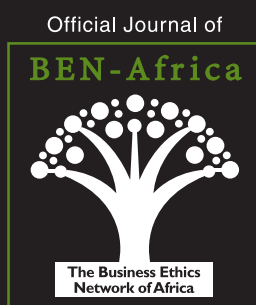
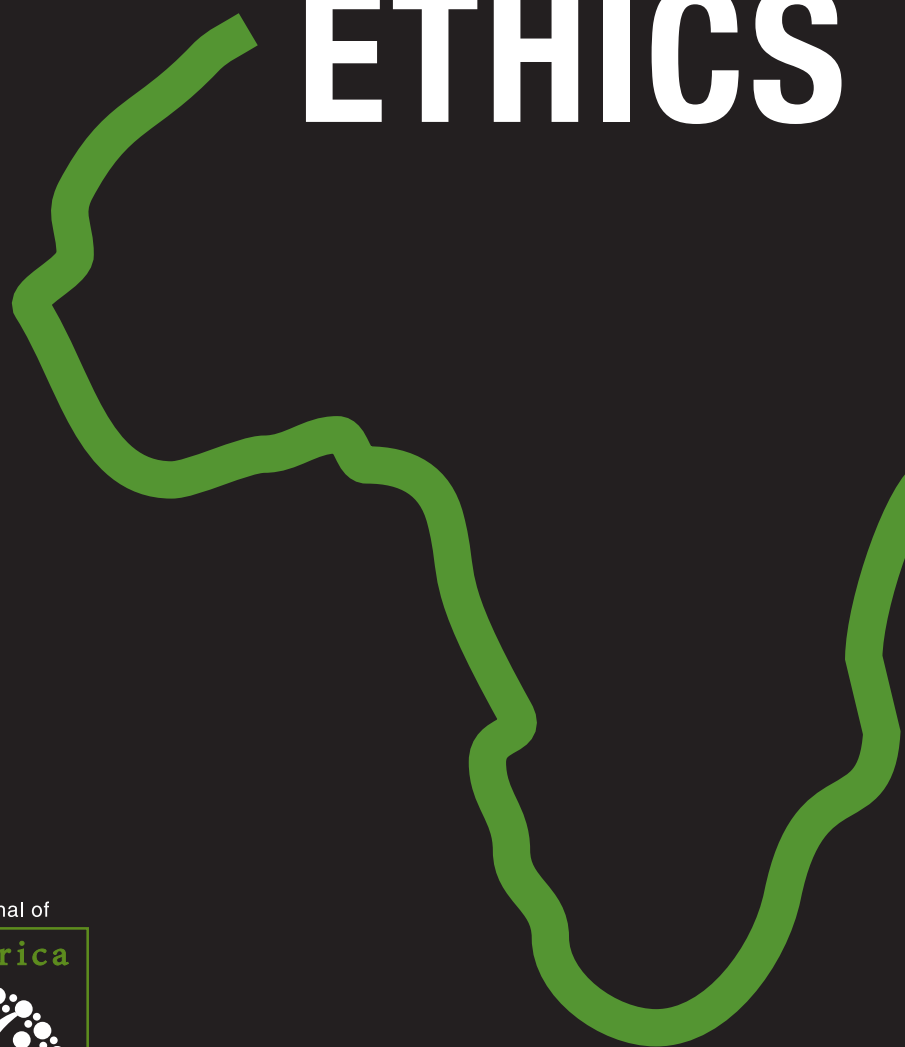


African Journal of **BUSINESS ETHICS**



Vol. 7 No. 2 2013

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Is stakeholder theory really ethical?

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ABSTRACT

Stakeholder theory claims to promote moral values in business and this claim is generally accepted. Yet, literature shows that the theory is fundamentally strategic and only incidentally normative. This paper explores the assumptions of philosophical pragmatism that underpin the theory and concludes that the theory does not qualify as normative, since its conception of morality is basically hypothetical.

Key words: Instrumental theory, normative theory, pragmatism, separation thesis, stakeholder theory

INTRODUCTION

Is stakeholder theory ethical? In other words, is it a normative theory? To answer this question, we need to clarify what we mean by a normative theory. A simple working definition comes from John Hasnas's *The normative theories of business ethics: A guide for the perplexed*, where he says that whereas "philosophical ethics must provide human beings with guidance in all aspects of their lives", "a normative theory of business is an attempt to focus" the general theories of philosophical ethics "exclusively upon those aspects of human life that involve business relationships (Hasnas, 1998:20)". Therefore, a necessary condition for a theory of business to be normative is that it should provide ethical principles that guide actions in business life. In other words, a normative theory must be prescriptive or action-guiding, rather than descriptive. In addition to this, a normative theory must prescribe on moral matters. A normative theory cannot, for example, prescribe the best way to dress for a job interview, unless this has some explicit connection to morality. Another way of saying this is that a normative theory cannot be hypothetical.

Stakeholder theory, created by Freeman in 1984, seems to fulfil these conditions. Before it came into existence, the reigning theory about the purpose of the firm was the stockholder theory, which specified that the primary duty of the firm was to maximise shareholder value. Although this theory did not deny the existence of obligations to other constituencies (employees, suppliers,

customers, etc.), It had little to say about them, and always gave them less priority than to profit maximisation. Perhaps it is the silence about these obligations and the exaltation of the 'profit first' mentality that have made many think of business as an amoral endeavour and to act as if it were such. Stakeholder theory seemed to break this silence by making an explicit reference to the responsibility owed to other constituencies besides the shareholders. An excerpt from the article *a stakeholder theory of the modern corporation* (Freeman, 2002) gives some idea about the promise contained in the theory: *My thesis is that I can revitalise the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders. Stakeholders are those groups who have a stake in or claim on the firm. Specifically I include suppliers, customers, employees, stockholders and the local community, as well as management in its role as agent for these groups. I argue that the legal, economic, political and moral challenges to the currently received theory of the firm, as a nexus of contracts among the owners of the factors of production and customers, require us to revise this concept. That is, each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake* (Freeman, 2002:39).

Judging by the number of publications on the theory alone, there is no doubt that the theory has had an impact, not only on the

Access this article online

Website:
www.ajobe.org

DOI:
10.4103/1817-7417.123083

Quick Response Code:



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academia, but on business practitioners as well (Donaldson and Preston, 1995; Hasnas, 1998; Margolis and Walsh, 2003). There are many problems with Freeman's manifesto and several aspects of it have been scrutinised and challenged (Parmar *et al.*, 2010). Even the concept of *stakeholder* is a matter of much contention (Miles, 2012). However, the warm reception accorded the theory from its inception can, at least partly, be explained by the appeal it makes to "peoples' moral intuitions" (Hasnas, 1998:26), that business is much more than the financial relationship between the firm and its shareholders. To many people, stakeholder theory has finally introduced ethical principles into business. In order to better appreciate the extent to which people have identified the theory with ethics, we should note that various versions of the article titled *a stakeholder theory of the modern corporation: Kantian capitalism* (Evan and Freeman, 1988) have appeared in several editions of well-known ethics textbooks for the last two decades (Hasnas, 2013). Besides, students of business ethics have been analysing problems using the theory (Hasnas, 2013). Freeman and his associates (henceforth referred to as *stakeholder theorists*), the main proponents of stakeholder theory, undoubtedly consider their theory to be ethical. One of the central goals of stakeholder theory, as stated in *Stakeholder theory: The state of the art* (Parmar *et al.*, 2010), is to solve "the problem of connecting ethics and capitalism" (Parmar *et al.*, 2010:404). Many would be surprised if they learned that stakeholder theory is not much morally superior to its rival, the stockholder theory.

A review of the literature on the topic shows that, like many other aspects of the stakeholder theory, its normative status is far from clear (Hasnas, 2013). The problem lies in the ambiguity inherent in the theory's intent. Stakeholder groups can be identified and stakeholder interests can be taken into account for two main reasons – strategic, or those concerned with the smooth running of the firm and normative, or those concerned with satisfying moral imperatives. These two forms of stakeholder theorising are quite different, although they may co-exist within the same organisation. Strategic stakeholder theorising can be amoral and even immoral, if it does not take normative implications into account. Several critics have argued that stakeholder theorists have focussed disproportionately on strategic theory, to the detriment of normative theory. This, they claim, makes the stakeholder theory morally irrelevant, if not positively harmful. Stakeholder theorists, for their part, have always claimed that their theory is simultaneously strategic and normative and that it does not make sense to distinguish between the two categories.

The claims of both groups imply a contradictory understanding of normative theory. This paper examines these claims in order to extract their underlying epistemologies. My finding is that stakeholder theory is

primarily strategic or instrumental, both in fact and by the intentions of its creator and promoters. The morality expressed in the theory is based on a philosophical pragmatism that views morality as hypothetical. This is why stakeholder theorists can claim that it is a normative theory, whereas it is focussed on strategic ends. I conclude that, although stakeholder theory does have moral implications, it is really not ethical.

THE DIFFERENT FORMS OF STAKEHOLDER THEORY

One of the first authors to comment on the ambiguous nature of the stakeholder theory is Goodpaster (1991), in his article titled *Business ethics and stakeholder analysis*. Goodpaster disagrees with "the suggestion that introducing 'stakeholder analysis' into business decisions is the same as introducing ethics into those decisions" (Goodpaster, 1991:55). To show why, he logically divides the stakeholder analysis process into two parts, which he calls *stakeholder analysis* and *stakeholder synthesis*. Stakeholder analysis involves the identification of the relevant stakeholders. By itself, stakeholder analysis is morally neutral, because it only tells us that some stakeholders have been "identified – *not why and for what purpose*" (Goodpaster, 1991:57). Stakeholder synthesis, on the other hand, tells us *why* stakeholders have been identified. Goodpaster distinguishes two kinds of stakeholder synthesis – strategic and multi-fiduciary. Strategic stakeholder synthesis identifies stakeholders for instrumental reasons, i.e., for the economic benefit of the organisation:

I refer to this kind of stakeholder synthesis as "strategic" since stakeholders outside the stockholder group are viewed instrumentally, as factors potentially affecting the overarching goal of optimizing stockholder interests. They are taken into account in the decision-making process, but as external environmental forces, as potential sources of either good will or retaliation (Goodpaster, 1991:57-58).

Goodpaster points out that strategic stakeholder synthesis considers stakeholder interests (other than the stockholders') only as a means to achieve the corporate objective: maximizing shareholder value. He also observes that Freeman "appears to adopt some form of strategic stakeholder synthesis" (Goodpaster, 1991:59) in his writings. However, is strategic stakeholder synthesis ethical? Goodpaster gives two possible answers to this question. The first is that it is amoral, i.e. it does not deal with moral issues:

The point is simply that while there is nothing necessarily wrong with strategic reasoning about the consequences of one's actions for others, the kind of concern exhibited should not be confused with what most people regard as moral concern. Moral concern would avoid injury or unfairness to those affected by one's actions because it is wrong, regardless of the retaliatory potential of the aggrieved parties (Goodpaster, 1991:60).

The second answer is that strategic stakeholder synthesis is, at least potentially, immoral:

[The second answer] *Acknowledges that strategy, when placed in a highly effective legal and regulatory environment and given a time-horizon that is relatively long-term, may well avoid significant forms of anti-social behaviour. But it asserts that as an operating principle for managers under time pressure in an imperfect legal and regulatory environment, strategic analysis is insufficient* (Goodpaster, 1991:60).

In other words, Goodpaster considers strategic stakeholder synthesis to be, at best, morally neutral and possibly even morally deficient.

The second form of stakeholder synthesis, multi-fiduciary stakeholder synthesis, sees managers as having a fiduciary responsibility to all stakeholders, not just to stockholders. This form is different from the former, in that it “views stakeholders apart from their instrumental, economic, or legal clout” and not simply as “limiting operating conditions on management attention” (Goodpaster, 1991:62). However, this form of synthesis is problematic, because it would turn stakeholders into quasi-stockholders, and so conflict with the moral, fiduciary obligations owed to stockholders. Besides, there are obvious issues involving the efficiency and workability of such a structure. Therefore, Goodpaster settles for a solution that gives managers a fiduciary responsibility to stockholders and moral, non-fiduciary responsibilities to other stakeholders. *Taking business ethics seriously need not mean that management bears additional fiduciary relationships to third parties (nonstockholder constituencies) as multi-fiduciary stakeholder synthesis suggests. It may mean that there are morally significant nonfiduciary obligations to third parties surrounding any fiduciary relationship* (Goodpaster, 1991:67).

It is clear that Goodpaster does not favour any change in the fiduciary relationship between managers and shareholders. Rather, he is advocating the recognition of moral obligations to third parties – “the duty not to harm or coerce and duties not to lie, cheat, or steal” (Goodpaster, 1991:67) – that are equally binding on corporate entities as they are on private individuals.

These obligations are not “hypothetical” or contingent or indirect, as they would be on the strategic model, wherein they are only subject to the corporation’s interests being met. They are “categorical” or direct. They are not rooted in the fiduciary relationship, but in other relationships at least as deep (Goodpaster, 1991:67).

Thomas Donaldson and Preston (1995), in their landmark paper, *the stakeholder theory of the corporation: Concepts, evidence and implications*, contribute to this discussion by observing that there is a lot of confusion about the nature and purpose of stakeholder theory in literature.

Different theories with different methodologies and validity criteria are used indiscriminately under the stakeholder umbrella. In order to introduce some conceptual order into the stakeholder theory as found in literature, they categorise it into three types: descriptive, instrumental, and normative. Descriptive stakeholder theory attempts to empirically show the actual relationship between managers and their stakeholders. Instrumental theory tries to provide an empirical link between the stakeholder management practices and financial returns. Normative theory uses philosophical principles to identify the obligations firms have towards various stakeholders and to provide the arguments that explain and support these obligations.

Donaldson and Preston identify the central problem of the theory as one of justification. Why should we accept stakeholder theory instead of alternative theories? They then analyse each of the stakeholder types in terms of their justificatory powers. Descriptive research, although important, cannot justify stakeholder theory by itself. Descriptive theory deals with facts, whereas what is being justified is a prescription.

There is the problem of the so-called “naturalistic fallacy,” moving from is to ought or from describe to evaluate, without the necessary intervening analysis and explanation (Moore, 1959:15-6). *Then, again, there is the simple problem of hasty generalisation. By the logic of descriptive justification, if new surveys showed that managers were abandoning stakeholder orientations, or if the legal support for broad stakeholder interests were to weaken, the theory would be invalidated* (Donaldson and Preston, 1995:77).

Neither does instrumental theory provide stakeholder theory with adequate justification. In the first place, the argument against descriptive theory can also be applied to instrumental theory, because they are both empirical. Moreover, in spite of the impressive amount of instrumental research being done, “there is as yet no compelling empirical evidence that the optimal strategy for maximising a firm’s conventional financial and market performance is stakeholder management” (Donaldson and Preston, 1995:78). Besides, such evidence would still not provide adequate justification. If looking after stakeholders’ interests were the wrong thing to do, an improved financial performance would not necessarily justify it. This argument shows an important difference between instrumental and normative stakeholder theory as seen by Donaldson and Preston. They are both prescriptive, in the sense that they both recommend a line of action. However, whereas instrumental stakeholder theory is hypothetical, i.e. it recommends a given line of action (in this case, looking after stakeholder interests) if you are interested in a given outcome (in this case, financial rewards), normative stakeholder theory, on the other hand, is categorical, i.e. it recommends an action simply because it is right and without making reference to any interests. Suffice it to say

that Donaldson and Preston believe that only normative theory can adequately justify stakeholder theory, although descriptive and instrumental theories provide useful support.

We can observe some interesting parallels between the two articles mentioned above. Although Goodpaster refers to stakeholder management analysis, whereas Donaldson and Preston refer to stakeholder research, they both categorise stakeholder theory according to its purpose. Strategic stakeholder synthesis is analogous to instrumental stakeholder theory, just as multi-fiduciary stakeholder synthesis is analogous to normative stakeholder theory. The underlying belief in making these distinctions is similar: Normative reasons are fundamentally different from instrumental ones; the former are categorical (or independent of our desires), while the latter reasons are hypothetical (or contingent on our desires). Furthermore, both articles share the view that stakeholder theory is fundamentally normative and that instrumental justification provides, at best, a shaky foundation for the theory.

WHERE DOES STAKEHOLDER THEORY STAND?

So, is stakeholder theory instrumental or normative? Stakeholder theorists have always claimed that their theory is both instrumental and normative (Harris and Freeman, 2008; Jones and Wicks, 1999; Parmar *et al.*, 2010). However, a look at normative stakeholder theory makes one wonder how seriously it is taken. Stakeholder theory handles its normative aspects by means of normative cores. Normative cores are normative/philosophical arguments made in justification of the theory. They are “an explicit effort to answer two questions facing all corporations. First, what is the purpose of the firm? And second, to whom does management have an obligation?” (Parmar *et al.*, 2010:409). In *Stakeholder theory: The state of the art* (Parmar *et al.*, 2010), the authors list a set of ten such normative cores for the stakeholder theory. These cores are all based on different philosophical principles and they have very few points in common (Jones and Wicks, 1999). Freeman himself admits that one of these cores, Kantian capitalism, is “problematic” (Freeman, 1994:415). The authors of *Stakeholder theory: The state of the art* give absolutely no orientation as to which, if any, of these theories provide reliable guidance for managers to act upon and to what extent. Even the very notion of an interchangeable set of normative cores is suspect. One writer asks:

To what extent the idea of an interchangeable normative core to inform a theory of business and society is at all conceivable. Can we really exchange the core values for the firm as easily as we used to do with the letter-balls of an IBM typewriter? (Wempe, 2008:552).

In my view, this approach to normative theory leaves much to be desired. It seems as if stakeholder theorists

have created this list of normative cores more to appease those clamouring for a normative stakeholder theory than to give managers adequate normative orientation. This impression is strengthened by the open distrust shown by stakeholder theorists towards philosophy in general and business ethics in particular (Freeman, 1994; 1999; Parmar *et al.*, 2010). For example, Freeman expresses strong doubt about ever finding a moral basis for business in the following words:

Seeing the stakeholder idea as replacing some shopworn metaphors of business with new ones – such as stakeholders for stockholders, humans as moral beings for humans as economic beings and the Doctrine of Fair Contracts for the current panoply of corporate chartering laws – is to give up the role of finding some moral bedrock for business. Finding such bedrock [...] is especially fruitless on pragmatist grounds for there are no foundations for either business or ethics (Freeman, 1994:418).

We will examine some of these ideas more closely in the following section. For now, let us look at stakeholder theorists' attitude towards instrumental theory. In *Misery loves companies: Rethinking social initiatives by business*, Joshua Margolis and Walsh (2003) explore the tensions facing business corporations when demands on them to help alleviate societal needs clash with the reigning economic contractarian view that companies exist solely to make money for their shareholders and that money diverted from this goal is effectively misappropriated or misallocated. Margolis and Walsh feel that economic contractarianism unduly stifles initiatives by companies to the benefit of society, and robs society of much-needed help from companies. Although stakeholder theory seemed to “offer a cogent alternative to the economic account of the firm” (Margolis and Walsh, 2003:279), Margolis and Walsh see this promise fading due to an excessive dependence on instrumental theory:

A preoccupation with instrumental consequences renders a theory that accommodates economic premises yet sidesteps the underlying tensions between the social and economic imperatives that confront organisations. Such a theory risks omitting the pressing descriptive and normative questions raised by these tensions, which, when explored, might hold great promise for a new theory and even for addressing practical management challenges (Margolis and Walsh, 2003:280).

The problem is that it has become “a practical necessity that stakeholder theory revolve around consequences, financial consequences substantive enough to convince managers that stakeholders are worthy of attention” (Margolis and Walsh, 2003:279-280). But what happens when treating stakeholders well does not produce these consequences? Stakeholder theorists are unequivocal in their response: “The problem of value creation and trade does not fall into the scope of corporate social responsibility (CSR), unless

the way in which a company creates value affects society negatively" (Parmar *et al.*, 2010:412-413). In other words, CSR has no place in business, unless there is some harm for which the business is trying to make up. In contrast, Margolis and Walsh, such as Goodpaster, Donaldson and Preston, believe that "[t] here are normative reasons to respect stakeholders, independent of the ensuing financial benefits" (Margolis and Walsh, 2003:280).

However this materialist and consequentialist picture of stakeholder theory is quite at odds with that which many people have of it. Indeed, many see stakeholder theory as being in opposition to the traditional stockholder theory. Where has this impression come from? Walsh (2005), in his article, *Taking stock of stakeholder management*, analyses foundational writings of stakeholder theorists in order to understand how stakeholder theorists would answer Kofi Annan's call for companies to help fight the global war on acquired immune deficiency syndrome (AIDS). From his study of *Strategic management: A stakeholder approach*, Freeman's (1984) seminal book, Walsh finds his answer: *My sense is that Freeman would tell the Secretary General to look elsewhere for the investment he needs. His book tells me that firms who step up to fight AIDS are, at a minimum, unproductively distracted and at worst, wasting their valuable resources* (Walsh, 2005:428).

He supports this conclusion with examples from Freeman's book, which show that its author had a manifestly strategic intention. Freeman counsels care for the interests of stakeholders, but not for any altruistic motive. The overriding goal is the economic survival and success of the corporation, and that any interests that do not contribute to this goal are superfluous. Walsh wonders how a book so intensely strategic could have left so many with the impression that stakeholder theory was in competition with its stockholder counterpart. Actually, there are only two places in his book where Freeman mentions anything like a challenge to the stockholder theory. The second, the more famous, is at the end of the book, where he asks: *Can the notion that managers bear a fiduciary relationship to stockholders or the owners of the firm, be replaced by a concept of management whereby they must act in the interests of the stakeholders of the organization?* (Freeman, 1984:249).

Walsh comments:

That is an enormously complicated and provocative question, one that challenges the theory of the firm and our attendant legal doctrine down to its very roots. Curiously, it is also a question that comes out of the blue. There is little in the book that prepares a reader for these closing words. Nevertheless, I dare say that the book is known more for the promise that orients the book's penultimate paragraph than it is for much of what it says in the previous 248 pages (Walsh, 2005:429).

Freeman (1999) himself confirms Walsh's appraisal of the book when he writes in *Divergent stakeholder theory: Strategic Management: A Stakeholder Approach* (Freeman, 1984) *is built on instrumental premises. It suggests that if organisations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organisation's purposes. That is, stakeholder management is fundamentally a pragmatic concept. Regardless of the content of the purpose of a firm, the effective firm will manage the relationships that are important* (Freeman, 1999:234).

It would seem, from the above, that normative stakeholder theory is only an after-thought to a fundamentally instrumental stakeholder theory.

THE NORMATIVE CONFLICT WITHIN THE STAKEHOLDER THEORY

This normative conflict within the stakeholder theory can be described as follows. Some believe that stakeholder theory, with its instrumental bias and without an adequate mooring in normative or ethical principles, is not morally superior to the stockholder theory. In fact, it could be significantly worse if it encourages the exploitation of human relationships for financial benefit. Stakeholder theorists, on the other hand, maintain that instrumental stakeholder theory is at the same time empirical and normative, and that there is no need for a separate philosophical or ethical foundation (Freeman, 1994; 1999; Parmar *et al.*, 2010). The roots of this conflict can ultimately be traced to significant epistemological differences between the two groups. There is a basic disagreement over the meanings of instrumental and normative theory and how they relate to one another.

Donaldson (1994) clearly expresses the views of the first group in his paper *when integration fails: The logic of prescription and description in business ethics*. For him, an empirical or descriptive theory is one "couched predominately in statements that describe past, present, or future states of affairs," while a normative or prescriptive theory is one "couched primarily in terms of statements that guide choice or conduct" (1994:158). From prescriptive theory, he excludes "mere factual assertions, including ones that certain means will achieve (or maximise) certain ends" (1994:158). In other words, he does not regard instrumental theory as normative, but rather as empirical. His argument is that, although facts and values may be intermingled in practice, they remain separate logically, because the fundamental axioms by which we understand both are different.

I do not deny that at the deepest level one can find traces of empirical content in normative theories and traces of norms in empirical theories'. Nor do I deny that research in business ethics and especially attempts to explain practical issues such as ethics in mergers and acquisitions, should be pursued in a manner that combines normative and

empirical insight. I mean, rather, to say that at the level of fundamental theory we cannot both understand empirical causes and evaluate normative behaviour using the same set of integrated axioms (Donaldson, 1994:158).

Donaldson supports this view by citing arguments by G. E. Moore and Charles Stevenson. However, he makes it clear that this has been the dominant, traditional view of scientific theory in the western world for centuries and that it reflects the “perspective of mainstream traditional theorists such as Plato, Aquinas, Kant and Mill” (1994:161).

Stakeholder theorists, on the other hand, seem to contradict this when they “reject the separation thesis.” The separation thesis (or the separation fallacy), as originally formulated by Freeman (1994) in his paper *The politics of stakeholder theory: Some future directions*, states that “The discourse of business and the discourse of ethics can be separated so that sentences like, ‘x is a business decision’ have no moral content, and sentences like “x is a moral decision” have no business content” (1994:412). Stakeholder theorists have seized every opportunity to accuse writers such as Goodpaster, Donaldson, Margolis and Walsh, as well as business ethicists in general, of falling prey to this thesis (Freeman, 1994; 1999; Harris and Freeman, 2008; Parmar *et al.*, 2010). They repeatedly call for the rejection of this thesis as the solution to the lack of moral values in business and to the increasing irrelevance of business ethics in the business world (Freeman, 1994; Parmar *et al.*, 2010; Purnell and Freeman, 2012).

The separation thesis, like many other concepts in stakeholder theory, is very difficult to pin down. Sandberg (2008) makes a valiant attempt to do so in his article titled *Understanding the separation thesis*. In the article, he notes that, although many writers seem to have accepted Freeman’s call to “reject the separation thesis,” there are, in fact, many different interpretations of this thesis. Sandberg manages to distil nine such possible interpretations from literature, thereby exposing how much imprecision there is in the use of the concept. Jared Harris and Freeman (2008), in their response to Sandberg, select one of these interpretations as being the one they reject: *ST9: There is a genuine difference between matters of business and matters of ethics, at least insofar as there is a genuine difference between descriptive and normative matters* (Sandberg, 2008:227).

Actually, this rendering of the separation thesis can be broken into two parts, both of which Harris and Freeman reject. The first is that there is a difference between matters of business and matters of ethics. Harris and Freeman reject this dichotomy, based on the fact that business matters always carry ethical implications. They argue that the separation of ethics from business, either in theory or in practice, leads to an incomplete view of the reality of

business and therefore, to morally reprehensible actions. I do not see much wrong with this argument and I think most of those they accuse of espousing the separation thesis would agree. I think that many ‘separationists’ would support a greater integration of business with ethics. After all, this is precisely what they had hoped that the stakeholder theory would achieve.

The second part is where the problem lies: there is a difference between the descriptive and the normative. By contradicting this, as we have seen, Harris and Freeman are flying in the face of a mainstream view that goes back to the ancient Greeks. Freeman himself acknowledges that his ideas go against established lines, and his calls are for reformation (Freeman, 1994). Sandberg describes this as “[p] erhaps the most radical (reformative) interpretation of Freeman’s argument against the separation thesis” (2008:226). It is indeed bold of Freeman to try to make us “give up a distinction which is rooted so deeply in our whole way of thinking” (Sandberg, 2008:227) between what is and what ought to be. However, Freeman is no stranger to challenging the status quo, and examining his arguments will help us understand what he means by descriptive and normative theory.

Harris and Freeman’s main point seems to be that there are always normative elements embedded in empirical theory and empirical elements embedded in normative theory. Furthermore, since it is impossible to distinguish between either element, it makes no sense to distinguish between empirical and normative theory. Based on his writings, I think Donaldson would probably accept the first premise, but not the second. Although elements of both the empirical and the normative both appear in some theories, they can be distinguished using the appropriate theoretical tools – empirical tools for empirical elements and normative tools for normative elements. Furthermore, any theory that attempts to combine both elements will have to respect the theoretical autonomy of each in order to be valid.

Ultimately, the contradiction implicit in the views of both groups can be understood only when we know the underlying epistemological assumptions from which they are made. The article *Organisation studies and the new pragmatism: Positivism, anti-positivism, and the search for ethics* by Wicks and Freeman (1998) gives a fairly comprehensive overview of the philosophical pragmatism underpinning the stakeholder theory. Wicks and Freeman contrast the two dominant epistemological positions – positivism and interpretivism – and find them both wanting. According to them, positivism labours under the illusion that it can actually know ‘truths’ about reality, whereas it marginalises ethics, which it considers as speculative, at best. Interpretivism, on the other hand, questions the objectivity of scientific knowledge, but does not go so far as to deny that there is real knowledge to be gained by science.

In this way, interpretivism falls into relativism, because it has no clear criteria for evaluating knowledge.

Pragmatism goes one step beyond interpretivism by an outright denial that we can ever attain any reliable knowledge about reality. Although it does not deny that reality exists, it does deny that scientific knowledge is anything more than socially agreed rules. For pragmatists, therefore, all forms of knowledge, empirical and normative, are simply narratives that can change depending on social or cultural contexts and according to their usefulness. They are fundamentally the same, even though we can make pragmatic distinctions among them.

[P]ragmatists hold that there is not one privileged description of events, and thus, no way to find a truly objective account of a situation. Pragmatists would not go so far as to suggest that we can't isolate pragmatic differences between types of evidence and arguments (e.g. natural sciences, social sciences, humanities-based) which facilitate coherent discourse. However, pragmatists do hold that these different types are not fundamentally or categorically distinct – ultimately each are narratives of how we make sense of the world (Wicks and Freeman, 1998:126).

There is much that can be said about this rendering of pragmatism, but I will restrict myself to observing that it explains why stakeholder theorists can embrace instrumental theory and eschew philosophical-normative theory, while they claim that their theory is both instrumental and normative. For these pragmatists, ethics has nothing to do with the philosophical search for what is right. Rather, it is simply a form of speaking, an attitude that is useful for us to go through life. This makes ethics hypothetical or instrumental for them. From the above, I conclude that stakeholder theory is not and was never meant to be, a normative theory, at least not by the definition of the term I gave earlier in this article. In other words, stakeholder theory is not really ethical.

CONCLUSION

In the preceding pages, I have tried to find out whether the stakeholder theory is really a normative theory, as it is generally believed to be. By reviewing some important stakeholder literature, I have established that there are generally two approaches to stakeholder theory – the instrumental and the normative – and that the theory seems to be instrumental to the extent of eclipsing its normative side. I have further shown that this primacy of the instrumental is not just a result of the evolution of the theory, but is implicit in the theory's formulation. Lastly, I have explored the philosophical pragmatism underpinning the theory's claim to normative status, and have shown that its conception of ethics is basically hypothetical. I have concluded from this that stakeholder theory is not really a normative theory.

When I say that stakeholder theory is not a normative theory, I do not imply that it could not be so. Margolis and Walsh (2003) have proposed an interesting template upon which a solid normative stakeholder theory could be based. In *Dialogue: Towards superior stakeholder theory* (Agle *et al.*, 2008), Donaldson expresses much hope that stakeholder theory will usher in a “normative revolution” comparable to the Copernican revolution in its power to change paradigms in the business world. My meaning, rather, is that the actual use of the theory is overwhelmingly strategic with very little attention given to its normative side and that this is how its promoters intend it to be.

My intention in this paper is neither to cast doubts upon the importance of stakeholder theory in modern organisational scholarship, nor to downplay the importance of achievements in the field by stakeholder theorists. My purpose is simply to make explicit the underlying assumptions in the theory in order to foster greater clarity in its use. It is especially important that we do not confuse the normative with the instrumental, and that we realise the importance of normative theory for strategy.

ACKNOWLEDGEMENT

I wish to thank Professor Juan Manuel Elegido for his support and encouragement while writing this paper.

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How to cite this article: Enyinna O. Is stakeholder theory really ethical?. *Afr J Bus Ethics* 2013;7:37-44.

Source of Support: Nil, **Conflict of Interest:** None declared

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