

all about stakeholders - part 2

relevant to ACCA Qualification Paper P1

who's who

■ In this second article on stakeholders and stakeholding, Paper P1 examiner David Campbell concludes his discussion of these important themes.

THE STAKEHOLDER/STOCKHOLDER DEBATE

The stakeholder/stockholder (or stakeholder/shareholder) debate is at the heart of the ethical consideration of stakeholders and is central to the discussion as it separates people into political and ethical 'camps'. The term 'stockholder' rather than 'shareholder' was used more in American literature that discussed these issues and has been the more commonly used term to describe the belief that shareholders are the only stakeholder with a legitimate claim to influence. Essentially, proponents of the stockholder theory argue that because organisations are 'owned' by their principals, the agents (directors) have a moral and legal duty to only take account of principals' claims when setting objectives and making decisions. Hence, for a joint-stock business such as a public company, it may be assumed that because principals (shareholders) seek to maximise their returns, the sole duty of agents is to act in such a way as to achieve that. Stakeholder theorists, in contrast, argue that because a business organisation is a citizen of society, enjoying its protection, support and benefits, it has a duty to recognise a plurality of claims in the same way that an individual might act as

a 'responsible citizen'. In effect, this means recognising claims in addition to those of shareholders when reaching decisions and deciding on strategies.

INSTRUMENTAL AND NORMATIVE MOTIVATIONS OF STAKEHOLDER THEORY

Another debate, from an ethical perspective, is why organisations do or do not take account of stakeholder concerns in their decision making, strategy formulation, and implementation. A parallel can be drawn between the ways in which organisations view their stakeholders and the ways in which individual people consider (or do not consider) the views of others. Some people are concerned about others' opinions, while other people seem to have little or no regard for others' concerns. Furthermore, the reasons why individuals care about others' concerns will also vary.

In attempting to address this issue, Donaldson and Preston described two contrasting motivations: the instrumental and the normative.

The instrumental view of stakeholders

The instrumental view of stakeholder relations is that organisations take stakeholder opinions into account only insofar as they are consistent with other, more important, economic objectives (eg profit maximisation, gaining market share, compliance with a corporate governance standard). Accordingly, it may be that a business acknowledges

stakeholders only because acquiescence to stakeholder opinion is the best way of achieving other business objectives. If the loyalty or commitment of an important primary or active stakeholder group is threatened, it is likely that the organisation will recognise the group's claim because not to do so would threaten to reduce its economic performance and profitability. It is therefore said that stakeholders are used instrumentally in the pursuit of other objectives.

The normative view of stakeholders

The normative view of stakeholder theory differs from the instrumental view because it describes not what is, but what should be. The most commonly cited moral framework used in describing 'that which should be' is derived from the philosophy of the German ethical thinker Immanuel Kant (1724–1804). Kant's moral philosophy centred around the notion of civil duties which, he argued, were important in maintaining and increasing overall good in society. Kantian ethics are, in part, based upon the notion that we each have a moral duty to each other in respect of taking account of each others' concerns and opinions. Not to do so will result in the atrophy of social cohesion and will ultimately lead to everybody being worse off morally and possibly economically.

Extending this argument to stakeholder theory, the normative view argues that organisations should accommodate stakeholder concerns not because of what

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the organisation can instrumentally 'get out of it' for its own profit, but because by doing so the organisation observes its moral duty to each stakeholder. The normative view sees stakeholders as ends in themselves and not just instrumental to the achievement of other ends.

SEVEN POSITIONS ALONG THE CONTINUUM: GRAY, OWEN AND ADAMS

The stakeholder/stockholder debate can be represented as a continuum, with the two extremes representing the 'pure' versions of each argument. But as with all continuum constructs, 'real life' exists at a number of

points along the continuum itself. It is the ambiguity of describing the different positions on the continuum that makes Gray, Owen and Adams's 'seven positions on social responsibility' so useful.

Pristine capitalists

At the extreme stockholder-end is the pristine capitalist position. The value underpinning this position is shareholder wealth maximisation, and implicit within it is the view that anything that reduces potential shareholder wealth is effectively theft from shareholders. Because shareholders have risked their own money to invest in a business, and it is they who are

the legal owners, only they have any right to determine the objectives and strategies of the business. Agents (directors) that take actions, perhaps in the name of social responsibility, that may reduce the value of the return to shareholders, are acting without mandate and destroying value for shareholders.

Expedients

The expedient position shares the same underlying value as that of the pristine capitalist (that of maximising shareholder wealth), but recognises that some social responsibility expenditure may be necessary in order to better strategically position an organisation so as to maximise profits. Accordingly, a company might adopt an environmental policy or give money to charity if it believes that by so doing, it will create a favourable image that will help in its overall strategic positioning.

Social contract position

The notion of social contract has its roots in political theory. Democratic governments are said to govern in a social contract with the governed. This means that a democratic government must govern broadly in line with the expectations, norms and acceptations of the society it governs and, in exchange, society agrees to comply with the laws and regulations passed by the government. Failure by either side to comply with these terms will result in the social contract being broken. For businesses, the situation is a little more complex because unlike democratic governments, they are not subject to the democratic process.

The social contract position argues that businesses enjoy a licence to operate and that this licence is granted by society as long as the business acts in such a way as to be deserving of that licence. Accordingly, businesses need to be aware of the norms (including ethical norms) in society so that they can continually adapt to them. If an organisation acts in a way that society finds unacceptable, the licence to operate can be withdrawn by society, as was the case with Arthur Andersen after the collapse of Enron.

Social ecologists

Social ecologists go a stage further than

the social contractarians in recognising that (regardless of the views of society), business has a social and environmental footprint and therefore bears some responsibility in minimising the footprint it creates. An organisation might adopt socially and/or environmentally responsible policies not because it has to in order to be aligned with the norms of society (as the social contractarians would say) but because it feels it has a responsibility to do so.

Socialists

In the context of this argument, socialists are those that see the actions of business as those of a capitalist class subjugating, manipulating, and even oppressing other classes of people. Business is a concentrator of wealth in society (not a redistributor) and so the task of business, social, and environmental responsibility is very large – much more so than merely adopting token policies (as socialists would see them) that still maintain the supremacy of the capitalist classes. Business should be conducted in a very different way – one that recognises and redresses the imbalances in society and provides benefits to stakeholders well beyond the owners of capital.

Radical feminists

Like the socialists, radical feminists (not to be confused with militants, but rather with a school of philosophy) also seek a significant re-adjustment in the ownership and structure of society. They argue that society and business are based on values that are usually considered masculine in nature such as aggression, power, assertiveness, hierarchy, domination, and competitiveness. It is these emphases, they argue, that have got society and environment in the ‘mess’ that some people say they are in. It would be better, they argue, if society and business were based instead on values such as connectedness, equality, dialogue, compassion, fairness, and mercy (traditionally seen as feminine characteristics). This would clearly represent a major challenge to the way business is done all over the world and hence would require a complete change in business and social

culture. This theory relates to Hofstede’s ‘cultural dimensions’ introduced in the Paper F1 syllabus.

Deep ecologists

Finally, the deep ecologists (or deep greens) are the most extreme position of coherence on the continuum. Strongly believing that humans have no more intrinsic right to exist than any other species, they argue that just because humans are able to control and subjugate social and environmental systems does not mean that they should. The world’s ecosystems of flora and fauna, the delicate balances of species and systems are so valuable and fragile that it is immoral for these to be damaged simply (as they would see it) for the purpose of human economic growth.

There is (they argue) something so wrong with existing economic systems that they cannot be repaired as they are based on completely perverted values. A full recognition of each stakeholders’ claim would not allow business to continue as it currently does and this is in alignment with the overall objectives of the deep ecologists or deep greens.

CONCLUSION

The issue of stakeholders lies at the heart of most discussions of ethics, and, accordingly, is very important for Paper P1. Being able to identify the stakeholders mentioned in a case scenario, and describing their individual claims upon an organisation, is likely to be an important skill for Paper P1 candidates to develop.

In addition, being able to identify the ethical viewpoints of people in a case scenario, perhaps with regard to stakeholder/stockholder perspectives, or using Gray, Owen and Adams’s positions, is also important. The various ways of categorising stakeholders is helpful for any stakeholder analysis but a general appreciation that business decisions are affected by and can affect many people and groups both inside and outside of the business itself, is fundamental to an understanding of the importance of stakeholders. ■

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