# Ethical Firm System and Stakeholder Management Theories: a possible convergence


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| Journal: | *European Management Review* |
| Manuscript ID | EMR-OA-15-0075.R1 |
| Manuscript Type: | Original Article |
| Keywords: | corporate strategy < Firm strategy < Strategy, business ethics < CSR and Business Ethics < Strategy, Personal values < CSR and Business Ethics < Strategy |
| Additional Keywords: | Economia Aziendale, stakeholder, equilibrium, ethics, responsibility |
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## Abstract

In this paper, a model is presented for the purpose of exploring the relations between the Stakeholder Management Theory (SMT) and the Firm System Theory (FST) which are interpreted from an ethical perspective. FST is part of the Italian studies of *Economia aziendale* (business administration). I propose to include SMT in an ethical application of FST (EFST, Ethical Firm System Theory), where ethical duties are considered as strictly connected with the management of the firm system (mutatis mutandis, like production, marketing, finance and so on). This metaphorical merger is useful for many purposes. In particular, this paper focuses on it in order to contribute towards tackling three important and critical ethical points of SMT (the dichotomy between economic success and ethics, stakeholder engagement and ethical responsibility and competition in a cooperative but not corporatist context), without changing the essential nature of the managerial idea of SMT, but inserting it in EFST with mutual benefits for both approaches.


**Keywords**: *Economia Aziendale*, stakeholder, equilibrium, ethics, responsibility.



**Introduction**

The research question of this paper is to show how cooperation between two perspectives, such as Stakeholder Management Theory and an ethical interpretation of Firm System Theory (a development of *Italian Economia Aziendale*) that arose and developed independently in managerial and business ethics studies, may help clarify some key questions.

This paper starts from the perspective (following on from Freeman, 1994; Wicks, 1996 to Freeman et al. 2010) of a refusal of the so-called Separation Thesis, that would imply the existence in a firm of business operations without ethical implications and vice-versa. This view of a synergic relationship between business and ethics leaves firms oriented mainly towards a business ethics framework, but may be useful for a managerial and organizational approach as well.

The contribution that this work wishes to make is not so ambitious as to try and present a new business ethics perspective; however, if it improves our thinking in business ethics and management in any way, it may represent a satisfactory added value. This cooperation between SMT and EFST is facilitated by the fact that the business ethics and managerial perspectives of both these approaches share some common ideas that are emphasized even when examining their separate history (Signori and Rusconi, 2009), though some differences remain in their identities.

Lastly, it should be specified that the paper is focused more on helping the stakeholder theory by means of an ethically interpreted *Economia aziendale*, but this choice does not mean to undermine the contribution that inserting stakeholder theory ideas gives to the *Economia aziendale* approach (Rusconi, 2012, p.14-15).

*Economia aziendale*, similar to some extent to the German *Betriebswirtschaftslehre*, was founded in Italy more than eighty years ago as a discipline that defines *azienda* as every economic organization (profit oriented or not, privately or publicly owned) that tries to satisfy human needs through the coordination of some aspects, such as management, accounting (in the most general possible meaning), organizational behaviour and structure. Starting from some implicit insights into *Economia aziendale*, some of Zappa's scholars, and first and foremost Aldo Amaduzzi, had the idea of applying the general system theory to *Economia aziendale*. Over the last decades, this theory has also been interpreted from the point of view of business ethics, so we can speak of an Ethical Firm System Theory (EFST) (Rusconi, 1997). We wish to point out that EFST and SMT can be of reciprocal benefit in many ways.

On examining literature on SMT from the business ethics point of view, we can, in fact, find some critical questions (for more details about these points see Rusconi 2009b):

1) what does 'theorizing stakeholder approach' mean? Do possible divergent interpretations of the stakeholder concept exist, especially between a strategic/instrumental interpretation and another on an ethical basis? (Donaldson and Preston, 1995; Jones, 1995; Wicks, 1996; Donaldson, 1999; Wicks and Freeman,1998; Jones and Wicks,1999; Freeman,1999; Freeman and Mc Vea, 2001; Phillips et al.,2003, Elms et al., 2010);
2) how might stakeholders be identified? (Freeman and Reed, 1983; Freeman, 1984; Clarkson, 1995 and 1999); Mitchell et al., 1997; Donaldson, 2002; Orts and Strudler, 2002; Phillips 2003a);
3) how does SMT relate to shareholder rights? (Goodpaster, 1991; Boatright, 1994; Goodpaster and Holloran, 1994; Freeman, 1994; Marens and Wicks, 1999);
4) how can the deeply significant merging of ethics and success-based strategy, which for Freeman and others is fundamental for overcoming the "Stakeholder Paradox", be brought about? (See authors quoted in point 1 and 3)
5) does an ethical hierarchy exist for stakeholders and, if so, what is it? (see authors quoted in point 2);
6) what could the "sound philosophical foundation" of SMT be? (Freeman, 1994; Wicks et al., 1994; Argandona, 1998; Phillips and Reichart, 2000; Orts and Strudler, 2002 and 2009; Phillips et al., 2003).

In this paper, we will examine the following three critical aspects of SMT, that could be tackled better using a link with EFST:

a) relations between competitive success and ethical principles in managerial decision making;

b) speaking about "stakeholder responsibility";

c) consideration of the risks that SMT, exported to other contexts, for example the European one, could be interpreted in a corporatist mindset, jeopardizing the free initiative of every stakeholder,

from investors to unions, from consumers to producers, from top management to shareholders.
We will try to show that issues a, b and c of SMT could be understood better if we allow SMT and EFST to help us with *a kind of merger (metaphorically speaking) of SMT into FST* that starts with a systemic application of SMT theory, anticipated in some aspects in Evan and Freeman (1993), Freeman (1994) and in an interview with Freeman in an Italian journal (Baldarelli et al., 2005) .
According to the EMST/SMT approach, we reply to questions a, b, c above as follows:

a) firms' managers have to pursue an integrated and complex concept of equilibrium which is not only directly economic, but can imply a more intrinsic relationship between ethics and business and can give additional support to the refusal of the Separation Thesis (on the Separation Thesis see: Freeman (1994), Wicks(1996), Sandberg(2008 a, b), Harris and Freeman2008, Wempe(2008) and Dienhart(2008));
b) while maintaining the central role of top management as "upholding the equilibrium" among stakeholders, we will also examine the ethical problems arising for individual stakeholders when relating to others in a complex network of relationships in a firm system. Such an intellectual operation implies an extension to "stakeholder responsibility" (Goodstein and Wicks, 2007) which proves to be additionally useful in aiding a better understanding of business systems by top management as well.
c) this *merger* could also explain more clearly the role of competition in a stakeholder systemic mindset, avoiding in particular a shift from stakeholder satisfaction and cooperation to a corporatist system.

In synthesis, the first section presents the origins of the Italian *Economia aziendale*, its systemic development (FST) and the emergence of ethical perspective studies (EFST) in which the emphasis is placed on two concepts: the study of ethics of the firm system and, in this context, the two interacting stages of strategic and "pure" ethics. We will consider possible links and similarities between FST and the stakeholder approach and, consequently, between EFST and SMT. It seems essential for this purpose to show that both EFST and SMT (Freeman, 1984) see corporate ethics (and, consequently, also responsibilities) in a global way, as an essential part of core business decisions, and not as single acts of ethics or corporate responsibility. The second section applies a systemic view of SMT (used for various purposes and applications in: Rusconi, 2006b and 2009 a, b), a model which, although consistent with SMT, enables the latter to be inserted into the general EFST as a contribution towards a better understanding and guideline for companies' ethical management. The following three sections examine how the *merger* proposed above allows SMT to consider these critical ethical points more clearly.
The conclusion underlines how the contents of this paper can help to achieve a better understanding

of the above-mentioned critical points a), b) and c) of SMT and what the future perspectives are for research and the explicit limits of this theoretical paper.

**1. From Italian *Economia aziendale* to Ethical Firm System Theory (EFST)**

From the 1920s onwards, Gino Zappa (Zappa, 1927, 1950, 1957), the renowned Italian scholar of accounting and business administration, proposed a change in Italian business studies, developing, similarly to the German *Betriebswirtschafslehre*, a discipline to be known as *Economia aziendale*, in which *azienda*, in general terms, corresponds to what in international studies, especially Anglo-American ones, is defined as economic organization.

This latter term covers the various realties that, while having differing institutional aims, share the same economic problem which is to say, the management of resources that are scarce whether they be in profit and non-profit companies, public institutions, or families. In order to avoid digressing from the main aim of this paper, we will only consider the case of privately owned business firms.

Going back to *Economia aziendale*, it indeed views business as a unitary institution coordinated so as to meet human needs, in which profit maximization is the means which allows coordination to survive and develop, the satisfaction of human needs being the essential purpose of *azienda*, as an institution in itself.

"In other words, the *azienda* (author's note: in italics in the original text) is seen as a system. It is not identified with the owners, the capital, the assets, the people taking part in it or with the contracts or the relationships among its components, but rather it is an autonomous and real entity composed of all these elements and the relationships among them.

It is very important to point out the concept of system which is used by Zappa but not fully explored. The same concept is employed in the other two essays, in which Zappa uses it in order to describe the *azienda* (author's note: in italics in the original text) and its nature. In particular, he asserts that all the phenomena concerning the *azienda* (author's note: in italics in the original text) can be fully understood if one only considers their intimate solidarity and unity (Zappa 1927, 1950, 1956)". ( Signori and Rusconi, 2009, p. 308).

A short comparison is now needed with other classic economic and managerial views of the firm: Coase (1988 reprinted from Economica 1937), Alchian and Demsatz (1972) and Mintzberger (2002).

Coase presents the concept of *entrepreneur*, depending on "the degree to which the price mechanism is superseded (Coase 1988, p.36):

"Outside the firm, price movements direct production, which is co-ordinated through a series of exchange transactions on the market. Within a firm these market transactions are eliminated, and in place of the complicated market structure with exchange transactions is substituted the entrepreur-co-ordinator, who directs production". (Coase 1988, pp. 35-36).

Alchian and Demsatz follow Coase's idea of considering the firm's characteristics in many cases as superseding the classic idea "*of multilateral contracts among all the joint inputs"*(Alchian and Demsatz 1972, p.794) and they focus on the concept of *team production* :

"Team productive activity is that in which a union, or joint use, of inputs yields a larger output than the sum of the products of the separately used inputs". (Ibidem)

The above-quoted Authors are, nevertheless, reducing the centrality of managers and entrepreneurs as an alternative to direct classic market negotiations:

"The central agent is called the firm's owner and the employer. No authoritarian control is involved; the arrangement is simply a contractual structure subject to continuous renegotiation with the central agent…….to detect shirking….by this arrangement and the discipline (by revision of contracts) of input owners is made more economic." (Alchian and Demsatz 1972, p. 794…. The firm is a device for enhancing competition among sets of input resources as well as a device for more efficiently rewarding the inputs". (Alchian and Demsatz 1972, p.795).

Notwithstanding the different emphasis on market or internal structure of a firm, the views presented above have the following in common:

a) The role of individual contracts among the firm's various constituents (both internal as employees or external as suppliers);
b) the only, more or less direct focus being on shareholders maximizing profits.

Zappa focuses on a firm as an institution, tending to survive and develop over time to serve the social system as its specific constituent. Although the aim of the firm is to achieve a satisfactory profit in the long term:

1) point a) is viewed clearly as different, because an institution could be conceived as something more than a sort of set of contracts;
2) as far as point b) is concerned, Zappa is oriented towards an economic-financial equilibrium, but a firm is not so dependent on shareholders' maximization as in Coase, Alchian and Demsatz, Zappa's view being more explicitly and directly connected with general social/societal issues:

"In the same opening address Zappa defines the *azienda* as a dynamic economic entity coordinated so as to meet the human needs. This definition was re-conceptualized by Zappa himself when, 30 years later, he wrote: 'the azienda is an economic institution intended to last for an indefinite length of time and that, with the aim of meeting human needs, manages the production, procurement or consumption of resources in continuous coordination ((Zappa, 1956, p. 37, translation from Italian in the paper quoted herewith )''. Signori and Rusconi, p.307-308.

These institutionally oriented references to human needs also lead Zappa's view towards the inclusion of societal and environmental issues in managerial agenda.

Moving now to contemporary managerial literature, Mintzberger et. al. (2002) is more explicit, considering a firm's societal engagement as a defense against myopic profit maximization:

" A society devoid of selfishness is certainly difficult to imagine. But a society that glorifies selfishness can be imagined only as base. The intention here is to challenge such a society — not to deny human nature, but to confront a distorted view of it. In so doing, we wish to promote another characteristic no less human: *engagement*". Mintzberger et al., p.67.

Unlike Zappa, Mintzberger does not emphasize the role of a company as an institution, finalized to last as long as possible; Mintzberger in fact focuses only on avoiding a distorted view of managing business.

Turning to *Economia Aziendale* in general, the starting point of Zappa's unified and institutional concept had various followers, in particular Aldo Amaduzzi who defined the business firm as:

"…a system of economic forces that develop, in the field of which it is a complementary part, a process of production, or of consumption, or of both production and consumption, in favor of the major shareholder as well as individuals who cooperate in it". (Aldo Amaduzzi,1969, p.20).

Thus, Firm System Theory (FST) came into being, in which business is understood as a systemic and synergic unity of interacting elements and their relationships. This systemic extension of premises, which is already present in Zappa's observations, places particular importance on the "open" and "interdependent" character of business by Aldo Amaduzzi. This is both with regard to the link between its elements, which in general terms can be defined as "internal" (shareholders, managers, employees), and the relationships between these elements and those external to it (environment, institutions, etc). In this way, business institutions come to be considered as a complex subsystem of a wider socio-economic system:

"in the business concept we include *all the economic units* (author's note: in italics in the original text) which are component parts of the general economy", (Aldo Amaduzzi, 1969, p. 18). Though taking this viewpoint further, thanks to an application of the organicistic view of general systems theory (Bertalanffy, 1983), adapted by Forrester 1974, it has been possible to arrive at Antonio Amaduzzi's definition of business as a system: "The term *open* (author's note: in italics in the original text) may be applied to a system interrelated with the *environment* (author's note: in italics in the original text) in which it operates, the environment conditioning the functioning of the system and vice versa. Roughly speaking, the environment is identifiable with the *market* (or better, markets), *technological progress* (author's note: in italics in the original text) and with the various *institutions* (author's note: in italics in the original text). The variability of these factors defining the variable structure of the environment itself". (Antonio Amaduzzi, 1988, p. 59).

There is an increasing tendency for *azienda*, as a system, to link the solution to management problems to a broad, articulated, interrelated and dynamic consideration of all system elements. In this context, if a company management wishes to be successful, it must take into account the relationships among all those who are in some way involved in its activities, which seems to refer the whole matter back to the stakeholder concept.

A typical aspect of FST (like its historical roots in Economia Aziendale) is to be both descriptive, with reference to how it works synergically and openly, and normative, i.e. the need to pursue and reach an interdependent, economic, financial and monetary short and long term equilibrium on all the markets and in all the external conditions in which it operates, as a prerequisite for long term survival and development.

Considering this normative condition, "azienda" could easily be thought of as a subsystem of a wider socio-economic system, so an explicit role of societal and environmental issues could be considered as well.

In this context, we can think of top management/entrepreneurs as an entity that tries to obtain profits in the long term taking into account many interconnected relationships and managing a complex systemic organization at the same time. FST, therefore, might be more similar to SMT only as an instrumental view for business, but…what does it have to do with business ethics? A normative approach does not in itself mean an ethically connected approach.

Looking more deeply into the reasoning, we should primarily consider that some of *Economia aziendale* and FST scholars were also interested in specific business ethics problems that were seen as internal and basic to their theorizations (Zappa, 1957); Onida (1954a,b and 1971) and particularly Masini (1964,1974).

Among Italian contributions to ethics of *Economia Aziendale*, the "Entrepreneurial Formula" of Vittorio Coda (2010 in English) has to be quoted, this contribution being presented in this paper with reference particularly to the relations between ethics and business success in section 3.

Starting from this interest in the ethical problem of some *Economia aziendale*'s founder-scholars (examined and quoted in Signori and Rusconi, 2009), a further step, mostly dating back to the 1990s, involved inserting ethics explicitly in the analysis (Di Toro, 1993; Riccaboni, 1995 and Rusconi,1997). It is, therefore, possible to see FST from a more systematic business ethics viewpoint, so we can speak of *Etica dell'Economia aziendale* and, more specifically, of Ethical Firm System Theory (EFST) .

Considering the matter more closely, it has to be noted that Zappa and Aldo Amaduzzi present the firm as articulated in three essential aspects, i.e. management, information (for example, accounting, both managerial and general) and organization. This is not to be understood as a "tripartition", but rather as the awareness that every action undertaken by business is conditioned by interdependent management, organizational and informational aspects, all of which are studied by specific interdependent disciplines (firm management, organization and accounting) that are part of the comprehensive concept of *Economia aziendale* as well.

Zappa and Amaduzzi's theories were also later extended so as to consider different "functions" (finance, marketing, production, and so on), that are crossed by the three fundamental aspects; for example, marketing is connected with accounting (budgeting and control of performances), organizational behavior and general management.

The various aspects and functions that make up business are integrated, so that any changes in, or generation of, a function will have repercussions on the others.

Firm ethics are spoken of here as a "function", so as to indicate that management decision-making must take ethics into account as much as any other aspect of business system (marketing, finance, etc), since specific skills are required and business choices are affected just as with finance, marketing or quality control. Speaking about ethics as a function means that a firm needs to organize a system of programs and (dis) incentives for specific managers that are able to examine all the possible consequences of ethical or non ethical behaviour on the firm's life.

Speaking of an "ethical function" actually implies an ethical manager ( initially called an "ethical officer") who interacts with other functions and with general strategies of a firm, learning from the experiences and information of finance, marketing, and so on. On the other hand, this so-called "ethical officer" poses ethical problems and dilemmas, but also helps to solve them.

Using applied ethical codes (to prevent unethical consequences) and a transparent sustainability accounting process (to verify and disclose information to the public) are particularly important instruments for informing stakeholders of what the ethical principles of a company are and how they are connected and applied to business behaviour.

This explicit insertion of ethics in managerial functions is relevant for a firm's environmental and societal issues as well: a simple example is the case in which ethical function operations could emphasize some critical ethical consequences for human wellness, such as illness, caused by factories surrounding residential areas.

If you consider adding ethics explicitly to a firm's system aimed at achieving an economic, financial and asset value equilibrium (from now on: *firm's economic equilibrium*) in the market, the moral responsibility of a firm should also be taken into consideration.

Business ethics scholars rarely study the problem of the nature of a firm's moral responsibility as separate from the personal responsibility of single managers or other stakeholders. Responses to this issue are different, pivotal papers are: French (1988), Ladd (1988) and Goodpaster and Matthews (1982).

We should also consider that EFST does not study all the ethical problems of all the people working in (or with) a firm and that it has mainly focused on "how a firm can pursue, in an ethical way, its economic equilibrium over time". Therefore, applying ethics to FST (see Rusconi 1997) entails posing the problem of ethics in terms of considering ethical implications and consequences of the choices of various people who manage a company, mainly top managers or relevant shareholders and entrepreneurs in general.

It is, therefore, possible to think of a subject, in Italian a *decisore*, who is accountable for the decisions and actions of the firm-system.

This accountability involves a complex role, rarely one covered by a single person in medium-size or large companies; rather we can think that this "decision-maker(s)" in a company, seen as a system, has to take account of the ethical consequences of his/her behaviour. Indeed, this seems to be perfectly in tune with SMT as EFST considers ethics not as a residual decision outside business, but as a fundamental aspect of management that has to take account of a complex network of subjects and their relations.

Considering a firm as wholly "global" and bearing in mind ethics for its core business differentiate both SMT and EFST from views of Corporate Social Responsibility (CSR) practices and studies that are still proposed:

"While the corporate social responsibility literature has been important in bringing to the foreground in organizational research a concern with social and political issues, it has failed to indicate ways of integrating these concerns into the strategic systems of the corporation in a non-ad hoc fashion". (Freeman, 1984, p.40) .8

In the past decades, CSR has undergone great development (Garriga and Mele, 2004) and in many cases it embraces the global activities of a company, but the risk of a non-globality of CSR remains, one reason being that its diffusion, in practical applications, could lead to views that are not conceptually rigorous as well as instrumental applications for prevalent advertising and public relations aims: SMT and EFST can, therefore, help CSR to become neither instrumental nor residual.

A very important link between SMT and EFST, therefore, involves pointing out the unitary characteristic of both the firm and the study made of it.

Both theoretical approaches emphasize the strict interconnections among various functions of a company, avoiding the risks of an excess of specialization, sometimes privileging marketing, production, finance and so on . This has important consequences on the relations between ethics and business as well, because firm ethics and related corporate social responsibility can only be considered from a unitary point of view, starting from the core business. According to both SMT and EFST, a firm can be defined "responsible" or "ethical" only from a global point of view, not only in connection with the sum of single "social responsibility initiatives" (cause related marketing, charities, etc. ), leaving aside the whole of the company's operations.

Going back to EFST, it seems worthwhile examining *the relationship between ethics and economic success* more carefully.

As far as EFST is concerned, we can adopt an approach which comprises two interacting stages:

1) STRATEGIC ETHICS - consider "…all the moral choices are made so as to safeguard the long-term equilibrium of the business system; here especially the aim is to avoid behaviour in which the need to maximize profits is acted upon by a shortsighted management". (Rusconi, 1997, p.154).

2) ABSOLUTE, OR PURE, ETHICS - concern the moral principles to be dealt with by the individual, or group of individuals, involved with business decision-making. In certain instances (which are rare if the viewpoint is not narrow-minded), such principles could possibly conflict with the development of a success strategy, in which case a suboptimal ethical strategy might be developed.

From the viewpoint considered in the first stage, ethical strategies are framed for pursuing economic, long term equilibrium. In this way, ethical strategies are developed so that they are able to maintain the economic equilibrium of business systems.

In this stage, ethics serve a function such as, mutatis mutandis, marketing or finance, so that ethical officers can check that no programmed business operation runs counter to someone's ethical principles in such a way that, sooner or later, it could also jeopardize the firm's competitive perspectives.

Therefore, a company avoids pursuing profit maximization greedily and short-sightedly in a way that may undermine both the reputation and the relations with some stakeholders. Proceeding in this way could also indirectly help the ethical consciousness of a manager, because it might help to make him/her more aware of the ethical implications of his/her work in the company.

Take company "ALFA" for example. On shaping a medium-long term strategy, its "ethical officer" (or "CSR manager" or other person, usually holding an office that does not depend on other interacting functions) would consider every possible economic effect of decisions implying ethical issues. In this case, the company tries to avoid unethical decisions which may harm its relations with the general public, customers, employees, minority shareholders and so on. As an example, we can consider subcontractors exploiting child labour or paying bribes to foreign politicians or public officers. In this case, the ethical officer is likely to underline that this kind of initiative can have negative consequences in the medium-long term on the competitive position of the company itself.

The *Economia aziendale oriented* systemic view of a firm helps this process by emphasising careful consideration of the mutual relations among the firm's functions and making all the functions and aspects of a company, ethics included, work synergically .

Proceeding in this way, top management should also insert the function of ethics in the firm's system of incentives and sanctions and/or mitigation and mediation mechanisms, but, as shown in the following pages, ethics has a particular role, due to the unavoidability of respecting absolute ethical principles that may also vary among the stakeholders and the same top managers (entrepreneurs) as well.

In fact, if the use of ethics were to stop here, this would be a typical case of an instrumental view of ethics: more an "ethical strategy", or "ethics instrumental to strategy", rather than a strategy for ethics. Indeed, in this case, the agreement between ethics and long term sustainable profitability is only based on an interestingly enlightened management practice.

Refusing a purely instrumental view as a specific ethical perspective is, on the other hand, consistent with the divulgence of philosophic points of view: utilitarian, deontological, virtue ethics, which are briefly mentioned:

a) Utilitarianism is a philosophical approach (Bentham J., J.S. Mill and other followers) that:

"…right action must maximize *overall* good (minimize bad) from the standpoint of the entire human community….This term was coined by the eighteenth-century philosopher Jeremy Bentham, although its best –known proponent was the nineteenth-century English philosopher John Stuart Mill" (Donaldson and Werhane 2008, p.3).

Although utilitarianism has often been connected with (neo)classical political economy (see "utility functions"), from a philosophical point of view, the utilitarian-consequentialist approach could not accept that the ethical foundations of a business activity are to be fully identified *only* with the competitive success of a firm, because, also from a utilitarian view, homo oeconomicus is a hypothesis for specific models and not an absolute ethical and anthropological principle.

b) Crucial for the deontological point of view is respect of ethical principles and rules that guide every action. Two approaches can be distinguished: Kantian (duties and universal rules must determine right actions) and "social contracts", based on natural principles (Locke) or on rational agreement in a certain ideal situation implying a "veil of ignorance" (Rawls).

According to a deontological approach, it is quite clear that ethical principles cannot be considered as depending only on the interests of a firm, even in the medium-long term, given the unconditioned nature of ethics.

c) A third approach, named "virtue ethics", affirms that good management, more than respecting whatever rules or principles, is based on strengthening a manager's good character so that it constantly improves:

"When linking virtue to business ethics, it helps to note that business, like other social phenomena, is a set of *social* [note of the author: italics is in the quotation] practices. Managers play a special role in society by virtue of their role in business organizations, and their role in these organizations requires that they cultivate the kind of organizational excellence appropriate to managers. Ethical excellence and social excellence are thus intertwined" . Donaldson and Wehrane 2008, p.11.

"Virtue ethics" is even farther removed from the above-mentioned "instrumental approach", because a firm, first of all, has to be excellent in virtue and later pursue and achieve (but not as a logical "a priori" consequence) even better competitive success.

After justifying that a "pure instrumental" approach is not an ethical question in itself, let us turn to specific EFST.

It has to be noted that when speaking about "absolute-pure ethics":

a) absolute-pure ethics regards not only rights accepted worldwide or natural law, but also all the problems managers might encounter when dealing with different cultural and social ethical principles, for example decent salary issues or how to face corruption where it is endemic;

b) there is an absolute ethics that is connected to utilitarian, deontological or virtue ethics bases or/and connected with different religious principles, but this pluralism does not entail relativism : it is a fact, not a consequence of a principle;

c) strategic/pure ethics links are also an interesting remedy for risks of subjective managers' short-sightedness with regard to the future.

Let us now turn back to the example of "ALFA" and suppose that it is also involved in controversial bioethical activities. From a purely strategic viewpoint, the company's decision makers may consider what the potential advantages or damage for long term profitability could be in not respecting the ethical views of various stakeholders:

a) some influential constituents would be strongly opposed to this bioethics policy so, after an initial increase, long term profits are likely to decrease;

b) on the contrary, this subjective forecast of future competitive consequences is favourable.

If a) occurs, an obvious, consistent consequence would be that CEO(s) might refrain from making decisions ,thereby opting for a suboptimal strategy though not necessarily for their conscience's sake.

In the case of b) the only "ethical-strategic" view fails to consider whether or not this policy agrees with ethical "pure" principles.

Clearly, the majority (or also an active minority) of shareholders might contest this decision, raising, in this case, another ethical issue about the relationship between general ethics and the duty towards the shareholders.

Also stakeholder scholars who, in order to defend market capitalism, refuse a multi-fiduciary approach to SMT (Goodpaster, 1991), maintain that general ethical duties towards all stakeholders are very important and do not depend only on profitability:

"Once we understand that there is a practical "space" for identifying the ethical values shared by a corporation and its stockholders- a space that goes beyond strategic self-interest but stops short of impartially)- the hard work of filling that space can proceed". (Goodpaster, 1991, p.70).

The "Absolute ethics" view is, in any case, necessary and not only as some external "ethical border or constraint", because:

a) it enables CEOs to study ethical values of all constituents of the company system. The above example shows that a fruitful ethical strategy cannot be shaped without knowing the points of view of all stakeholders concerned regarding bioethics;

b) it provides "ethical officers" with important thoughts from philosophers, theologians and so on and indeed managers are likely to be better equipped to connect these results with their specific business experience and knowledge.

This dialectic (not in the Hegelian sense of absolute opposition, but conceiving it as a continuous synergic interaction) relationship between strategy and ethics works in every economic organization, but a systemic view can contribute better to solving ethical problems of managing a company because it considers a company as a complex system of persons, financial, natural and artificial resources, relationships and so on:

" Strategic ethics concerns all business behaviour pursuing the survival and development of equilibrium of the firm system and in doing this moral principles can also be satisfied *(note of the author: in this perspective in order to be competitive and not to waste human or financial resources it is necessary, though not sufficient, to be ethical)*. A specialized company working to counter AIDS, conducts research to pursue ethical strategic targets even if it is fighting to save human lives (i.e. to achieve the maximum for ethics), while the same company faces a problem of absolute ethics when it must decide whether to gain monopolistic profits from the patent it obtained thanks to risky investment". (Rusconi, 1997, p.157).

Let us now examine how EFST can help SMT, underlining that SMT is also very useful for EFST, especially when it clearly emphasizes the position of stakeholders concerning the objectives of managerial decisions and the explicit refusal of the Separation Thesis, which was, in some cases, indirectly and implicitly expressed by some Italian authors accepting a specific ethical view.



**2 The firm as a stakeholder system and the role played by ethics**

There now follows what we have termed, metaphorically speaking, a *merger* of SMT into EFST. This model does not come *ex nihilo* but is based on classic SMT positions:

1) Evan and Freeman (1993) suggest there is no firm-stakeholder dualism within SMT, rather, the firm is a complex system of stakeholders to be coordinated;
2) Freeman (1994) states that a variety of ethical positions may represent the starting-point for SMT: for example, "Feminist", "Fair Contracts", "Ecological principles";
3) Freeman (in Baldarelli et al., 2005) has also defined the firm as a "star map" in which every stakeholder has his/her own viewpoint;
4) This view is consistent with a systemic view of business, inasmuch as EFST considers not only structural elements, but also their relationships, to be part of the system.

Starting from points 1 to 4, we can suggest an interpretation of SMT inserted in the EFST model that was previously applied to specific problems of financial and social accounting (Rusconi, 2006a, b)

Freeman (1984), including the system theory as one of the precursors of SMT, maintains:

"The system model of stakeholder, by emphasizing participation, is a far reaching view of the nature of organizations and society. It has been quite useful in problem formulation, and represents an ongoing stream of research using the stakeholder concept. It is not, however, focused on solving strategic management problems which are narrower than total system design". (Freeman, 1984, p. 38).

As a matter of fact, the general system theory is not able to deal with managerial topics directly and, in addition, it is not universally accepted in its theoretical explanations. Nevertheless, "systemic thinking" could be applied usefully to management problems, especially when the theoretical perspective is that of the stakeholder approach, which insists on an interdependence among stakeholders and, consequently, on taking account of various stakeholders' points of view

**The four principles of the proposed model**

**a) The firm is a stakeholder system**

In order to underpin what has been said before, we can connect our model to an interview with Freeman:

"…The organizations, described as open systems, are part of a more widespread network rather than stand alone or independent systems. The identification of both the *stakeholders* (author's note: in italics in the original text) as well as the interconnections which are created between them is a crucial point for this approach.
My studies are focused on the *managers* (author's note: in italics in the original text) and their capacity to manage relationships, so I prefer to pay attention to these subjects.
The point of view of the theory of systems is definitely wider and provides a more complete picture, but the perspective changes according to which *stakeholder* (author's note: in italics in the original text) is placed at the centre of a stellar representation and, as a consequence, so does the information which can be obtained.
This does not mean that the company is at the centre of the world but that we are seeing the world from the company's point of view". (Baldarelli et al., 2005, p 231).



It is, therefore, possible to conceive a firm as being a system of stakeholders and their relations, which is in line with the general view of EFST, that is better able to explain and guide managerial behaviour using SMT.

In this systemic context, as we can see from Freeman's quotation about a firm as a 'star system', every stakeholder has his/her specific views and maps: entrepreneurs and top executives obviously included.

To avoid tackling here in detail the complicated question of "stakeholder definition" (Mitchell et al. 1997 quoted 27 definitions nineteen years ago, Mitchell et al. 1997, p. 858), the most widespread view for this general and systemic approach is still Freeman 1984 that includes every relevant social, economic and environmental issue connected with the firm's management, considering groups that: "can affect or are affected by the achievement of the organization's objectives". (Freeman 1984, p. 46).

As far as the governance issue is concerned, the first principle of the SMT/EFST model is independent of any specific governance or property structure because, according to this perspective, every governance style can be viewed as a system of interacting stakeholders, though with different decisional and influential power.

In any case, there is a system of interacting stakeholders who see the firm in the light of their specific "stake" that entrepreneurs/top management can know and manage according to SMT principles.

Consequently, it is not correct to consider SMT as a general specific governance theory (agreeing, therefore, on this point with Boatright, 2006), to be applied to different firms' structures. Stakeholder management can, in fact, work quite well (or badly), independently of the nature of the firm's governance or structure because before anything else it requires: an ethically sound basis, a deep, flexible and adaptive knowledge of a firm's economic needs and a high level negotiating skill on the part of the firm's leaders.

The concept of stakeholder is operational and relational, in the sense of understanding better people who have specific, legitimate expectations in common, according to specific situations, so that the same person may belong to different stakeholder groups. This situation can occur, for example, to an employee who is, at the same time, a customer, stockholder and member of an environmental NGO.

This view, therefore, also includes the relationships with societal issues in a stakeholder system, for example an environmental or human rights NGO, because the concept of "stake" refers to every relation established by a firm's operation.

Being aware of this makes the process of mapping stakeholders more complicated, more interesting and more useful, for both management and ethics. The fact that the same person could be various stakeholders in the firm presents ethical dilemmas and conflicts of interest (i.e. worker and consumer) in everyone's conscience.

With regard to top managers, they obviously have priority (but not exclusiveness) in taking decisions for the entire system, but it should not be forgotten that, according to every managerial theoretical approach, a top manager is neither a disinterested machine oriented only towards providing value for shareholders, nor something like the neutral *metaphysical director* proposed in Evan and Freeman (1993). The case of large public company CEOs is typical, as they are both director of the firm system and specific stakeholder at the same time (for example as far as their indemnities and bonuses are concerned). From this particular point of view, the Agency Theory and SMT are the same (Phillips, 2003b, pp.21-22).

Both the managerial and ethical implications of this kind of conflict should receive more attention from researchers, above all in the case where a specific stakeholder (CEO) is also the "balancer" of the legitimate expectations and interests of the whole firm system. The unavoidable conflict of interest for top managers as "stakeholder balancers" could be tackled more easily by the ethical behaviour combining strategy and ethics of EFST which may contribute towards preventing both corporate instrumentalism and managerial opportunism.

**b) All stakeholders tend to seek a dynamic equilibrium amongst themselves based on**

**"Minimal Mutual Acknowledgement (MMA)".**

One of the central points of stakeholder management is that *the driver of this dynamic process, the top management*, is expected to satisfy all stakeholders' legitimate expectations and interests sufficiently in order to help a company survive and develop in a complicated world:

"The idea of stakeholders, or stakeholder management, or a stakeholder approach to strategic management, suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business. The central task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups in a way that ensures the long-term success of the firm. A stakeholder approach emphasizes *active* (author's note: in italics in the original text) management of the business environment, relationships and the promotion of shared interests." (Freeman and McVea, 2001, p.192).

The idea recently emphasized of "creating value for stakeholders" (Freeman 2008, Freeman et al. 2010, Harrison and Wicks 2013), is clearly affirmed in the so-called "Principle of Stakeholder Cooperation":

"Value can be created, traded, and sustained because stakeholders can jointly satisfy their needs and desires by making voluntary agreements with each other that for the most part are kept". Freeman et al. 2010, p. 281

Starting from the above quotation, it is possible to speak about MMA as a kind of lowest "common denominator" of stakeholders' satisfaction, allowing them to reach a state of satisfactory dynamic and provisional equilibrium within the firm where some "basic conditions" for cooperation are respected for all stakeholders.

Speaking of "minimal common denominator" for MMA conditions means that every stakeholder should at least have a satisfactory reply as an incentive to cooperate with the firm system, even when both short-term trade off and the pursuit of single stakeholders' advantages of refusing corporatism are to be accepted (see point d) . The higher this satisfaction is for all stakeholders, the better the conditions of cooperation and stability are for achieving fruitful consequences of stakeholder management.

Some physiological instability and dialectic are, nevertheless, unavoidable: there are "pressures" (a consumers' or employees' strike, a gradual disinvestment by shareholders, and so on), that are to be managed as best as possible, but it is impossible to satisfy everyone all the time.

MMA values are, in any case, "negotiable", let us take company BETA, which is considered by all stakeholders as respecting all fundamental rights. Its top management now has to decide what to do in a collective bargaining agreement with the unions. It may be possible that the unions do not agree with other stakeholders on the amount of the salary bargained for. According to MMA, in this case an equilibrium has to be pursued which perhaps is not the best for every stakeholder, but that implies an acceptable level of satisfaction for all, particularly for shareholders and employees' unions.

In some cases, nevertheless, MMA indirectly concerns situations where stakeholders disagree with some basic ethical principles. This results in an equilibrium in which something is accepted by some as being connected with an unconditioned, fundamental, ethical principle and by others only to obtain a "bargained" MMA in the interest of the economic equilibrium of the system.

Let us consider for example the hypothesis that BETA's top managers do not believe that foreign subcontractors' workers should earn the same (in purchasing power) basic wages and working conditions as domestic workers and that domestic unions and some NGOs do not agree with this opinion.

Pursuing MMA conditions could imply that the same union rights as those in domestic headquarters should be applied to foreign workers; for the unions and NGOs it should be done to respect fundamental ethics, while for the top management it should only be done in order to pursue a condition of MMA equilibrium.

Even ignoring the implications of basic ethical value, if MMA's conditions are not fully respected for all stakeholders, nobody thinks that an extreme conflict might occur among stakeholders, nevertheless in this case the long term development of a company could be at risk if this situation becomes permanent.

With MMA, SMT expresses its best potential as a strategic instrument for connecting ethics and business: mapping and planning. This behaviour, however, has to respect ethical principles that do not come from SMT or other socio-economic theories, narrative or models.

All a firm's decisional processes are, in any case, included in the synergic relationship between ethics and business, which is the key point of SMT. This is based on a refusal of the so-called Separation Thesis that, according to Freeman, says.

"The discourse of business and the discourse of ethics can be separated so that sentences like, "x is a business decision" have no moral content, and "x is a moral decision" have no business content". Freeman, 1994, p.412.

Pursuing MMA by also taking account of all the stakeholders' ethical points of view is an important way to expand the top management's view and let ethics help business and business help ethics.

In conclusion, with regard to MMA, it is, therefore, quite important to develop the concept of "interest", or legitimate expectation, because top managers, who are professionally oriented towards maximizing economic-financial quantitative figures, may sometimes be likely to ignore the fact that stakeholders do not only need economic and material benefits, but they also wish to follow and support their spiritual, cultural and ideal conditions of life. It is probable that focusing on stakeholders may also help top managers (entrepreneurs as well) to understand more deeply these non economic needs of the complex system of stakeholders, thus improving their managerial knowledge and skills.

The considerations presented above introduce and motivate the third principle of the model.

**c) Each stakeholder "draws up" his own specific stakeholder "map", with varying degrees of precision**

According to SMT, the business strategy formulator, usually the top management, is also the specific stakeholder in charge of "balancing stakeholder equilibrium". This is inevitable, since the top management is the administration leader, acting as the *stakeholder-subject* of the company decision-making and management process, whereas all the other stakeholders (including the same top management with regard to its specific expectations regarding salaries, fringe benefits, stock option and so on ) are *stakeholder-objects* of management decision-making.

This distinction proposed by the Author only aims to emphasize that all the constituents of a firm are stakeholders, but one of them has the specific duty to manage the whole firm, while all the other stakeholders are objects, but with various powers of conditioning.

However, this systemic view of the firm underlines that, even though the managers remain central, the other stakeholders too could, at least potentially, consider themselves as the center of a formulating map that includes the relationships with other stakeholders (see Freeman's quotation above)

By studying the firm from the point of view of as many different subjects as there may potentially be stakeholder-subjects, the view of the company as a system, as put forward here, widens this perspective.

Not only is it possible to speak of the managerial approach to stakeholders, but also of an approach to stakeholders from the viewpoint of unions or single workers, minority shareholders, environmentalists, consumers, public authorities, etc, thereby also creating the conditions for an increased understanding of how business systems function.

Each stakeholder has his/her own view of MMA and puts forward strategies, whether more or less explicitly, on how to balance his/her stake with that of others in the same way as a very complicated multivariable game with (very often implicit or potential) considerations of possible multiple expectations, bargaining and so on; in the meanwhile, top managers seek to interpret and balance the legitimate expectations of all the stakeholders.

People managing corporations and entrepreneurs can utilize the analysis of each stakeholder's subjective point of view to facilitate future management.

When the firm is in a positive and constructive phase, each individual stakeholder-subject "adjusts" his/her requests until, having clarified various positions, a dynamic though always provisional and unstable equilibrium is reached. According to SMT, the guarantor for this equilibrium is whoever manages the firm.

Indeed this third principle is not intended to jeopardize the fundamental properties or basic principles of SMT, but it actually increases its utility in order to pursue an economic and ethical management for stakeholders, because:

a) it should be underlined that establishing the best possible equilibrium among stakeholders also requires the active involvement of all stakeholder-subjects;

b) the purpose is to place SMT within a wider business system and its ethics, especially with regard to the individual stakeholder's ethics and not just that of the top management.

Considering point a), it is not possible to have either a univocal indicator like "value for shareholders" (this is the well-known criticism of the stakeholder approach expressed by Jensen 2002 ), or a multi-variable one, as in a balanced scorecard.

Is it, nevertheless, possible to consider some indirect, reasonably simultaneous data and information that can provide a sufficient idea to move towards a long-term, satisfactory and fruitful, ethical MMA equilibrium:

a) financial results and market are positive for the long term and shareholders are not escaping;
b) social and environmental impacts are in general positive: for a long time there are no (or at least very few) strikes, sanctions regarding environmental or labour law violations, damages for class actions, claims won by consumers or NGOs (especially concerning the production chain);
c) the working climate is cooperative and no manager or employee has problems with his/her conscience in undertaking their operations.

A combination of transparent financial statement, stock market results, social/sustainability account and a coherent, applied and verified ethical code can, of course, contribute towards obtaining this "indirect" measurement, but also sound and spontaneous (not only official) cooperation amongst stakeholders (inside or outside the company) is essential.

**d) Whilst respecting MMA and inviolable ethical constraints, each stakeholder negotiates so as to reach the state of strategic equilibrium that is most favorable to his/her own legitimate interests.**

The dynamic convergence of stakeholders on MMA allows for a lasting, ethical existence and development of the firm as a stakeholder system, without unduly limiting the field of action of the stakeholders themselves. Each of them also possesses a free area of negotiation, because MMA is not a maximum, but an acceptable level of general satisfaction.

Each stakeholder is free, as a *stakeholder-subject*, to act in order to accomplish a relative improvement in his/her situation, especially the economic one. This makes the business system dynamic and stimulates the other elements of the system in favor of increasingly economic and efficient behavior, as well as respect for human rights, the law and MMA.

The process of reaching an equilibrium among stakeholders is thought of as being continuous, dynamic, intrinsically unstable and cyclical, as well as undergoing constant renewal. This fits in well with the dynamic instability of business systems which continually renew and modify their equilibriums relative to the general economic-competitive environment. This also helps stimulate technical progress and the creative qualities not only of entrepreneurs and top management, but also of every stakeholder; in the meanwhile, this equilibrium is not only from an economic point of view, but it also has to comply (dynamically) with ethical, personal and social principles and MMA conditions.

With the aim of this paper in mind, let us turn our attention to the three issues in which SMT could be helped by EFST.

## 3. SMT as a fruitful connection between ethics and competitive strategy, neither an enlightened instrumental view, nor an ingenuous win – win interpretation.

A link between Ethics and business strategy is no novelty:

"From the beginning of both fields, strategic management and business ethics scholars shared an explicit interest in the nature, and thus goals, of business. Kenneth R. Andrews's foundational strategic management text, *The Concept of Corporate Strategy*, described strategy as "determining the nature of the enterprise and setting, revising, and attempting to achieve its goals" (Andrews, 1971: xiii). R. Edward Freeman's *Strategic Management: A Stakeholder Approach*, often seen as a seminal combination of strategy and business ethics, similarly noted, "The point of strategic management is in some sense to chart a direction for the firm" (Freeman, 1984: 46). Neither identified the specific content of that nature or goal/direction, leaving that to general management, but both suggested that the answers depend on "[executives'] personal values and aspirations, and acknowledged obligations to segments of society other than the stockholders" (Andrews, 1971: 38)". Elms et al. 2010, p.401-402.

The role of ethics in business has also been emphasized in Italy by Coda's "Entrepreneurial Formula". Vittorio Coda recognizes an essential cooperation between ethics and business in managerial decisions, based on an "Entrepreneurial Formula" that insists on a "plurifinalistic" view of firm management:

"Consequently, we can assert that a valid entrepreneurial formula is oriented toward simultaneously pursuing success on the competitive, social and economic levels. In addition, such an entrepreneurial formula tends to set in motion self-perpetuating success circles which intersect these different levels, as illustrated in figure 3.8.

The connections between social and competitive success are particularly evident and immediate when the stakeholders in question are the workers. These. connections are less obvious and direct when it comes to other stakeholders, such as shareholders or banks. This is especially true for multibusiness firms.

As we can clearly see, however, in these cases, too, and for other types of stakeholders, significant connections are established between social and competitive success, which converge in a shared corporate mission. The contents of this mission, even when they are not verbalized, materialize in the concrete work of the firm in specific competitive areas and according to certain criteria or conditions of success". Coda 2010, pp. 87-88.

Coda, reflecting autonomously in the tradition of Italian Economia Aziendale studies, is not far from SMT, affirming both that the interests of shareholders in the long term are to be pursued by a dynamic and creative politics for the purpose of satisfying the legitimate expectations of the firms' constituents and that respecting ethics is considered fundamental for the survival of a firm.

Coda is not speaking explicitly about stakeholder value, ethical bases, the complicated system of mapping stakeholders or so on, but his "Entrepreneurial Formula" bears noteworthy similarities with SMT and contributes towards making Italian Economia Aziendale (particularly its Firm System Theory approach) nearer to SMT, especially by refusing the Separation Thesis.

This ethics/business link is, nevertheless, interpreted in various ways in SMT and often influenced by different disciplinary contexts (management, business ethics, sociology), but how does the stakeholder approach specifically refuse the so-called Separation Thesis? How can the ethical interpretation of FST presented here contribute towards it?

Due probably to the developments in business strategy studies over the last decades (Elms and et, 2010, pp.402-403 about "strategy without ethics"), after the entry of SMT in the context of managerial studies, it was easy for some scholars or practitioners to interpret it, more or less explicitly, in a strictly instrumental way, i.e. only as a means of enhancing competitiveness by avoiding damaging the stakeholders that could jeopardize the firm's long term development.

The same important contribution of Mitchell et al. 1997 does not escape from an essentially instrumental view of the ethics/business links, even if adding "urgency" to power and legitimacy is an important step for a better cooperation between ethics and business.

Other authors, however, starting especially from a more philosophical approach, underline the key role of the ethical-normative foundations (Donaldson and Presto n 1995).

In this case reference could be made to "Ethics without Strategy", in which: "In other words, business ethics as a branch of applied ethics has often not been "applied" enough; rather, traditional questions of moral determination are arbitrarily applied to one business situation or another, with the contextual details serving merely as some practical version of a thought experiment. This approach allows for key conflicts or tensions to become definitional, reinforcing the reductionist view of "ethics" somehow standing in opposition to the correspondingly suspect goal of economic rents; hence, sustainability is seen as a drag on profits, or employee empowerment as somehow less efficient. In addition, this approach has overemphasized the categorization of companies as either "saints" or "sinners," ignoring to a large extent the complexity of organizational dynamics (for exceptions, see Lee & Ermann, 1999; Malhotra, 2009). In other words, not only has the balkanization of strategy and ethics narrowed the disciplinary boundary in strategic management, it has also impoverished the robustness of inquiry in business ethics". Elms et al. 2010, pp. 403-404.

The most radically different views are presented in Orts and Strudler 2009 (no SMT contribution to ethics) and in various papers by Kaler (SMT only as an ethical point of view).

Orts and Strudler emphasize the impossibility for SMT to say something about ethics:

"…we maintain that the recent claims for stakeholder theory as providing a framework for business ethics are seriously overblown (Orts and Strudler, 2009, p.605)" and that "We will argue that stakeholder theory fails not merely because its guidance is not comprehensive. It fails because it provides virtually no guidance at all". Orts and Strudler, 2009, p.612 (note 2).

The quoted authors affirm that SMT has only managerial content, thus leaving the door open for the Separation Thesis. According to Orts and Strudler 2009, SMT is neither a comprehensive ethical theory, as stakeholder' authors accept (as affirmed for example in Phillips et al. 2003), nor does it have any ethical content at all.

Kaler diametrically opposes:

"A typology based on the division of stakeholder theories into normative, descriptive, and instrumental [author's note : the reference to Donaldson and Preston's pivotal paper 1995 is clear] is rejected on the grounds that the latter two designations refer to second order theories rather than divisions within stakeholder theory and the first is a designation which, for the purposes of business ethics, applies to all stakeholder theories". Kaler, 2003,p.71.

The consequence of Kaler's opposing approach is a Separation Thesis view; according to Kaler, SMT is, in fact, only an ethical theory without any intrinsic link with business management. Stakeholder Management is, on the other hand, one of the most important approaches if not the most important in order to develop a process of convergence between Strategic Management and Business Ethics (Elms et al. 2010 and Freeman et al. 2012).

"But what if we took seriously the idea that strategic management and business ethics are inseparable? This captures the essence of our objective: to reenergize a dimension of management research that seeks to combine the two fields, inherently embracing the relevance of one to the other. Such an approach recalls Freeman and Gilbert, who asserted that "[e]thics and strategy go together, and we need to tell a radically different story about organizational life to connect these concepts" (Freeman and Gilbert, 1988: xi)". Elms et al. 2010, p.404.

A synergic cooperation between ethics and strategy is fundamental being of mutual benefit

"Furthermore, the pursuit of this convergent research agenda has potential to produce its own practical considerations. Not only have scholars that "shaped the fields of corporate strategy and organizational behavior . . . joined the call to encourage and guide firms in taking on a larger role in society" (Margolis & Walsh,2003: 270), they have also promoted a convergent research agenda as beneficial to both research and practice: By bringing strategic management theory to bear on some of the critical social issues of our time, we will not only often elevate the level of discussion in these debates, but also provide opportunities to test and extend strategic management theory. It is thus in the self-interest of both social policy experts and strategic management scholars to discover new ways to engage in this conversation. (Barney, 2005: 947)". Elms et al. 2010 , p.412

Therefore, in this paper I suggest that Ethical Firm System Theory could contribute towards SMT's refusal of the Separation Thesis.

However, primarily we must examine two approaches that are sometimes considered and which may seem to solve the issue of ethics and business in SMT easily: Enlightened Maximization and an ingenuous naïve optimistic point of view.

A purely instrumental view is often immanent for SMT applicants, especially for management scholars. It is worthy of note, on the other hand, that while Jensen refuses stakeholder theory as a general managerial perspective, he accepts it as a useful instrument for pursuing stockholder maximization:

"Enlightened value maximization utilizes much of the structure of stakeholder theory but accepts maximization of the long-run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders, and specifies long-term value maximization or value seeking as the firm's objective (Jensen 2002, p.235)….. Indeed, it is obvious that we cannot maximize the long-term market value of an organization if we ignore or mistreat any important constituency. We cannot create value without good relations with customers, employees, financial backers, suppliers, regulators, communities, and so on. But having said that, we can now use the value criterion for choosing among those competing interests." (Ibidem, p.246).

According to this perspective, SMT is only an instrument to allow a better application of another theory. Separation Thesis, therefore, remains very strong because respect for corporate social responsibility and ethics is *subordinate* to usefulness for long-term sustainable profit maximization.

Let us try a second approach which affirms that, at least in the long term, ethics and profit *always and inevitably* go together. This, however, is a crucial problem for every stakeholder theorist and not a universal "a priori" truth!

This rough application of the refusal of the Separation Thesis utilizes a very optimistically naïve "a priori" win-win approach, *i.e. it is profitable to be good in the long run as all stakeholders are winners in the end*. This is similar, although in a much poorer philosophic context, to the statement of the famous philosopher Hegel:

"What is rational, is actual, and what is actual, is rational". Hegel (English Translation,) 1991, p. 29.

An ingenuous stakeholder thinking is clearly and strongly refused by Freeman and Mc Vea as well:

"Successful strategies integrate the perspectives of all stakeholders rather than offsetting one against another. This approach does not naively suggest that, by delving into the details, management can turn all constraints and trade-offs into a series of win-win situations. All stakeholders will not benefit all the time. Obviously, even with a detailed understanding of concrete stakeholder relationships, most strategies will distribute both benefits and harms between different groups of stakeholders. Win-win situations are not guaranteed. Indeed, it is just as important for management to develop strategies that distribute harm in a way that ensures the long-term support of all the stakeholders. Yet, over time, stakeholder interests must be managed in the same direction" (Freeman and Mc Vea, 2001, p. 195).

Freeman and Mc Vea (2001) say that *we can't satisfy all stakeholders at the same time,* but it is not sufficient to say this. What happens when managers and/or shareholders believe they face a conflict between making more profit and ethics? What happens when the personal ethics of top management differs from that of other stakeholders?

An ingenuous win-win view is inconsistent with SMT, not only according to what is rightly argued by Freeman and McVea (2001), but also because of both theoretical and practical considerations.

We can, in fact, identify two kinds of flaws, theoretical and practical, in the ingenuous win-win view (Rusconi, 2009a).

From a theoretical point of view, the refusal of an ingenuous win-win a priori is first of all connected with the fact that SMT is not a "comprehensive ethical theory" (Phillips et al., 2003) and, secondly, that the "genre" of SMT theories may be based on various ethical positions (Freeman, 1994; Wicks et al. 1994; Freeman,1999; Freeman and Phillips, 2002; Phillips et al., 2003;). It is logically inconsistent to maintain that *all* the best decisions on profit-making for shareholders are *always* acceptable from any potential normative core. It is inconsistent to think that all religions and philosophies *always* have the same ethical implications not for the majority, but for all potential economic decisions.

From a practical point of view, let us consider the context of a degraded socio-economic-civil environment in which ethics plays a negligible role and where there may even be widespread disregard for the law itself, leading to competitive disadvantages for law-abiding citizens. In this sense, we could easily refer to black (even often underpaid) labour, tax evasion and corruption, when they are systematic and go unpunished.

If we think that some managerial decisions may make money in the long term, but do not comply with some ethical principles (such as human cloning, bioethics, abortion, working during religious holidays, some unfair firing and hiring practices, inadequate salaries and so on), we must conclude that what is useful for maximizing shareholders profit is not under all circumstances also necessarily ethically right for the conscience of top management, shareholders and all stakeholders.

Stakeholder thinking is certainly a good idea[1] and in most cases "maximizing" well-being (i.e. not only welfare and money) of all stakeholders is also useful for the firm's long term sustainability, but we must also recognize that instrumental motivations do not always fit perfectly "a priori" with ethical principles.

The possibility of a trade-off between ethics and long term profit maximization also entails the dissolution of the "enlightened maximization" (Jensen, 2002) view as a way of considering SMT, as already pointed out in Wicks (1996):

> "…a critic could easily argue that this concept ends up being little more than the Friedman (1970) doctrine, applied in a context where (non shareholder) stakeholder groups have greater resources and power than when Friedman made his argument". (Wicks, 1996, p. 94).

SMT has the focal issue of safeguarding its fundamental connection between ethics and business, but the price to pay is not an ingenuous win-win approach. In actual fact, the problem is that managers, shareholders and other stakeholders have (or believe they have) to face the possibility of a conflict between profit maximization and their own personal ethical principles.

In any case, the criticism of an "a priori" win-win management is not discouraging for ethical management at all, because a supposed ethics/business conflict could only be due to a superficial and short-sighted managerial view.

Strong entrepreneurial creativity (see also Coda 2010) and an open minded management can, in fact, be stimulating for competitive success against more short-sighted and non creative competitors.

According to this perspective, applying the idea of "creating value for stakeholders" to MMA may be focal, not only for present day management, but also for future studies and practical applications:

"This convergent interest in the firm as a value creator for stakeholders is only the broadest signal of convergence between strategy and ethics, pointing the way to several more specific opportunities for further research connecting strategy and ethics". Elms et al. 2010, p. 405.

Let us now consider the possible contribution of EFST to a better understanding of the critical, intrinsic and synergic view of SMT regarding ethics and business.

According to SMT metaphorically merged into EFST, stakeholders are interconnected in a system in which top management tends to adopt strategies to balance stakeholders' interests and legitimate expectations. These strategies aim at pursuing an equilibrium which, in accordance with the refusal of the Separation Thesis, includes both economic-financial results and ethical issues, in order to obtain a so-called ethical/economic equilibrium.

Here we can apply a strategic/pure ethics dialectic of EFST. In fact, managers try to insert ethics in their strategies, while also taking account of "pure" ethics.

Theoretically speaking, a strategic/pure ethics dialectic, may lead, in certain rare circumstances, to conflicts of conscience that can result in the choice of a suboptimal profit strategy. Nevertheless, the "ethical manager" who, according to EFST, works professionally with regard to strategic/pure ethics and who controls the ethical feasibility of managerial decisions, can stimulate other managers to find as many long term win-win solutions as possible that are neither superficial nor ingenuous. This could strengthen a close cooperation amongst different function managers, as the source of a strongly creative and open minded managerial team that very often can also find solutions contributing towards an optimum long-term competitiveness.

According to the above mentioned strategic/ethical "two stage" idea, then SMT is forced to admit a certain, possible, theoretical degree of separation between success strategy and ethics, thus avoiding both ingenuous or instrumental views. However, most of the SMT area of activity remains unaffected by this perhaps "second level Separation Thesis" (definition given by Edward Freeman in a debate with the author), especially if we consider that probably in many cases what appears suboptimum today, could well turn out to be indispensable when everything is carefully reconsidered in a long term perspective.

**4 From responsibility to stakeholders to stakeholders' responsibility**

Some authors, from Bowie (1991) to Freeman and Phillips (2002) and Freeman et al. (2007), have also considered stakeholders' responsibility. Goodstein and Wicks (2007) [2] have invited scholars and practitioners to modify their vision of SMT:

"We argue for modifying the prevailing focus on corporate responsibility to stakeholders, and giving more serious attention to the importance of stakeholder responsibility to firms, and to other stakeholders who are part of the collective enterprise". (Goodstein and Wicks, 2007, p. 375).

It has to be considered how the view of stakeholders' ethical duties mentioned above is connected with EFST.

In section 2 point c) it was suggested that every stakeholder may be considered a possible subject and that their potential to map relations with other stakeholders has the power to influence stakeholder management decisions. If one has influence and power, one assumes responsibility as well, so we have to point out that stakeholders' ethics is essential in this description, as Goodstein and Wicks (2007) say:

"Fundamental to this understanding of stakeholder responsibility is the recognition of the firm as (among other things) a web of relationships among stakeholders. Within any relationship, parties have certain responsibilities to each other, particularly if their aim is to be mutually beneficial and sustainable over time". (Goodstein and Wicks, 2007, p. 377).

A EFST-SMT systemic approach goes further than Goodstein and Wicks 2007, presenting a useful conceptual basis for affirming the strictly ethical interactions among various stakeholders.

According to this perspective, everyone recognizes that they have a specific ethical responsibility for pursuing the wellness of all stakeholders and that they must take account of the complexity of the system, avoiding views that are myopic.

Firstly, every stakeholder is aware that they must not only claim their stake, but must also act consistently with their basic personal, ethical principles. This can obviously contribute towards making a sustainable maximization of stakeholder well-being easier from two points of view:

a) to promote a reduction in illegal or immoral behaviour at all levels of the firm;
b) to help top managers not to undermine the trust of some stakeholders, if they are forced not to respect their basic ethical principles.

Secondly, looking for an MMA equilibrium, every stakeholder is aware of both their responsibility and the needs of the system. This view strengthens a general awareness that satisfying MMA does not imply an absolute or instantaneous win-win result for every stakeholder's claim or expectation (as affirmed in Freeman and Mc Vea 2001 as quoted).

Thirdly, the awareness of "stakeholder responsibility" helps every stakeholder to understand that having ethical and MMA constraints in pursuing short-term self-interest is also a general defence to avoid a future unsustainability of the whole system .

Fourthly, CEOs/entrepreneurs manage the system as a whole (as their specific duty, not only to comply with SMT) and EFST-SMT emphasizes that the management works better if every stakeholder responsibility is considered.

## 5. Possibility of a corporative mindset: what would EFST-SMT say?

Freeman and Phillips (2002) and Freeman et al. (2007) speak about a principle of *Emergent Competition*:

"Competition emerges from a relatively free society so that stakeholders have options" "Competition is an emergent property rather than a necessary assumption to capitalism". (Freeman, et al., 2007, p.312).

Competition is, indeed, viewed in a very different way in comparison with standard neoclassical economics. In fact, responsibility and cooperation have an important role in connecting the *Emerging Competition* principle with that of *Continuous Creation*:

" Business as an institution is a source of the creation of value. Cooperating with stakeholders and motivated by values, businesspeople continuously create new sources of value". (Freeman et al., 2007, p.312).

Speaking about cooperation could, in some cases, be interpreted in Europe or in other non-European countries, as a simple "static equilibrium" among stakeholders and this might lead to:

"…a corporatist quagmire of economic, social and cultural dialectics among the various *stakeholders* (author's note: in italics in the original text)". (Rusconi, 2006a, p.194)

As, for example, in the case of company suppliers:

"…once top management has 'agreed' a particular policy regarding prices and conditions, suppliers are obliged to fall in with this and, vice versa, the firm is no longer able to "press a little" for qualitative improvement on the part of certain suppliers, by perhaps requesting lower prices or considering alternative sources". (Rusconi, 2006a, p.194).

Furthermore, this could potentially result in an Orwellian "Big Brother"-style firm, though possibly an enlightened one, or one that is static, inert and in decline.

In order to avoid this umpteenth misunderstanding of SMT, we should consider the EFST-SMT model as a means of emphasizing the interaction among various factors such as ethical and social principles, MMA conditions and the purpose of pursuing a stimulating and efficient equilibrium of well-being for all stakeholders.

As an example, let us refer to what was quoted beforehand and extend the reasoning to include some other fundamental stakeholders, i.e., stockholders and employees.

An easy, but static agreement could come from shareholders who are happy for low dividends, because they do not like risk or from employees who prefer low wages in order to enjoy absolute job security and good industrial relations. If we extend this agreement to all stakeholders, top management/entrepreneurs included, what would the consequence be? It would be a situation in which nobody presses suppliers to have lower prices, no minority shareholder claims for more dividends, no union asks for more money or better working conditions and so on.

In the case of a general corporatist agreement in the interest of some powerful stakeholders, all the system is damaged in the long term, firstly affecting the less powerful stakeholders, i.e. future generations, part-time workers, subcontractors , the environment and so on.

**CONCLUSION**

Returning to the research question, this paper tackles three ethical issues:

1) the relationship between business success and ethics;
2) stakeholder engagement and ethical responsibility;
3) cooperation, competition or the corporatist view among stakeholders.

What are the contributions of EFST-SMT proposed here regarding these issues?

As an essential contribution of SMT, point 1 requires the so-called Separation Thesis to be overcome synergically and fruitfully, so the paper's proposal of a strategic/ethical "two stage" perspective emphasizes both the utility of a far-sighted pursuance of profit (a very important contribution of SMT, appreciated also by Jensen 2002) and the need to avoid an ingenuous win-win approach or, even a strict instrumental use of ethics.

This view should encourage top managers and entrepreneurs to be proactive in continuously pursuing a reciprocal and fruitful cooperation between ethics and business, while clarifying that this aim is not so easy to achieve.

Turning to the second issue, stakeholder engagement has been seen for a long time as very important for applying SMT, but here is a further point connected with recent insights into stakeholders' responsibility as well (Goodstein and Wicks 2007). The EFST-SMT "merger", which emphasizes the points of view of various stakeholders as at least potential "stakeholder subjects", implies they have a responsibility as well.

Thirdly, the idea of a systemic synergy among ethics, MMA cooperation and competition prevents EFST-SMT from being wrongly interpreted in a corporatist way, only focused on some stakeholders, or on a general corporatist quagmire for all constituents, both internal and external.

This paper is not seeking complete and easy solutions, but only points out the economic/ethical fruitfulness of a close cooperation (the "metaphorical merger") between an explicitly ethical based view of business institution (EFST) and a good managerial idea (SMT).

There are different axes and perspectives for future research as well.

From an empirical point of view:

1) to consider different situations in which a top management's (or single entrepreneur's) short-sighted view could induce them to think they face an unreal conflict between ethics and business, just because they do not exercise their entrepreneurial creativity;
2) to analyze better how in specific company contexts the various stakeholders have

unconscious and/or rough stakeholders' maps, so that all stakeholders (top management included) can benefit from having a better understanding of what the best choice is for a long term MMA;

3) the specific insertion of a hypothesis of competition, even with limitations, for pursuing interests could stimulate research into some possible misunderstandings of SMT as a corporatist quagmire;
4) it could be interesting to inquire into the real ethical motivations of the firms that affirm they practice management for stakeholders;
5) there is a large field of action for research into relations between this model-proposal and the reality of firms in very different contexts throughout the world and also for research into connections between religions and the strategic/pure ethics;
6) despite the prevalent focus on EFST contributions, in this paper there are some insights for future research into the important contributions of SMT to EFST;
7) it may be interesting to investigate some specific firms further regarding incentives and sanctions and/or mitigation and mediation mechanisms;.

This work has the following limitations:

1) the difference between long term strategies and day-to-day practice are only sketched;
2) as mentioned in previous point 7, this paper does not examine in detail the specific incentives and sanctions or mitigation and mediation mechanisms practicable in individual firms;
3) as emphasized also in point 6 concerning research perspectives, this paper focuses particularly on the EFST contribution to SMT, though it does not underestimate the SMT contributions to EFST;
4) this paper is essentially theoretical and any related empirical studies will provide a very useful integration and development.

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**Notes**

1. According to Freeman stakeholder theory is "..not a theory of the firm. Rather it is a very simple idea about how people create value for each other. It's a theory about what good management is". (Freeman in Agle et al., 2008, p.166)

2. See also the observations of Marens (2008) and the reply of Goodstein and Wicks (2008).

3. All quotations from papers or books in languages other than English have been translated into English by the author

of the paper.