



Nottingham University Business School

Module N1DM15 – *Business Ethics*

Coursework Assignment 1 (Essay)

'To what extent do stakeholders have intrinsic moral rights in relation to the management of the corporation? Assess the implications of this argument for the management of stakeholder relations.'

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The idea that stakeholders have intrinsic moral rights in relation to the management of the business organisation sits at the very heart of the wider academic discourse on stakeholder groups. In this paper, I will revisit Donaldson & Preston's normative position on stakeholder rights and seek to make explicit how the idea is firmly rooted in 'non-consequentialist' ethical theory. I will then discuss the difficulties inherent in translating this concept, however robust, into a practical and widely accepted model for managing stakeholder relations. As a means of combating these problems, I suggest three different approaches that advocates of stakeholder management could promote according to the attitude of the managerial constituency they are interacting with. Managers who accept that stakeholders have intrinsic moral rights in relation to the management of the business organisation, for example, need guidance in dealing with the problems caused by partiality. In contrast, managers who adopt the attitude of the 'agnostic' will only embrace the stakeholder concept if it conclusively shown to enhance corporate performance and managers who ignore or actively reject stakeholder theory will only adopt stakeholder management where they are required to do so by law.

In the interests of discursive brevity and clarity, I will adopt Donaldson & Preston's third thesis, namely that stakeholder theory is fundamentally normative and involves the acceptance of two core ideas. First, stakeholders are persons or groups with legitimate interests in the strategies, policies and procedures of a business organisation. Stakeholders are therefore identified by *their* interests in the organisation, irrespective of the organisation's interest in them. Second, stakeholder interests are of intrinsic value, meriting consideration for their own sake and not because they further the interests of the organisation or its shareholders (Donaldson & Preston, 1995). Having set out the departure point for my discussion, I will examine the theoretical bases for the normative position on stakeholder rights.

The idea that stakeholders have intrinsic moral rights in relation to the management of the business organisation is primarily derived from 'non-consequentialist' ethical theory. The most persuasive arguments in support of the stakeholder concept are rooted in the theories of duties and rights. I have not attempted here to fully disentangle the ethics of duty from those of rights because it can be argued that the two concepts are tightly correlated and, generally, duties are considered to be the 'flip-side' of moral rights (Velasquez, 1988). The idea that a person, by virtue of

being a person, possesses intrinsic moral rights can be traced back to Immanuel Kant's dual formulation of what he called the 'categorical imperative'. The first formulation of Kant's categorical imperative asserts the primacy of a universal moral law; the 'litmus test' of ethical behaviour is that we should act in such a way that we would have all moral agents act (Gibson, 2000). The second formulation of Kant's categorical imperative states that all individuals have equal moral worth and a have intrinsic right to be treated as 'ends in themselves' and not as a 'means' to an end (Rowan, 2000).

The application of Kant's theories to the modern business environment provided the initial bridgehead upon which stakeholder theory has been subsequently developed. In doing so, academic commentators have asserted that all individuals have the basic moral right to be treated by business organisations in a way that respects their interests, rather than as a means to achieving the ultimate corporate goal of profit maximisation. The term 'stakeholder' refers the idea that individuals may possess a legitimate 'stake' or interest in the activities of a business organisation. The concept is therefore reciprocal; individuals or stakeholders who perceive themselves as having an interest in an organisation have an automatic and inalienable right to fair treatment and consideration by the organisation (Carroll & Bucholtz, 2000). Furthermore, stakeholder rights are generally conceived of as *group*-based rights, as individuals typically interact with business organisations as members of wider generic groups – typically employees, customers, shareholders, local communities or business partners (Wheeler & Sillanpää, 1997).

The possession of intrinsic moral rights by stakeholders generates corresponding duties on behalf of business organisations (Velasquez, 1988). Managers have a duty to acknowledge the validity of various stakeholder interests and accommodate stakeholder rights in a supportive manner (Donaldson & Preston, 1995). This deontological or 'duty based' concept has proved to be significant development, superseding traditional theories of the firm stipulating that managers only owe a fiduciary responsibility to act in the interests of the organisation's shareholders. The growing acceptance of stakeholder theory since the 1980's has therefore been accompanied by a broadening in the scope of expected managerial responsibilities and, as I will discuss, resulted in significant and often unresolved complexities for the managerial function.

The ethical theories of rights and their correlated duties provide, I believe, the strongest arguments in support of normative stakeholder theory and the idea that individuals and groups of individuals have intrinsic moral rights in relation to the management of the business organisation. It is important to stress, however, that rights-based and deontological concepts are not the only arguments that could be advanced in support of the normative stakeholder position. Stoney & Winstanley refer, for example, to a number of alternative theoretical bases, including the theories of procedural and distributive justice, virtue ethics and the duty of care (Stoney & Winstanley, 2001). A detailed examination of these concepts is, however, beyond the immediate scope of this paper.

The prominence of normative stakeholder theory in modern academic discourse does not, however, hide the difficulties inherent in translating this concept, however robust, into a practical and widely accepted model for managing stakeholder relations. John Rowan refers to the fact that emergent ethical theory is often relayed to business managers in complex and impractical form. Furthermore, the study of ethics, unlike the study of science, often suffers from a perceived inability to provide deductively valid conclusions (Rowan, 2000). Acceptance of the normative position on stakeholder theory is ultimately a function of an individual's own value system and beliefs; in other words, you either believe it is the correct attitude or opinion to take or you do not. Stakeholder theory, as with other ethical concepts, suffers from what might be termed the 'curse of moral pluralism'; acceptance of the concept relies on an acceptance of the moral premises upon which it is founded. Unsurprisingly, the continuing (and unlikely to be resolved) public debate on this subject is indicative of the lack of consensus on normative stakeholder theory and its conceptual roots (Stoney & Winstanley, 2001).

What are the implications of this intellectual 'stand-off' for stakeholder theory? Are we to assume that inclusive and effective models of stakeholder management will only be implemented by managers or business organisations that hold a 'true believer' or normative view on this concept? I would argue not. The advancement of stakeholder theory will depend on the careful deployment of appropriate arguments and tools according to the attitude of differing managerial constituencies. I would

categorise managerial attitudes on normative stakeholder theory into three broad camps:

- Managers who positively accept that stakeholders have intrinsic moral rights.
- Managers who adopt an 'agnostic' attitude and will only embrace the stakeholder concept if it conclusively shown to enhance corporate performance.
- Managers who ignore or actively reject stakeholder theory.

Managers who accept normative stakeholder theory are faced by the fundamental problem of *partiality*. The natural extension of Kant's categorical imperative that all individuals are of equal moral worth is that *all* legitimate stakeholder claims are worthy of equal consideration by the business organisation. This notion of equal treatment for all has subsequently been advanced to great effect by academics such as John Rawls (Gibson, 2000). Since legitimate stakeholders are defined by *their* interests in the organisation, irrespective of the organisation's interest in them, managers are immediately faced by difficult questions over stakeholder prioritisation. Some academic commentators advocate the prioritisation of competing stakeholder claims according to the ability of differing stakeholder groups to impact or impair corporate performance (Mitchell, Agle & Wood, 1997). To prioritise on this basis would, I suggest, be an unnecessary reversion to an instrumentalist position on stakeholder theory. There is already sufficient basis in normative stakeholder theory to support an equitable, if high-level, prioritisation of stakeholder interests. Kevin Gibson suggests that organisations may owe *prima facie* duties to individual stakeholders or stakeholder groups on the basis of concepts that include reciprocity, reparation or gratitude – often by virtue of past or present relationships. Gibson goes on to exemplify this position by suggesting that a community which has subsidised a business organisation with incentives, together with long-term employees, are more worthy for moral consideration than other, more remote, stakeholder groups in the event of a factory closure (Gibson, 2000).

A contrasting perspective is taken by John Rowan, who discusses how managers might select appropriate courses of action in the event of conflicting stakeholder rights. Rowan suggests that choices of this nature be should directed in favour of the stakeholder who will be respected as more of a 'person' if his or her rights were recognised. He defines 'personhood' in terms of a series of basic, inviolate human

rights; the right to freedom, the right to well-being and the right to equality (Rowan, 2000). Rowan's discusses his ideas in relation to *employee* rights and one might exemplify his argument by evaluating conflicting employee rights in the context of a policy of random workplace drug testing. In the office environment, where manual or potentially hazardous labour is not undertaken, I would argue that employee rights to privacy, deriving from the basic right to personal freedom, take primacy over employee rights to a safe working environment and a policy of this nature cannot be justified on grounds of workplace health and safety (Des Jardins & Duska, 1997). Whether you agree with my judgement or not in relation to this example is surely a side issue; the important point is that I have a *framework* with which to make decision that has a basis in ethical theory. It is vital to emphasise, therefore, that normative stakeholder theory need not be discarded or avoided because of problems of partiality; rather, the theory needs to be developed to *incorporate* the issues that surround partiality and there is, I believe, sufficient opportunity and incentive to do so.

Managers who manage stakeholder relations on the basis of anticipated improvements in corporate financial performance have adopted what is termed the 'instrumentalist' position on stakeholder theory (Donaldson & Preston, 1995). Some academic commentators, for example, have attributed the success of companies such as Marks and Spencer, Glaxo-Wellcome, Toyota, the Body Shop and British Airways to the effectiveness of their stakeholder management models (Wheeler & Sillanpää, 1997). The problem with accepting this viewpoint lies in the difficulties of attributing causality for superior financial performance; proving that a company outperforms its peer group *solely* because of its approach to stakeholder management is virtually impossible to accomplish. Indeed, without clear and conclusive empirical evidence in support of the impact of instrumentalist stakeholder management, its influence in the 'real' and pragmatic business world is likely to be limited (Stoney & Winstanley, 2001).

The apparent weaknesses of the instrumentalist position on stakeholder theory naturally strengthens, I believe, the case for developing and advocating normative stakeholder theory. This doesn't mean, however, that the instrumentalist position should be discarded. Although managers who adopt an 'agnostic' position are more likely to be convinced because stakeholder management is the 'right thing to do', I

would argue that the instrumentalist position on stakeholder theory is every bit as under-developed as its normative counterpart. Wheeler & Sillanpää's examples of stakeholder management best practice are nothing of the sort; indeed, the 'stakeholder corporation' is very unlikely to have yet emerged. The lack of academic consensus on what constitutes or might constitute a stakeholder-focused organisation indicates that this concept is still very much in its infancy (Stoney & Winstanley, 2001). Many of the mechanisms for stakeholder dialogue and related metrics at Royal Dutch / Shell, for example, have only been implemented in the past two years and were only publicised for the first time in the group's Social Report for 2001 (Source: www.shell.com). The instrumentalist position on stakeholder theory must retain theoretical plausibility, therefore, until it is proven that mature stakeholder management models have failed to contribute to enhanced corporate performance over extended time periods. I am not sure that this will happen.

Managers who ignore or actively reject normative or instrumentalist stakeholder theory could be compared to Archie Carroll's immoral and amoral management typologies. Immoral managers view employees, for example, as factors of production to be used, exploited or manipulated for the gain of the individual manager or wider business organisation. Amoral managers, in contrast, treat employee as the law requires, albeit with minimal respect and an amoral organisation will structure pay incentives and other rewards towards achieving short and medium term productivity (Carroll, 1991). As we might expect, immoral and amoral managers will not embrace any form of stakeholder whilst modes of adoption remain largely voluntary in nature. Carroll's pyramid of corporate social responsibility, in particular the dynamic tension between legal and ethical responsibilities, indicates the route by which immoral and amoral management typologies may adopt stakeholder management over time. In summary, Carroll defines ethical responsibilities as embracing those activities and practices that are expected or prohibited by society even though they are not codified into law. More pertinently, changing social attitudes towards ethical responsibilities typically precede the establishment of legal statute because they become the driving force behind the very creation of laws (Carroll, 1991).

If we apply this dynamic to stakeholder theory, it is plausible to suggest that a strengthening of both the normative and instrumental forms of the concept will lead to an increasing social acceptance over time that this is 'the right thing to do'. The

accession of stakeholder theory to the status of social 'norm' should then precede the eventual codification into law of key tenets of the concept at the very least. At *present*, however, I would suggest that stakeholder theory does not have universal acceptance as a social 'norm' and is often regarded as inferior to the perceived fiduciary responsibilities managers hold in respect of a business's shareholders. A useful proxy for measuring how far stakeholder theory is *currently* accepted within business circles could be through a comparative evaluation of differing national systems of corporate governance. Johnson & Scholes define corporate governance as a framework that determines whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided (Johnson & Scholes, 1999). In the United Kingdom and United States, corporate governance is focused on 'single-tier' board structures, which usually incorporate both executive and non-executive directors. The dominance of executive managerial power under the 'Anglo-Saxon' model, the appointment non-executive managers by their executive counterparts and the resistance to recent attempts to counterbalance this influence (for example, the Higgs' enquiry in the UK) indicates a natural suspicion of stakeholder theory amongst these countries' business communities. A useful comparison to this stance can be found in European nations such as Germany, the Netherlands and France, where more positive attitudes to stakeholder concepts are reflected in the prevalence of two-tier board structures. In these countries, the composition of the 'upper-tier' or supervisory non-executive board is typically subject to independent election by key stakeholder groups such as employees and shareholders (Johnson & Scholes, 1999).

I believe wider social attitudes to corporate governance and the role of business managers will continue to change in favour of this 'European' model, accelerated by the exposure of executive mismanagement in cases similar to Enron, WorldCom or Tyco. Under this scenario, it is possible to conceive of the majority 'immoral' or 'amoral' managers embracing forms of stakeholder management through both legal requirements and new systems of corporate governance, however contrary these principles may be to their own personal beliefs. Only the hardcore 'rejectionists' will remain over time, beyond the pale and the law. If this argument seems implausibly utopian, I would add that I do not underestimate the likely timeframes involved for enhanced standards of ethical behaviour in business to become legally enshrined. The active dynamic between the ethical and the legal is, however, undeniable; one

only needs to compare social attitudes in Western Europe and the United States today with those of the 1950's on a whole range of issues such as race relations, gender equality and consumer trading standards to be convinced of this.

My approach in this paper has been focused on an attempt to clarify and perhaps simplify stakeholder theory so it may be more easily translated into a practical and widely accepted model for managing stakeholder relations. The normative core of the concept is sufficiently rooted in ethical theories of rights and duties that require little further elucidation or justification. What is required, however, is an ongoing development of both the normative and instrumentalist strands of stakeholder theory, so that adherents can be reassured and agnostics and the unconvinced persuaded. Concerns over the impartial treatment of competing stakeholder rights must be addressed and robust and unequivocal stakeholder management models implemented and given sufficient time to bear fruit in terms of enhanced corporate financial performance. Only when these steps are taken will the core principles of stakeholder theory be sufficiently robust and well tested to validly claim legal status and become the social norms by which business organisations are guided and managed.

(2,893 words)

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