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Stakeholder theory: Some revisionist suggestions

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ABSTRACT

The article argues for the use of a narrow stakeholder definition. It also adds one group – managers – that generally is not considered as being a stakeholder group. Here it is suggested that control of this stakeholder group holding the executive power should be a central topic for stakeholder theory. The article supports the common idea that the business discourse and the moral discourse should be integrated in stakeholder theory, not treated as separate tracks. The issue is then how to mold the substance for such integration. This article argues that the priority of stakeholders implies a distancing from general altruistic philosophy that argues against – not for – giving special consideration to the company's stakeholders. Both the moral substance and the business potential lie in the special and close relationship with these partners. Stakeholder theory needs a more compatible ethical theory.

1. Introduction

A starting point for this paper is an article named "Dialogue: Toward Superior Stakeholder Theory" (Agle et al., 2008) written by some of the most distinguished researchers in this field. I have taken two positions in that paper to heart. One is Edward Freeman's inclusion of shareholder protagonists such as Milton Friedman, Oliver Williamson and Michael Jensen as stakeholder theorists. A discourse can hardly thrive by excluding one position in what is perhaps the most discussed issue, so it seems wise to consider the 'Primus stakeholder' model as one stakeholder theory, not only multi-fiduciary stakeholder models. The second position is Jensen's claim in a similar inclusive spirit: "Enlightened value maximization is equivalent to enlightened stakeholder theory" (2008, p. 168). This statement might be a correct judgment, but it includes crucial demands for going from theoretical potential to reality.

It seems to me that there is a real potential in this enlightened merger, but that presently there are also some serious problems with constructing a satisfactory model. This article will address such problems and it will also, in this process, suggest some remedies. Each of these problems might deserve an article of their own, but they are also connected to each other and need to be seen together. A central part of the theory concept is that a theory is not just a number of separate issues brought together, as say a party platform, but rather a chain where the links are most dependent on the strength of the other links. This article brings up some important issues each one in need of improvement in order to bring the stakeholder theory closer to the ambitions of an enlightened level. The article continues with the issue of deciding which groups should be included in the stakeholder concept. The third section discusses the business case for stakeholder theory: the loyalty strategy. The forth issue is the governance issue, how should the stakeholder be brought into the decision process? The fifth section discusses the philosophical case; which philosophical positions are compatible with stakeholder theory. The discussion of these four issues is followed by sixth section connecting the shareholder perspective with other economic approaches. Then the article concludes in a summary section.

2. Which groups are stakeholder groups?

Many articles have addressed the question of which groups are to be considered stakeholders, and the most frequent shortcoming is that many do not sufficiently specify who is *not* a stakeholder. In many situations, not least in business ethics, there is a problem with definitions blurring differences when including too much in a concept. The vanishing difference between CSR and Sustainability is one example. I see no advantage in a semantic shift describing the field of business ethics in stakeholder terms. Clarkson formulated this point succinctly: "Stakeholder theory should not be used to weave a basket big enough to hold the world's misery" (Phillips, 2003, p. 30). Definitional discussions are seldom inspiring, so I think it is appropriate to stress that this is not a project seen as an end in itself, but relevant for the following analysis. Later on, more specific advantages will follow from the narrow definition of stakeholders suggested below.

A reasonable demand for being a stakeholder is to have a stake in the company. This is to be understood as making a significant input to the company and also being a part of its output. There has to be

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a reciprocal link. The stakeholder theory is to address the problem of cooperation between crucial partners, where a conflict is likely to cause the company serious harm and smooth cooperation is of vital interest for both parties. A common distinction between different stakeholder groups lies in 'influencers', who are powerful and important to the company, and 'claimants', who are less powerful and more likely to be victimized by some of the company actions. Kaler (2002) suggests a restrictive definition of the stakeholder concept and recommends excluding influencers, including only qualified claimants. I agree to the first step and suggest the term 'power holders' for these groups that might exercise power over the company, but are not strongly tied to it. In this group, I list the state, competitors, NGOs and media. This is not implying that the company should ignore them, only that it should not see them as stakeholders. 'Claimants' are often used to describe a large group, and a first reaction is that a claim is not a justified claim or a stakeholder claim. In an indirect way, almost everybody can be seen as affected by a company to some degree. But without making a contribution or having a specific role in the company, this should not be considered sufficient. Kaler (2004) suggests a 'contributing principle' as a requirement for being a stakeholder. The definition of 'stakeholder' suggested here, using the terms influencers and claimants, can be classified as a combinatory definition – one that requires a stakeholder to be *both* an influencer and a claimant, rather than the inclusive definition also accepting only having one of the two roles.

It is a long way from making a claim to having a legitimate right, but even having such a right does not qualify one for becoming a stakeholder. However, with or without specific claimants, the company has to address a number of issues I call 'external issues and effects'. These can be addressed as environmentalism, humanism, human rights, patriotism, negative externalities and positive externalities. They can be lumped together and called CSR or corporate responsibilities. They are not specific questions for the stakeholders, though, but more general issues. There is no shortage of claims for perfect duties or compensation for negative externalities, but these should be addressed in other discourses. Nature and future generations might have a lot of self-appointed spokespersons making claims, but these are not stakeholders according to the view proposed here. All issues of company embeddedness and economic policy should not be brought into a stakeholder framework.

This restrictive view results in a short-list with the most popular stakeholders: shareholders, customers, employees, suppliers and, in some situations, the community as a fifth. This is most similar to what most theorists consider to be the 4 or 5 core stakeholders. This core group is described in different terms as 'primary' (Waddock, 2002; Carroll and Buchholtz, 2003; Moon and Bonny, 2001), 'narrow' (Evan and Freeman, 1993), 'definitive' (Mitchell et al., 1997), 'normative' (Phillips, 2003). Mitchell et al. (1997) made an investigation of the stakeholder concept and came up with 28 different definitions. Harrison and Qureshi (2000) conclude that the selection of stakeholder groups has tended to be an arbitrary process and a more systemic approach is needed. The suggestions outside the core are more deviant, as is the rationale given by different theorists for including them. A good general rule is to reduce a definition to the core content, instead of stretching inclusiveness to the detriment of usefulness.

To this short-list, I want to add one additional stakeholder – management. One justification for such a view came already in 1941 with James Burnham's book *The Managerial Revolution*. The managers are not mere servants of the formal owners, but are the ones becoming the sovereigns. The conventional theory and the present public perception might see the owners and the managers as one group, but the many scandals in the last decade have demonstrated that managers are a group with the possibility to successfully favor their self-interest over the interests of the shareholders. Theorists seeing shareholders as the Primus stakeholder, like Jensen (2008), and skeptics toward the stakeholder perspective, like Heath (2006), have devoted attention to the need of controlling managers' use of their power for their personal benefit. In contrast, multi-fiduciary theorists like Freeman often have a very optimistic view of top managers, expecting them to take on a very demanding and selfless role as a 'metaphysical director' (Freeman, 1984). Assuming characters similar to King Salomon will cause problems when managers show very different sets of traits. One reason to include the Primus-stakeholder theorists in the stakeholder tent is that they actually have spent concerns on the cooperation and conflict between these two major stakeholders that other theorists have paid less attention to.

3. The what and how of stakeholder theory – the loyalty strategy

An important point made in the stakeholder debate is to stress the limits of profit maximization as a guideline for business activity. It is a good indicator of a healthy company, but it is a result rather than a goal. Henry Ford is an authority stressing that a striving for profit is insufficient as a business mission. A comparison can be made with happiness, which for an individual might be as greatly desired as profit is for a company; but happiness needs to take the backseat for more operational ideas. Freeman (2008) refers to Aristotle and Mill making this point. Later a person can evaluate and consider his emotional reaction to the choices made. Is he happier now, in the new situation, than in the previous one? But this feedback might be an insufficient guide for strategic decisions.

Several forces support the short-term focus of managers. The CEO has become preoccupied with investor relations since financial reporting has been more voluminous and more frequent. There is a demand for mergers and acquisitions that can make a major direct impact on the share price. The CEO has become more of a celebrity and is lavishly celebrated when the going is good, but patience is limited, so a CEO cannot deliver more than a few disappointing quarterly reports before being dumped. If most of the success of the company is attributed to a specific person, this person will also be blamed for hardships; the negative side of becoming the star of the company is that the star will be dismissed if the shine fades. The CEO compensation has increased substantially while the average time of reign for a CEO has declined from 10 years in the 1970s to presently 6 years (The Economist, 2009).

A relevant experience is the common evaluation of conglomerates. The enthusiasm for them built on the idea that companies could be run by a top management mastering the financial tools. Different divisions in the company could sell steel and soap respectively, but that was considered of limited importance. Cash flow, inventory turnover, and other measurement gave management the tools it needed. This enthusiasm has now vanished and the present trend is to break up conglomerates (Davis et al., 1994). The financial know-how is not sufficient, but it is vital that management master substantially more knowledge. However, this conclusion of experience has been restricted to companies of this kind rather than resulting in a more general skepticism about the potential of financial tools and top-level restructuring.

The basic practical idea of stakeholder theory is that the success of a company is very dependent on smooth cooperation with its stakeholders. From that follows the advice to pay close attention to the needs and wants of these stakeholders. A practical program with links to a stakeholder philosophy is the concept of Balanced Scorecard (Kaplan and Norton, 1992). To a large extent the main idea is to organize attempts to get out of an egocentric and short-term perspective to find solutions to a wider range of problems.

It needs to be remembered that the profit of the company is a goal that implies a conflict with the interests of most stakeholders. The preference of customers is lower prices; the employees