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The Ethical Role of Benevolence in Manager-Employee Relationships within Shareholder-focused and Stakeholder-focused Organisations

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Eva Saskia Titia Erika Hijlkema BSc

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Abstract English

In this thesis, I present two theories, shareholder theory and stakeholder theory, for determining the ethical role of benevolence in manager-employee relationships. Shareholder theory posits that an organisation's primary moral duty is to maximise profit for its shareholders. This implies that benevolence should be integrated into the manager-employee relationship, insofar it enhances employee well-being, subsequently boosting productivity and profit for shareholders. However, this suggests that benevolence is used instrumentally, specifically as a management strategy, which raises concerns that it is no longer benevolence. Stakeholder theory, on the other hand, asserts that the main moral responsibility of organisations is to create welfare for all stakeholders. Benevolence should be prioritised in stakeholder-focused organisations, as it generates value for employees. However, stakeholder theory also faces ethical concerns as it can appear quite manipulative when benevolence is employed as a management tactic. Moreover, neither shareholder nor stakeholder theory provides a clear, non-arbitrary guideline for the role of benevolence. Therefore, I argue that there is no ethical justification for benevolence in manager-employee relationships within either shareholder- or stakeholder-focused organisations.

Abstrakt Deutsch

In dieser Masterarbeit stelle ich zwei Theorien vor, die Shareholder-Theorie und die Stakeholder-Theorie, zur Bestimmung der ethischen Rolle von Benevolenz in Manager-Mitarbeiter-Beziehungen. Die Shareholder-Theorie besagt, dass die primäre moralische Verpflichtung einer Organisation darin besteht, den Gewinn für ihre Shareholder zu maximieren. Dies impliziert, dass Benevolenz in die Manager-Mitarbeiter-Beziehung integriert werden sollte, soweit es das Wohlbefinden der Mitarbeiter steigert und dadurch die Produktivität und den Gewinn für die Shareholders erhöht. Allerdings wird Benevolenz in diesem Kontext instrumentell verwendet, insbesondere als Managementstrategie, was die Frage aufwirft, ob es dann überhaupt noch als Benevolenz betrachtet werden kann.

Die Stakeholder-Theorie hingegen argumentiert, dass die Hauptverantwortung von Organisationen darin besteht, das Wohlergehen aller Stakeholder zu fördern. Benevolenz sollte in Stakeholder-orientierten Organisationen priorisiert werden, da es einen Mehrwert für die Mitarbeiter schafft. Dennoch stößt auch die Stakeholder-Theorie auf ethische Herausforderungen bei der Bestimmung der Rolle von Benevolenz in Manager-Mitarbeiter-Beziehungen; es kann manipulierend wirken, wenn Wohlwollen als Managementtaktik eingesetzt wird. Zudem bietet weder die Shareholder- noch die Stakeholder-Theorie eine klare, nicht willkürliche Richtlinie für die Rolle von Benevolenz. Daher komme ich zu dem Schluss, dass es keine ethische Rechtfertigung für Benevolenz in Manager-Mitarbeiter-Beziehungen in Organisationen gibt, die entweder auf der Shareholder- oder die Stakeholder-Theorie ausgerichtet sind.

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Introduction

Imagine two examples of workplace environments: Anne works in a large corporate shareholder-focused organisation, which implies that the goal is to maximise profits for shareholders. The organisational norm is to focus on shareholders and Anne's manager is a prime example for this. The manager often reminds the employees of the profit motive, and strictly supervises and controls them. Any personal relationship between an employee and manager is considered taboo; instead, this relationship remains formal and contractual. Employees are expected to adhere to their fiduciary duties as defined by their labour contracts. On the other hand, Tom also works in a large corporate organisation, but in this one the organisational norm is to focus on stakeholders, which implies that the organisation aims to create value for all parties involved. This translates to employees, as they are stakeholders too, by offering them various social activities and non-work-related comforts. Managers show concern for their employees and strive to meet their personal needs. The organisation adopts a caring leadership style, treating all employees as part of a large family and fostering a caring, non-instrumental atmosphere.

In Tom's organisation, benevolence is a key value. Benevolence is defined as a non-instrumental and caring act performed for someone else out of a good will, not in the Kantian sense out of duty, but as an action motivated by the desire to do good, without expecting any reciprocation. As a moral virtue, benevolence is generally preferred over selfishness due to its selfless nature (Williams, 1981, p. 2). Thus, since Tom's relationship with his manager is more benevolence-based than Anne's, we might assume Tom's relationship is morally superior. However, this does not necessarily hold. What if Tom feels unhappy in his organisation due to the social pressure stemming from the benevolent management approach? His manager might implicitly compel him to sacrifice more for his job than he desires. The benevolent behaviour displayed by his manager makes him feel guilty when he does not work as hard as his colleagues, leading him to feel as though he is letting down 'the family'. Since there are no overtly negative actions from his manager towards Tom, it becomes difficult for him to identify the source of his unhappiness and overwhelm in his job. If this is Tom's experience, and if Anne enjoys the clarity of adhering to her contractual duties, could it not be argued that Anne's situation is better than Tom's? Does this imply that Anne's situation holds a higher moral value than Tom's? Is benevolence even appropriate in a business context? Furthermore, if Tom's manager also acts with the intention to increase productivity for greater profit, can we still refer to this as benevolence?

These are the types of questions I plan to explore in this thesis. The main research question is: What is the ethical role of benevolence in manager-employee relationships within shareholder-focused and stakeholder-focused organisations? This thesis highlights a gap in ethical business theories, namely the lack of an ethical justification for benevolence in manager-employee relationships within both shareholder- and stakeholder-focused organisations. This question is of great practical implication for policy development within organisations that aim to foster an ethical workplace. I critically reflect in this thesis on using benevolence as a mere tool for profit maximisation or for stakeholder appeasement and I plead for developing more authentic, ethically sound approaches to manager-employee relationships.

Before outlining the content of this thesis, first some key concepts need to be defined. I define organisations broadly, namely as a private place for which profit-making is essential for economic sustainability and where there is an interplay between managers, employees and shareholders. In this thesis, I focus solely on shareholder and stakeholder theories to evaluate a manager's actions. Furthermore, I do not discuss alternative theories[1], as they are typically variations of these two and differ only slightly. I define managers and employees broadly: managers are executives responsible for a group of employees at any level, from CEOs to lower-level managers, while I define employees as individuals led by a manager who have contractual duties to perform certain tasks for which they are compensated with a salary.

In the first chapter of this thesis, I will outline shareholder theory's justification for the role of benevolence in manager-employee relationships. Shareholder theory asserts that

[1] Alternative theories for evaluating manager's actions include: stewardship theory, corporate social responsibility theory, creating shared value theory, resource based view theory, triple bottom line theory and real entity theory.

a manager's actions are ethically permissible when they generate profit for shareholders. I begin the chapter by outlining the economic and ethical foundations of shareholder theory, focusing primarily on Milton Friedman's interpretation, which posits that a manager's duty is to maximise profits for shareholders. An exploration of the role of benevolence in the manager-employee relationship then follows this discussion of foundational arguments. Surprisingly, implementing benevolence in these relationships can be shown to be morally obligatory in a shareholder-focused organisation due to its impact on productivity, which subsequently leads to profit. Finally, I will evaluate the ethical aspect of the justification for benevolence in manager-employee relationships offered by shareholder theory.

In the second chapter, I will outline stakeholder theory as the second criterion of rightness for assessing the place of benevolence in manager-employee relationships. Stakeholder theory assesses a manager's actions for its ethical status on whether they create value for stakeholders. The economic foundation of stakeholder theory relies primarily on stakeholder-agency and firm-as-contract theories, while its ethical basis can be found in Kantian capitalism, stakeholder-focused property rights theory, and social contract theory. The discussion of foundational arguments is followed by applying stakeholder theory to the role of benevolence in the manager-employee relationship. The application is centred around the application of justice principles. However, also stakeholder theory's justification for benevolence is not immune to criticism, as it often lacks clarity, suffers from arbitrariness and inclines towards manipulation.

In the last chapter, I will summarise and conclude that neither shareholder theory nor stakeholder theory provides a clear, non-arbitrary guideline for the role of benevolence in manager-employee relationships. Therefore, I argue that there is no ethical justification for benevolence in manager-employee relationships within either shareholder- or stakeholder-focused organisations.

1. Shareholder Theory: Benevolence as an Instrument

The first of two theories that I will use as an ethical evaluation to be discussed in this thesis, known as shareholder theory, guides managers in determining the moral permissibility of their actions towards employees by assessing the effects on profitability and efficiency. Shareholder theory argues that an organisation's main moral duty is to maximise profit for shareholders. The profit-maximising objective overrides the interests of all other parties (stakeholders). While the stakeholders' contributions are necessary, they are only seen as a means to the end of profit. The reason why shareholder theory is evaluated here is because shareholder theory is often regarded as the moral foundation of organisations. Combined with the notion that a free market will lead to efficient allocations, it is also the most prominent theory taught in business and management schools (Keller, 2007).

Students in business and management are presented with the rational utility-maximising view of human behaviour, which is central to the neoclassical view of the world. Neoclassical economic theory focuses on supply and demand as the main driving forces of the economy and, together with Keynesian economic theory, dominates mainstream economics. Neoclassical economists argue that the utility-maximising decisions a rationally acting agent makes, lead to the best outcome for society. This implies that, due to the economy being full of rationally acting agents, it is in a perfect equilibrium in which supply and demand are met on their maximal marginal profit.

How the perfect equilibrium applies in a business context is best explained with an example. Due to the perfect equilibrium in the 'market of managers', a manager is easily replaced. Therefore, the manager will do whatever action ends up bringing about the greatest profits for shareholders, as this is what makes the shareholders happy. If the manager does not make the shareholders happy, they know they will be replaced, which is why they will serve the shareholders by only focusing on bringing about the greatest profits for them. Shareholder theory uses this theory as explanation for why managers ought to solely serve the interests of the shareholders, namely because it will bring about the best outcome for society. This will be elaborated on in Section 1.1. on the economic foundation of shareholder theory.

In this chapter, I will first discuss the economic foundation of shareholder theory, built on the assumption that shareholders and executives are in a principal-agent relationship and work in a free economy. Afterwards, in Section 1.2 the ethical foundation of shareholder theory, based on agency theory, libertarian property rights, and a libertarian contract, will be discussed. In the third Section (1.3) I will examine the application of shareholder theory in a manager-employee relationship and its recommendations regarding benevolence within this context. Lastly, in Section 1.4., I evaluate the justification for benevolence in manager-employee relationships offered by shareholder theory. I argue that shareholder theory's justification for benevolence is too ambiguous to implement. Besides that, I question whether shareholder theory's application of benevolence is not too instrumental, which would imply that it can no longer be called benevolence.

1.1. Shareholder Theory's Economic Foundation

Milton Friedman, a prominent neoclassical economist, is seen as the 'inventor' of shareholder theory. He advocates for the maximisation of profitability and efficiency as an organisation's moral duty. In 1970 he wrote an influential essay published in the *New York Times*, entitled 'A Friedman Doctrine - The Social Responsibility of Business Is to Increase Its Profits.' The idea discussed in this New York Times essay originated in Friedman's book 'Capitalism and Freedom' (1962) and was later developed in the book 'Free to Choose,' co-authored by Rose Friedman and James Adams (Friedman et al., 1980). According to Friedman (1970, pp. 2-3), the sole responsibility of a corporate executive is to make as much money as possible for the company, while abiding by the law and engaging in open and free competition without deception or fraud.

Friedman's advocating for a capitalist and shareholder-focused management approach should be viewed in light of the historical context it was written in. Friedman's work was published during The Cold War, during which a geopolitical rivalry between the Soviet

Union and the United States and their respective allies divided the world. While the Soviet Union pursued a socialist ideology in which the government intervenes in the economy and redistributes the means of production to society as a whole, the United States pursued a libertarian ideology, in which minimum government intervention, private ownership and free market are focused on. While libertarianists solely focus on profit maximisation and view profit as an end, socialists see profits as a means to enhance society. Friedman links corporate benevolence to socialism; he stigmatises a caring manager as a socialist threat (Friedman, 1970, p. 2). This context explains why Friedman, as a libertarian, sees anything that has to do with socialism as a threat. The economic foundation for Friedman's theory is based on agency theory and the 'invisible hand' concept, which will now be outlined in turn.

1.1.1. Economic Shareholder-Agency Theory

Agency theory explains the relationship between principals and agents. Friedman's theory is based on the assumption that only natural persons can have responsibilities. Thus, rather than a business holding social responsibility, the corporate executive is to be held responsible for potential wrongdoings caused by the organisation. According to shareholder theory, the responsibility of the corporate executive is to make as much money as possible for the shareholders. Besides this, shareholder theorists assume a clear separation of control and ownership of organisations. The corporate executive controls the organisation, while the ownership lies in the hands of the shareholders. In shareholder theory, this entails that the shareholders are the principal, and the organisational executive is the agent. This relationship is contracted on trust, the principal entrusts the agent overseeing the organisation. Trust is necessary as the principal cannot control everything the agent will do. Besides trust, this relationship also is contractual, as the agent normally signs a contract with the principal. This contractual relationship creates a fiduciary duty for the agent to pursue the principal's best interests, thus implying for shareholder theory that the organisational executive has a fiduciary duty to the shareholders.

1.1.2. Adam Smith's Concept of the Invisible Hand

The second economic foundation for Friedman's shareholder theory is the notion that the economy is controlled by an invisible hand, a concept which was first mentioned by Adam Smith (1776, IV.1.10). Friedman (1962, p. 133) uses the invisible hand concept by arguing that society will benefit most if business is left to do what it excels in: creating wealth through efficiency. In a free market economy, it is assumed that every economic exchange is beneficial to both parties as long as the exchange happens strictly voluntarily. Friedman argues that the ideals of the free market – extreme individualism, voluntary cooperation and lack of coercion – lead to profit maximisation, which is the primary duty of organisational executives (Friedman, 1970, p. 10). Friedman describes the invisible hand as a metaphor for the unseen processes that force a free economy to fulfil the best interests of society, namely economic growth, by pursuing individual self-interest and freedom of production and consumption. In the following, I outline three examples of how, according to shareholder theory, a free economy controlled by the invisible hand fulfils the best interests of society by maximising competition. The three examples correspond, respectively, to fulfilling the best interests of consumers, shareholders and employees.

Firstly, increased efficiency is an explanation for why a free economy enables the fulfilment of the best interests of society. An example of how a free economy leads to efficiency in production and consumption is the reduction in monitoring costs. In a controlled economy, contract monitoring happens, which entails a continuous process that ensures all parties adhere to their contract's conditions. This, for example, includes routine assessments of contractual compliance, performance, and progress to confirm that contractual obligations are being met. In a free economy, contracts still exist; however, monitoring whether contractual obligations are met is deemed unnecessary, as the market itself has a controlling function caused by the invisible hand. Monitoring takes time and money away from pursuing more production, which leads to less efficiency and wealth in a controlled economy compared to a free economy. With decreased costs associated with production, the consumer price decreases due to competition in the free economy, which is beneficial for the consumers. (Weitzel, 2023)

For consumer prices to decrease, competition is essential, and such competition flourishes within a free economy. Competition, namely, is necessary for safeguarding quality, increasing innovation and lowering prices to market value (Phillips, 1997, p. 63). Therefore, the second example of how a free economy fulfils the best interest of society is that competition arises from shareholders' freedom to invest in alternative companies. This market pressure compels organisational executives to reduce production costs and increase efficiency in order to remain competitive. As a result, higher efficiency and profitability contribute to broader economic growth, illustrating how investor freedom in a free economy ultimately serves the best interests of society. (Friedman et al., 1980, pp. 18-20)

The third example of how a free economy controlled by the invisible hand is beneficial to society is in the sense that employees are protected from coercion by their employers because of the possibility of working for other employers. This protection is not controlled by a centralised authority but rather by the invisible hand on the free market. The invisible hand is a metaphor for supply and demand, which, according to the neoclassical view, will meet in a perfect equilibrium. This implies that due to the economy being free, employees will not be stuck in a job in which they are coerced by their employers because there is enough job supply for them to switch to a job in which they are not coerced. This forces employers to create attractive job conditions. (Friedman et al., 1980, p. 245)

These three examples illustrate how the assumption of a free economy in which the invisible hand operates creates the most benefit for society. According to shareholder theory, the most benefit for society is created by striving for profit for shareholders, this namely presupposes striving for maximum efficiency, which is valuable for society because it gets the most value out of its resources with the smallest input possible. Maximum efficiency is, according to shareholder theory, achievable only in a free economy, therefore the assumption of a free economy controlled by the invisible hand is a economic foundation for shareholder theory.

In sum, agency theory and the invisible hand concept together make up the economic foundation of shareholder theory. Agency theory assigns organisational executives, as agents, a fiduciary duty to act in the best interests of shareholders, the principals, with profit. The invisible hand concept explains the free economy in which the organisational executives and shareholders operate. The free economy namely provides them with the ideals of extreme individualism, voluntary cooperation and lack of coercion, which are necessary conditions for maximum efficiency. Now I have outlined shareholder-agency theory and the invisible hand concept as shareholder theory's economic foundation, in the next section, I will further elaborate on shareholder theory's economic foundation by drawing on its ethical foundation.

1.2. Shareholder Theory's Ethical Foundation

The ethical foundation of Friedman's theory is based in a utilitarian ideal, the objective for business is namely to create the most socially beneficial system of economic organisation, which Friedman believes is reached by focusing on making as much profit as possible. The theory is placed within a liberal tradition that upholds the protection of individuals against illegitimate coercion as its main ideal. In this sense, morality is defined as an individual's right to do whatever they choose, as long as they do not violate the freedom of others. Libertarianists assume a society in which libertarian contractarianism is accepted and in which agency theory and libertarian property rights are the basis of the fiduciary duty of a manager. These three theories, agency theory, libertarian property rights theory and libertarian contractarianism will be outlined in the next paragraphs.

1.2.1. Ethical Shareholder-Agency Theory

The first ethical foundation of shareholder theory is found in agency theory, which, as discussed in Section 1.1. on shareholder theory's economic foundation, offers the argument that the relationship between shareholders and organisational executives is based on a contractual duty. The contractual relationship between the organisation and the shareholder does not only produce a fiduciary duty, but it also produces a moral duty. This moral duty is based on trust and the explicit and implicit agreements governing the relationship. These agreements include the responsibility of organisational executives towards shareholders, which positions the organisational executive effectively as an employee of the shareholders. As long as no objective other than profit is explicitly stated, organisational executives should assume that profit maximisation is the shareholders' primary goal, and it is hence their moral duty to maximise profit.

1.2.2. Libertarian Property Rights Theory

Secondly, shareholder theory is ethically based on libertarian property rights theory, according to which individuals have the right to own personal property. Owning personal property is possible because the external world is assumed to be divided in many different individual parts, each of which is controlled by their particular owner (van der Vossen & Christmas, 2024). Libertarian property rights theory forms, together with agency theory, the basis for the fiduciary duty of the principal and the agent. Shareholders own a part of the organisation, it thus is partly their private property, which implies that they can determine how their part will be used.

Shareholders' property rights imply that if organisational executives use funds on activities or goods that do not ensure the highest profit, it would be akin to spending someone else's money. According to Friedman, spending someone else's money on something that was not agreed upon can be equated to illegitimate taxation and theft (Friedman, 1970, p. 4). Any money spent by corporate executives towards social responsibilities thus is morally wrong, as executives then do not respect the shareholders' property rights. Friedman argues that even if we assume that the shareholders entitle corporate executives to solve societal problems, the corporate executive is likely not able to judge how to best solve these problems (Friedman, 1970, p. 6). For example, when a corporate executive is told to contribute to fighting inflation, how will they know what action to take? And even if they were able to answer this question, how would they know what the justified cost is to impose upon shareholders for fighting inflation? While a corporate executive might be very good at managing their company, this does not imply that they are just as capable of solving societal problems.

Libertarianism, the tradition that Friedman's shareholder theory is a part of, values freedom as a fundamental right, thus making libertarian property rights the second ethical foundation of shareholder theory.

1.2.3. Libertarian Contractarianism

The last ethical foundation of shareholder theory relies upon understanding stakeholders, for example employees, as being in a free libertarian contract with the organisation they are involved in. This implies that it is not the shareholders' moral duty to take care of the stakeholders' welfare. Instead, due to the free economy, stakeholders have the free choice of being involved with the organisation or not. For example, in a libertarian framework for labour contracts, employees engage with their employers on terms of freedom and equality, which implies having the free choice to enter and exit employment. Equality exists in the relationship between an employee and their organisation because, with freedom of exit, workers gain control in the same sense that customers have control over their choice of grocery supplier in a free economy. Libertarian theory is based on the assumption that all employees have a ready exit into self-employment and that both managers, as well as employees, obey this libertarian contract (Friedman et al., 1980, p. 146). Since employees have this control over staying or exiting employment, it is not the shareholders' duty to take care of the employees, rather, it is the employees' duty to take care of themselves. This also implies that the manager's duty is not to take care of the employee but rather of the shareholders.

In conclusion, shareholder-agency theory, libertarian property rights theory and libertarian contractarianism form the ethical foundation of shareholder theory. In the next section, I address how shareholder theory applies to the role of benevolence in the manager-employee relationship.

1.3. Applying Shareholder Theory to the Role of Benevolence in the Manager-Employee Relationship

Friedman (1962, p. 133) argues that corporate executives have the moral duty to not engage with social responsibilities, and instead to strive for efficiency and productivity, ultimately leading to profit for shareholders. But what would Friedman say if implementing benevolence, which can be seen as a social responsibility, increases profit for shareholders? As this thesis' main objective is to discover ethical considerations about benevolence in manager-employee relationships, let us now turn to what role benevolence ought to play in a manager-employee relationship in a shareholder-focused management approach.

Although Friedman does not explicitly argue this, his theory suggests that managers should not focus on benevolence towards employees, as it is likely to conflict with the organisation's primary objective: maximising profit for shareholders. Benevolence can be seen as a form of social responsibility because it is a concern with well-being instead of a concern with profit. Friedman describes social responsibilities, when implemented by organisational executives, as undermining the basis of a free society. Engaging in social responsibilities implies that the organisational executives are acting out of a societal duty rather than acting out of the market-based fiduciary duty they have towards the shareholders. (Friedman, 1970, p. 4)

Following Friedman's argument that a manager's duty is a fiduciary duty finds support from Young (2007, p. 11-13), who has written about how fiduciary law provides sufficient norms and guidelines for managing ethical decision-making in business. Managers using fiduciary law as a guideline for ethical decision-making can use its objectivity to their advantage. The objective nature of fiduciary law prevents inefficiency caused by subjectivity. An example of this is when favouritism affects the manager's decision-making. The manager will have more time and energy to spend on creating value when they use fiduciary law as the main guideline for managerial decisions compared to if they engage with subjective influences like favouritism. Therefore, the objectivity of taking fiduciary law for managerial guidelines is an argument in favour of Friedman's shareholder theory and an argument against benevolence in manager-employee relationships.

Friedman's view on shareholder theory thus implies that benevolence should not play a role in the manager-employee relationship. Therefore, it might be surprising that there are shareholder-focused theories that do support benevolence in the manager-employee relationship. In Friedman's shareholder theory, benevolence is seen as an artificial disturbance that does not belong on the market. However, when stakeholders are not taken into consideration at all, bonds with society, which the organisation's economic sustainability depends on, are easily destroyed. This implies that solely focusing on shareholders might result in the organisation damaging other relationships, which creates less profit or even economic loss.[3]

Recent studies[4] have shown how benevolence is in the interest of shareholders and hence consistent with and perhaps required by shareholder theory. Empirical evidence from business ethics studies that take shareholder value as the organisation's moral end and these organisations' uses of benevolence in manager-employee relationships I will discuss in the following paragraphs.

The primary argument for incorporating benevolence into a manager-employee relationship within a shareholder-focused management style is the ability to improve employee retention. Benevolence enhances employee well-being, leading to greater employee retention. This, in turn, reduces the costs associated with hiring new employees, ultimately increasing profits for shareholders. In the following, I discuss three empirical studies[5] by Mignonac & Richebé (2013), Guerrero & Herrbach (2008), and Viot & Benraiss-Noailles (2019), in which the authors argue that benevolence creates employee well-being and that employee well-being in turn creates employee retention.

[3] Further ethical concerns about Friedman's view of shareholder theory can be found in: (Vorster, 2010).
[4] See, for example: (Lee & Ding, 2024), (McCarty, 1988) and (Ostas & De Los Reyes, 2021).
[5] For another empirical study linking benevolence and employee well-being, see, for example: (Cappelletti et al., 2010).

Mignonac and Richebé (2013) investigate the effect of employees' sense of disinterested organisational support on employee retention. Disinterested organisational support is support that does not include an expectation of reciprocation. It represents a form of benevolence, as it arises independently of obligation, calculation, or a sense of indebtedness. Mignonac and Richebé (2013) conducted their research by surveying a sample of 172 employees at two different times a year apart. The topics surveyed included perceived organisational support, organisational commitment, and intention to change organisations. Mignonac and Richebé (2013) found that the less a given support is perceived as interested, the more benefit in terms of employee retention it will eventually produce. Support from a manager to an employee can have the effect of creating a benefit in terms of increased employee retention while still being a benevolent (or, as the authors would say, disinterested) act because the act itself does not include a short-term explicit agenda. Instead, the manager demonstrates with their support that they do not intend to instrumentalise the employees, but rather to build up a long-term trust-based relationship.

The link between benevolence in the manager-employee relationship and higher employee retention exists through the managers' benevolence perceived by the employees. This is mostly caused by employees' psychological contract fulfilment and employees' affective states (Guerrero & Herrbach, 2008). Firstly, psychological contract fulfilment occurs when the expectations between employees and managers are met, without explicit communication about them. This implies that when employees perceive their psychological contract to be fulfilled due to benevolent behaviour from their manager towards them, they are more likely to want to stay in their job. Secondly, employees' affective states are the emotions that an employee feels over a longer period; this implies that employees' well-being increases when they feel constant benevolent support, rather than only on several occasions. When an employee's well-being is higher, they are also more likely to stay in their job. In conclusion, since benevolence in the manager-employee relationship fulfils employees' psychological contracts and has a positive effect on employees' affective states, employee retention increases with benevolence.

Viot and Benraiss (2019) conducted an empirical study to investigate the relationship between managerial benevolence, employee well-being, and employee retention. Their research involved surveying 595 employees about their perceptions of organisational benevolence, their overall well-being at work, their perceived organisational support, and their intention to remain with or leave their current employer. The findings indicate that when employees perceive a high level of benevolence from their managers, their sense of organisational support increases significantly. This enhanced support is closely linked to improved employee well-being, which in turn positively influences employee retention. The data further suggests that by fostering benevolence in manager-employee relationships, organisations can not only support their employees more effectively but also generate long-term benefits, including increased stability and value for shareholders.

The research studies by Mignonac and Richebé (2013), Guerrero & Herrbach (2008), and Viot and Benraiss-Noailles (2019) show that benevolence in the manager-employee relationship is linked to higher employee retention. Because employee turnover in organisations can be costly and disruptive, higher employee retention is beneficial for shareholders and thus an important objective in a shareholder-focused company.[6]

Costs due to employee turnover are twofold: the direct costs associated with the replacement process and the indirect costs associated with the intellectual capital that leaves the organisation with the employee. Direct costs associated with the replacement process include, for example, scouting the market, conducting job interviews and paying a short-term substitute. Indirect costs can, for example, include a drop in productivity due to the learning curve a new employee has, and general staff morale being affected. Another indirect cost associated with employee turnover is the competitor potentially gaining the assets of the intellectual capital that the leaving employee brings. Both direct as well as indirect costs harm the organisation's profit, thus decreasing the value for shareholders.

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[6] See for an analysis on costs associated with employee turnover, for example: (Duda & Žůrková, 2013), Ongori, 2007) and (Holtom et al., 2008).

Besides decreased direct and indirect costs associated with employee well-being and retention, there also are other direct and indirect benefits associated with employee well-being. Direct benefits for example include the fact that employees with higher well-being are more likely to be more productive than employees with poor well-being.[7] Higher productivity contributes to more profit, which, again, is beneficial for shareholders. An example of an indirect benefit that is associated with higher employee well-being is the potential positive effect on organisational attractiveness; employers can promote the level of well-being they offer to attract new employees.

In sum, benevolence in the manager-employee relationship has a positive effect on perceived organisational support. Perceived organisational support is directly linked to employee wellbeing, which is positively linked to employee retention and organisational attractiveness. When a company has high employee retention, costs associated with hiring new employees are low, which is beneficial for the organisation. This benefit for the organisation implies the possibility of creating more value for shareholders. In this sense, benevolence in the manager-employee relationship is a good strategy for a manager who wants to create value for shareholders, as long as the right condition is met. The right condition is when the benevolence creates value for shareholders. Therefore, despite Friedman's implicit rejection, benevolence in the manager-employee relationship can be seen as a moral obligation for managers in organisations with a shareholder-focused approach.

[7] See, for example: (Krekel et al., 2019).

1.4 Ethical Evaluation of the Justification for Benevolence in Manager-Employee Relationships Offered by Shareholder Theory

In this chapter, I have outlined the economic and ethical foundations of shareholder theory, its application as a management strategy in the manager-employee relationship, and its implications for benevolence in this relationship. Shareholder theory ascribes managers the moral duty to make as much profit for shareholders as possible. Since benevolence in the manager-employee relationship has the potential to enhance employee well-being, leading to increased productivity and, consequently, higher profits, benevolence ought to be implemented as a management strategy.

In Section 1.3, I argued that empirical research has shown the potential advantage to shareholders when an organisation extends its focus beyond shareholders to include other stakeholders. I then applied this perspective to the manager-employee relationship, suggesting that even with a profit- and shareholder-focused management approach, organisations should adopt benevolence as a strategic means to enhance profitability. This is because benevolence is presented as a strategy to enhance employee well-being, which in turn boosts productivity, benefitting the organisation and thus its owners, the shareholders.

However, shareholder theory's justification for benevolence in the manager-employee relationship raises ethical concerns. One major issue is the ambiguity in implementation, shareholder theory does not provide clear guidelines on how, when, or to what extent benevolence should be applied, leaving managers without a concrete strategy. Furthermore, when benevolence is reduced to a mere tool for profit generation, it loses its non-instrumental value, becoming a calculated management instrument rather than a genuine benevolent act.

In this section, I explore these ethical concerns and question whether shareholder theory offers a suitable answer to the question of what role benevolence ought to play in manager-employee relationships.

1.4.1. Ambiguity in the Implementation of Benevolence

The first concern with shareholder theory's justification for benevolence in manager-employee relationships is that shareholder theory does not justify a robust duty of benevolence. Benevolence can namely not have a firm unconditional place in a shareholder-focused organisation, as it is bound to the condition that the implementation results in extra profit. This implies that a shareholder-focused manager is not provided with information on how benevolence should be applied to generate additional profit. In the following, I will outline two examples to illustrate how managers can face ambiguity when they implement benevolence as a management strategy.

The first example of how ambiguity may arise in implementing benevolence within the manager-employee relationship stems from the fact that each organisation operates differently. There can be many reasons why fiduciary duty setting the role of benevolence might work well in one organisation but fail in another. For instance, in one organisation, employees may choose to stay because of a high level of benevolence. At the same time, there might be the same level of benevolence in another organisation. Still, employees refrain from quitting due to the opportunity costs associated with leaving, which may outweigh the lower well-being linked to remaining with the organisation. Benevolence can thus yield completely different roles and outcomes across various organisations. This is because, while the definition of benevolence as a non-instrumental and caring act is clear, there is no specific guideline on how to implement it.

Another example of how ambiguity in the implementation of benevolence by a shareholder-focused manager can arise is the following: imagine a manager who gives all of their employees an extra holiday day as a benevolent act. The manager expects their employees' well-being to increase due to this extra free day, which in turn, they expect will create higher productivity. If we assume that productivity increased after all employees have taken an extra day off, it is a very complicated task for the manager to evaluate whether the increase in productivity is a result from the extra day off. The increased productivity can also be the result of a different factor that has nothing to do with the extra day off. It thus is complicated for the manager to isolate specific effects.

The difficulty of properly applying the method of isolation is not limited to economics; it is also a widely debated issue in the philosophy of science (Mäki, 1992). However, this challenge becomes particularly significant in the context of shareholder theory, which justifies benevolence in the manager-employee relationship based on a manager's ability to assess its impact. The inherent ambiguity in evaluating the outcomes of benevolent acts creates a fundamental problem for shareholder theory's justification for benevolence: if managers cannot reliably determine whether their acts of benevolence contribute to profit, the justification for benevolence within shareholder theory becomes unstable and questionable.

These two examples illustrate that benevolence can manifest differently depending on the organisation, and that shareholder theory does not provide managers with the information they require to implement benevolence in a way that guarantees profit. Instead, it leaves room for ambiguity in its application. Simply understanding that benevolence should be used to drive profit is not enough; managers must also determine how to implement it, by what means, and to what extent—factors that can vary significantly between organisations. Shareholder theory, however, overlooks this nuance, reducing benevolence to a tool for increasing productivity without addressing the complexities of its application. As a result, because it fails to provide a concrete strategy for integrating benevolence in a profit-driven yet ethically justified manner, shareholder theory falls short in defining a clear ethical role for benevolence in the manager-employee relationship.

1.4.2. Benevolence as an Instrument

The second issue with shareholder theory as a framework for determining the ethical role of benevolence in the manager-employee relationship is that it requires using benevolence as a tool. This fundamentally changes benevolence's nature, as it loses its non-instrumental, caring property. A potential solution for this is to define benevolence in two levels. Mercier and Deslandes make a distinction between two forms of benevolence: formal and informal benevolence (Mercier & Deslandes, 2020). Informal benevolence aligns most closely with this thesis's definition; it describes a genuine concern for someone else's well-being and exists at the intersection of work and personal relationships. In contrast, formal benevolence is linked to performance, as it is employed as a management tool to enhance employee productivity. Based on the findings in Section 1.3, shareholder theory advocates for benevolence as long as it creates extra profit. This implies that only formal benevolence ought to have a place in a shareholder-focused organisation. However, the definition of formal benevolence does not meet the two requirements that this thesis' definition of benevolence presupposes, namely that a benevolent act is non-instrumental and is expressed out of a good will. Therefore, I argue that formal benevolence is not benevolence but beneficence, it namely only requires acting in such a way that someone else benefits and does not require this act to have a non-instrumental character.

To explain how benevolence can turn into a tool for expected reciprocation, consider the following example: a manager allows an employee paid time off from work for following training that will not directly benefit the employee's productivity at work. The manager initially does not voice any expectation for the employee to do anything in return. Then, however, months later, the employee wants to go home because their working time is over, but the manager asks them to stay longer while not paying or compensating them for overtime and uses as a reason the training that the employee did. Until the moment that the manager voiced their expectation of returning the exchange, it seemed as if the manager had acted benevolently. But only a couple of months later, it turns out the manager expects a favour in return, therefore, this act is not benevolence.

Empirical evidence[12] shows that when employees perceive their manager's motivation for benevolence as instrumental, this 'cancels out' the positive effect on employee well-being (Grant, 2008). Grant empirically studied call centres for the correlation between a manager's benevolent behaviour, employee performance (number of calls), and productivity (amount of money raised). The author found that when employees perceived

[12] For a systematic review of literature on prosocial behaviour at the workplace, see: (Bolino & Grant, 2016)

their manager's benevolence as an instrument to attempt to raise productivity, productivity declined. However, when employees viewed their manager's benevolent behaviour as genuine, productivity increased.

These findings suggest that when benevolence is used as an instrument, it does not lead to the same increase in employee productivity as genuine, non-instrumental benevolence. Instrumental benevolence thus results in less profit for shareholders than non-instrumental benevolence. This raises the question: can shareholder-focused managers increase profits while implementing benevolence? It seems paradoxical to claim that managers are permitted to act benevolently as long as they do not think about the grounds of this permission. Benevolence requires managers to allow themselves to be intrinsically motivated to benevolent behaviour, while shareholder theory requires managers to only act such that as much profit as possible is generated. This creates a fundamental contradiction between benevolence and shareholder theory. If a shareholder-focused manager engages in benevolent behaviour with the goal of increasing profit, then the act can no longer be called benevolent. On the other hand, if a manager is intrinsically motivated to act benevolently, their primary concern is not the organisation's profit, which directly conflicts with the main claim of shareholder theory. This tension highlights the incompatibility between shareholder theory and benevolence in manager-employee relationships.

In conclusion, relying on shareholder theory to determine the role of benevolence in manager-employee relationships raises ethical concerns. It is challenging to enforce due to the ambiguity of its implementation. Besides that, benevolence loses its non-instrumental value when utilised as a management tool. Therefore, it is essential to explore a different theory for establishing the ethical role of benevolence in a manager-employee relationship.

2. Stakeholder Theory: Benevolence as one goal among many

Stakeholder theory is the second theory that I will apply as an ethical evaluation of benevolence in manager-employee relationships. Stakeholder theory stresses that organisations should prioritise creating value for all stakeholders instead of just profit for shareholders. It provides a framework for managers to assess whether their actions toward employees are morally permissible. Stakeholder-focused organisations can still strive for efficiency and create value; however, unlike in shareholder theory, rather than profit being the organisation's end goal, profit only serves as the means to the end of creating value for all stakeholders.

To achieve the end of creating value for all stakeholders, there can be many different means. For example, an organisation with a big industry factory can generate value for the neighbouring residents by organising regular community events in which the organisation listens to the locals' potential worries. Besides this, the organisation can create value for their employees by providing extra benefits, like childcare facilities, extended maternity leave or paid lunch breaks. But shareholders are also stakeholders; shareholders are taken into account by organisational executives by striving to make a profit. Neighbouring residents, employees and shareholders are a non-exhaustive list of examples of stakeholders of an organisation. And all stakeholders have to be taken into account when the organisational executives make decisions. To be able to provide all stakeholders with value, organisations need to be economically sustainable. Therefore, in a stakeholder-focused organisation, profit is a necessary means for the end of creating value for all stakeholders.

Stakeholder theorists assume that the relationship between stakeholders and organisations is more complex and nuanced than what capitalistic shareholder theorists say. Edward Freeman, who wrote 'Strategic Management: A Stakeholder Approach' (1984), is known as the 'inventor' of stakeholder theory as a theory for determining what managers ought to do. He argues that one of the goals of stakeholder theory is to protect consumers from ethical problems caused by capitalism and shareholder theory (Freeman, 1984, p. 228). Freeman wrote about stakeholder theory in the early 1980s, which was a turbulent time for organisations in the United States. People no longer accepted that organisations should only be concerned with taking products and services to the market and concentrating solely on efficiency and effectiveness; instead, organisations were expected to occupy themselves with stakeholder value and employee well-being (Freeman, 1984, pp. 4-8). One phenomenon that illustrates how important employee well-being was for Americans is the peak of labour union memberships in 1979 at an estimated 20 percent of the total workforce (U.S. Bureau of Labor Statistics, 2025). Since then, the concept of stakeholder theory has gained prominence, especially through the idea of corporate social responsibility (CSR). Stakeholder theory namely explains an organisation's motivation to engage in CSR.

In a stakeholder-focused organisation, the moral permissibility of a manager's actions depends on whether those actions maximise stakeholder welfare. Not only profit for shareholders is important for an organisation's long-term economic sustainability; intrinsic factors, such as staff welfare, also need to be considered. This chapter will explore whether stakeholder theory is an appropriate alternative for evaluating the ethical significance of benevolence within the manager-employee relationship. I argue that stakeholder theory is the connecting link between ethics and the capitalist view of neoclassical economics. This is because, according to stakeholder theory, everyone's welfare is of ethical significance for a manager's conduct. Due to stakeholder theory's focus on an ethical distribution of welfare, it is interesting to discover whether there are fewer moral objections to stakeholder theory than to shareholder theory as justifications for benevolence in manager-employee relationships.

I will first discuss in Section 2.1 the economic foundation of stakeholder theory, built on the assumption that an organisation's success depends on the effective coordination and management of stakeholders' interests. Afterwards, Freeman's view on the ethical foundation of stakeholder theory will be discussed in Section 2.2. and will be linked to Adam Smith's view on benevolence being the prime economic motivator. The third Section (2.3.) will zoom in on stakeholder theory in a manager-employee relationship and what it prescribes for the role of benevolence in this relationship. Lastly in Section 2.4., some ethical concerns regarding stakeholder theory's justification for the role of benevolence in a manager-employee relationship are outlined.

2.1 Stakeholder Theory's Economic Foundation

Freeman (1984, pp. 3-27) describes that many internal and external changes were occurring in businesses in the United States in the 1970s. One of these changes is that the voices of people affected by an organisation are no longer ignored. Due to the increasing influence of stakeholders on organisations, it has become essential for organisations to align with their external environment to ensure long-term survival. Stakeholder theorists argue that rather than focusing solely on shareholders, it is more effective to address the needs of all those who are affected by the organisation. This is because satisfying shareholders' needs may maintain short-term economic health, but addressing the needs of all stakeholders supports long-term organisational economic sustainability. In this sense, organisational success is defined as the effective coordination and management of stakeholders' interests.

Besides the long-term economic sustainability argument, two further economic arguments for implementing a stakeholder-focused management approach will be elaborated on in the following two sections: stakeholder-agency theory and the firm-as-contract analysis (Donaldson & Preston, 1995). Both theories emphasise the critical role of managers in coordinating and balancing the interests of various stakeholders. They focus on the process of achieving mutually acceptable agreements among stakeholders rather than merely meeting traditional economic benchmarks.

2.1.1. Stakeholder-Agency Theory

Stakeholder-agency theory is based on the principal-agent concept. Hill and Jones (1992) extend this concept into 'stakeholder-agency theory', they argue that managers act as agents for all stakeholders, not just shareholders. The authors point out that stakeholders vary in the significance of their stakes and their power. Rather than assuming equilibrium in the relationships between stakeholders and managers, Hill and Jones focus on understanding the ongoing dynamics and conflicts. With these dynamics accounted for in the stakeholder-agency theory, a similar argument as was made in Section 1.1.1. on shareholder-agency theory, can be sketched for stakeholder theory. The duty associated with a principal-agent relationship requires the agent, in this case managers, to pursue the principal's, stakeholders, best interests. This duty is based on explicit and implicit contractual understanding, which are reinforced by the deontological moral standing of Kantian capitalism, which will be described in Section 2.2.1..

2.1.2. Firm-as-Contract Theory

The second economic foundation for stakeholder theory is the firm-as-contract theory, which conceptualises the firm as a nexus of contracts among various stakeholders who, to minimise transaction costs, collaborate within the organisation instead of dealing with one other on the market. Freeman and Evan (1990, pp. 15-21) expand this theory by suggesting that firms should be viewed as a series of multilateral contracts, with managers responsible for overseeing these contracts among stakeholders and ensuring that all parties' interests are fairly taken into account. Contracts in this sense are interpreted broadly to account for both explicit as well as implicit contracts (Freeman & Evan, 1990, p. 23). While explicit contracts, for example, include the labour contracts between employees and their organisation. Implicit contracts are voluntary and self-enforcing agreements, for example between a customer and a restaurant owner. When a customer namely walks into a restaurant and orders food, there is an implicit contract that the customer will pay the restaurant owner for their food.

In the following, I will outline two examples of economic reasons for organisations to regard their stakeholders to be in a nexus of implicit and explicit contracts with them. The first example to be discussed is an implicit contract on the market, the second is an explicit contract based internally of an organisation. On the market, the costs that arise if stakeholders' interests are not considered are likely to be higher than considering the stakeholders' interests in the first place. This can be due to costs associated with information asymmetry: if an organisation is open to listening to stakeholders' interests, they do not have the costs of finding out these stakeholder interests on the market. An example of this is the implicit contract between supermarket A and customer X. Imagine customer X wants more organic products in their supermarket than are offered in supermarket A. This customer will search for another supermarket which does offer the number of organic products they would like. Supermarket A will notice the missing demand from customer X but will not know why customer X's demand has dropped; there is information asymmetry between supermarket A and customer X. If supermarket A had seen themselves in an implicit contract with customer X, they could have avoided the information asymmetry, for example by gathering customer feedback by conducting customer satisfaction surveys. On a bigger scale, market information asymmetry is likely to cost supermarket A more than if supermarket A had adapted before noticing the decreased demand.

The second example illustrates an internal organisational reason for viewing stakeholders as being in an implicit contract with the organisation. For instance, employees invest in organisation-specific human capital, such as highly specific training. These employees should be rewarded fairly based on their economic contribution, even despite their human assets being of less economic value on the market than inside the organisation. This is because, when employees are fairly rewarded, they are more likely to want to make more organisation-specific human capital investments in the future. This reward should be a part of an explicit contract in order to avoid confusion and accusations of favouritism. It is beneficial for the organisation to have employees with more organisation-specific skills because they are more productive.

These two examples illustrate that there is a financial benefit for organisations to guarantee that all stakeholders' interests are addressed satisfactorily. A strategy for addressing stakeholders' interests satisfactorily is by making stakeholders feel that they are being treated fairly. Stakeholder theorists emphasise fairness in contractual agreements, which brings this discussion of the economic foundation for stakeholder theory as a management approach to its ethical foundation.

2.2. Stakeholder Theory's Ethical Foundation

Unlike shareholder theory, which emphasises maximising efficiency and economic incentives, stakeholder theory shifts the focus away from profit-driven motives. Instead, it prioritises stakeholders' interests and is guided by ethical considerations. In the following, three key elements that stakeholder theory is ethically built upon are outlined: Kantian capitalism, stakeholder property rights theory and social contract theory.

2.2.1. Kantian Capitalism

The first element of a promising ethical justification for stakeholder theory can be found in a deontological perspective, according to which an organisation has a duty to stakeholders to not only regard economic outcomes but also other ethical considerations. Freeman and Evan (1988) introduce the notion of "Kantian Capitalism", which draws on Immanuel Kant's (1785) moral philosophy. Kant formulated a moral rule called the categorical imperative, which is built on three foundations (Johnson & Cureton, 2024). Firstly, ethical conduct requires treating individuals as ends in themselves rather than merely as means to achieve other goals. Secondly, one should act according to principles that could be universally applied as moral law. And thirdly, by virtue of humanity, people possess intrinsic moral worth, which makes them deserve positive obligations like respect and legitimate rights. Applying the categorical imperative to the topic of stakeholder theory as a management approach suggests that organisations have responsibilities to all stakeholders. This responsibility is grounded in the belief that stakeholders, by virtue of their humanity, should be treated as ends rather than mere means and are deserving of positive obligations like respect and legitimate rights.

Organisations' positive obligations to stakeholders mostly align with legal duties, particularly when they involve basic human rights. This, for example, implies that organisations have a positive obligation towards stakeholders when it comes to their right to life and liberty. This is because the right to life and liberty is a basic human right. On the other hand, there also are moral duties, known as imperfect obligations, that exist without legal enforceability. An example of an imperfect obligation is treating one another with respect. Applying positive and imperfect obligations to a manager's decision-making regarding stakeholders raises the question of how a manager should prioritise competing positive and imperfect obligations when dealing with multiple stakeholders.

One method that can be used to determine how organisations should prioritise competing positive obligations towards stakeholders is given in Adam Smith's 'Lectures on Jurisprudence', in which he distinguishes between perfect and imperfect rights (Smith, 1763, p. 50). The corresponding discussion of justice and benevolence is discussed in his 'The Theory of Moral Sentiments (Smith, 1759, VI.ii.3.1-6). Adam Smith's distinction between perfect and imperfect rights lies in whether they create a legal duty for the exchange to happen (perfect rights) or whether they create a duty without an entitlement for the performance of this duty (imperfect rights). For example, someone over 65 years old has the perfect right to buy a ticket for senior citizens for Viennese public transport. Nevertheless, this person only has an imperfect right to be offered a seat by a fellow younger Viennese public transport user.

While perfect rights are based on jurisprudence and a system of morals, imperfect rights are only based on a system of morals. To explain why perfect rights are not based solely on jurisprudence but also on a system of morals, Smith introduces the notion of the impartial moral spectator (Smith, Adam, 1759, III.2.33). The impartial moral spectator allows prioritisation of competing perfect rights by assessing the expectations of honouring one right over another through the lens of an impartial spectator. Which perfect right would be prioritised by an impartial spectator is the one that should be acted on first. Secondly, the impartial spectator is used to define imperfect rights, since an imperfect right is a right that an impartial moral spectator would willingly accept. Applying the notion of perfect and imperfect rights to stakeholder theory implies that the most salient stakeholder relationships are those that are based on perfect rights.

To explain why stakeholder relationships based on perfect rights are more salient, consider the following example of the relationship between a big factory's executives and the inhabitants of the neighbouring houses. The neighbours of the factory have the perfect right to demand the factory executives follow the law regarding noise pollution. As long as we assume that the law has clear guidelines regarding noise pollution, this perfect right is based on jurisprudence. On the other hand, the factory executives only have an imperfect duty to their neighbours to choose to place the noisier machines in a manner that the neighbours are least affected. Assuming that the factory's noise pollution does not violate any laws and that for the factory it does not create a disadvantage to placing the machines further away from the neighbours, the factory's decision to create as little disadvantage for the neighbours as possible is affected by morality. The organisational executives namely choose the morally superior option by creating more value for all stakeholders. What these two examples show is that while it is morally superior to adhere to imperfect duties, only the enforcement of perfect rights can be demanded. Therefore, Smith argues that perfect duties need to be prioritised over imperfect duties. This applies to the above-mentioned organisation in that the executives ought to first make sure that the machines they use follow the noise pollution law before thinking about what places for which machines are most advantageous for their neighbours.

In sum, stakeholder theory draws on Kantian Capitalism to argue that organisational executives have a duty to take all stakeholders into account. While the stakeholders with perfect rights need to be taken into account based on a fiduciary duty, organisational executives only have a moral duty to take stakeholders with imperfect rights into account.

2.2.2. Stakeholder Property Rights Theory

Property rights are typically associated with shareholder rights, as discussed in Section 1.2.2. However, as argued by Donaldson and Preston (1995), property rights also provide an ethical basis for stakeholder theory. This is because the shifting view towards property rights consists of more dimensions than just physical entities. [13] Organisations produce and own resources; these resources are not only physical entities, but they are also bundles of rights. This implies that stakeholders receive a bundle of rights that define a range of privileges regarding the organisations' produced value; this range does not include an unrestricted right to do whatever they wish. The stakeholder thus has property

[13] See, for example: (Donaldson & Preston, 1995), (Klein et al., 2012) and (Asher et al., 2005).

in so far as they have the right to carry out a circumscribed list of actions that belong to being a stakeholder. (Donaldson & Preston, 1995, pp. 82-84)

An example of why owning a property right essentially means owning a bundle of rights is when someone owns a piece of land. This landowner's property right is based in a contract which they have with the authorities, in which it states that they have a circumscribed list of actions that they are allowed. This list of actions can for example include that the landowner is allowed to build on the land or that they are allowed to have kettle on the land. The landowner is the owner of a property, which implies that they are the owner of a bundle of rights.

As explained in Section 2.1.2. on stakeholder theory's economic foundation, the firm is a nexus of explicit and implicit contracts with stakeholders. Stakeholders who hold property rights are those who interact with the organisation in the form of investing transactions and/or organisation-specific property. The organisation uses this property to create value, which entails that the stakeholder has invested resources that have been transformed into value. As the stakeholder is the property owner of their investment, they have the right to receive a portion of the created value relative to their corresponding investment. According to Article 17 of the Universal Declaration of Human Rights, property rights are a human right; this implies that anyone with a property right should receive moral recognition for owning this property and should be allowed to remain in control of their resource (United Nations General Assembly, 1948).

Donaldson and Preston (1995, p. 85) provide the following example for a property right-holding stakeholder: a long-term employee who has invested effort in building and maintaining a successful business operation. If this employee has invested more human capital than their contract rewards them for, they ought to have a property right in their organisation. The authors argue that this employee's property right does not necessarily have the same formal or legal qualities as for example a shareholders' property right. However, in virtue of property rights theory, it is salient that this employee's property right is acknowledged as a stake in the organisation.

Not every stakeholder holds a property right in the organisation. For example, customers who buy a product from an organisation are entitled to the property rights associated with that product but not to any organisation-specific property. For example, when a customer buys bread in a bakery, they pay the market value for this bread and with that enter an implicit contract with the bakery. They namely can assume that the bread is produced to standards corresponding to the price they paid. However, this implicit contract and their investment correspond to their rights as a customer but does not give them a property right in the bakery.

One way to determine who is entitled to what property right is the principle of justice as fairness. Evan and Freeman (1988, p. 20) introduce the focus on the notions of equality and fairness into stakeholder theory by incorporating John Rawls's theory of justice (Rawls, 1971). Rawls' principle of justice as fairness has two components. The first component is the thesis that everyone has an equal claim to basic liberties. The second component is the thesis that any social and economic inequality ought to satisfy the difference principle and the fair equality of opportunity principle. The difference principle holds that inequalities are justified only if they benefit the least advantaged members of society, and the fair equality of opportunity principle holds that regardless of someone's starting position, everyone should have the same educational and economic opportunities (Wenar, 2021).

Rawls formulates these principles on the assumption that all free and equal citizens, provided they are unaware of their societal position, will select principles that ensure fairness and equality for everyone. Rawls argues that when individuals are unaware of their position within society, they are placed behind what he calls the 'veil of ignorance' (Rawls, 1971, p. 136-141). Evan and Freeman (1988, p. 21) apply the veil of ignorance to stakeholder theory by arguing that, from behind this veil, all free and equal citizens would choose principles of fairness that require consideration of all stakeholders' interests. Since no one knows which stake they will ultimately hold, each individual is motivated to protect every position equally, ensuring fairness regardless of their eventual role once the veil is lifted.

When property rights are applied in a stakeholder-focused organisation, non-owner stakeholders' interests are considered, as they are property holders. This inclusive account of property rights, thus, does not exclusively assign property rights to shareholders. When property rights are hence evaluated through the lens of justice principles, it provides stakeholder theory with an ethical framework.

2.2.3. Social Contract Theory

The fourth ethical foundation upon which stakeholder theory is built is social contract theory, a philosophical tradition in which both Rawls and Kant are placed. Social contract theorists argue that moral norms receive their normative force through implicit contracts between people. Kant and Rawls are placed in this tradition due to their emphasis on morality being principles that can be adopted and are agreed upon by all rational agents (Cudd & Eftekhari, 2021). As stakeholder theory integrates justice-based principles, it evolves into a contractarian model that views businesses as moral agents tasked with ensuring basic equality and fairness among stakeholders. Essentially, society grants the legal and social framework that enables organisations to operate. Organisations rely on elements such as trust, legal protections, privileges like limited liability, and public confidence. This framework can be seen as a form of contract between organisations and society – a "license to operate." (Brown & Forster, 2012)

According to the social contract perspective, organisations and society are in a mutual dependency. Society relies on organisations to drive economic and social progress, while organisations depend on society to provide the necessary infrastructure and systems, such as legal frameworks, market regulations, and transport networks. Based on the organisations' actions and their outcomes, the contractarian model holds that organisations can be morally praiseworthy or blameworthy. Donaldson and Preston (1995, p. 79) similarly support this normative perspective, arguing that organisations are in a social contract with society, which implies that their responsibility is not limited to legal obligations but extends to ethical obligations to recognise and address the interests of all stakeholders within a cooperative and fair framework.

2.3. Applying Stakeholder Theory to the Role of Benevolence in the Manager-Employee Relationship

As the main research question of this thesis is 'What is the ethical role of benevolence in manager-employee relationships within shareholder-focused and stakeholder-focused organisations?' let us now turn to how stakeholder theory translates to the role of benevolence in manager-employee relationships. Stakeholder theory proposes that managers have responsibilities not just to shareholders but to all stakeholders, which includes employees, customers, and the broader community. In this section I will first apply the economic and ethical foundation to determine what role benevolence should play in the manager-employee relationship in an organisation according to stakeholder theory. Afterwards, I will discuss some business ethical studies applying benevolence in organisations.

I have described Freeman's (1984) theory as the economic foundation of stakeholder theory. Stakeholder theorists argue that since the eighties, a more human approach instead of an authoritarian leadership approach to management has been called for. This is the result of changing values in the younger layers of the workforce, Freeman argues that this change in values, for example, has the effect of declined productivity (Freeman, 2010, p. 10). Freeman describes that one aspect explaining the decrease in productivity can be found in the manager-employee relationship. The focus in this relationship namely lies in strategy and structure, while the younger workforce prefers a relationship with their manager in which the focus is on shared values and a good work culture. Due to the increasing dissatisfaction with work culture, productivity has been decreasing. Freeman argues that with a management approach in which shared values and good work culture are strived for, productivity will increase again. Examples of strategies that Freeman gives for increasing productivity include collective strategic direction setting, increased manager-employee communication and the monitoring of employee satisfaction. These strategies thus suggest a management approach in which benevolence plays a prominent role in creating value for both the managers as well as the employees.

Smith's theory has been outlined as the ethical foundation of stakeholder theory. It emphasises the value of benevolence as a foundational principle for explaining and justifying all human endeavours. This instinctive care for the welfare of others, or as Smith calls it, the moral impartial spectator, also plays a big part in the economy. Smith argues that market activities generate mutual gains from trade and lift an economy out of poverty, which, according to Smith, is how benevolence is the foundational principle for economics. In a stakeholder approach, managers will be affected by the moral impartial spectator, in the form of their instinctive care for the welfare of others, while deciding how benevolently to approach the employees. Smith (1759, VI.ii.3.1-6) distinguishes justice and benevolence in addition to the distinction between perfect and imperfect rights. While benevolence is an application of an imperfect right and, therefore, is up to managers' discretion, justice stems from perfect rights, making it an enforceable duty. This entails that when managers are facing the allocation of perfect rights, they should primarily focus on creating a just allocation and only secondarily on acting benevolently. Managers thus have the contractual duty to treat employees fairly and are allowed to treat employees benevolently, as long as it does not come to the expense of justice. Benevolence should be upheld but cannot be coerced, implying that while managers are required to act benevolently toward employees, employees cannot demand it. However, fairness can be enforced by employees when managers fail to treat them justly.

To illustrate the difference between fairness and benevolence and its application in the manager-employee relationship, consider the following two examples of a manager's decision-making. Suppose that an employee has already taken all their holiday days for that year and they ask their manager whether they are allowed to leave two hours early, as their hamster urgently needs to go to the veterinarian. If the manager says yes and does not expect anything in return, this decision is based on benevolence. This is a benevolent action as there is no law for the manager to allow this exception, which implies that there is no perfect duty. Besides this, it is a beneficent action for which the manager does not ask for anything in return. Now suppose another employee on another day also asks whether they can leave two hours early, as their rabbit needs to be brought urgently to the veterinarian. The circumstances in the organisation, for example in terms of how busy it is, are very similar to when the other colleague had to bring their hamster to the veterinarian. The manager ought to say yes, based on the fairness principle. The fairness principle comes into play here because each individual ought to be treated equally.

In conclusion, both Freeman and Smith suggest a management approach in which benevolence is incorporated, let us now turn to see how this applies in organisations nowadays.

One way to include benevolence in a manager-employee relationship is introduced by Frémeaux and Michelson (2011), who describe an alternative conception of business exchange to the dominant theory of reciprocal exchange. Merely relying on the logic of reciprocity is insufficient to explain all motivations and behaviours related to acts of benevolence in manager-employee relationships, because benevolence happens without an expectation of returning benevolence. Besides that, an alternative theory on why benevolence is present in business is also needed, because exchange theory has unrealistic assumptions. These assumptions include consistent rationality in choice for action and the impossibility of sustaining asymmetric relations. Consistent rationality is unrealistic, research studies show that humans are not capable of always thinking rationally (Tversky & Kahneman, 1974). Besides that, exchange theory assumes that humans are unable to sustain asymmetric relations; this implies that benevolent action cannot exist. However, both lived experience and moral intuition, as recognised in traditions such as Kantian ethics and virtue theory, suggest that individuals are, at least at times, capable of genuinely altruistic action, not reducible to self-interest or strategic calculation.

Since exchange theory relies on these two unrealistic assumptions, Frémeaux and Michelson, (2011) introduce benevolence in their theory on manager-employee relationships. Benevolence is a non-instrumental and non-exchange depiction of giving, which Frémeaux and Michelson (2011) introduce as the 'existential gift'. For an exchange to be classified as an existential gift, there can be no expectation nor obligation of reciprocity; this implies that there cannot be an explicit desire by the giver for a reciprocated gift, nor should the 'asymmetry of exchange' between the gift giver and receiver be mentioned. The main difference between an existential gift and an altruistic act is that the existential gift is non-normative; there is no moral obligation for an existential gift.

Introducing the existential gift to transcend the instrumental approach to benevolence has two positive impacts. Firstly, organisations can more easily free themselves from a system based exclusively on overt control. This would facilitate the organisation in better understanding the importance of collaborating with all their stakeholders in ways that take into account the human condition and needs, as well as reduce monitoring and contract costs. Secondly, by embracing the existential gift, businesses and other organisations do not risk discouraging acts of generosity and rewarding only those acts that can be systematically quantified. This gives the possibility for recognising (hidden) behaviours essential for organisational survival, such as benevolence in collective work.

In sum, implementing the existential gift in a manager-employee relationship thus presents an appropriate guideline for managers in a stakeholder-focused organisation implementing benevolence.

2.4. Ethical Evaluation of the Justification for Benevolence in Manager-Employee Relationships Offered by Stakeholder Theory

This chapter thus far has explained what economic and ethical foundation stakeholder theory is based on, how it is implemented as a management strategy in a manager-employee relationship and what it implies for benevolence in this relationship. Stakeholder theory urges managers to take into account every stakeholder in their management decisions, with the end to create value for all stakeholders. As argued in the previous section, following a stakeholder approach, managers ought to act benevolently towards their employees. However, stakeholder theory's implications for the role of benevolence are not immune to ethical criticisms. While benevolence as a management strategy might be an advantage in some situations, it can be a liability in others. This chapter explores the ethical considerations that arise when benevolence, as justified by stakeholder theory, is applied in manager-employee relationships. These ethical considerations are categorised into three kinds of problems: the lack of clarity problem, the arbitrariness problem and the inclination towards manipulation problem.

2.4.1. The Lack of Clarity Problem

The first kind of problem that is likely to occur when a manager has a benevolent management strategy is what I call the lack of clarity problem. The lack of clarity problem can occur when managers and employees do not formalise the terms of the benevolent act, this can create misunderstandings. Misunderstandings occur when an employee and manager do not have the same expectations for a certain task. As the expectation is not explicit or formalised, a perceived psychological contract breach is likely to happen. This implies that an employee has a feeling of disappointment which is caused by their expectation not being met by their organisation. These expectations are usually about the employee's belief that work-related promises are not met. For example, an employee is asked to come to work early, the employee expects that the manager will give them an extra break before the lunch break, but there is no explicit agreement about this. The extra time spent at work is not long enough, according to labour law, to require the manager to give this extra break. If the manager then does not allow the employee an extra break, the difference in expectation between the manager and the employee can create a misunderstanding. The lack of clarity problem can be an unwanted effect of incorporating benevolence at work. This issue is difficult to resolve, as genuine benevolence requires non-instrumental action, meaning there is no formal agreement outlining the terms of the exchange.

Besides this, a lack of clarity can also happen due to the implicit expectation of managers occupying themselves benevolently, which can go to the expense of time and energy that can also be spent on task performance. A manager who namely is constantly preoccupied with how to incorporate benevolent acts towards their employees, cannot spend this time on performing other management tasks. As most organisations are focused on task performance when deciding whom to advance for promotions, spending time being benevolent can have negative ramifications for the managers' careers.[15] This is a lack of clarity problem, as most benevolent behaviour often goes unnoticed since it does not necessarily involve tangible actions with visible positive effects.

Furthermore, a lack of clarity does not only cause misunderstandings, it can also cause a loss of productivity. A situation in which productivity suffers due to a lack of clarity is when benevolence is offered but not wanted; this rejection can create a feeling of being insulted by both people involved in the situation, and the created damage to their relationship can harm productivity (Skinner et al., 2014). As the effects of a lack of clarity can be damaging to employees and can be avoided by contractualising every detail of the manager-employee relationship, the lack-of-clarity problem is an argument that contributes to why the justification of benevolence offered by stakeholder theory is problematic.

2.4.2. The Arbitrariness Problem

The second problem that arises when benevolence is incorporated as a management strategy is that benevolence can be too arbitrary. The employee is dependent on the good will of the manager, which can result in too much discretion. When managers do not have clear boundaries on when to be lenient with employees, subjectivity can influence the management decisions they make; this can result in discrimination. Survey data suggests that benevolent managers are more prone to nepotism than non-benevolent managers precisely because there is room for excessive leniency (Bolino & Grant, 2016).

An example of how arbitrariness of benevolence can be a problem is when decisions about promotions are made. When the performance evaluation of an employee is too positively written by a nepotist manager, employees are prevented from developing due to a lack of critical feedback. This might lead them to fulfil the Peter Principle (Peter & Hull, 1969). The Peter Principle explains how employees can be promoted to their level of incompetence due to the hierarchy system embedded in organisations. According to

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[15] (Bergeron, 2007), for example, describes how benevolent behaviour can come to the expense of task performance.

the Peter Principle, employees are promoted based on their competence until they reach a position where they are no longer good at their job, leaving them "stuck" at their level of incompetence. While the example of the Peter Principle takes the problem of arbitrariness in a benevolent management strategy to the extreme, it is a violation of any ethical theory that follows a principle of fairness. It namely implies that the success of some employees who are more deserving of promotion might be undermined due to the lack of objective decision-making by the manager. To avoid such situations, arbitrariness must be minimised in the manager-employee relationship.

In sum, a stakeholder-management approach argues that managers ought to act benevolently towards their employees. However, a manager who acts benevolently will likely make arbitrary decisions. These arbitrary decisions harm the employees in the sense that some employees might be undermined, which creates an unfair work environment.

2.4.3. The Inclination Towards Manipulation Problem

Another problem for stakeholder theory's justification of benevolence is benevolence's inclination towards manipulation. Ethically seen, when benevolence is not only implemented as an organisational norm but rather as a written guideline, it can appear somewhat manipulative. It appears manipulative because the manager has an influence on the employee that is not based on rational persuasion or coercion and it is a psychological process that operates outside of conscious awareness. According to the *Stanford Encyclopedia of Philosophy* (Noggle, 2022), manipulation is an interaction that bypasses reason, exploits trickery and pressures the target, which can all be characteristics of implementing benevolence as a management tool. Benevolence as a tool bypasses the employee's reason, as the influence operates outside of their conscious awareness. Also, benevolence exploits trickery in the sense that the employee is led to have false beliefs and misleading associations. The employee namely thinks that the manager is acting out of benevolence, while actually, the manager has a hidden agenda. And thirdly, benevolence can provide the relationship between the manager and the employee with a kind of pressure for the employee to do as the manager wishes. This pressure is not rational persuasion but also does not rise to the level of coercion, rather, it is in between.

If benevolence is used by managers, consciously or unconsciously, to manipulate their employees, it is not used benevolently. This is because when benevolence is used manipulatively, the employee's autonomous decision-making is undermined. The employee can not come to an autonomously chosen decision, because their decision is compromised by the influence of the manager's benevolence. This is the case even if benevolence as a management tool brings advantages for both parties, it does not make up for the fact that the employee's ability for autonomous decision-making is taken away. A reason for why manipulation is morally wrong, even if the result benefits both manager as well as employee, is because no true consent can be given by the employee. Any consent the employee might provide, can be compromised by the manipulation.

Another reason why benevolence is no longer true benevolence when it is used manipulatively is that it implies treating people as instruments rather than as fellow rational agents. When a manager does not provide their employee with a good reason to do what the manager proposes, and instead uses manipulation, the employee does not treat their employee as a fellow rational agent but rather as an instrument. According to Kantian ethics, this is morally wrong, since ethical conduct requires treating individuals as ends in themselves rather than merely as means to achieve other goals.

Besides that, when benevolence is used as a tool, it can no longer be called a benevolent act, as the act loses its non-instrumental and caring property.[17] An example for this is when a manager wants to get a certain task done very quickly, and this task will not be done as quick as the manager wants without the employees putting in unpaid extra hours. Therefore, the manager thinks of benevolent behaviour which will make their employees make unpaid extra hours out of good will. The manager, for example, gives the employees

[17] (Chen et al., 2024), (Zhou et al., 2023) and (Beehr et al., 2010) also discuss negative effects of incorporating benevolence as a management approach, these empirical studies find, respectively, that benevolence in the manager-employee relationship negatively enhances employee uncertainty, work engagement and stress in the workplace.

extra positive encouragement and a free meal, for the sole purpose that the employees perceive this as benevolent behaviour and are thus inclined to stay longer without being explicitly asked to stay longer. Since the employees are used as instruments rather than as fellow rational agents, this is manipulation, and thus morally wrong. The morally superior act would be if the manager would share their reasons for why they want the employees to stay longer, this would namely imply that the manager treats the employees as agents, instead of as instruments. Therefore, if benevolence is used manipulatively, it is no longer a form of benevolence.

Benevolence can thus easily transform into manipulation. Recognising this made me question whether benevolence should have any place in manager-employee relationships at all. After all, there is an authentic generosity requirement inherent to the concept of benevolence. While the concept of a manager-employee relationship is fundamentally based on the exchange of human capital for salary. Whether these two concepts ought to be combined therefore remains unclear. So far, stakeholder theory has not provided a satisfactory answer to the role that benevolence ought to play in manager-employee relationships.

In conclusion, relying on stakeholder theory to determine the role of benevolence in manager-employee relationships raises numerous ethical concerns. It is challenging to implement benevolence because of the lack of clarity due to the non-formalisation of expectations between the manager and the employee. Besides that, an unfair work environment is likely to develop due to the arbitrariness that is caused by the subjectivity in a manager's decision-making. And lastly, implementing benevolence as a management approach has the inclination to turn into manipulation. Therefore, also stakeholder theory does not offer itself as an appropriate theory for establishing the ethical place of benevolence in the manager-employee relationship.

Conclusion

In this thesis, I presented two theories, shareholder theory and stakeholder theory, for determining the ethical role of benevolence in manager-employee relationships. In the first chapter, I described shareholder theory, which posits that an organisation's primary moral duty is to maximise profit for its shareholders. Introduced by Milton Friedman, shareholder theory argues in favour of a capitalist society based on neoclassical economic assumptions. Managers are obligated to fulfil their fiduciary duty, this implies that they are morally allowed only to prioritise those actions that generate as much profit for shareholders as possible. Consequently, benevolence would seemingly have no place in manager-employee relationships, as it may conflict with the organisation's primary objective: maximising profit for shareholders. Thus, it might be surprising that certain shareholder-focused theories endorse benevolence in manager-employee relationships. I argue that benevolence positively impacts perceived organisational support, which directly correlates with employee well-being and organisational attractiveness. High employee well-being leads to increased productivity and reduced turnover, both of which enhance profit. This suggests that incorporating benevolence as a management approach can yield greater profits for shareholders. Therefore, shareholder-focused managers ought to implement benevolence.

However, there are several ethical concerns regarding the implementation of benevolence in shareholder-focused organisations. Firstly, it is an ambiguous task for managers to implement benevolence. The concept of implementing benevolence lacks clarity, as each organisation is unique; hence, shareholder-focused managers do not receive clear guidelines on how to enact benevolence. Furthermore, I argued that when benevolence is adopted as a managerial approach, it becomes instrumentalised, thereby losing its essence. Benevolence demands non-instrumental caring, which is undermined when it is employed solely as a strategy for profit maximisation.

I propose stakeholder theory as a second criterion of rightness for assessing the role of benevolence in manager-employee relationships. Stakeholder theory maintains that the organisation's primary obligation is to maximise stakeholder welfare. It characterises organisations as moral agents with responsibilities towards all stakeholders, primarily based on Kantian capitalism, property rights theory and social contract theory. In stakeholder-focused organisations, I argue that benevolence should be emphasised, as it generates value for both managers and employees. One way to implement benevolence is through the concept of the existential gift. This kind of gift entails no expectations or obligations of reciprocity; rather, it represents a non-normative altruistic act.

Nonetheless, stakeholder theory also presents ethical concerns regarding the role of benevolence in manager-employee relationships. Benevolence manifested as an existential gift can be perceived as manipulative within stakeholder-focused organisations. A non-reciprocal exchange from manager to employee may foster feelings of good will in the employee, making them more likely to reciprocate. However, the contractual relationship between managers and employees should be based on salary and contractual duties, not the expectation of existential gifts. Thus, employees may be manipulated into developing good will towards their managers, which can infringe upon their autonomous decision-making. Additionally, a failure to formalise expectations may lead to breaches of the psychological contract when benevolence is prevalent in manager-employee relationships. Lastly, I argue that reliance on managers' subjective decision-making regarding benevolence can lead to unfair situations among employees.

In conclusion, neither shareholder nor stakeholder theory provides a satisfactory ethical framework for assessing the role of benevolence. While I criticise shareholder theory for its unenforceability and legal ambiguities, as well as for diminishing the non-instrumental value of benevolence when implemented in shareholder-focused organisations, stakeholder theory also includes too much arbitrariness due to managers' subjective decision-making and lack of clarity due to non-contractual situations. Based on the arguments presented in this thesis, I contend that benevolence ought not to feature in manager-employee relationships in either shareholder or stakeholder-focused organisations. Future research could explore organisations guided by principles other than shareholder or stakeholder theories to ascertain whether benevolence holds ethical significance in manager-employee relationships within those contexts. Exploring literature on trust may be beneficial, as trust is crucial for organisational functionality and might provide insights into determining the ethical role of benevolence in such relationships.

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