Thus, a common refinement of classical utilitarianism is to suggest that one’s moral focus should be narrowed from the unrealistic goal of seeking the happiness of “everyone forever” to seeking the happiness of “the people I’m confident my actions will affect in the foreseeable future” (Bailey, 1997). In the case of corporate decisions, this goal applies to the subset of human beings whose happiness the firm can affect most directly—its stakeholders. At this point, a definition of the term stakeholder becomes critical. According to Phillips, a stakeholder is “any individual or group of individuals that is the legitimate object of managerial or organizational attention” (2003: 25). Phillips also stresses that normatively legitimate stakeholder obligations are incurred when “the organization voluntarily accepts the contributions of some group or individual (2003: 25). Henceforth, when we use the term stakeholders, we mean normatively legitimate stakeholders.7

Furthermore, if managers were to devote significant firm resources to helping non-stakeholder groups in distress—e.g., children with AIDS in Africa—stakeholders might stop contributing to the firm’s operations, thereby compromising its utilitarian function of wealth creation (Post, Preston, & Sachs, 2002). In accordance with these insights, our first proposed decision-making heuristic is that managers’ moral objective in directing firm activities should be restricted to the happiness of
stakeholders, keeping in mind that shareholders are also stakeholders. In essence, we join virtually all advocates of NST in rejecting the notion that managers should seek to maximize the well being of "society" as a whole (e.g., Walsh, 2005).

Our second proposed decision-making heuristic parallels Jensen's (2002) modification of SWM in advocating that managers should seek, rather than maximize, firm value, as well as Friedman's (1970) admonition to increase firm profits. For SHE, this leads to the second heuristic: managers should be satisfied with increasing (rather than maximizing) stakeholder happiness as they confront individual problems and consider specific policies. Given the complexities and uncertainties facing managers, perfect maximization of stakeholder happiness is not only impossible, it is also a recipe for what has been called analysis paralysis. As such, we suggest that managers should pursue courses of action likely to enhance, build, increase, and improve stakeholder happiness in the same way that they currently attempt to enhance, build, increase, and improve company profitability. Next, since a full happiness maximizing calculus of the projected effects of corporate decision options on each individual stakeholder would border on impossible, our third decision heuristic is that managers should focus on stakeholder groups rather than on individuals.

In summary, we propose that managers will do a better job at pursuing social welfare if they: (a) focus on stakeholders in the foreseeable future, rather than everyone forever; (b) are satisfied with making choices that enhance, rather than maximize, stakeholder happiness; and (c) think about stakeholder welfare at the group level. We offer these simplifying heuristics in the spirit of the requirement from moral philosophy that ought implies can, meaning that it is inappropriate to require anyone to do anything that he/she cannot do. Advocating impossible tasks is not part of our normative project.

Incorporating elements of classical utilitarianism—i.e., happiness—and neo-utilitarian refinements, the SHE normative objective for the modern corporation can be stated as follows:

The objective of the corporation should be to enhance the aggregate happiness of its normatively legitimate stakeholders over the foreseeable future.

As a unitary and measurable objective, SHE encourages progress in the right direction—increased social welfare—in a way that is more precise and decisive than other normative stakeholder theories. Therefore, SHE should advance social welfare more effectively than extant forms of NST. Our sense is that SHE is less precise than SWM, since stakeholder happiness is more difficult to measure than financial consequences for shareholders. Thus, while SHE closes the specificity gap between other normative stakeholder theories and SWM, it does not do so completely.

Applying the Stakeholder Happiness Objective

As discussed above, the SHE objective: (1) replaces balancing, an indeterminate process, with enhancement of aggregate happiness; and (2) replaces interests, which involve incommensurable metrics, with happiness, a common metric. In so doing, SHE provides managers with a single-valued objective and a methodology for making principled choices between/among policy options, thus addressing one of the major
criticisms of normative versions of stakeholder theory. More specifically, application of the SHE objective to corporate decision making would involve the following steps, most of which have an analog in attempts to maximize/enhance shareholder wealth.

1. In the context of corporate operations, identify opportunities to enhance stakeholder happiness. [When managers find themselves in situations in which decreases in happiness are unavoidable, they should attempt to minimize total reductions in happiness.]

2. Generate alternative policies/actions to exploit these opportunities.

3. Identify stakeholders, including shareholders, expected to be affected by the decision and estimate the number of members in each group.

4. Estimate the value of the happiness each alternative will bring each stakeholder group, relative to taking no action. As discussed below, depending on which is most efficacious, managers may use a combination of existing or emerging scientific research, surveys, focus groups, intuition, and/or small-scale experiments.

5. Adopt the policy/action expected to provide the greatest net increase in aggregate stakeholder happiness.

This basic decision-making procedure requires some important caveats. First, real managerial decision-making rarely proceeds in such an orderly fashion, and need not do so in order to be morally justified. For example, managers may have a way to improve stakeholder happiness and attempt to identify a problem that allows them to use that technique—i.e., a solution in search of a problem (Cohen, March, & Olsen, 1972). Or, when managers see opportunities to enhance the happiness of one or more stakeholder groups without reducing the happiness of any other stakeholder group—analogous to Pareto efficiency improvements—they may do so without employing an optimality calculation. Second, managers are likely to disagree about the best means of enhancing stakeholder happiness. Honest disagreements are bound to occur in contexts where optimal solutions are difficult to identify. As argued by neo-utilitarians as well as management scholars (e.g., Hardin, 1988, 2003; Levinthal & March, 1993), indeterminacy stems from limits on information, time available for decision-making, mental ability, valid evidence, and the independence of choices. Given that managers must make interdependent choices with imperfect information, imperfect intelligence, and often do so quickly, we can expect that their judgments regarding stakeholder happiness (as they currently are regarding shareholder wealth maximization) will often be suboptimal.

Nevertheless, we believe that going through the above five-step exercise would help managers enhance stakeholder welfare. It would cause them to think carefully about which groups will be affected by a given decision—step 3. It would also cause them to consider the research on what makes people happy as well as the extent of happiness generated, and to attempt to better understand the happiness of their stakeholders through some combination of reading relevant literature, perspective taking, focus groups, surveys, or small-scale experiments—step 4. The process of attempting to put numbers onto happiness would force debate, discussion, and inquiry about the welfare of stakeholders—steps 3–4. Moreover, the numbers gen-
erated would allow principled tradeoffs, through the common metric of happiness, to be made when the interests of stakeholder groups conflict—steps 4-5. Finally, we would argue that repeated attempts to apply such a decision making procedure, along with follow-up about the consequences of decisions, would lead to more refined happiness estimates. In other words, we could imagine managers developing an increasingly sophisticated collective intelligence about what will increase the happiness of their stakeholders.

Note that nothing in this set of procedures is directly concerned with the financial viability of the firm. In particular, we have proposed no lower limit on firm profitability. We eschew such a specification because any proposed policy or action that would seriously undermine firm financial viability is accounted for indirectly by a substantial deterioration in the happiness of the firm’s shareholders, who stand to lose their investments, as well as in the happiness of the firm’s other stakeholders. As argued by Jones and Wicks:

An essential feature of practicability in stakeholder theory is that the firm remain viable, which usually means profitable. Managers who attempt to implement an impractical normative [policy] will fail in their basic moral obligation to protect (and advance) the “stakes” of those who make the firm a going concern. (1999: 214)

This constraint is not a concession to self-interest. Profitability is normatively required if the firm is to continue to generate the surpluses necessary to continue making people happy over time. If the firm folds: (1) employees would lose their livelihoods; (2) suppliers would lose a key customer; (3) customers would lose access to desirable products or services, at least temporarily; (4) local communities would lose sources of employment and tax revenues; and so on. In short, all groups with stakes in the company as an ongoing concern would experience decreases in happiness if the firm were to go bankrupt. Thus, financial viability is a necessary condition for the provision of happiness to stakeholders. In the next section, we argue that SHE should be preferred over SWM in terms of improving social welfare.

SWM, SHE, AND SOCIAL WELFARE

With respect to the relative utilitarian virtues of SWM and SHE, the critical question becomes: which of these two normative corporate objectives is likely to produce greater welfare for society as a whole? Jones and Felps (2013) advanced a number of conceptual criteria related to social welfare on which corporate objectives could be judged. Here we assess how SWM and SHE compare on these criteria.

Criterion 1—Corporate objectives based on realistic assumptions about the nature of competition in the economy are, all else being equal, likely to produce greater social welfare than those based on unrealistic assumptions.

SHE, like all versions of NST, is clearly superior to SWM on this dimension. NST does not depend on any assumptions regarding competitive conditions in the economy. SWM depends on the existence of highly competitive markets which do not exist in the US economy.
Criterion 2—Corporate objectives that allow/encourage efficiencies based on moral behavior in general and trustworthy, cooperative behavior in particular will, all else being equal, produce greater social welfare than those that require self-interested behavior at the corporate level.

SHE, like all versions of NST, is clearly superior to SWM on this dimension as well. There are several ways of producing efficient outcomes that require behavior distinctly at odds with the self-interested behavior that lies at the heart of SWM. Because NST focuses on the well-being of all corporate stakeholders, it is highly receptive to cooperative ("win-win") solutions to economic problems that depend on mutual trust. NST also permits/supports the moral, even generous, treatment of stakeholders that can lead to efficiencies resulting from greater commitment to the company's goals on the part of these stakeholders. SWM, because its focus is ultimately on shareholder financial interests (profits), makes it difficult to establish and sustain trust among the firm's stakeholders. Sooner or later, the interests of one or more stakeholder groups will come into conflict with the interests of shareholders and the SWM firm will be forced to betray the trust on which the efficient behavior is based.

Criterion 3—Corporate objectives that explicitly account for the costs of negative externalities will, all else being equal, produce greater social welfare than those that ignore these costs and can lead to efficiencies resulting from greater commitment to the company's goals on the part of these stakeholders. SWM, because its focus is ultimately on shareholder financial interests (profits), makes it difficult to establish and sustain trust among the firm's stakeholders. Sooner or later, the interests of one or more stakeholder groups will come into conflict with the interests of shareholders and the SWM firm will be forced to betray the trust on which the efficient behavior is based.

Criterion 4—Corporate objectives that focus directly on the social welfare of company stakeholders will, all else being equal, produce greater social welfare than those that simply equate economic and social welfare.

While all versions of NST have the potential for superiority over SWM on this dimension, SHE makes that superiority explicit. SWM is an integral part of institutional arrangements that are concerned only with increasing economic welfare. However, there is mounting evidence to the effect that improvements in economic welfare are only weakly related to improvements in social welfare as measured in terms of human happiness, particularly in prosperous societies such as the US. While extant versions of NST may focus on social welfare either directly or indirectly (through economic welfare), the focus of SHE on social welfare, as represented by human happiness, is clear and direct. Thus, on this criterion, SHE appears to be superior to both SWM and existing versions of NST.

Criterion 5—Corporate objectives that apply an act utilitarian logic that focuses directly on the welfare of legitimate corporate constituents with respect to the decision at hand will, all else being equal, provide greater social welfare than those
applying a rule utilitarian logic that depends on a sequence of interrelated propositions of dubious conceptual and empirical validity.

SHE, like all versions of NST, is clearly superior to SWM on this overarching dimension of utilitarian suitability as well. SWM is part of a set of institutions purporting to maximize social welfare over time. In order for social welfare to be maximized, several assumptions regarding the workings of these institutions have to hold. Individually these assumptions are empirically and conceptually dubious and, because they are interrelated, the logic of the sequence itself is rendered highly dubious. SHE, along with some other versions of NST, focuses directly on the consequences of the corporate decision in question, asking “what decision will yield the greatest aggregate stakeholder happiness?” The act utilitarian calculus for making SHE-based decisions involves assessing the happiness effects of available policy options and choosing the one producing the greatest net happiness among the company’s stakeholders. While this process is not simple (see below for a more extensive discussion), it does not require a complicated cluster of institutions intended to produce maximal social welfare over time to work according to an elaborate set of highly questionable assumptions.

In summary, we find that the SHE corporate objective is superior to SWM on all five criteria associated with improving social welfare. However, even though SWM and SHE both have equally specific objectives—single-valued measures of shareholder wealth and stakeholder happiness, respectively—it must be conceded that, at present, the measurement of shareholder wealth is more straightforward and precise than the measurement of stakeholder happiness. We address this issue more fully below.

**IMPLICATIONS FOR MANAGERS**

The adoption our proposed stakeholder happiness corporate objective would have substantial prescriptive implications for managers. These implications fall into three categories: (1) a different managerial mindset, (2) different corporate policy options, and (3) a different set of moral obligations for managers.

**The Managerial Mindset**

The SHE corporate objective would make stakeholder happiness important in its own right, rather than only instrumentally valuable based on its contribution to profits. For managers who are skeptical that stakeholder happiness is definitively related to profits, our new objective provides a normative, rather than an instrumental, rationale for promoting happiness. Indeed, as compared to the shareholder model, the burden of proof shifts dramatically. Under SWM, a responsible manager would require compelling evidence that stakeholder happiness producing policies would increase profits to be justified in pursuing such actions (Friedman, 1970). Under the stakeholder happiness objective, this responsible manager is directed to pursue activities intended to produce happiness for one or more stakeholder groups unless there is a compelling reason to believe that such actions would undermine overall stakeholder happiness—e.g., by undermining firm viability. This difference is important. Managers are often forced to act from positions of deep uncertainty
(Cohen et al., 1972; Levinthal & March, 1993), and it is often unclear how, or if, their actions will affect outcomes. In short, there is usually wide latitude for managerial discretion (e.g., Child, 1972). In ambiguous situations, a preference for those actions thought to produce stakeholder happiness directly may have a significant influence on managerial behavior.

**Different Corporate Policy Options**

The stakeholder happiness objective prescribes managerial policies and actions that are sometimes quite different from those prescribed by SWM. Table 1 describes the types of policy options permissible under each objective. Most importantly, SHE endorses *unprofitable* policies if aggregate stakeholder happiness increases—cell C1—and discourages profitable policies if aggregate stakeholder happiness decreases—cell A3. Table 2 compares SWM and SHE along several dimensions, illustrating both the similarities of and the differences between the two normative theories. In terms of important differences, SWM relies on assumptions of perfect competition, the pricing of all goods, and the absence of externalities, while SHE makes none of these unrealistic assumptions. Indeed, a calculus based on SHE explicitly incorporates degrees of competitiveness and externalities into the analysis.

Of course, there are many instances where firm policies would be consistent with both SWM and the SHE model—e.g., cells A1 and A2 of Table 1. Indeed, such win-win policies have been well-documented (e.g., Pfeffer, 1998, 2010; Warr, 2007). For example, having clear compensation policies is likely to make employees happier and improve financial performance. More broadly, numerous studies on job design conclude that organizational interventions that increase the variety, autonomy, significance, completeness, and feedback provided by jobs will increase both job satisfaction and job performance (Warr, 2007; Fried, 1991). Similarly, if a firm discovers a technique that can provide higher quality products at the same price to consumers, then the result is likely to be happier customers and happier shareholders.

### Table 1: Comparison of Managerial Goals under SWM and SHE

<table>
<thead>
<tr>
<th>Happiness of Other Stakeholder Groups</th>
<th>A—Increases (+)</th>
<th>B—Unchanged (0)</th>
<th>C—Decreases (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1—Increases (+)</td>
<td>Desirable under SWM</td>
<td>Permissible, but not desirable, under SWM</td>
<td>Impermissible under SHE only if total stakeholder happiness increases</td>
</tr>
<tr>
<td></td>
<td>Desirable under SHE</td>
<td>Desirable under SHE</td>
<td>Desirable under SHE</td>
</tr>
<tr>
<td>2—Unchanged (0)</td>
<td>Desirable under SWM</td>
<td>Initial Position</td>
<td>Impermissible (and Irrational)</td>
</tr>
<tr>
<td></td>
<td>Desirable under SHE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3—Decreases (-)</td>
<td>Desirable under SWM</td>
<td>Impermissible (and Irrational)</td>
<td>Impermissible (and Irrational)</td>
</tr>
<tr>
<td></td>
<td>Desirable under SHE only if total stakeholder happiness increases</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SWM—Shareholder Wealth Maximization
SHE—Stakeholder Happiness Enhancement
*We assume that shareholder happiness rises and falls in concert with shareholder wealth.*
Table 2: Comparison of Shareholder Wealth Maximization (SWM) and Stakeholder Happiness Enhancement (SHE) as Corporate Objectives

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Under SWM</th>
<th>Under SHE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative Objective</td>
<td>Seek enhanced shareholder wealth</td>
<td>Seek enhanced stakeholder happiness</td>
</tr>
<tr>
<td>Single-Valued Objective</td>
<td>Share value</td>
<td>Aggregate stakeholder happiness</td>
</tr>
<tr>
<td>Role of Shareholders</td>
<td>The only legitimate stakeholder group</td>
<td>One of a number of legitimate stakeholder groups</td>
</tr>
<tr>
<td>Role of Non-Shareholder Stakeholders</td>
<td>Of instrumental value only in pursuit of shareholder wealth</td>
<td>A core moral obligation is owed to all normatively legitimate stakeholders</td>
</tr>
<tr>
<td>Key Assumptions</td>
<td>1) Perfectly competitive markets  2) All goods are priced  3) Externalities are assumed to be nonexistent</td>
<td>1) Markets of varying levels of competitiveness  2) Many goods are not priced by the market  3) Externalities are assumed to exist and are incorporated into the happiness calculus to the extent that they affect stakeholders</td>
</tr>
</tbody>
</table>

However, such easy decisions do not allow us to discriminate between the models. In a later section, we describe two policies that differentiate between SWM and SHE. Specifically, we first discuss the provision of stable employment as a policy that will increase employee happiness, but may harm and is unlikely to help shareholder happiness—cell B1 or C1 in Table 1. We suggest that the provision of stable employment is considerably more likely if managers endorse the SHE model than if they subscribe to SWM. Second, we examine a commonly-adopted corporate policy—significant reductions in the number of customer service representatives—that is permissible under SWM but that might be impermissible under SHE. Before turning to stable employment and customer service, however, we briefly consider some general developments in recent happiness research.

Sources of Happiness. Our stakeholder happiness objective presumes that managers either have or can get access to knowledge about what makes stakeholders happy. Managers are likely to have some intuitions about the subject based on their life experiences, and can use surveys, focus groups, and small-scale experiments to find out more. However, perhaps the best knowledge about the subject comes from what has been called the field of happiness studies (for reviews, see Diener & Seligman, 2004; Diener & Biswas-Diener, 2008; Kahneman & Krueger, 2006; Layard, 2005; Warr, 2007; see also Journal of Happiness Studies). This emerging field is populated by an interdisciplinary collection of scholars from economics, management, sociology, public policy, and psychology who seek to discover the determinants of human happiness. In the last decade or so, this effort has born significant fruit, such that we can say with some confidence that certain activities, practices, and policies reliably improve or harm human happiness.

With respect to work-relevant factors, the research strongly supports the conclusions that people are happier when: (a) they have close, authentic, and mutually
caring relationships, (b) they have stable employment, and (c) their work is engaging—i.e., tasks are varied rather than routine, autonomous rather than controlled, perceived as significant rather than unimportant, complete rather than piecemeal, and where task feedback is specific rather than vague or non-existent (see Warr, 2007, for a review).

With respect to customers, the evidence suggests that customer satisfaction comes from, among other things: (a) pleasant point-of-sale interactions, (b) exceeded expectations, (c) basic human need fulfillment, (d) equitable treatment, and (e) reliable products that do not require repair (Oliver, 2010).

Of course, there is a variety of additional contributors to human happiness, including (a) physiological factors such as adequate sleep, good health, and exercise, (b) personal factors such as marriage and friends, and (c) national factors such as participative governance, income stratification, and health-care policies (Blanchflower & Oswald, 2011). While important, this latter group of factors is largely outside of the scope of managerial influence. As examples of factors within the realm of managerial discretion, we consider two concrete managerial policies—stable employment and customer service—that are differentially prescribed by SWM and SHE.

**Stable Employment.** Regarding preventing unhappiness, there is compelling evidence that being laid-off has a profound impact on people's happiness (Clark, 2001; Clark, Georgellis, & Sanfey, 2001; Helliwell, 2003; Creed & Macintyre, 2001). In a sample of 24,000 German workers, longitudinal research by Lucas, Clark, Georgellis, and Diener (2004) found that being laid-off led to a 38 percent decrease in happiness even after controlling for changes in income. Even more striking, this finding was no blip on the happiness radar; the aggregate happiness for this sample never returned to pre-layoff levels during the period of study, even for those who became re-employed at similar wages. Blanchflower and Oswald put it quite simply: “Joblessness is associated here with a huge amount of unhappiness” (2011: 9).

This substantial and prolonged decrease in happiness can be attributed to the fact that work is more than merely an economic exchange (Creed & Macintyre, 2001; Green, 2006). It is also a locale for building self-respect and a sense of belonging. Unlike mere wages, the social relationships and sense of identity that are developed at work do not immediately re-form upon being hired at another organization. In addition, being laid off often entails uprooting oneself and one's family to move to where work is available, breaking additional social bonds in the process. More broadly, in a large U.S. sample, Blanchflower and Oswald (1999) find that perceptions of job security are the strongest single predictor of employee job satisfaction. At the time, they noted that “[i]t is unlikely this finding is known to most labor economists, or even most psychologists” (1999: 11).

However, there is little evidence that providing stable employment improves organizational performance. The most optimistic account is provided by Cascio, Young, and Morris (1997), who suggest that stable-employers—whose workforce size varies by no more than 5 percent in a given year—perform no worse than frequent-downsizers—whose workforce varies by more than 10 percent per year. However, this result is qualified by more recent work showing that downsizing does tend to improve financial performance under certain conditions; namely, if it (a) is
done broadly, (b) is done proactively, or (c) involves a refocusing on core revenue streams (Love & Nohria, 2005; Chalos & Chen, 2002). Interestingly, Orlitzky and Frenkel provide evidence for a “coercive logic where work strain and insecurity associated with fear of unemployment are claimed to be the main forces motivating high performance” (2005: 1329).

Thus, extant evidence indicates that frequent layoffs may or may not help financial performance, but do substantially harm employee happiness. We suspect that managers who reviewed both sets of evidence would conclude that even though the provision of stable employment might make some shareholders marginally less happy, this is usually outweighed by the avoidance of large decreases in employee happiness. Thus, the avoidance of layoffs is located in either cell B1 or C1 of Table 1 and seems considerably more likely if managers endorse the SHE model than if they subscribe to SWM.

**Sparse Customer Service.** Almost any person calling corporations of significant size for customer service has had to navigate a phone system of byzantine complexity, only to be met at the end with the message “Your call is important to us. Please stay on the line and you will be assisted by the next available representative” punctuated by periods of recorded music. Often there is a lengthy wait before a representative comes on the line. This frustrating experience is a result of decisions on the part of many firms to reduce their labor costs by reducing the number of customer service representatives available to handle customer problems. The short-term economies of such policies are clear: labor costs are reduced by the amount of the wages and benefits that would have been paid to the redundant employees. Thus, this example most likely fits into cell A3 of Table 1.

From a SWM perspective, the appropriate decision is unambiguous—reduce the number of customer service representatives as long as it is expected to increase shareholder wealth. From a SHE perspective, however, the issue is more difficult to resolve. Changes in the happiness of at least three stakeholder groups must be considered—i.e., employees who are either laid off or who have to deal with a larger number of irate customers, customers with product/service problems, and shareholders. Shareholder happiness, presumably increased by the improved profitability of the company, must be weighed against declines in the happiness of the other two groups. The permissibility of the decision hinges on the extent of happiness/unhappiness experienced by each group as well as size of the group. Although definitive data are not available, we suspect that the frustration and unhappiness felt by customers and employees is likely to be greater than the happiness increases felt by shareholders, and thus that significant reductions in customer service personnel would be discouraged under a SHE model. In short, the different objectives—SWM and SHE—can lead managers in different directions with respect to specific policy decisions. We now turn to the broader managerial implications of this proposed change in corporate objectives.

**Managerial Moral Obligations**

For some purposes, it might be sufficient to simply claim that if: (a) the appropriate objective of the firm is to enhance aggregate stakeholder happiness, and b) managers
make the key decisions on behalf of the firm, it follows that managers are obligated to enhance aggregate stakeholder happiness. However, since we are advocating a major change in a vital component of the set of institutions that comprise the US economic system, a deeper analysis is warranted. We frame this issue in terms of managerial moral obligation to stakeholders. How can these obligations be derived?

To answer this question, we draw on the work of Simmons (1979) and Phillips (2003) for foundational theory the subject. Although Simmons was concerned primarily with the political obligation of citizens to their governments in political systems, he also wrote much that is relevant to the obligations of organizational leaders to the social entities (and the citizens of those entities) that they govern. Phillips is concerned more directly with obligations that arise among stakeholders in organizations.

The notion of positional duties—"tasks or performances which are intimately connected with some particular office, station, or role which an individual can fill" (Simmons, 1979: 12)—is central to Simmons's analysis. A person acquires a positional duty when he/she takes a position to which that duty is tied. Simmons, along with Phillips (2003), differentiates between duties and obligations. An obligation is owed by an individual (or specific individuals) to a specific person (or specific people), while a duty is owed by all people to all other people. In addition, while an obligation can (at least potentially) be fulfilled over a given time period, a duty, given its general nature, exists in perpetuity. Furthermore, obligations are associated with correlative rights; a person to whom an obligation is owed acquires a right to the fulfillment of that obligation by the "obligor." Since the managers of a firm are specific individuals and stakeholders are specific groups of people, we are concerned with positional obligations. What turns these obligations into moral requirements?

While, as noted above, Simmons (1979) is concerned with the political obligations of citizens of political entities, consent and fair play are two elements of his framework with relevance for our analysis.® In its most basic form, consent theory requires that a person deliberately and voluntarily perform an act acknowledging the obligation (Simmons, 1979). A consent account is quite compelling in the case of corporate managers. Managers not only voluntarily consent to the obligations that attend their roles, they often make considerable sacrifices to attain the positions to which those obligations are attached.

While Simmons concludes that a fair play approach cannot support a claim of political obligations for citizens, Phillips (2003), drawing on Hart (1955), Rawls (1999), and others as well as Simmons, offers a fair play account that can be easily and justifiably adapted to the obligations of corporate managers. After a thorough analysis, Phillips concludes:

Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of cooperation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among participants in the co-operative scheme in proportion to the benefits accepted. (2003: 116)

Phillips also notes that
the content of these obligations ... is established by the norms of the particular organization and its stakeholders. (2003: 117)

Since corporations are voluntary cooperative schemes requiring contributions from and creating benefits for many stakeholder groups, they meet the criteria for obligations based on fairness. Since corporate managers capture a very substantial portion of those benefits, they incur very substantial obligations to adhere to the norms of the firm, which in our case involves the enhancement of aggregate stakeholder happiness.

In addition, the moral obligations of managers discussed here would gain added force in cases in which the firm was incorporated under the benefit corporation statutes on the books of several states, as discussed below. Managers of benefit corporations committed to SHE would have legal obligations, as well as moral obligations, to enhance aggregate stakeholder happiness.

DISCUSSION

As with any ambitious proposal, ours presents a number of issues that will require greater scrutiny. Future scholarship should be focused on at least three categories of issues: (1) boundary conditions, (2) measurement, and (3) institutional compatibility.

Potential Boundary Conditions

This article has focused on developing a new normative objective for top managers in general. However, neo-utilitarian theory suggests that different moral principles may be required in different circumstances in order to optimize social welfare. Thus, the question arises: under what circumstances are the tenets of SHE particularly appropriate, and when might another model, perhaps SWM, be a better alternative? First, the profit motive undoubtedly drives much entrepreneurial activity which, in turn, often leads to new wealth creation. Therefore, we would limit our proposal to publicly-traded firms based on the assumption that once a company has gone public, it has become sufficiently well established to adopt a stakeholder happiness objective. Second, we restrict our proposal to corporations in developed economies, largely because economic welfare is still likely to be strongly related to happiness in developing economies. Third, we believe that the SHE objective is particularly appropriate in situations where markets are dominated by one or a few firms—i.e., monopolies, monopsonies, oligopolies, and oligopsonies—and competition is far less intense. As noted by Jensen, SWM doesn't work at all in such circumstances: “When monopolies or externalities exist, the value-maximizing criterion does not maximize social welfare” (2002: 239). Indeed, highly uncompetitive markets leave managers operating under SWM in a moral vacuum, making SHE particularly relevant to the enhancement of social welfare in such contexts. Of course, since market competitiveness is a continuous rather than a categorical variable, placing particular markets on this continuum will be a matter of ongoing debate (cf. Arnott, Greenwald, Kanbur, & Nalebuff, 2003; Baumol, Panzar, & Willig, 1982; Demsetz, 1975; Lipsey & Lancaster, 1956–1957). In sum, for well-established companies in developed economies, especially in uncompetitive markets, we believe that SHE is preferable to SWM as a corporate objective.
Measurement Issues

Although the main thrust of our proposal is that managers should implement policies expected to enhance stakeholder happiness, the issue of measuring the success of these policies remains unaddressed. How will managers know if company policies actually make stakeholders happier? In our discussion of happiness (above), we chose an Epicurean definition over a Eudemonic definition, in part because the Epicurean perspective is far more compatible with modern techniques for measuring subjective well-being, a touchstone of the psychologists who study happiness. The choice of an empirically tractable definition of happiness does not mean that the measurement of happiness is free of problems, however. Indeed, the happiness and related literatures have uncovered some issues regarding both what should be measured and how measured happiness is linked to broader conceptions of well-being.

First, there are temporal issues: when are the happiness effects of a given event to be measured? Swedloff (2013) posits three general time frames to be considered: (1) the happiness a person anticipates if a certain event were to take place—prediction; (2) the happiness a person feels as an event transpires—experience; and (3) the happiness a person recalls after an event takes place—memory. These distinctions would not be problematic if happiness at the three points in time were closely correlated. Unfortunately, they are not. Human beings are not especially good at predicting how certain events will affect their happiness; they expect events to have a greater impact than they actually do (e.g., Mitchell, Thompson, Peterson, & Cronk, 1997; Gilbert, 2006). Importantly however, the valence of their predictions—positive or negative—usually tracks well with their experienced happiness.

Similarly, remembered happiness correlates imperfectly with experienced happiness. In what psychologists call the “peak-end” effect, people tend to remember the most intense (“peak”) and most recent (“end”) effects of negative experiences and not their duration (Kahneman et al., 1997; Do, Rupert, & Wolford, 2008). In addition, people’s predictions of happiness/unhappiness with respect to certain events can affect their memories of the same events, with memories often being more closely linked to predictions than to actual experienced happiness (Mitchell et al., 1997; Miron-Shatz, Stone, & Kahneman, 2009). It is noteworthy, therefore, that close convergence among prediction, experience, and memory of happiness cannot be assumed. Nevertheless, the overall effects of some corporate policies—e.g., stable employment—can be predicted with considerable confidence. As the science of happiness advances, others will probably emerge. Furthermore, managers can increase the confidence of their predictions by estimating whichever measure they choose consistently across stakeholder groups—e.g., the remembered happiness of employees, customers, suppliers, and shareholders. Finally, with respect to evaluating the success of their happiness enhancing efforts, managers will of necessity be relying largely on remembered happiness.

Another issue that happiness researchers have found perplexing is hedonic adaptation. To a surprising extent, people’s long-term happiness has been thought to be stable, even in the face of changing circumstances (Brickman, Coates, & Janoff-Bulman, 1978). However, more recent research has challenged the idea that hedonic
adaptation is particularly swift or complete, finding instead that many people experience substantial changes in happiness as a function of altered life circumstances (e.g., promotion, job redesign, unemployment, divorce, disability) (Diener, Lucas, & Scollon, 2006; Headey, 2008; Lucas, 2007; Lucas, Clark, Georgellis, & Diener, 2003; Mancini, Bonanno, & Clark, 2011). The extent of hedonic adaptation, as well as moderating factors, remains an active area of study. However, even in the face of some hedonic adaptation, the weight of evidence suggests that changes in life circumstances can change happiness levels.

Conceptual issues compound the problem of measuring happiness. First, there are conceptual and empirical differences between short-term feelings of happiness—pleasure/displeasure—and “life satisfaction” evaluations. This distinction makes a difference in the relationships between these measures and economic well-being. The empirical link between income and experienced happiness is extremely weak while income and life satisfaction are more closely related, although still weak relative to other factors (e.g., Diener, Kahneman, Tov, & Arora, 2010). While this difference could be problematic with respect to some corporate policies, managers might be wise to focus on life satisfaction, which relies more heavily on judgment, and less on immediate happiness, which relies more on emotional states. In addition, improving the short-term feelings of stakeholders may be a less worthy goal than improving their life satisfaction.

Second, more comprehensive conceptions of human well-being may not be well captured by happiness measures (Swedloff, 2013). For example, Parfit (1984) differentiates among three approaches—hedonistic theories, desire theories, and objective list theories—to understanding well-being. Hedonistic theories depend heavily on experience (Griffin, 1986) and are reasonably compatible with our method of measuring happiness. Desire theory, broadly understood, holds that well-being is a function of fulfilling one’s desires (Scanlon, 1993), while Griffin’s (1986) “informed desire theory” restricts that fulfillment to only those desires the person would have had if he/she understood their true nature. Regardless of the face validity of desire theory, however, managers of corporations could not possibly be expected to enhance stakeholder happiness at such a fine-grained level.

Objective list theories, which Scanlon (1993) prefers to call “substantive good theories” involve certain outcomes that are deemed substantively good regardless of whether the person regards them as good. An approximation of this perspective can be found in the capabilities approach, originated by Sen (1985) and advanced by Nussbaum (2000) and others. Indeed, Nussbaum (2000) develops a list of ten capabilities that she believes should be fundamental to democratic political systems, including such diverse capabilities as life, bodily health, bodily integrity, emotions, practical reason, affiliation, and play. While such lists undoubtedly capture important elements of human well-being, the sheer variety of variables would make the task of SHE-oriented managers overwhelming. In addition, there is no reason why one person’s list, regardless of their expertise, should be chosen over the lists of other experts. For these reasons, we are satisfied with our choice of an experiential definition.

Despite the conceptual and empirical problems associated with measuring stakeholder happiness outlined here, we are optimistic that many of these problems are
surmountable, either now or in the future. The study of human happiness is still in its infancy and it is highly likely that our measurement techniques will improve as this research becomes more sophisticated.

In the short term, in the absence of valid and applicable research, managers may need to use questionnaires to collect their own measures of stakeholders' subjective well-being (cf. Diener et al., 1999). Managers might also use some of the more sophisticated techniques for appraising well-being. For example, the experience sampling method intercedes in ongoing experience by beeping or texting people at random intervals, asking them to describe what they're doing and feeling in the moment (Christensen, Barrett, Bliss-Moreau, Lebo, & Kaschub, 2003). Alternatively, asking people to recollect their day has been put to good effect as a tool for assessing happiness (Kahneman, Kruger, Schkade, Schwarz, & Stone, 2004). The use of these measurement tools in longitudinal studies could track the overall happiness of key stakeholder groups. Firms could even use quasi-experimental designs to strengthen findings on how various policies influence stakeholder happiness (Ledolter & Swersey, 2007).

Institutional Options

Although there would certainly be resistance to the adoption of SHE as a corporate objective within the business community, formal institutional barriers are virtually nonexistent. Indeed, strong support for SWM in the United States makes US policy toward corporate objectives an ideal topic for an extended example. Although corporate directors owe duties of care and loyalty to the corporation, state law in the US is silent regarding what the corporate objective should be (Stout, 2012). In particular, under the business judgment rule, US courts allow directors to interpret the firm's best interests in a number of ways, including limiting shareholder value in favor of other corporate goals (Stout, 2012).

Although so-called stakeholder statutes, on the books in many states, do not require managers and directors to take the interests of non-shareholder stakeholders into account in their decision making processes, they do allow such considerations. While some of these state laws permit the consideration of stakeholder interests only when control of the firm is threatened, others have no such restrictions, allowing managers and directors even greater latitude in terms of interpreting company interests with respect to stakeholders.

In addition, beginning with Maryland in 2010, several states have passed benefit corporation statutes that allow firms to provide a benefit to society along with profits for shareholders (Reiser, 2011). These statutes require firms to have dual missions—profits for shareholders and a material, positive benefit (specific or general) for society—thus facilitating the establishment of firms devoted to enhancing stakeholder happiness. Furthermore, consideration of stakeholder interests becomes a part of the fiduciary duties of directors under these new laws. To assure accountability, these laws also require reports on the firm's social performance to an independent third party. These statutes provide firms with two additional benefits. First, they eliminate any remaining threat of lawsuits based on the conventional view of the
corporate mission—i.e., profit maximization. Second, they allow firms truly com-
mitted to social missions to separate themselves from firms that adopt the mantle of
social missions for purely instrumental—i.e., profit enhancing—reasons. In short,
although long existing laws would allow companies wishing to adopt many facets
of SHE, more recently passed stakeholder statutes and benefit corporation statutes
would give such firms all the latitude they could possibly ask for.

SUMMARY AND CONCLUSIONS
Jones and Felps (2013) concluded that there are good reasons to question the social
welfare maximizing value of shareholder wealth maximization as an objective for
well-established corporations and, by extension, the utilitarian moral foundation of
that objective. This article has built on that conclusion by offering an alternative way
of viewing the purpose of the corporation—stakeholder happiness enhancement—that:
(1) is more specific than extant forms of normative stakeholder theory, and (2) addresses
the social welfare producing shortcomings of shareholder wealth maximization.

Four important advances in the management literature are contained in this article.
First, the article provides a viable alternative to shareholder wealth maximization,
the corporate objective that has been widely accepted for decades by most business
scholars and practicing managers but may no longer be the best way to enhance
social welfare in advanced market capitalist economies (Ghoshal, Bartlett, & Moran,
1999). Second, the article enhances the value of normative stakeholder theory by
offering a version that is simultaneously grounded in utilitarianism and is specific
enough to allow corporate managers to make welfare optimizing choices among
policy alternatives. Third, by connecting normative stakeholder theory to the field of
happiness studies, both domains of inquiry are enhanced; the stakeholder literature
is exposed to a body of evidence about how to best pursue stakeholder welfare, and
the happiness literature has a new area of relevance with direct policy implications.
Finally, the article provides a coherent argument in support of the moral obligations
managers would incur if the stakeholder happiness objective for the firm were to
be adopted. To the best of our knowledge, this approach to managerial obligations
is unique in the management literature.

A New Credo for a New Economy
Jones and Felps (2013) concluded that in view of enormous changes in the ways that
business is conducted today in comparison to economic conditions found in the late
eighteenth-century world of Adam Smith, it was time to reconsider the objective of
firms in the economy. They exposed serious flaws in the sequential logic that leads
from corporate profit maximization to maximal social welfare. In this article, we
have proposed an alternative way of viewing the objective of twenty-first-century
corporations—stakeholder happiness enhancement—which we regard as a reason-
able response to over 230 years of change in economic and social conditions rather
than a radical revision of the market capitalist system.

Although our most ambitious objective for this article—a significant change in
how practicing managers and business scholars view the purpose of the corpora-
tion—is unlikely to be realized in the near future, we do see two areas in which it might make a timely impact. First, some business researchers might be influenced by our arguments and pursue related topics, thus partially fulfilling the implicit mandate of management scholars to serve the public interest (Walsh, Weber, & Margolis, 2003). Second, the stakeholder happiness enhancement objective may help to guide and legitimate the actions of managers who seek to use their agency in ways that promote social welfare. These are important first steps if longer term changes in our normative view of modern corporations are to be realized.

NOTES

Robert Phillips, Eliza Byington, and Judith Edwards helped us shape and refine this paper.
1. The authors contributed equally to this paper.
2. While we also adopt a utilitarian approach, we realize that there are other ways of framing the underlying normative issues—e.g., the relative strength of rights, the honoring of contractual obligations (actual or hypothetical), the protection of individual freedoms. However, well-informed scholars have provided adequate coverage of the key points in these controversies and we have nothing to add. We are also well aware of the fact that utilitarian theory is vulnerable to criticism based on other approaches to morality. However, the major normative moral theories are grounded in very different foundational principles and may be impossible to fully reconcile. What this means is that criticizing one theory based on the principles of another is too easy and arguably meaningless. For example, some applications of utilitarianism will result in the charge that “the ends (shouldn’t) justify the means” from a Kantian or a Rawlsian. However, it is equally true that applications of Kantian deontology or Rawlsian distributive justice will often leave “the greater good” (social welfare) unaddressed. In any case, a full critique of utilitarian thought is well beyond the scope of this article; existing critiques are in adequate supply and we refer the interested reader to them.
3. Stakeholder theory is considered by many scholars to have three distinct themes—descriptive, instrumental, and normative (Donaldson & Preston, 1995; Jones, 1995). We are concerned only with the normative variant—i.e., how firms/managers should behave.
4. These and other boundary conditions are considered in the discussion section.
6. A second way to conceive of happiness is known as Eudemonism (Ryan & Deci, 2001). Usually attributed to Aristotle, eudemonism holds that a person can be thought of as happy to the extent that he/she behaves virtuously. Virtue, in turn, is defined as those sets of behaviors that can be expected to simultaneously promote individual and collective well-being. Because of an element of circularity in this definition as applied to SHE and potential empirical intractability, we eschew the Eudemonic approach to happiness.
7. In addition, derivatively legitimate stakeholders are those who managers must pay attention to because of their impact—actual or potential—on normatively legitimate stakeholders (Phillips, 2003). The happiness of derivatively legitimate stakeholders is not part of our normative project.
8. Steps 4 and 5 represent an analog to Kaldor’s (1939) extension of Pareto efficiency. That is, this method explicitly accounts for the impact of decisions on stakeholders whose happiness is reduced, due to externalities, as well as on those whose happiness is increased, a consideration not present in SWM-based decisions.
9. Two other parts—a natural duty of justice and gratitude—cannot be adapted to serve our purposes.
10. While this method might make pragmatic sense with employees or customers, its usefulness would probably not extent to other stakeholders—e.g., to members of neighboring communities.
REFERENCES


Friedman, M. 1970. The social responsibility of business is to increase its profits. New York Times Magazine (September 13).


