THE IMPORTANCE OF VALUE DIVERSITY IN CORPORATE LIFE

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Abstract: Donaldson and Dunfee (1999) suggest in a brief discussion that a manager may in some cases rely on his or her own values in making organizational decisions. Our paper examines the role of diversity in values in an organizational context. Our central contention is that value diversity among managers, employees, and other stakeholders on dimensions such as prudence-boldness, clarity-flexibility, and rigor-mercy is highly useful for an organization. We introduce non-technical models of individual and board decision-making in which value diversity cuts across group interests that would otherwise control the decision. In these models, decision-makers who are influenced by values such as prudence or boldness as well as by their group interests are more likely to avoid suboptimal decisions, because their weaker but not their more intense group interests are likely to be overridden by their cross-cutting value inclinations.

Introduction

In "Ties that Bind," Donaldson and Dunfee contend that under some circumstances an organization’s values, and even a manager’s own values, may legitimately be part of his or her decision process.1 Our paper is a reflection upon that comment and the tricky issue it raises as to the appropriate role of personal values in decision-making on matters such as discipline, layoffs, leave policy, and investment in risky projects.2 Our view is that when firms have to resolve competing claims by stakeholders in moral free space, where an action is not mandated by either an overarching hypernorm or a local authentic norm, value diversity by decision-makers on dimensions such as courage-prudence and rigor-mercy is highly desirable.3

For example, we believe that a corporation is better off if it has some managers with a character tilt toward courageous decisions and other managers with a character tilt toward prudent decisions.4 Although the greatest benefit for a corporation from such value diversity comes in the context of group decision-making, as with a corporate board, we will also contend that in situations involving an individual manager there is value from an organization’s perspective in having
decisions be based to some degree on an individual managers’ personal values on dimensions such as boldness and prudence, rather than on his or her personal interests or group interests as a manager. In the next section of the paper, we discuss what we mean by value diversity. To anticipate and summarize that discussion: Under the umbrella of “value diversity,” we include a variety of factors that cause or incline people to have different views or inclinations on managerial decisions. In particular, we intend the term “value diversity” to embrace both of the following: a) diversity in considered views on values such as prudence and boldness; and b) diversity in character types, temperaments, upbringings, or other factors that are associated with a diversity of inclinations (prudent, bold, and so on) on a decision, but not necessarily with considered differences on relevant values. After the explanation of value diversity, we will turn to showing how such diversity can be useful in generating better decisions in corporations. We will present nontechnical models in which better decisions by individual managers and boards are more likely if the decision-makers are characterized by value diversity instead of homogeneity. The lessons we draw from the models can be summarized as follows: In situations in which different groups affected by a corporate decision have conflicting interests, there is a danger that a decision-maker acting on behalf of his or her group interest will be guided by his or her less important group interest rather than by another group’s more significant interest. Managerial decision-makers with value commitments, especially diverse value commitments, are less likely to be controlled by weak group interests than decision-makers without such value commitments.

We do not claim to have come up with a global proof of the value of diversity from an economic or ethical point of view. Rather, in our model of group decision-making we undertake to prove the more modest proposition that given some reasonable assumptions, a certain kind of diversity enhances the aggregate welfare of managers, employees, and investors. The major aim of the paper is thus to refine the intuition, which we adopt from John Stuart Mill’s utilitarian liberalism, that value diversity is good from an ethical and also an economic perspective. After presenting our case for value diversity, we conclude by considering the implications of our case for business practice and for Donaldson and Dunfee’s Integrative Social Contracts Theory (ISCT).

“Value Diversity” Defined

People differ in numerous ways in their practices and beliefs, ranging from trivial to fundamental. Some say “to-may-to,” others say “to-mah-to,” some are bold, others are cautious, some think of Jesus as their personal savior, others think Christianity is wrongheaded. In one line of political philosophy, exemplified by the utilitarian liberalism of John Stuart Mill’s essay “On Liberty,” such diversity is highly desirable. From the great variety of human types, practices, and values, experiments in living arise, and from the winnowing out of these experiments over time, social progress is achieved. As Mill saw it, Europe’s
economic success and rise to world predominance had largely resulted from the continent’s great range of languages, classes, and faiths; his advocacy of the liberty of all to act as they choose as long as their choices do not harm others was couched not in terms of fundamental rights, but of the practical value of individuality and originality in human affairs.  

Our purpose is to provide an analytical defense of Mill’s utilitarian judgment that diversity in character type, temperament, and background, as well in considered judgments on value-laden matters, tends to have a constructive influence. We consider the positive influence of value diversity in the context of the modern corporation operating in a free market economy, and we conclude that value diversity is desirable in the corporate setting because it can ameliorate the suboptimal consequences sometimes emanating from behavior driven by group interests.  

Before we consider the benefits of value diversity, it is important to clarify the parameters of the sorts of value diversity we have in mind. Not every variation in values or in qualities that lead to variation in values is good in itself or in its consequences. Larcenous rapacity and other qualities that conflict with overarching moral principles in a sense exemplify diversity, but are not what we wish to advocate. Potentially constructive kinds of diversity are those that are not inconsistent with hypernorms. All of the earlier examples of diversity we gave—the pronunciation difference, a character tilt toward boldness or caution, Christian or anti-Christian feeling—are consistent with hypernorms. But the pronunciation difference is unlikely to affect decision-makers in any significant way and is thus irrelevant for our purposes; potentially fruitful forms of diversity are those, such as a tilt toward prudence or boldness, that can make a difference in deciding significant real-life problems.

Numerous examples of potentially useful diversity in temperament and inclination can be adduced, such as generosity versus economy, idealism versus realism, and valuing the local versus valuing the universal. In many cases, individuals feel the tug of these contrasting positions within themselves. But in addition, some of us incline more toward one of these poles and others of us toward the opposite pole. Some of us are more inclined to uphold the claims of moral rigor, others of us the claims of mercy. For some of us Captain Vere’s support for executing Billy Budd is profoundly wrongheaded, and even made worse by Vere’s claim to be acting simply as the agent of the law. For others of us Vere’s position is a noble upholding of principle and its opposite a craven surrender to partiality. And so it is with other instances of value diversity: some of us tilt generally or in categories of cases toward prudence, others toward boldness, some of us toward idealism, others toward realism, and so on. Sometimes the tilt goes along with a reflective examination of the values at stake, while in other cases it is a matter of an unconsidered inclination based on a factor such as personality or upbringing. In either case, though, we have value diversity as we define it.
Not all kinds of value diversity are relevant to a given business decision. For a firm that faces a decision about whether to undertake a risky strategy, different attitudes about boldness are likely more relevant than different attitudes about moral rigor. But if the firm faces a decision about whether to fire an employee found to have taken company supplies for home use, different attitudes about mercy and rigor are likely more salient than different attitudes about risk. The table below identifies thirteen (not intended to be exhaustive) dimensions of value diversity and identifies certain business situations for which the given dimension is particularly significant.\textsuperscript{12}

**Table 1: Value Diversity in Business Decision-Making**

<table>
<thead>
<tr>
<th>Contrasting values</th>
<th>Some relevant issues</th>
</tr>
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<tbody>
<tr>
<td>Pleasure and duty</td>
<td>Work on article or surf the Net?</td>
</tr>
<tr>
<td>Reason and passion</td>
<td>How to respond to worker who made a $10,000 mistake?</td>
</tr>
<tr>
<td>Flexibility and clarity</td>
<td>Should union contract contain clear rules covering leave for family emergencies, or should the subject be left to management discretion?</td>
</tr>
<tr>
<td>Generosity and thriftiness</td>
<td>Recommend costly design changes in a product to enhance safety and minimize the chance of litigation?</td>
</tr>
<tr>
<td>Mercy and rigor</td>
<td>Institute an “up-or-out” plan under which employees will be reviewed yearly and the lowest-performing ten percent will be terminated?</td>
</tr>
<tr>
<td>Boldness and prudence</td>
<td>Commit major resources to a new strategy that could greatly increase the firm’s value but that could lead to disaster for the firm if unsuccessful?</td>
</tr>
<tr>
<td>Pride and modesty</td>
<td>Institute employee self-appraisal?</td>
</tr>
<tr>
<td>Pragmatism and foundationalism</td>
<td>Commit to long-term, fixed plan?</td>
</tr>
<tr>
<td>Universalism and localism</td>
<td>Decentralize? Consider only firm welfare?</td>
</tr>
<tr>
<td>Experimentalism and traditionalism</td>
<td>Flatten existing hierarchy? Sell company?</td>
</tr>
<tr>
<td>Dissent and deference</td>
<td>Promote yea-sayers or nay-sayers?</td>
</tr>
<tr>
<td>Equalization and differentiation</td>
<td>Wage/option policy—widen differentials?</td>
</tr>
<tr>
<td>WGACA and WGADCA\textsuperscript{13}</td>
<td>Should drug company consider animal welfare?</td>
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</table>
We believe that decision-makers systematically vary in their decisions based on their values on these and other dimensions. One need only to reflect briefly upon the typical characters in the typical office environment to understand the truth of the proposition that some managers are averse to managing in a way that expresses emotion, while others are not; some employees and managers prefer flexible, open-ended standards, while others prefer clear-cut rules; and so on. Value diversity of the sort we describe is omnipresent among the workforce, both in managerial and employee groups. This value diversity is a happy by-product of human diversity. Human diversity leads to diversity in decision-making styles, values and outcomes.

For the purposes of our model, we are not immediately concerned with whether human value diversity arises from innate personality types—"every child born a little Liberal or a little Conservative," a la Gilbert and Sullivan—environmentally acquired dispositions—the prince and the pauper switched at birth, a la Mark Twain—a process of conscious choice, or a process of character development. Nor do we take a position as to whether or not human diversity reflects an underlying fundamental diversity of moral virtues or contradiction of moral goods. We term the diversity we are concerned with "value diversity" because we regard that as a reasonable intermediate position between interpreting diversity as a matter of personality, upbringing and other factors that lead to differences and interpreting diversity in terms of basic contrasts or contradictions on matters of values that remain after reflection. Our basic claim is simply that value diversity is a ubiquitous and significant reality; that is the assumption that drives our approach, not whether one interprets value diversity in terms of considered differences on values or in terms of personality, character, or upbringing.

A given decision may be affected by value diversity of different kinds. For example, for a decision by engineers about product safety, we have identified the generosity-thriftiness dimension as relevant. But other dimensions of value diversity are also relevant to the engineers’ decision, such as reason-passion (should the engineers carry out a written cost-benefit analysis?), flexibility-clarity (can the decision be fit into a clear company rule, norm, or standard operating practice?), boldness-prudence (should one take a risk by sticking one's neck out) and experimentalism-traditionalism (should a standard operating practice be followed?).

The impact of value diversity on corporate activity will vary according to whether the corporate environment accepts or represses a given dimension of value diversity. Because, as we will demonstrate, value diversity plays a crucially positive role in corporate life, it is our view that value diversity should be allowed to flourish among all relevant stakeholder groups in corporations. We will turn next to showing why diversity is indeed desirable in the first place.
How Value Diversity Promotes Optimal Decisions by Managers

Our position is that value diversity in a firm is a good because in practice it operates not by itself but in combination with group interests. That is, a given decision-maker's position reflects not just her tilt toward boldness versus prudence, clear rules versus flexible standards, and the other dimensions of value diversity, but also the interests associated with her basic group affiliations and identifications as a manager, employee, or investor, as well as her relevant sub-group interests. We believe value diversity in firms is significant and useful precisely because it is combined with and cuts across the fundamental group-related interests that make up a firm. Moreover, it is important also to bear in mind that value diversity, as we conceive it, does not operate unfettered in an organizational context. It is, on the contrary, bounded within the moral constraints of clear-cut obligations. The ISCT hypernorm and microcontract constraints work with the operation of value diversity within groups to channel the effects of value diversity into a normatively desirable direction.

Value diversity works for the better in an organizational context in essentially the same manner that cross-cutting cleavages as defined by political scientists work for the better in societies with a fundamental division along some dimension, such as religion. The normative argument for cross-cutting cleavages goes as follows: If there is a single fundamental division in a society along, say, religious lines, negative outcomes can be expected, with members of a dominant religious group taking advantage of members of a weaker group. But if there is an additional division, such as social class, that is politically salient in the society and that cuts across the fundamental religious line, people from different religions will find themselves in agreement on certain significant issues, and people of the same religion will be split. The intensity of the religious divide is thus moderated, with desirable consequences in terms of social order and mutual accommodation.14

The analogy with a corporate organization goes as follows: for-profit organizations are characterized by fundamental divisions among different groups, especially employees, managers, and investors, whose interests are intertwined but also different and potentially conflicting. If there are other divisions that are salient for decision-makers, such as divisions based on values, and that cut across the basic group categories, basic group interest is no longer the all-determining factor it would be otherwise. The mixture of group interest with values produces a better result than group interest alone.

As an informal example of how supplementing group interest with personal values works positively in an organizational setting, consider a manager who is deciding whether to grant an employee request for time off for a family matter. If the manager's decision is determined by her group interests—such as an interest in minimizing the amount of work managers have to do—the request may be granted or denied by the manager even though there are far greater legitimate employee and investor interests on the other side of the balance. Such a denial
would be suboptimal as we define it because any potential benefit enjoyed by
the manager or other managers in the firm would be outweighed by the cost to
employee and investor interests of the manager's decision.

Value diversity in the direction of either rigor or mercy serves to limit subopti-
mal self-aggrandizement in this situation of conflicting legitimate interests. A
manager with a tendency toward rigor may well handle the request differently
from a manager with a tendency toward mercy, and both may well act differently
from a manager who simply acts based upon her interests alone. The rigorous,
rule-oriented manager may deny the request in a situation in which the easier path
from the standpoint of managerial interest and the individual employee (though
not from the standpoint of employees as a group or of investors) would be simply
to acquiesce to the squeaky wheel. On the other side, the merciful manager may
grant the employee's request, even though there is a managerial group interest in
saying no, and in doing so also produce a beneficial result.

Neither the merciful nor the rigorous manager as we define them decides
against her managerial interest in every situation where managerial interest com-
bines together with values to produce a decision. Some of the time, the managers’
values will simply reinforce their group interest. Further, it is crucial to realize
that if the managerial interest at stake is sufficiently high, both the rigorous and
merciful managers as we define them will decide that way, their temperaments
notwithstanding. That is, from our point of view, a desirable outcome, since a
strong managerial interest is a likely signal that a decision in accord with that
interest is warranted from the perspective of aggregated group welfare. What is
in the interest of the manager may well be the correct decision—after all, mana-
gerial welfare is one component of organizational welfare as defined by the sum
of managerial, employee, and investor interests. But the group interests of the
manager may be overridden by other, more significant factors. Rigorous or mer-
ciful values serve as useful checks against a low-level managerial interest
prevailing over a greater conflicting interest.¹⁵

How Value Diversity Works in Group Decision-Making

The example of the manager deciding on the leave request indicates in an
informal fashion how diverse personal values can be useful at the level of indi-
vidual decision-making when only one manager's values influence the decision.
In what follows, we aim to show more formally that the advantage of values
cutting across basic group interests is even more pronounced when a value-
diverse group makes a corporate decision. The intuitive core of our argument
can be stated as follows: With an individual manager, there is always a signifi-
cant chance that a personal value will simply happen to reinforce a low-level
managerial interest that is weaker than a competing interest rather than to counter
that low-level interest. With only one manager involved, only one person’s val-
ues come into play, and the decision may still turn out wrong, though a desirable
outcome is more likely than if group interest with no values component is the
determinant of the manager’s actions. A collection of individual managers influenced by mercy or rigor will make more correct decisions on leave requests than if they are controlled by group interest, though a number of their decisions will be wrong. But when a substantial number of managerial decision-makers with different values or value inclinations are involved in a single group decision, the chances become very good that a weak managerial interest (but not a strong one) will be countered by value diversity. A group with a weak interest will be split, allowing a stronger countervailing interest to prevail.

To illustrate how value diversity enhances the efficacy of group decision-making, we will use the previously mentioned example of a risky strategic option. Specifically, suppose a board of directors is deciding whether to commit most of its resources to a high-risk strategy that will, if successful, result in very high profits for shareholders. If the strategy is unsuccessful, however, it may well result in the company’s insolvency. The probability that the strategy will be successful is uncertain; its advocates claim that success is highly probable and its opponents claim that success is improbable. Stakeholders in the company have different interests. Some, such as equity investors with diversified portfolios and employees with high ability to get positions elsewhere if the company fails, have a greater interest in supporting the risky strategy than other stakeholders, such as creditors and employees with poor prospects if the company fails.

For simplicity, we’ll assume that the potential payoffs for both prospective supporters of the risky plan and prospective opponents can be categorized as being of either high or low intensity. We will also assume that the board members’ group-related interests somewhat reflect the difference in interests within the firm, in that at least one board member is in favor of the plan and at least one is against it. Further, we assume that the level of intensity (high or low) is private information that cannot reliably be conveyed by one board member to others, because they will assume that a claim that a given issue matters greatly is strategic puffing. Finally, we shall assume that board members and all others in favor of the risky plan have a uniform level of intensity, either high or low, and all against the plan have the opposite level of intensity as supporters, and that there are sufficient number of stakeholders on one side of the issue with a high intensity interest to make one position the correct one from the perspective of organizational welfare as we define it, of the aggregate of the welfare of investors, managers, and employees.

The objective in deciding whether to proceed with the risky project is to have the side with the higher intensity interest prevail, since this is the optimal outcome possible under the circumstances. The obstacles to attaining that goal are the board’s ignorance of the intensity of the relevant interests, combined with each member’s self-interest. After all, a member will support a policy that benefits herself, even if she and all others benefiting from the policy receive a low total positive payoff from the policy and other affected groups suffer a higher negative payoff. Because there is no reliable way to determine whether others’
payoffs are low or high-intensity, there is no way to reach consensus on whether a given policy is suboptimal, or to establish an accommodation under which both sides refrain from suboptimal decision-making.

If the board’s decision to proceed with the risky project is made by or on behalf of diversified equity or by high-mobility employees, it is thoroughly possible that the decision will wind up exploiting members of weaker groups who have a higher intensity interest. The risk is two-way, since it is also thoroughly possible that a dominant group of creditors and low-mobility employees will take advantage of a higher intensity but weaker group of equity investors and high-mobility employees. Given the ambiguity of payoffs and the lack of reliably communicable payoff information, there is no promising basis for a deal under which the parties can agree to avoid a suboptimal outcome.

We summarize our assumptions and conclusions thus far in the table below:

**Table 2: A Model of a Board Vote on a Risky Strategy—No Value Diversity**

Assumption 1: The risky strategy is either right or wrong, but which is the case depends on information about the intensity of supporters’ and opponents’ interests that is not communicable.

Assumption 2: Either supporters have high-intensity interests and opponents have low-intensity ones, or the other way around.

Assumption 3: The total number of stakeholders with a high-intensity interest in the firm is fairly comparable to that of the number of stakeholders with a low-intensity interest, so the high-intensity side is the optimal winner.

Assumption 4: At least one board member has interests leading her to be for the risky strategy and at least one has interests leading her to be against it.

Outcome: The board’s vote is just as likely to favor the suboptimal low-intensity interest as to favor the optimal high-intensity interest.

Explanation of outcome: A board majority with low-intensity interests either for or against the risky strategy will win out over a minority with high-intensity interests.

Now, we introduce the key step in the model: value diversity that splits the board down the middle and that is independent of whether the board member has group interests for or against the project. That is, we assume that half of the board members have characters that lead them to have a preference for a policy of prudence and a corresponding aversion for a policy of courage. The other half of the board members have a preference for policies that are courageous, and a corresponding aversion to prudent policies. We will assume that the intensity level of the prudence-courage preferences by board members is moderate. That is, the prudence-courage value tilt is greater than low-intensity group or individual preferences for or against the proposal, but less than high-intensity group or individual preferences.
Given these assumptions, the felicitous result is that the board will now reach an optimal decision on the risky project. Here's the reason why. The board is in danger of deciding suboptimally without value diversity because board members with a weak interest one way may outvote board members with a strong interest the other way. But with value diversity, that won't happen. In the new situation, the group with a weak interest either for or against the risky plan is no longer unified; it is now split in half between its prudent and its courageous members. The result is that the group with the weaker interest is essentially neutralized. The group with the stronger interest for or against, on the other hand, remains unified because its members had an original high-intensity preference that is not altered by the prudence-courage dimension. The result is that the optimal choice on the risky project gets made; suboptimality is no more.¹⁷

The following table summarizes our model of the board vote, with value diversity now added:

**Table 3: A Model of a Board Vote on a Risky Strategy—Incorporating Value Diversity**

Assumption 1: The risky strategy is either right or wrong, but which is the case depends on information about the intensity of supporters' and opponents' interests that is not communicable.

Assumption 2: Either supporters have high-intensity interests and opponents have low-intensity ones, or the other way around.

Assumption 3: The total number of stakeholders with a high-intensity interest in the firm is comparable to that of the number of stakeholders with a low-intensity interest, so the high-intensity side is the optimal winner.

Assumption 4: At least one board member has group or individual interests leading her to be for the risky strategy and at least one has interests leading her to be against it.

New Assumption 5: Board members are evenly divided between those with a medium-intensity tilt toward prudence and those with a medium-intensity tilt toward boldness.

New Assumption 6: The prudence-boldness value tilt cuts equally across board members' underlying interests.

Outcome: The board's vote will favor the optimal high-intensity interest over the suboptimal low-intensity interest.

Explanation of outcome: The low-intensity group of board members will be split in half by value diversity, while the high-intensity group will remain unified.
To generate the result that the board vote will make the optimum decision for the firm, we have not had to assume that the board is closely representative of the differing interests of all stakeholders in the firm. Only a limited degree of representativeness is assumed, in that we have postulated homogeneously high or low intensity interests among board members and others in the firm, and also the presence of at least some differing interests on the board. Given that limited degree of representativeness, the majority of the board will decide optimally for the firm if members’ original interests are overlain by a cross-cutting boldness-prudence split. Private information as to intensity is elicited from board members by introducing a new payoff variable, value diversity, that causes half of low-intensity but no high-intensity board members to override their group interests. Value diversity thus eliminates suboptimal equilibria caused by the preferences of low-intensity groups winning out over the conflicting preferences of high-intensity groups.

If, as is entirely possible in reality, the value diversity split is not an even one and the board members share a homogeneous group interest, the victory of the better cause is no longer guaranteed. But even in that type of situation, the better cause is more likely to prevail than if group interest alone is operating. The reason is that, as discussed in the case of the individual decision maker, having values that can run counter to one’s group interest helps in avoiding suboptimal decisions. If all members of the board share not only a group interest but also all their values, the group decision collapses into an individual one. But as long as the relevant values can run counter to as well as reinforce group interests, a better result is more likely with values operating.

Does value diversity open the door to tyranny of the majority? On the contrary. In our view, a signal virtue of value diversity is that it amounts to an internal, psychological equivalent of the checks and balances system of Madisonian republicanism. Value diversity counters the tyranny of the majority. The basic problem of group interest, or “faction” in the Federalist’s terminology, running roughshod over a more significant but less numerous or politically weaker interest is countered in our model by the interaction of group interest with different values. The cross-cutting of group interests with values counters majoritarian or dominant group tyranny, albeit not in a way that can guarantee an optimal outcome under all circumstances.

A final issue worth discussing is the effect of value diversity if there is no genuine conflict of group interests on the risky project. Suppose that everyone in the organization has an underlying interest for or against the risky project, which could well be the case if the project is very good or very bad financially. Here, the decision without value diversity is expected to be fine. Will having management and other stakeholders split by the prudence-boldness distinction create an irrational decision? It shouldn’t, because even though there’s a shared interest for or against the project, some people’s interest is likely to be more intense than others. Their intense interest will not be split by value diversity in the same way the weaker interest is, which will lead to the correct decision.
For example, suppose the risky project is a bad one financially for everyone. Some managers with a combination of high mobility interests and a character tilt toward boldness may nonetheless advocate the undesirable risky policy—but they will be opposed not only by the equally powerful group of high-mobility managers with a tilt toward prudence, but also by all low-mobility managers. Further, the opponents should be able to point to evidence of opposition or at least splits even among stakeholders who would expected to be favorable to the risky project. For instance, opponents may rely on evidence that some investment analysts and others representing equity seem chary of the project. The expected outcome of the decision process is then that the morally diverse management will reach the desirable decision against the risky project.

This example suggests why value diversity is superior to a uniform free space character tilt one way or another within a dominant group. If a board has a uniform tilt toward boldness, then there will be a tendency to approve the risky project even when those hurt by it are hurt much more than beneficiaries are helped. If the boldness tilt is strong enough, it may even conceivably lead to undertaking the project when no stakeholder group, including high-mobility management, otherwise has an interest in it.

Implications for Practice and Theory

One of the most important theoretical contributions of Integrative Social Contract Theory is the solution it proposes to classic problems that have preoccupied proponents of stakeholder theory since Freeman,\textsuperscript{22} i.e. who to count as stakeholders and how to evaluate and prioritize among competing stakeholder interests. Managers are encouraged under ISCT to discern and apply relevant hypernorms and local community norms to resolve these conundrums. However, in situations involving moral free space, ISCT offers the manager little guidance to resolve conflicts among competing stakeholder groups. We have tried to address this gap by suggesting that managers in such circumstances should encourage value diversity among themselves (and, we also believe, among the various stakeholder groups who stand to gain or lose by a decision taken on behalf of the corporation). By allowing value diversity to flourish across stakeholder cleavages, a corporate manager can help to prevent decisions in which weaker interests inefficiently prevail over stronger interests. We believe our analysis makes a strong case for encouraging organizational value diversity and further for encouraging the expression of diverse values by individuals in all of a corporation’s stakeholder groups. Our fundamental advice to managers who are in a position to shape the ethical life of the corporations they lead is that it is worthwhile to encourage all stakeholders to express their value preferences.

A corollary proposition supported by our analysis is that leaders of a corporation ought not to attempt to construct or indeed even tolerate a corporate environment or culture which stifles value diversity, except insofar as such an environment or culture is called for by hypernorms and local community values.
The mere existence of a corporate "culture" per se is not an adequate basis upon which to ground an action in moral free space. In this regard we part company with Donaldson and Dunfee who believe, as noted at the outset of our discussion, that corporate culture and, in this order, personal values can serve as the basis for a moral decision in moral free space.

Some may worry that encouraging value diversity would promote the casuistic ability of managers and other stakeholders to argue for different positions. Our model of diversity in moral free pace suggests that the promotion of different values associated with reflection and also with different temperaments, characters, and backgrounds is in fact a highly desirable objective. One should be pleased rather than worried by greater value diversity, as long as such diversity is bounded by hypernorms and microcontracts.

An additional key issue for managers interested in encouraging value diversity is whether such diversity can in fact be enhanced over what it would otherwise be. Here we have a basically empirical issue. For our part, we suspect that value diversity is not an exogenous variable that enters into decisions in a predetermined, fixed fashion, but is rather an endogenous variable that is significantly affected by a particular firm’s culture. Further, we suspect that it is possible to foster value diversity in situations with conflicting group interests and no hypernorms or authentic norms, without thereby having personal values run amok in other situations in which such values should be subordinated to hypernorms or authentic norms. We acknowledge, though, that on these empirical issues there is a need for further reflection and empirical research.

A further significant issue is whether the fostering of value diversity may require the creation of new institutional vehicles within the firm. Without binding structural mechanisms such as those established in Madisonian constitutionalism, it may not be possible to have either effective diversity in voice or effective diversity in the identity and values of decision-makers. At the same time, though, such new binding institutional mechanisms could provide a basis for intense class conflict between the different groups in a firm, and for the exploitation of losing groups by winning groups in the firm’s political process. Though we do not have a solution to this conundrum to propose in this paper, we regard it as a crucial one for further exploration. We believe that the value diversity approach, which favors complex, cross-cutting group interests over monolithic, unified group interests, has substantial implications for how the basic conundrum that binding institutional mechanisms for voice and power sharing are both desirable and potentially exploitative might be resolved.

Our model of value diversity in moral free space has been intended to be provocative, not definitive. In future work, we look forward to exploring theoretical and empirical issues with the model, such as the following: 1) What if group interests, morality, and intensity are not defined homogeneously? For example, what happens if some people identify more strongly with group interests than others, and likewise with values?; 2) What happens if the value splits aren’t down the middle, i.e., if one position is more popular than another or if value
attitudes are highly though not perfectly correlated with group membership?; 3) How can the model be extended to cover incentives for managers to think hard and reflectively? There is a connection between our idea of desirable value diversity in free space and the idea of avoiding groupthink and fostering a creative competition of ideas, but that connection, as with other features of the model, needs further exploration.

Even at its current stage of development, though, we believe we have made a case that our analysis of decision-making in moral free space has significant implications for business ethics theory, and in particular for ICST. In exploring optimal decision-making in moral free space we have tried to demonstrate the importance of this area. While we are appreciative of the important contributions of ISCT to the field of business ethics, we believe that more attention needs to be devoted to the question of how big moral free space is, i.e. how much of the business realm is governed by hypernorms and authentic local contracts and how much of it remains outside of the purview of contractual norms. While we have not pressed the argument in this paper, our view is that that moral free space is quite large in corporate life. Moreover, we believe it ought to remain so, at least at the organizational level. Donaldson and Dunfee observe, in what amounts to a philosophical equivalent of legal dictum rather than a central holding of ISCT, that when hypernorms and authentic norms do not govern a manager’s ethical decision-making it is appropriate for the manager to seek guidance from her organization’s values or her own personal values. Because we believe there is great utility in value diversity within an organization, we question whether organizational values, at least those that are not congruent with relevant hypernorms or authentic social contracts, ought to be given this kind of presumptive validity. Value diversity, we have tried to show, has tremendous utility within an organizational setting. There will always be a tension between such value diversity and the need to settle upon behavior guiding norms at a societal, cultural and local level. We acknowledge the value of certain standard operating procedures, rules, and policies in firm life. We do not, however, believe that the corporate level is an appropriate level for homogeneous cultural norms in favor of one value pole or another to become settled. 24 In fact, we think an organizational value norm that is unsupported by reference to higher order norms and that precludes value diversity is not only prone to be tyrannical but is also more likely to be inefficient than useful as a form of social control.
Notes

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1 Donaldson and Dunfee, Ties That Bind, p. 250. “It may turn out that for very controversial issues, mandatory norms will not have evolved within the relevant communities. For example, there may not be clear-cut norms providing answers to such questions as the permissibility of firing workers for smoking off the job, or whether to allow HIV-positive employees to supervise young children in day care. In such circumstances, organizational managers have a broader range of choice and may freely turn to their own organization’s values, or lacking guidance there, to their own values in resolving such issues.”

2 See Table 1, below, for a series of examples of decisions to which we believe our approach is applicable.

3 In order to place our argument about value diversity in context and to explain the terms “microcontracts,” “hypernorms,” and “moral free space” for any readers unfamiliar with them, it is useful to note the background to Donaldson and Dunfee’s comment about the permissible scope of managerial values. Their integrative social contract theory (ISCT) is intended to serve as a bridge between the empirical and normative traditions in the field of business ethics. ISCT is fundamentally a normative theory, but some of the most interesting normative judgments ISCT makes possible depend upon empirical findings about “microcontracts” or shared understandings about moral norms among local economic communities. The “integrative” part of ISCT refers to the fact that, according to Donaldson and Dunfee, ethical obligations ultimately derive from two kinds of contracts—the first being a broad theoretical “macrosocial” contract among all rational economic actors. This general contract sets the ground rules for “microcontracts” or local norms. Within the boundaries set forth by the hypernorms, which Donaldson and Dunfee describe as “precepts . . . discernable in a convergence of religious, political and philosophical thought” (Ties that Bind, p. 44), there is a “moral free space” within which particular communities of economic actors may contractually create norms to govern themselves. A corollary proposition implicit in ISCT is that matters governed neither by hypernorms nor by microcontracts remain in moral free space.

So long as microcontracts are grounded in informed consent (with an accompanying right of exit) and do not violate hypernorms, local communities are free to adopt “authentic norms” to govern their moral life according to whatever shared values, culture, or goals are accepted by the majority of a community (Donaldson and Dunfee, Ties that Bind, p. 39). For Donaldson and Dunfee, in order to create moral obligations, normative judgments must be grounded in “accurate empirical findings concerning the ethical attitudes and behaviors of members of relevant communities” (Ties that Bind, p. 254). Herein lies the hoped-for bridge between normative and empirical scholars. As Donaldson and Dunfee write, “the theory entails an agenda for empirical research. It is an agenda that authorizes the search for authentic ethical norms in industries, corporations, alliances, and regional economic systems” (Ties that Bind, p. 279). See also Donaldson and Dunfee, “Toward a Unified Conception of Business Ethics.” See also idem, “Integrative Social Contracts Theory.” We believe that our argument about value diversity accords well with the ISCT framework, and accordingly refer to ISCT at various points in the paper. In doing so, we do not imply that our argument for value diversity is incompatible with other theories of business ethics; in particular, we believe that there is also an affinity between our argument and an Aristotelean, virtue ethics emphasis on character. See Hartman, Organizational Ethics and the Good Life; and Solomon, Ethics and Excellence.
If employees and shareholders are decision-makers, our argument for value diversity applies equally to them.

Our second major category, diversity in temperament, character, and upbringing that leads to diverse inclinations as to decisions without necessarily leading to a considered diversity in values, might be termed "human diversity." We have chosen "value diversity" as our umbrella term in the belief that it best embraces both major categories under the umbrella: reflective, conscious diversity in values, and also diversity in what people value that is temperamental, characterological, or environmental and not necessarily reflected upon.

We are not claiming that all variations in considered views of values and in value inclinations are useful. In particular, we are not asserting that unfortunate qualities such as cowardice or gross recklessness, though they might be described as examples of diversity in character, are useful to organizations. As discussed in footnote 10, and the accompanying text, the type of value diversity that we regard as useful is diversity that is not inconsistent with governing moral principles.

We are not advocating a theory that managers should attempt to maximize the aggregate welfare of managers, employees, and investors. Rather, our position is to suggest that managerial value diversity will have the effect of enhancing these groups' aggregate welfare. We assume for purposes of the paper that enhancing the groups' aggregate welfare is desirable. Though defending this assumption is not a priority of the paper, we note that enhancing the groups' aggregate welfare makes sense both from a liberal stakeholder perspective that values the welfare of groups in addition to stockholders, and also from a conservative neoclassical perspective that believes that costs imposed on groups in a contractual relationship with the corporation will ultimately be borne by the corporation. For our purposes, "welfare" is defined in utilitarian terms (subject to the standard proviso that utility derived from violation of hypernorms is to be excluded). For readers interested in exploring the issues involved in defining welfare further, there is a substantial literature in welfare economics and philosophy that deals with the multiple dimensions of the concept of efficiency, the relationship between philosophical utilitarianism and welfare economics, and the viability of interpersonal comparisons of utility. An excellent if often technical treatment of these themes is Sen, Choice, Welfare and Measurement, especially pp. 84–106 and 264–281. For an explanation of different notions of economic efficiency, see Stokey and Zeckhauser, A Primer for Policy Analysis.

Although we adopt the Mill of "On Liberty" as the central philosophical inspiration for our approach to value diversity, we note that yin-yang philosophy as articulated in Taoism is another potential basis for our approach. In Taoism, neither yin nor yang is morally or practically satisfactory without its opposite. See Chan, A Sourcebook in Chinese Philosophy, pp. 245–250. We rely on a similar idea about complementary opposites in our treatment of dichotomies such as courage-prudence, rigor-mercy, etc.

In addition, another philosophical and political approach in some ways akin to ours is a multiculturalist valuing of diversity in demographic background and culture in a polity or in an organization. See, e.g., Kymlicka, Multicultural Citizenship. We take no position here on the empirical issue of whether men and women, blacks and whites, French-Canadians and English-Canadians, Christians and Jews, and other major groups in fact tend to have different values. To the extent they do, though, having broad representation of different groups rather than homogeneity among managers, employees, and investors in a firm is one way to achieve value diversity.

The reader might wonder whether opening the door in an organization to value diversity will at the same time open the door to vices inconsistent with hypernorms. If boldness and prudence are both valued, how is the door to be shut to recklessness and cowardice? Our response is twofold. First, to the extent that recklessness and cowardice can be consensually
identified as such, they are subject to being precluded as contrary to hypernorms (or to moral principles, if the reader prefers that terminology; though we find Donaldson and Dunfee's terminology useful, nothing of significance in our argument depends on whether "hypernorms" or "moral principles" is the term employed here). Second, to the extent that there is a lack of consensus as to whether a given behavior is bold or reckless, we would suggest that the competition of values provides the best check to the triumph of vice in organizations. A "cowboy" organization that enforces a norm of boldness on everyone is more likely to go over the cliff into the vice of recklessness; an organization that believes it is guided by purely rational calculation but that is in fact influenced by values may similarly fall prey to recklessness, or for that matter to cowardice. A value diverse organization in which boldness and prudence compete and question the claims of the other side is less likely to succumb to vice.

One qualification to our position that basically any kind of value diversity not amounting to a vice is potentially useful: If a particular dimension of value diversity, such as Christian versus anti-Christian feeling, goes along with an overpowering sense of group identity, there may well be good reasons for regarding that particular type of diversity as threatening in policymaking rather than desirable. The concern of liberals such as Madison and Rawls about religious values in the public sphere can be justified on such grounds. As an empirical matter, we suspect that religious values in modern American firms are more likely to be a useful cross-cutting element to managerial and other more powerful interests than an overbearing force; nevertheless, the example of religion suggests that useful value diversity should be defined as diversity that is not associated with a monolithic group identity that overrides all other interests.

The table's itemizing of diverse or opposing values is loosely inspired by Aristotle's discussion of opposed vices and the golden mean between them. Aristotle, *Nicomachean Ethics*, Book II. But the framework of the table is not an Aristotelean, golden mean one; we are not claiming there is an ideal mean between contrasting values such as courage and prudence. Nor are we equating our value positions with virtues in an Aristotelean sense. Though some of the value positions, such as courage, overlap with Aristotle's virtues, most do not.

"What goes around, comes around" and "what goes around, doesn't come around." What we mean by this is that some people are inclined to believe because of their upbringing, personality, character, or worldview that apparent externalities in the end get internalized—"no bad deed goes unpunished, and no good deed goes unrewarded." Others are inclined to believe that externalities remain externalities. This dimension of value diversity is particularly significant for decisions as to whether the corporation should consider the interests of groups with a tenuous position as stakeholders, as in the animal testing example.


Though this paper is a non-technical one, we note that it is possible to express mathematically our point that a value cleavage cutting across group interest leads an individual decision-maker to a better quality decision in a situation of conflicting interests. Here is a brief formalization: First, suppose the decision-maker D has a group interest that guides her decision and that other stakeholders have conflicting group interests. The payoffs associated with the respective interests range randomly from, say, -10 to 10 and are private information. Given these conditions, the net payoff expected from D's decision is 0, and there will be as many wrong as right decisions. Now suppose D's decision is determined not only by her group interest but also by her values, which also have a weight ranging randomly from -10 to 10 and are independent of her group interest. Now D will make the correct decision in a substantial number of the cases in which she has a low group interest (because that interest will typically be outweighed by her values when the two conflict), while she will continue to make the correct decision in the great bulk of cases in which she has a high group interest.
(because that high interest is unlikely to be outweighed by a conflicting values). Specifically, the proportion of correct decisions by D increases from 45% without values to 53.25% with values, with a corresponding decrease in incorrect decisions from 45% to 36.75%; the payoff from each decision by D increases from 0 without values to .85 with values.

16 Good treatments of game theory in general and of the significant role of asymmetric information in game-theoretic models can be found in Gintis, Game Theory Evolving; and Baird, Gertner, and Picker, Game Theory and the Law.

17 More formally, our model and conclusion can be stated as follows: Assume a choice between policy x and policy y. Call the supporting (opposing) interest x and the opposing (supporting) interest y; assume x is greater than y, and that that information is private. Further assume that all decision-makers vote based on the sums of their interest and their values. Values take the payoff values z and -z, where z is a payoff in between x and y. All decision-makers have a ½ chance of having a z value-disposition and a ½ chance of having a -z disposition. A sum over 0 leads to a decision-maker vote in accord with interest, a negative sum to a vote against that interest. Based on these assumptions, half of decision-makers with the smaller interest x will vote in accord with that interest (because x + z > 0) and half against it (because x - z < 0). All of the decision-makers with the greater interest y will vote in accord with that interest (because y + z > 0 and y - z > 0). Thus, as long as there is at least one decision-maker in the voting group with the greater interest y, that interest will prevail in the vote over the lesser interest x.

18 The presence of at least one board member with differing interests from the others is useful to avoid ties that would otherwise occur under the model’s assumptions if the board is entirely composed of members with a weak interest for or against the proposal. Another way to avoid ties is to relax the assumption that intensity is not known at all in favor of an assumption that intensity is reflected to a limited degree in voting.

19 How robust is our optimality result? There are two relevant variables that affect whether the board vote will produce an optimal decision: the degree to which different interests are represented and the degree to which contrasting values are represented. In the text we have adopted a strong assumption as to the value split being an even one and a weak assumption that there may be only limited representation of different interests, largely because we think it is more plausible given current corporate governance norms for a board to represent different temperaments than different group interests. But the model also works if the assumption is that there is an even split on the board in terms of group interests and an unequal one in terms of values. In that case, the decision turns out right as long as at least one member of the group with the weaker interest has values that leads her to vote against her interest. More generally, optimality requires less equal representation of conflicting group interests if there is more equal representation of contrasting values, or alternatively less equal representation of conflicting values if there is more equal representation of conflicting interests. Formally: to guarantee the win of the greater interest, given that the proportion of the minority of the board in regard to group interest is 1/X, the proportion of the majority split by values must exceed ((X/2) -1)/(X -1). (So, for example, if the board contains ¾ on the minority side in regard to group interest, over 1/3 of the majority must be split by values to guarantee an optimal outcome.)


21 Here we change our earlier assumption that all on a given side have a uniform level of intensity.

22 R. Edward Freeman’s classic discussion of stakeholder theory can be found in Strategic Management: A Stakeholder Approach.

23 See Eastman and Santoro, “Voting for Your Boss.”
Our concerns here are compatible with those expressed by certain writers in the management literature about the negative potential of a dominant corporate culture. See, e.g., Martin, *Cultures in Organizations*; Rosen, "Breakfast at Spiro's." See also Van Maanen and Barley, "Cultural Organization."

References


