# 2 Stakeholder theory

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## Goals of this chapter

After reading this chapter you will be able to:

- understand traditional stakeholder theory;
- discuss its characteristics and indicative shortcomings;
- critically evaluate stakeholder theory by considering Levinas's thinking.

## Introduction

> Simply put, a stakeholder is any group or individual who can affect, or is affected by, the achievement of a corporation's purpose. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation.[1]

With these words R. Edward Freeman is generally regarded as inscribing the stakeholder as a key concept for mainstream business ethics and a theoretical cornerstone for the development of corporate social responsibility (CSR) over the past three decades. It is clear that this was not entirely his original purpose. Indeed, he intended that primarily it would be a new concept for strategic management practice. Nor was it a sudden invention: Freeman had been working on the stakeholder project while at Wharton in 1977 and finished the first full version of this work in 1983. A provisional, retrospective appreciation has recently appeared, in which Freeman and some current collaborators reassess the origins of the stakeholder concept: they analyse the various and multiple iterations and versions that have arisen from the original idea and offer some new possibilities for the stakeholder franchise.[2] In the course of their authoritative recollection of what has happened, over 300 articles (journal articles, books and chapters) which feature the term 'stakeholder' are considered worthy of comment or citation.

Here we do not seek to replicate this scholarly work, nor offer such a variety in detail. Rather, we shall present in this chapter a critical review of a range of positions offered by business ethics regarding stakeholder theory. At the same time we shall introduce a selection of apparent mainstream critics of the stakeholder concept. We then review and discuss the organizing potential, of stakeholder theory as a mental model. The stakeholder concept is central to, and facilitative of, developing a pluralist model of social responsibility across business activities (or CSR), which we interpret as responsibility for others. Finally, and to offset mainstream views from a continental perspective, we shall consider the meaning of stakeholder in terms of this responsibility to others by particular reference to the work of Zygmunt Bauman and Emmanuel Levinas.

## Mainstream views of stakeholder theory

Freeman's initial account of the stakeholder concept is not claimed as a personal innovation. It is made quite clear that threads of the concept can be found in Adam Smith as well as Berle and Means.[3] Freeman suggests that its contemporary meaning arises from the work of Igor Ansoff at Stanford in the early 1960s:

> The actual word 'stakeholder' first appeared in the management literature in an internal memorandum at the Stanford Research Institute . . . in 1963. The term was meant to generalize the notion of stockholder as the only group to whom management need be responsive.[4]

The concept suggests a means of identifying persons or groups other than (but not excluding) shareholders without which an organization could not exist or function. These persons or groups 'originally included shareowners, employees, customers, suppliers, lenders and society'.[5] This broad taxonomy of stakeholders is a clear step away from the extreme individualist position of instrumental, managerial economics that suggests only the interests of shareholders are of significance to managers. To exemplify such a position we can recall Milton Friedman who considered that:

> [T]here is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.[6]

For Freeman, the stakeholder perspective implies something entirely different:

> [U]nless executives understood the needs and concerns of these stakeholder groups, they could not formulate corporate objectives which would receive the necessary support for the continued survival of the firm.[7]

We do not suggest here that *all possible* readings of Freeman repudiate *all possible* interpretations of Friedman's axiomatic claim. But for Friedman, interviewed in the *Financial Times* in 2003, the concept of stakeholders remained a dangerous, socialist concept embracing a fundamentally subversive doctrine approaching corporate fraud.[8] More specifically:

> Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.[9]

The important point here is one of *emphasis*: the stakeholder concept from its conceptualization or development in Freeman marks a significant move in the direction of a socially aware or pluralist apperception of the relationship between business and society. Contemplating Friedman and Freeman – some readers may have seen this juxtaposition framing an essay or exam topic – makes understanding the stakeholder approach a little more emphatic.

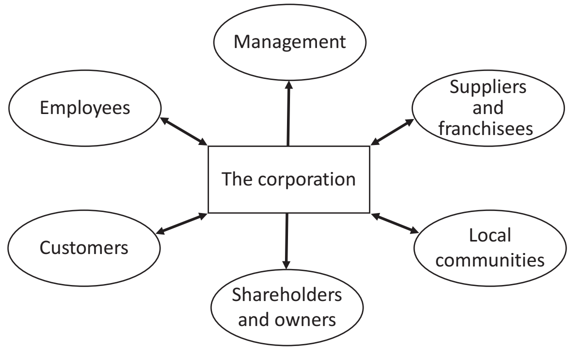
From this conceptual starting point, Freeman suggests, we can trace the influences of the stakeholder concept in at least four distinct, mainstream management directions. It is an organizing concept in the corporate planning literature from which it is acknowledged to have emerged. It is also discernible as informing aspects of systems theory, literature on CSR, and organization theory. Further, it is the aggregation of these four fields that will result in Freeman's conceptualization of strategic management. For the interests of this chapter we shall follow mainly the CSR strand of management for its contribution to business ethics. Freeman views CSR literature, rather than in the terms we have just discussed, as applying stakeholder concepts to non-traditional stakeholder groups: 'less emphasis is put on satisfying owners and comparatively more emphasis is put on the public or the community or the employees'.[10]

Freeman argues that isolating economic issues from social issues is intellectually fallacious.[11] In his later work he calls this the 'separation fallacy'.[12] Freeman claims that ethics and economics cannot be separated, just as social issues and economics cannot. It is also significant for us that Freeman believes management theory to be distinctly prescriptive: 'good theories of management are practical'. The stakeholder concept is valuable as the basis of revising and improving existing views of business and management. Further and beyond such evidence of foundational pragmatism, 'the stakeholder model developed here is prescriptive in the sense that it prescribes action for organizational managers in a rational sense.'[13] In a mainstream business ethics setting such claims reinforce the propriety and the essentially emancipating nature of Freeman's theory. Notwithstanding, this perspective will be significant for our discussion in the second part of this chapter.

One of the ways in which Freeman most effectively communicates the stakeholder approach to strategic management is through models of stakeholding. Again these are important to the discussion of mental models later in this section. There are what appear to be spoke and wheel models with the firm

Figure 2.1

A 'traditional' stakeholder map




*Source*: R. E. Freeman, *Strategic Management: a Stakeholder Approach.* Boston, MA: Pitman (1984).

at the centre (hub) and a number of spokes radiating to and from the hub to the outlying stakeholder categories, although Freeman himself argues that this diagram is supposed to demonstrate the interrelated relationships between various stakeholders and the firm (Figure 2.1).[14] There are also taxonomical tables in which each of these categories is then subdivided into a range of possible examples. Other representations include: role set analysis diagrams; two dimensional grids in which stakeholder power and function are explicated; planning process schematics in which activities are displayed; two-by-two matrices in which organizational process and stakeholder transactions are modelled; a stakeholder's dilemma 'game' modelled on the prisoner's dilemma in which voluntary negotiating is one option and 'hardball' (implicating constraint or litigation) is the other.

In the course of these examples Freeman's prescriptivism comes across as strongly in favour of voluntarism for any managers engaging with stakeholders. They 'must go hand in hand' in any successful stakeholder engagement.[15] The importance of Friedman's contribution in the 1980s is perhaps attributable to the prominence it brought to a pluralist conceptualization at a time when this was a radical deviation from the mainstream agency paradigm, which focused on managerial responsibilities to shareholders. While it implicates business ethics in its consideration of CSR, this is not the major focus of his 1984 book. It is a clear explication of the stakeholder concept but written from the narrower, highly pragmatic perspective of management strategy rather than the ethical concerns to which Freeman (and many others) turned subsequently.

Pragmatism features as the implicit focus of a further refinement from Freeman himself, which we consider to make the link to mainstream business ethics from the work of fundamental pragmatists such as Charles Pierce, William James, and John Dewey.[16] Freeman suggests that stakeholder theory is not any single axiomatic theory, but rather that it is a generic *approach* from which 'a reasonable pluralism' may be shown to arise.[17] This generic stakeholder approach allows us 'to blend together the central concepts of business with those of ethics'.[18] As a manifestation of this pluralist tendency we now briefly point to some of the reconsiderations of stakeholder theory as exemplifying the interest from mainstream business ethics, both in general,[19] and in a range of diverse and particular examples: Kant and the ethics of duty;[20] pragmatism;[21] discourse ethics;[22] (integrative) social contracts theory;[23] (social) justice;[24] politics;[25] the common good;[26] critical realism;[27] agency theory;[28] feminism;[29] and many, seemingly endlessly, more. Versions of stakeholder theories are also adopted throughout the business ethics literature and recast variously and experimentally as implicit and explicit;[30] or implicitly contractual and explicitly contractual.[31] Stakeholders can be primary or secondary;[32] legitimate and/or illegitimate.[33] The requisite theories to consider them can be normative or descriptive;[34] these theories can converge and diverge;[35] and be integrated with or decoupled from CSR practice;[36] and – again – so on. This profusion of approaches suggests that unreliable, even maddening,[37] or bewildering,[38] criteria may be whimsically adduced. Numerous others continue to reinforce this view with various perplexing schemas of stakeholder definitions:[39] 'employees, providers of finance, consumers, community and environment, government and other organizations and groups',[40] is typical of such offerings which can include anyone.[41]

Thus stakeholder theory is potentially in problematic disarray,[42] and it sometimes has been regarded as inconclusive, misleading,[43] and confused.[44] The stakeholder model of organization is implicitly open to criticism as a myth,[45] a fad,[46] or a management fashion.[47] Some have criticized stakeholder power for lacunae in theoretical rigour,[48] or for being excessively normative.[49] Others have extensively elaborated the theory with different names and theoretical dimensions.[50]

We will more fully consider two developments based on the stakeholder approach as a means of showing the ways in which other authors in business ethics have adopted the stakeholder concept as the basis of fuller analysis. Both papers divergently employ Freeman's pluralist stakeholder theory to reformulate central concepts of structure in the first instance, and of power relations in the second. The first is Donaldson and Preston, the second is Mitchell, Agle, and Wood.[51]

Donaldson and Preston suggest that stakeholder theory has three typological formulations. Whereas, as we have identified above, Freeman initially volunteers a simple prescriptive intent, for Donaldson and Preston there is a richer potential, which can be understood across the three distinct dimensions of *descriptive*, *instrumental*, and *normative*. A fourth thesis is that stakeholder management 'requires as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders'.[52] The *descriptive* or empirical

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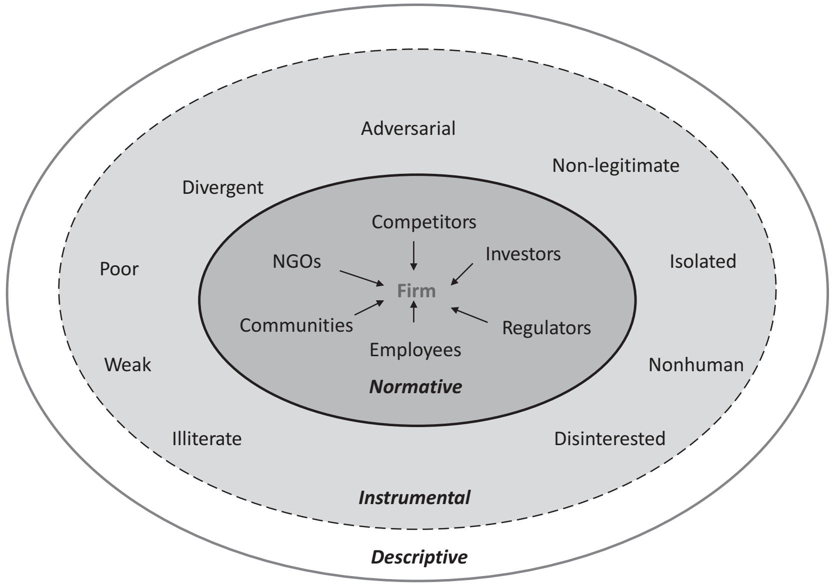
Figure 2.2

Stakeholder theory from the perspective of Donaldson and Preston




*Source*: T. Donaldson and L. E. Preston, 'The stakeholder theory of the corporation: concepts, evidence, and implications', *Academy of Management Review* 24 (1) (1995), 65–9.

dimension arises from the way in which the stakeholder concept sees the firm as an interaction of intrinsically valuable and potentially collaborative, competitive interests. The *instrumental* dimension suggests that stakeholder theory permits the exploration of a relationship between CSR and business performance. The *normative* dimension arises in the tendency of stakeholder theory to permit the consideration of a broad range of interests beyond the shareholder/owner or contractually engaged parties. All normative theories, seeking to establish a behavioural norm, propose what someone – here, managers – should do. Here the stakeholder norm at least apparently contradicts or deviates from Friedman's CSR axiom of the primacy of fiduciary responsibilities between manager and owner. Donaldson and Preston argue that all stakeholders have intrinsic value, beyond the normative justifications presented in this book, and rely on 'Western philosophical and moral traditions such as utilitarianism, the social contract, fairness and reciprocity, fundamental human rights, and respect for human beings'.[53] Friedman's axiom of the value-maximizing enterprise is in fact 'morally untenable'.[54] This array of three dimensions is nested in a concentric mental model. The descriptive outer shell of empirical practice contains and shapes the other two dimensions: the intermediate circle of instrumental stakeholder theory shows how a correct use of CSR makes good business; at the centre is the normative core of the pluralistic form of the firm (Figure 2.2).

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Mitchell, Agle, and Wood innovate a notion of stakeholder power in terms of salience. This salience is predicated by the possession, or attribution, of one, some or all of the following qualities:

- the power of the stakeholder to influence the corporation;
- the legitimacy of the stakeholder's relationship with the corporation; and
- the urgency of the stakeholder's claim on the corporation.

These three core constituents of power, legitimacy and urgency have a sense of intangibility.[55] Each of the dimensions lacks any absolute standard – if that is a desirable quality – and so each suffers all the relativist, contextual, epistemological challenges explored above in looking at stakeholders. One possibly unintentional consequence of this theory is that it implicates a potential shareholder primacy in each of the three qualities; a shareholder has each of these qualities through the simple quality of owning a share.

In a 2010 volume, written with Harrison, Wicks, Parmar, and De Colle, Freeman presents a view that stakeholder theory has succeeded in overturning the Friedman delineation of shareholder capitalism, 'the usual understanding of business as a vehicle to maximize returns to the owners of capital'.[56] It suggests that globalization has forced us to reconsider 'the dominant conceptual models we use to understand business'. In such a context, it claims that stakeholder theories are robustly compatible with the intellectual tenets of market idealism, strategic management, agency theory, and transaction cost economics; all of which have been regularly misapplied to undermine it. By this means stakeholder theory is, somewhat ambivalently we suggest, represented as both overturning the normal interpretations of business it seeks to improve or supersede, while also adopting all the characteristics it set out to radically humanize.

Is it that the materiality of the stakeholder concept has been magnified and elaborated so effectively that after twenty-five years it is capable of enfolding and overcoming all objections? One trace of such discourse is the assertion in Chapter 11 of this book that CSR should (i.e. normatively) come to stand for corporate *stakeholder* responsibility. The rationale runs like this: if the stakeholder concept has become so central to a new kind of capitalism – differentiated carefully from Friedman's (1962) market capitalism as the basis of freedom, to Freeman *et al.*'s (2010) capitalism as the basis of freedom and responsibility – then the social, formerly the 'S' in CSR, becomes redundant. It is replaced by the structurally socialized stakeholder concept. So 'by appealing to some principle of responsibility . . . and simply realizing that stakeholders and business people share a common humanity', capitalism can mutate into a system with an ethical core.[57]

Does this sound reasonable? We will venture to agree that on one level it is entirely plausible and rational. Our project, however, will be to add new dimensions to stakeholder theory: its scope, its impact, and its notions of responsibility.

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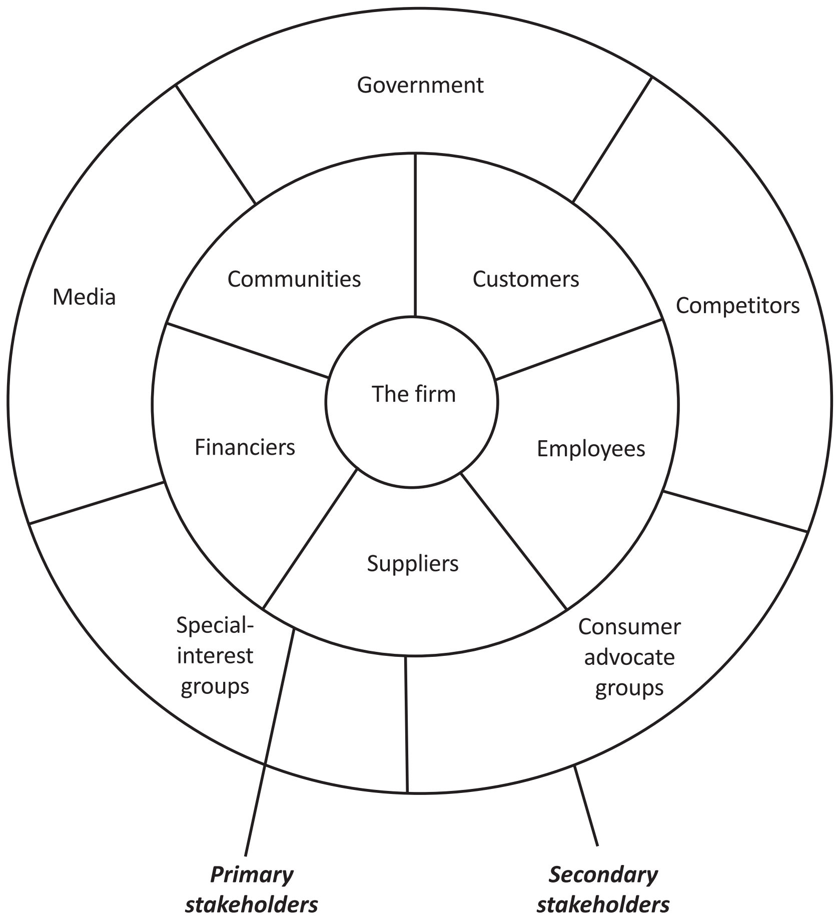
**Figure 2.3**

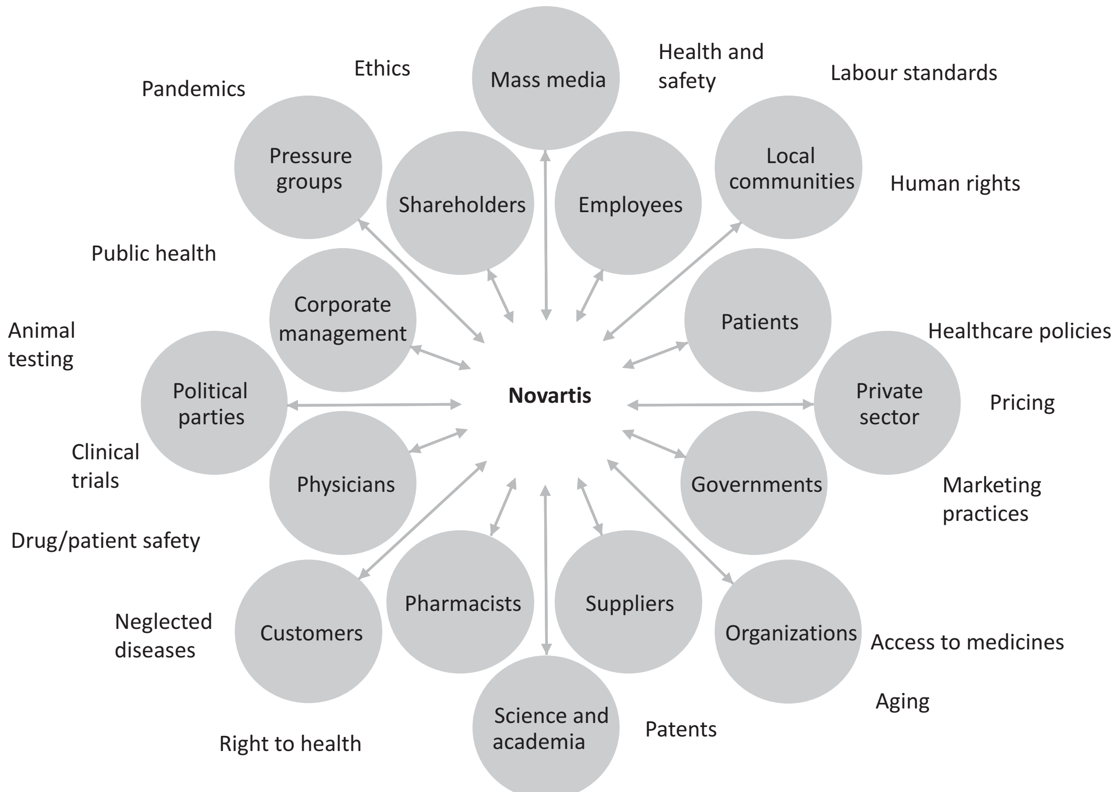
A more complex model




*Source*: R. E. Freeman, J. S. Harrison, and A. C. Wicks, *Managing for Stakeholders. Survival, Reputation, and Success.* New Haven, CT: Yale University Press (2007).

## Decentring stakeholder models and systems thinking

Most stakeholder models, even those framed by complex graphics that take into account critical and fringe stakeholders, are depicted with the firm in the centre. A 'traditional' stakeholder map (Figure 2.1) first proposed by Freeman some time ago, places the corporation in the centre of the graphic, and that remains so in Freeman *et al*.'s more complex iteration (Figure 2.3).[58] While allegedly this is not a wheel-and-spoke model, its focus on the firm as the centre captures our attention. Our mental model of corporate governance and corporate responsibility is partly constructed by these graphics. Our focus is firstly on the company, and only secondarily on its stakeholders, despite the claim that all critical stakeholders, those who most affect or are affected by the company, have, or should have, equal claims to importance. This attention to




*Source*: ©Novartis, 2008.

Figure 2.4

Companies operate in a challenging environment

the centre, the firm, we suggest, may marginalize other stakeholders even when that is not the deliberate intent.

Global companies have very complicated stakeholder maps, as the Novartis example illustrates (Figure 2.4). But in many (but not all) corporate graphics, the focus of attention is to the centre of the graphic, and often, still, the firm remains in that centre. When one's mental model of corporate governance and corporate responsibilities are framed with the firm in the centre, how one thinks about corporate responsibility is different, say, than when that model is altered. That is, these models are firm-centric so that the company is the agent for these relationships, not an embedded partner. This firm-centric depiction may prevent companies and their managers from viewing the firm from the perspectives of others: their primary and secondary stakeholders who, from the context in which they operate, may be culturally, politically, or economically alien. Thus this sort of thinking may also preclude firms and even their stakeholders from taking into account perspectives that will affect their operations, particularly in diverse cultures.

There are a number of ways to challenge this model, each of which will affect our thinking about corporate responsibility. We shall suggest there are

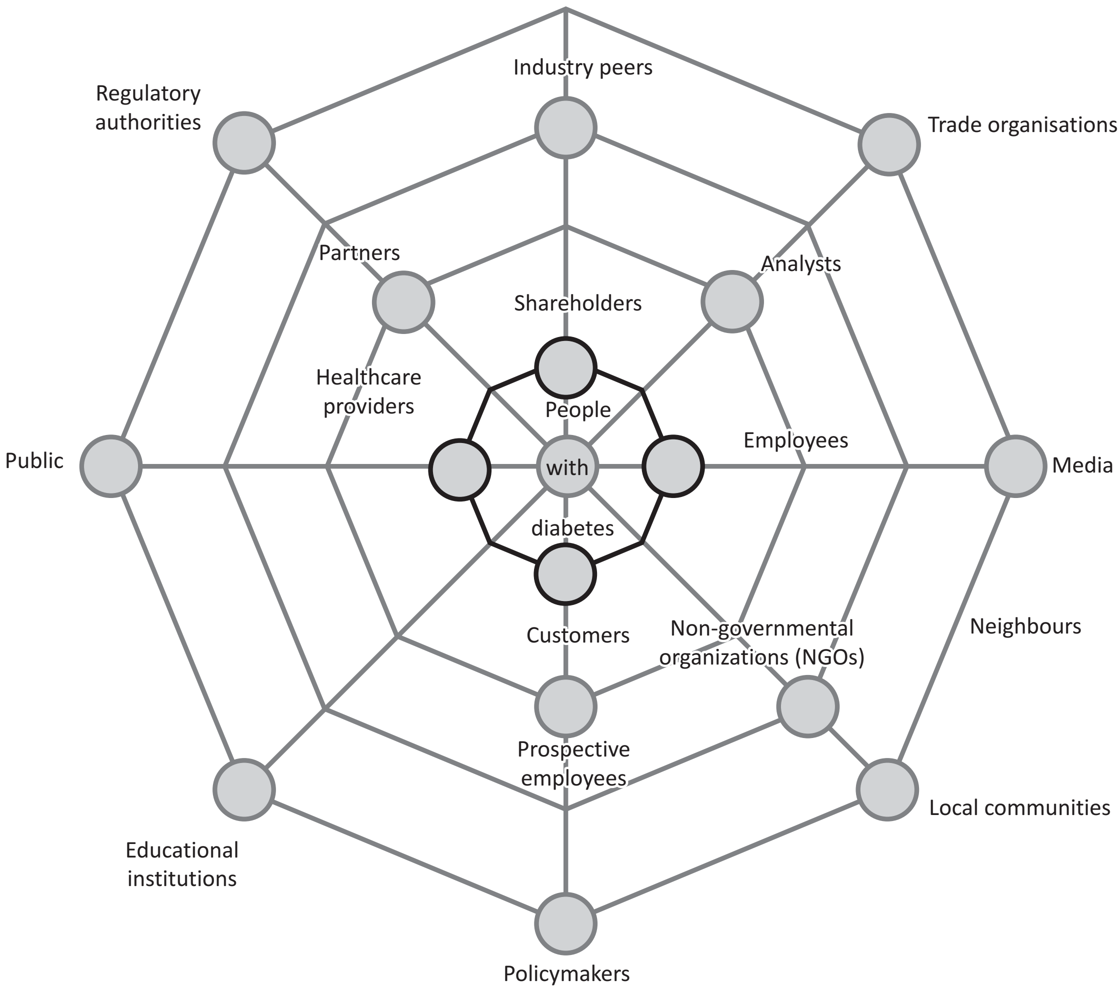



Figure 2.5

Stakeholders at Novo Nordisk

at least four: One can replace the firm in the centre with another stakeholder. In Figure 2.5 from Novo Nordisk, we find patients in the centre, specifically patients with diabetes, thus prioritizing that set of patient-stakeholders for that company. Another way to highlight and refocus attention is to place an actual picture of a stakeholder in the centre. For example, in focusing attention on sweatshop workers employed in factories producing goods for Wal-Mart, one could put an actual picture of a worker in the centre. Figure 2.6 depicts a 14-year-old sweatshop worker, working at a Bangladeshi jeans factory for more hours than she is paid. She is expected to attach a button to a pair of jeans every seven seconds. When her productivity decreases, she will either be transferred to an easier task, or simply be replaced by another, faster, worker.[59] By placing an individual person in the centre of a stakeholder map we achieve two ends: we draw attention to these workers and their plight, and give a 'name and face' to a very large group, probably close to 2 million women in Bangladesh alone

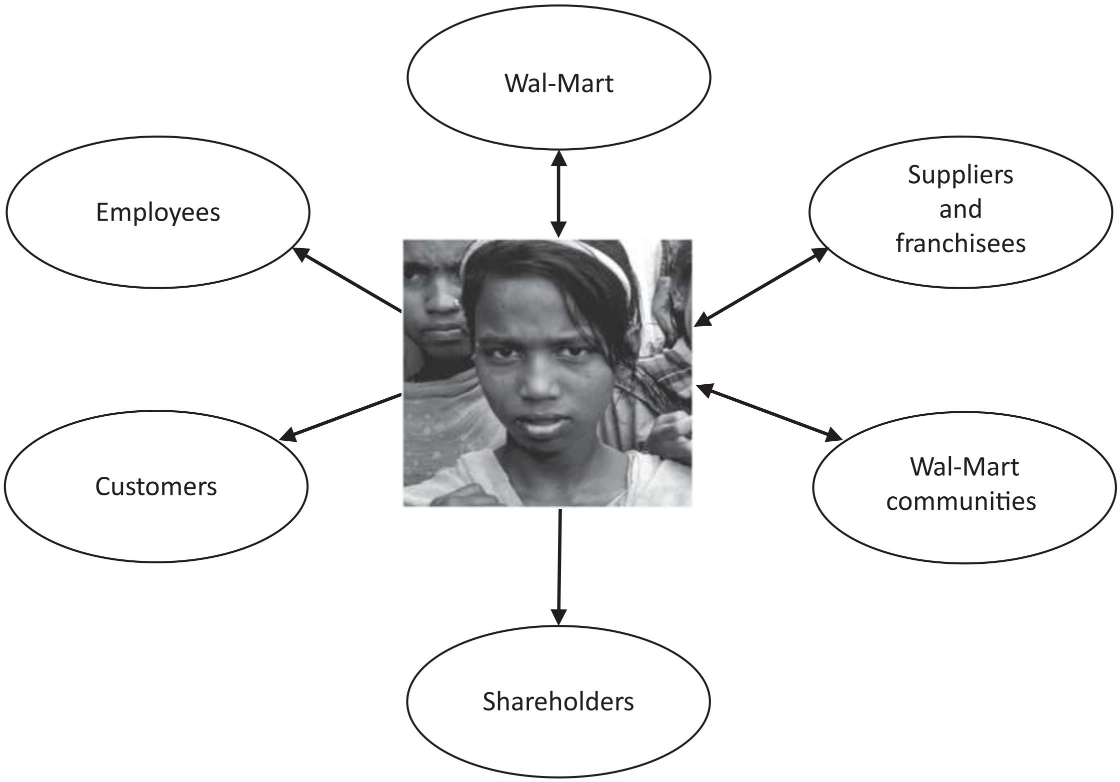



Figure 2.6

'Names and faces'

who work under sweatshop conditions. Freeman himself and John McVea have written on the importance of remembering that stakeholder groups represent a collection of real individual human beings.[60] This point is critical if stakeholder theory is to meet the objections of its continental critics. We shall take up this again in the discussion of Levinas.[61]

A third alteration in our thinking can be elicited by taking a systems approach to stakeholder theory (Figure 2.7). This is particularly useful for global companies. Here, we do not depict systems as closed, deterministic structures, but rather as complex, adaptive systems. 'A truly systemic view . . . considers how a set of individuals, institutions and processes operates in a system involving a complex network of interrelationships, an array of individual and institutional actors with conflicting interests and goals, and a number of feedback loops'.[62] A systems approach presupposes that most of our thinking, experiencing, practices, and institutions are interrelated and interconnected. Almost everything we can experience or think about is in a network of interrelationships such that each element of a particular set of interrelationships affects some other components of that set and the system itself, and almost no phenomenon can be studied in isolation from other relationships with at least some other phenomenon.

Transnational corporations, in particular, are meso-systems embedded in larger political, economic, legal, and cultural systems. Global corporations may

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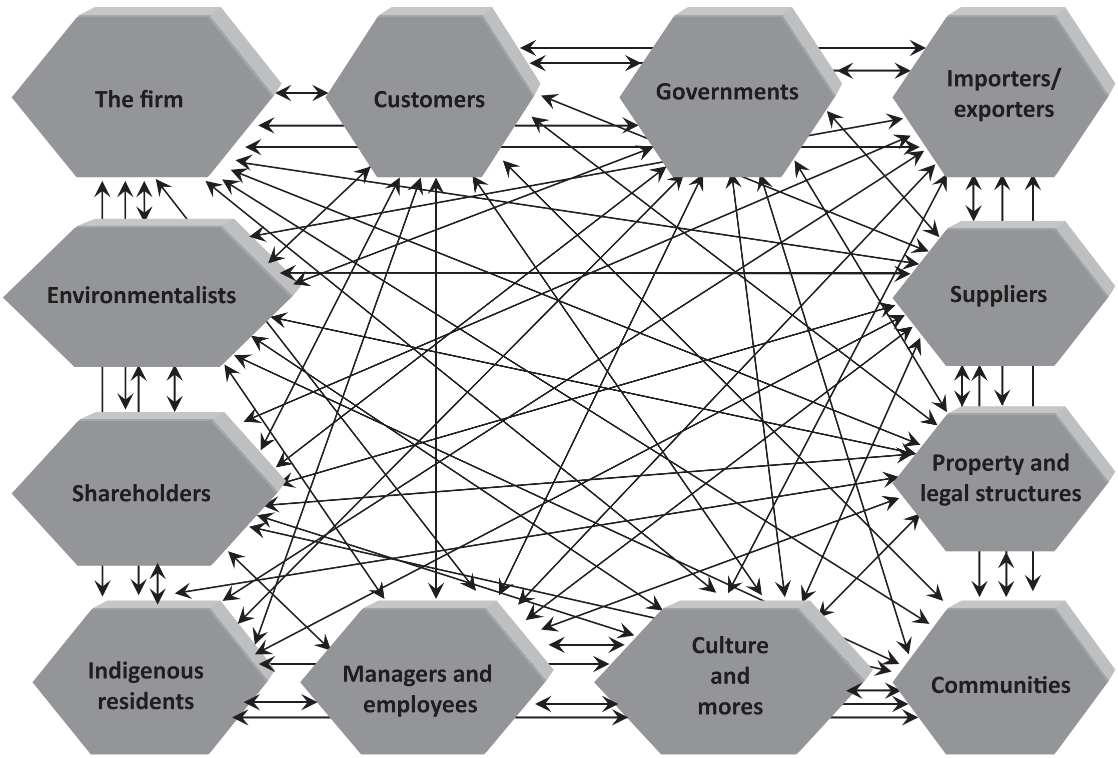


Figure 2.7

Stakeholder system networks

be embedded in many such systems. These are all examples of 'complex adaptive systems', a term used to describe open interactive systems capable of changing themselves and affecting change in their interactions with other systems.[63] What is characteristic of all types of systems is that any phenomenon or set of phenomena that are defined as part of a system has properties or characteristics that are altered, lost, or at best obscured, when the system is broken down into components. For example, in studying corporations, if one focuses simply on its organizational structure, or merely on its mission statement, or only on its employees, shareholders, or customers, one obscures if not distorts the interconnections and interrelationships that characterize and affect that organization in its internal and, more importantly for this argument, its external relationships.

Because a system consists of networks of relationships between individuals, groups, and institutions, how any system is construed and how it operates, affects and is affected by individuals, i.e. names and faces. The character and operations of a particular system or set of systems affects those of us who come in contact with the system, whether we are individuals, the community, professionals, managers, companies, religious communities, or government agencies. An alteration of a particular system or corporate operations within a system (or globally, across systems) will often produce different kinds of outcomes, some of which will have moral consequences. This part of moral

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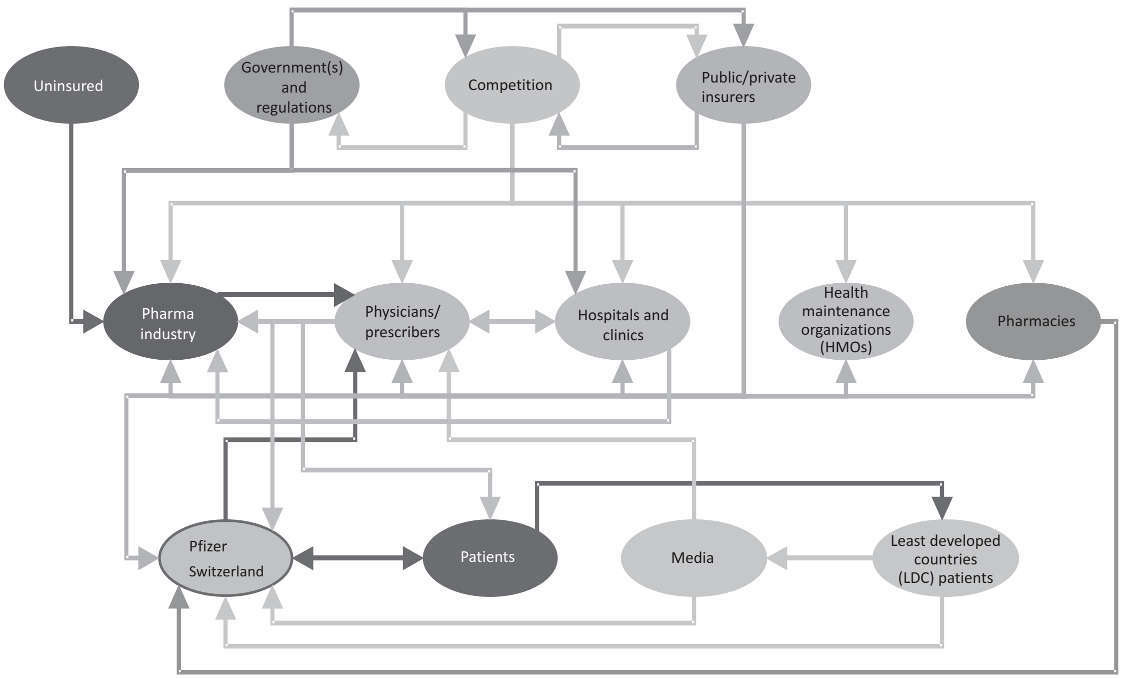



*Source*: Sybille Sachs, University of Zurich, available at www.pfizer.com/responsibility/cr_report/engagement.jsp.

**Figure 2.8**

A systems model

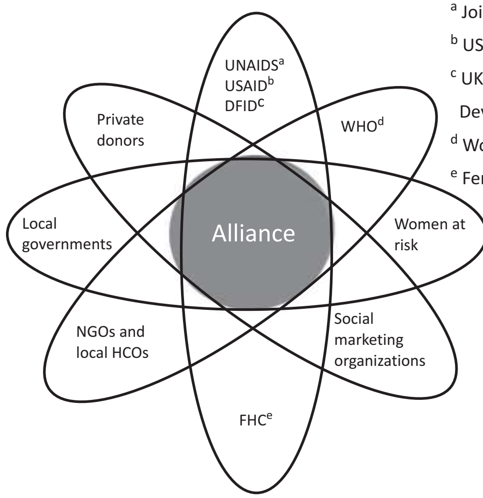
responsibility is structured by the nature and characteristics of the system in which a company operates.[64]

On the other hand, what companies and individuals functioning within these systems focus on, their power and influence, and the ways values and stakeholders are prioritized affect their goals, procedures, and outcomes as well as affecting the system in question. On every level, the way individuals and corporations frame the goals, the procedures and what networks they take into account makes a difference in what is discovered or neglected. These framing and reframing mechanisms will turn out to be important normative influences of systems and systems thinking.[65]

Global companies frequently find themselves involved in a complex network of disparate stakeholders where they are not always the centre of attention. Pfizer Switzerland depicts itself in that manner (Figure 2.8). Notice how in this graphic the firm is one of a number of equal players, and this creates a more networked mental model of the global firm. Such a multiple perspectives approach is essential if, for example, a multinational corporation (MNC) thinks of itself as a global company that affects and is affected by its suppliers and their employees *and* the various communities in which it contracts or operates.[66] Still, a multiple perspectives approach does not adequately take into account two important elements of corporate governance and corporate responsibility. Firstly, as we mentioned earlier, the fact that stakeholders are individual human

**Figure 2.9**

The FHC alliance model




[a] Joint UN Programme on HIV/AIDS.
[b] US Agency for International Development.
[c] UK Department for International Development.
[d] World Health Organization.
[e] Female Health Company.

*Source*: Model courtesy of Mary Ann Leeper, chief operating officer, Female Health Company (FHC).

beings implies that they must all be given 'names and faces' rather than be homogenized as 'the others'. Secondly, in the present climate where companies are pressured to take community interests seriously (environmental and social responsibilities as well as creating economic ones) they need to see themselves with a more disinterested perspective of the cultures in which they operate – a less firm-centric perspective. Thus companies appear to have three sets of obligations: a set of corporate agent-centred reciprocal obligations to and with their stakeholders including shareholders, another networked-centred set of obligations to these groups as individuals, and thirdly, from a more disinterested perspective, to see themselves as global players in very complex relationships.[67]

A fourth kind of decentring depiction is useful when global companies form partnerships with non-governmental organizations (NGOs) and local officials in order to break down barriers of entry, cultural differences, or local product distribution. For example, the Female Health Company (FHC), an over-the-counter company, distributes female condoms in the developing world. To be successful (and profitable) it had to form alliances with foundations and aid agencies for financial support, with NGOs and local officials for distribution channels, and with social workers who understand value differences in the countries and villages where this product was to be distributed. FHC then redrew its stakeholder model as an alliance model where the programme for manufacture, education, funding, and distribution, not the product or the company, is at the centre of the alliance (Figure 2.9). And notice that the possible victims of HIV have names and faces as well.[68]

Our argument here is that redrawing stakeholder maps is not merely fun for idle graphic artists. How these maps are drawn affects – or gives structure to – our mental models: the ways companies and managers think about themselves, their products and processes, their responsibility to their stakeholders, and how they are perceived by outsiders in different contexts. The difference, if one uses a systems or an alliance model, is the adaptation of multiple perspectives, trying to get at the mind set of each group of stakeholders from their points of view. A systems perspective or an alliance model brings into focus the responsibilities as well as rights of various stakeholders and communities from their perspectives, not merely from the firm's point of view. It takes seriously a multicultural, global, individualized 'names and faces' approach.

In closing this section on responsibility we suggest that decentring organizational stakeholder narratives and, as we will discuss in the next section, rethinking stakeholder analyses through Zygmunt Bauman's *Postmodern Ethics* and Emmanuel Levinas's notion of 'the Other' helps each of us to understand the extent and limits of organizational involvement in a variety of global contexts where CSR is often defined as 'the responsibility of a company for the *totality* of its impact'.[69,70]

## Continental approaches to stakeholder theory

### The irreducible responsibility for the Other

In the work of Levinas we encounter some clues regarding distinct, yet overlapping problems within stakeholder theory. Based on Levinas's work, Bauman brings us to question bureaucracy in organizations for its incapacity for moral responsiveness. To introduce the work and our readings of Levinas we begin with the observation that he offers us an ethics based on the theme of unquestioning responsibility.[71] We shall start with the importance of ontology, which can be defined as a branch of philosophy that studies the most general question, i.e. what it means to be. For Levinas, ontology is problematic because it is often assumed that we can understand what 'is' while it is precisely the certainty of this understanding that undermines the ethical relation.[72] Such 'understanding' is seen as a form of domination or violence.

As Levinas and Bauman understand it, there is a tradition in Western philosophy that suggests that understanding what our senses seem to tell us is, very literally, a process of sense-making. Levinas suggests that such sense-making is simply a reduction of these sense data to the terms of each individual's experience – to the self. We thus selfishly reduce everything to our own terms of reference. In Levinas's language, Western philosophy is based on an ontology which reduces others to what is familiar to us (the same).[73]

According to Levinas, the Other is that which is not 'me' (or 'the same' as me). We are all, largely, so enmeshed in the practice of ontology that this simple proposition tends to evade the reduction to comprehension or 'totality'. For Levinas, our understanding is nothing more than a selfish totalization of

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experience. He contrasts such a totality of knowledge with 'infinity' in the sense of that which is beyond or outside of knowledge, or simply incomprehensible. Thus everything that is not us, is other than us, and Levinas suggests that the otherness of others who are not us can only reasonably – through reason – be reduced to understanding.

The personal or ethical relation that we naturally – in a vulnerable and irrational space – experience in the face of the Other, becomes reduced by reason to a cognitive relation. The problem lies in the reduction or totalization of the Other to 'stakeholders', because the notion of the Other suggests that even questions of knowledge are potentially subjective. Such an ontological perspective presents itself to us contingently. So, 'I' have to resolve knowledge for myself in each moment.

For Levinas, 'the conception of the "I" as self-sufficient is one of the essential marks of the bourgeois spirit and its philosophy'.[74] According to Levinas, such unnatural, self-sufficient egoism is an essential, structural constituent of capitalism; the conception of the 'I' 'nourishes the audacious dreams of a restless and enterprising capitalism . . . presides over capitalism's work ethic, its cult of initiative and discovery, which aims less at reconciling man with himself than at securing for him the unknowns of time and things'. It is as though my identity as 'I' is itself a quality of being: the insecure security which we have from this 'bourgeois' confidence in our being, draws us into a concern 'with business matters and science as a defense against things and all that is unforeseeable in them'. For example, the way that many people invest in their careers or are even obsessed by it, can be seen as an attempt to gain control over insecurity.

Reading Levinas we become aware of the fact that stakeholder theory is concerned primarily with firms, not with individuals. One possible way to think through Levinas's critique is to replace the individual with the firm. It is certainly sometimes true, as we argued in the last section, that stakeholder theory is often 'firm-centric', and that a strictly two-way firm-centric perspective may preclude a global perspective essential to unscrupulous or even value-creating business decisions.

If we take Levinas to the letter, we would inevitably have to come to the conclusion that business folk or managers are unscrupulous: '[Their] lack of scruples is a shameful form of his tranquil conscience'. The need for reasonable security becomes a justification for all business activity. Managers prefer the security of tomorrow to the enjoyment of today. This may be an exaggeration of managerial behaviour in many instances, but it may reflect some cases such as Enron (see Chapter 4), AIG, and other companies where managers became self-interested, ignored their stakeholders as real individuals, and were probably greedy as well.

For Levinas, knowledge or understanding is too often reduced to something that only makes sense to 'me'.[75] But this is, of course, a limited, safe version of knowledge. We are potentially faced in every moment with an infinity of experiences. This infinity is irreducible to any familiar concept. But for Levinas, enlightenment-informed thinking causes us to go through a reductive process in which by negating contradictory propositions to preserve them in a coherent discourse we institute a totality 'in which all Other is included in the Same'.[76] This understanding captures the Other in the terms of the Same. Another way of putting this is that when stakeholder theory treats each of its class of stakeholders as a group rather than acknowledging that group as a collection of individual human beings, we conceive that group as being a collective, as 'the Same', when in fact that is far from the case. The result is that:

> Western philosophy has most often been an ontology: a reduction of the other to the same by the interposition of a middle and a neutral term that ensures the comprehension of being.[77]

We may understand ontology here as 'egology', itself a neologism, meaning 'knowledge in my own terms'. So business ethics, when it is firm-centred, tends to be egological from such a perspective. The responsibility located in stakeholder theory is simply one that is convenient to some within business ethics.[78] Building on the problem of egology for business ethics theorizing is potentially a rational approach: and this act of rationalization reduces responsibility to a collective, not an individual responsibility.

Critical scholars in accounting and organization studies have elaborated on this point in Levinas to challenge orthodox management positions.[79,80] Bevan and Corvellec, for example, argue that for Levinas, ethics itself and any semblance of responsibility unfolds in the relationship with the Other.[81] Our unconditional and unlimited responsibility for the Other is an essential part of our humanity. 'Being ethical – being human – is being open to, (un)prepared for and impassioned by the radical difference of the Other . . . and lurching without compromise into the unknown and unknowable, the infinite and timeless otherness of the Other'.[82] To express ethics or responsibility in such terms stands in counterpoint to some business ethics theories that ignore the face of the Other. Responsibility does not arise from some rationalization of (stakeholder) claims, but in the encounter with the Other and outside of the self. Morality is thus instantiated in the relationship between the human subject and other moral subjects. Levinas brings us to reconsider the thematization or totality of codes of ethics, rules of stakeholder engagement, good corporate citizenship, and ethical principles. Instead he argues that responsibility arises in the emergent complexity of the encounter with the Other.

Levinas unfortunately offers few practical directions about how to operationalize such responsibility. It is in this impracticality that we find a suitable crux for the problems between continental philosophy and business ethics. In fact, what Levinas understands as responsibility for the Other cannot be subsumed under collective stakeholder theory at all, no matter how carefully it is phrased. From his perspective, the rational deliberation of stakeholder thinking is inherently irresponsible. It is not a response; it is a rational cogitation, the contemplation of one category by another, and, possibly only with the intention to control or subjugate it. Stakeholders as a category can, as we have seen above, be used effectively as a means to replicate market capitalism. The understanding of the stakeholder as a collective is an attempted totalization of an irreducible complexity. This would be one way of (mis)understanding the corporate stakeholder responsibility model proposed in Freeman *et al*.[83]

Beyond this multilateral problematization, and inspired again by Levinas, we now turn to the concern of Bauman, which focuses on the ills of bureaucratic organizations. Bauman is disenchanted with the iron-cage of bureaucracy and what he perceives as its determinism.[84] He sees society as constituted in a struggle of structural processes in a state of constant competition facilitated by the bureaucratic arrangements.[85] For Bauman, modern advanced market capitalism is a 'global spread of the modern form of life' which has an 'elemental, unregulated and politically uncontrolled nature'.[86] Bauman adopts Levinas's concept of the Other and the instantiation of responsibility in the encounter with the Other. In this face-to-face encounter, the Other confronts us literally with a moral impulse. Bauman appears to think about responsibility like Levinas, as an immanent, incomplete and unpredictable relation between oneself and the Other. Bauman writes with great attention about the multiple fractures, the effective atomization, of any such rule of responsibility which takes place in an institutional/organizational project. The processes of even small institutional bureaucracies take us away from the face-to-face encounter with the Other. In bureaucratically managed institutions:

> [A]ll social organization consists therefore in neutralizing the disruptive and deregulating impact of moral impulse. This is achieved through a number of complementary arrangements: (1) assuring that there is a distance, not proximity between two poles of action – the 'doing' and the 'suffering' one; by the same token those on the receiving end are held beyond the reach of the actor's moral impulse; (2) exempting some 'others' from the class of potential objects of moral responsibility, of potential 'faces'; (3) dissembling other human objects of action into aggregates of functionally specific traits, and holding such traits separate – so that the occasion for reassembling the 'face' out of disparate 'items' does not arise, and the task set for each action can be exempt from moral evaluation.[87]

These 'complementary arrangements' of bureaucracy – familiar perhaps from Weber's functional and specific division of powers – are an inherent, structural feature in other fields in which the normalization of the unthinkable occurs, such as in the army, a hospital, or a school.[88,89] Here, Bauman offers an explanation of why an individual, perhaps 'names and faces', approach to the Other is more human. For example, we need to know who the 'victims of HIV/AIDS' are individually if we are to respond to their needs ethically. In Levinas's terms, these complementary arrangements atomize all sense of

https://doi.org/10.1017/CBO9781139013338.004 Published online by Cambridge University Press

individual moral responsibility for the Other. This does not take away the responsibility, but rather palliates it, diluting the call for subjective responding, concealing the Other with sleights of linguistic obfuscation and indirectness. Responsibility in Levinas and Bauman does not fit neatly into the stakeholder concept, at least not when it totalizes the collection of stakeholders:

> Responsibility means to respond, to respond to the call for responsibility issued wordlessly from the Other and revived pre-voluntarily by the subject.[90]

This structure of bureaucracy is potentially problematic for the concerns central to stakeholder theory. In connection with Bauman's conceptualization of complementary arrangements, stakeholder theory may supply a vocabulary of separation; a means of distancing accountability and responsibility and endlessly interrupting the moral impulse. Thus we may find recourse to the language of stakeholder names and classes employed among those seeking to avoid, rather than to engage with, accountability.[91] Functionally, we could claim there are but two classes of stakeholder in business ethics:

(1) those who own shares; and
(2) those who do not.

Among those who do not, a priority may be established by reference to normal commercial risk criteria as interpreted in Mitchell *et al.*, which by recourse to rational and unemotional, analytic philosophy, again repeats the convenient axioms to which all stakeholder engagement can be used instrumentally to serve the transnational corporations' self-interest in business-as-usual.[92]

But this dissection belies the ontological structure of stakeholder theory, which argues that all stakeholders are on equal footing. What stakeholder theory sometimes fails to do is recognize that each group of stakeholders is a bundle of individuals, each of whom is an irreducible Other to whom each manager and each firm has an irreducible responsibility. More could be made of the names and faces dimensions of stakeholder theory, and an appeal to Levinas helps to do that. Both the Donaldson/Preston and the Mitchell *et al.* analyses fail in this regard. We suspect that Freeman does not, but his contribution can still benefit from the names and faces theory we have discussed in this chapter.[93]

The Levinas/Bauman analyses remind us that all forms of political economy are created by, made up of, and affect, individual irreducible human beings. Any radical confrontation with the Other, whether at the individual or firm level, explicates the myriad almost infinite responsibilities we have to each other, both individually and collectively. We can never escape this accountability; we can only try to understand a bit of it through systems thinking, decentring stakeholder models, and the radicalization of the Other in stakeholder thinking.

## Conclusion

To bring this chapter to a conclusion, we see Freeman's contribution of stakeholder theory to business ethics as a great success. Freeman provides an essentially emancipatory makeover for capitalism on the basis of which an ethical industry could emerge. A burgeoning debate has arisen on the relationship between business and academia, where business wants more relevance and less theory, and academia wants more rigour and scholarship. Stakeholder theory has provided an interesting example of how well a theoretical innovation can work in practice, *if* it is continuously engaged. As we have shown in the discussion of mental models, in this case arising from this single idea, it is capable of dynamically affecting the way we engage with the world. We have spoken of the structural tendencies noted by many commentators – and mainly in adverse terms – for regulation and bureaucracy. But are rules and institutions inherently evil to the extent that capitalism is always cruel and bureaucracy inevitably immoral? As individuals (scholars/students/managers) we are all agents in the structural reproduction of the present – it requires our *conscious* engagement.

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