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## Stakeholders

### Chapter Summary

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Since the 1960s, it has become commonplace in the business community and beyond to use the term “stakeholder” in discussions of corporate social responsibility. Stakeholder analysis reflects the view, held by many, that corporations have obligations to a variety of constituencies other than just shareholders. There is, however, much disagreement concerning what this means in practice, and this chapter explores some of the problems and misconceptions surrounding stakeholder analysis. One central problem is defining who counts and what it means to be a stakeholder. According to Edward Freeman’s formulation, “a stakeholder is any group or individual who can affect, or is affected by, the achievement of a corporation’s purpose.” But why should those affected by corporate actions have a say in corporate decision making, and why should corporations strive to balance the claims of various stakeholders? This question is especially pertinent given Milton Friedman’s contention that, because shareholders directly invest in a corporation as a risk and thus have much to lose in cases of corporate failure, a company “not only *need not* but *should not*” have an interest in any constituencies other than shareholders. If Friedman is right, attempting to balance the interests and claims of various stakeholders not only puts at risk the investment of those who own the company and whose capital is essential to any business success, it is also a form of shareholder theft and so unethical. However, as stakeholder theorists are quick to retort, privileging financier rights in this way

runs the risk of treating other stakeholders as a means to the interests of shareholders and this is equally problematic given the significant stake certain stakeholders have in corporate decision-making. And so the debate goes on.

Despite these problems there are virtues in the use of the term “stakeholder” and these are discussed next. One virtue is *reminding* corporate decision-makers and others with vested interests in business that business operates on behalf of society, that many groups and individuals have a stake in business, and that the market is not the solution to all of society’s problems. Accordingly, a variety of cases and examples are examined with a view to illustrating ways in which different stakeholder groups are vulnerable to corporate decisions. This is followed by a discussion of occupational health and safety, and random testing of employees. The testing of employees for drugs and alcohol poses an interesting question: should employees be subjected to random drug testing to ensure that minimum safety measures are being met, or does such testing invade an employee’s privacy and thereby run the risk of other harmful consequences. As is often the case in ethical matters, solutions are not easy. The chapter ends with the themes of corporate surveillance and consumer protection and product safety.

## Key Terms

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**Shareholder** any individual, institution, or corporation owning shares in a public or private corporation (p. 69)

**Stakeholder** the broad constituency served by business. As such they have a deemed interest in what a firm does in order to earn profits (p. 69)

## Study Questions

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### Multiple Choice Questions

1. Milton Friedman argues that \_\_\_\_\_.
  - a) corporations need not move towards being more socially responsible
  - b) only shareholders have a rightful claim on corporate profits
  - c) corporations should do anything to maximize shareholder interests
  - d) corporations are responsible to the public
2. According to Robert Nozick, people acquire a holding \_\_\_\_\_.
  - a) through consent
  - b) by being affected by an activity
  - c) by being a stakeholder
  - d) by being a shareholder
3. The case of employees provides a good illustration of what is wrong with the stakeholder view of business because \_\_\_\_\_.
  - a) employees should have priorities over other stakeholders
  - b) employees should not have priority over other stakeholders
  - c) benefiting one party will often be at the expense of others
  - d) employees should have the same rights as shareholders

4. According to the authors of your textbook, the virtue of the stakeholder concept is to remind us that \_\_\_\_\_.
  - a) business operates to benefit shareholders
  - b) the market is the solution to all
  - c) all stakeholders are equal
  - d) business operates to benefit society
5. According to some commentators, not all stakeholder interests should be taken into account in corporate decision-making because \_\_\_\_\_.
  - a) not all stakeholders are genuine
  - b) having a concern for the well-being of another party does not necessarily make that party a stakeholder
  - c) not all interests warrant moral consideration
  - d) all of the above
6. It might be said that the use of the term “stakeholder” is question begging because \_\_\_\_\_.
  - a) the term raises too many questions
  - b) it assumes the thing to be proved, namely that businesses have social responsibilities
  - c) shareholders are different from other stakeholders
  - d) all of the above
7. It might be said that the claims of stakeholders other than shareholders are asymmetrical because \_\_\_\_\_.
  - a) stakeholders claims should not play a role in corporate decision-making
  - b) they apply when self interest is involved but not when some sacrifice is required
  - c) stakeholder claims are proximate rather than direct
  - d) both *b* and *c*
8. According to the authors of your textbooks, one of the main virtues of the use of the term “stakeholder” is that \_\_\_\_\_.
  - a) it eliminates the need for moral decision-making
  - b) it provides a map or algorithm for making decisions
  - c) it reminds managers and investors that businesses operate on behalf of society and that the marketplace does not solve all problems
  - d) it provides a scapegoat for businesses
9. People are opposed to random drug testing in the workplace for all of the following reasons *except* \_\_\_\_\_.
  - a) safety concerns are not the concern of the employer
  - b) it invades employee privacy
  - c) it targets drug use rather than workplace practice
  - d) it sets a precedent for discriminatory employment practices
10. The paradox involved in an organization attempting to secure itself from liability by minimizing risk is that \_\_\_\_\_.
  - a) they risk becoming risk averse
  - b) they take on too much risk
  - c) employees are given too much autonomy
  - d) it is too expensive to be sustainable in most organizations

## True and False Questions

1. A stakeholder analysis by itself is not strategic.
2. One of the problems with stakeholder analysis is that it is overly inclusive.
3. Stakeholders differ from shareholders insofar as the claims they make on the corporation are asymmetrical.
4. According to Robert Nozick, stakeholders acquire a holding through being affected by an activity.
5. Stakeholder theory is problematic in that it doesn't adequately take into account the contributions made by individual stakeholders.
6. The virtue of stakeholder analysis is that it provides a convenient algorithm for ethical decision-making.
7. Canadian insurance programs for occupational health and safety are administered by the federal government.
8. One problem associated with random drug testing at work is that it could be used to compile records that have nothing to do with workplace efficiency.
9. Most people agree that, despite the problem of intrusion of privacy, drug testing in the workplace is fully justified because of its many more positive consequences.
10. Implementing information technology policies is always wrong on the grounds that it violates the privacy of employees.

## Short Answer Questions

1. Why is it not enough to say that having an interest in the activities of a business makes one a stakeholder?
2. Why is it sometimes said that the notion of stakeholder adds nothing positive to corporate decision-making?
3. How can an emphasis on stakeholder interests put shareholders at risk?
4. What is the virtue of stakeholder analysis?
5. What are pros and cons of random drug testing at work?

## Essay Questions

1. Why is determining what counts as a stakeholder more difficult than it first appears? Specifically, why is having an interest not necessarily the same thing as having a stake? Why can an unreflective use of the notion be dangerous?
2. It is a well-known fact that the interests of shareholders do not always line up with the interests of other stakeholders and that in more extreme cases genuine conflicts arise. What do you propose as the best way for managers to reconcile and to advance the interests of both shareholders and stakeholders? Or do managers even have obligations to advance the interests of all concerned?

## Answers to Study Questions

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### Multiple Choice Questions

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| 1. <b>b</b> (p. 72) | 5. <b>d</b> (p. 70) | 9. <b>a</b> (p. 81)  |
| 2. <b>a</b> (p. 73) | 6. <b>b</b> (p. 72) | 10. <b>a</b> (p. 87) |
| 3. <b>c</b> (p. 73) | 7. <b>d</b> (p. 73) |                      |
| 4. <b>d</b> (p. 75) | 8. <b>c</b> (p. 75) |                      |

### True or False Questions

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| 1. <b>T</b> (p. 70) | 5. <b>T</b> (p. 73) | 9. <b>F</b> (p. 82)  |
| 2. <b>T</b> (p. 72) | 6. <b>F</b> (p. 75) | 10. <b>F</b> (p. 83) |
| 3. <b>T</b> (p. 73) | 7. <b>F</b> (p. 78) |                      |
| 4. <b>F</b> (p. 71) | 8. <b>T</b> (p. 81) |                      |

### Short Answer Questions

1. Having an interest does not make one a stakeholder. The interest must be such that something significant is at stake; otherwise almost anyone would be a stakeholder. As the authors suggest, one must be mindful of Friedman's view that the only real interest of business is shareholders. Of course, stakeholder theorists disagree with this position, and this is why they replace the word "shareholder" with the word "stakeholder." But that merely begs the question in favour of businesses having obligations to stakeholders; in other words, it needs to be proven that businesses have social responsibilities and using the word stakeholder does not necessarily provide the needed proof. Nevertheless, Freeman's notion that a stakeholder is any group or individual who is significantly "affected by" managerial decision-making goes some way towards explaining why stakeholders should matter and who is a stakeholder and for some this is proof enough. (pp. 71–72)
2. The notion of stakeholder, some suggest, adds nothing positive to discussions of business ethics because the concept is over-inclusive. The example offered in the text is the building of a paper pulp mill at a time of recession. For the unemployed and the larger community such a project would be most welcome, while for environmentalists and others it would likely be opposed. Who is right and how does one decide? Are all stakeholder interests equal or do some count more than others? Balancing stakeholder interests in this case is problematic and the notion of stakeholder provides little guidance. (p. 72)
3. When stakeholders make claims on a corporation, it is more difficult for shareholders to know the liabilities of the firm in which they are investing. Consequently it becomes more difficult for shareholders to assess the level of risk involved in investing their capital in a firm. It also makes it more difficult to judge managerial performance when managers set out to balance a variety of different interests. (p. 73)
4. Business commentators and economists are often of the view that the free market is the solution to all of societies' problems. Stakeholder analysis is a corrective to this way of thinking. It forces us to recognize that the interests of shareholders are not always in line with the interests of

stakeholders and that business has an obligation not only to shareholders but to society at large. This stems from the important notion that stakeholders often have significant stakes in corporate decisions and are thus often quite vulnerable. While the law goes some way towards protecting stakeholder interests, it is not always enough; corporations must also exercise responsibility in ensuring that stakeholders are not harmed by self-interested business activity—in short, this is what one would expect from a *corporate citizen*, and this is what some stakeholder theorists conceive corporations to be. (pp. 75–76)

5. By carrying out random drug tests, employers have a mechanism to ensure that safety is maintained in the workplace and that they are not therefore subjected to lawsuits. On the other hand, such tests create issues of privacy and the many problems that invasion of privacy brings, including compiling damaging records on employees having nothing to do with efficiency, setting precedents for discrimination and so on. In particular, once a company sets on the path of intruding on people's privacy there is no saying where it will stop. (pp. 81–82)

## Essay Questions

Answers will vary.