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THE STAKEHOLDER REVOLUTION AND THE CLARKSON PRINCIPLES

Thomas Donaldson

What a difference a decade makes. Ten years ago the term "stakeholder" was slang for any neglected group affected by a corporation. To be sure, the word had been molded with precision by a thin, important line of management theorists. And to be sure also the word was sometimes used by managers who wanted to justify their personal commitments to groups other than stockholders, such as employees and customers. But like slang, "stakeholder" seemed perfectly plastic and therefore conceptually flawed. It meant one thing to one person, something else to another.

Today the term has arrived. Management journals and consultants flaunt it, and articles devoted to one or another interpretation of stakeholder theory are commonplace. Both the *Encyclopedia of Management* (Freeman 1998) and the *Blackwell Encyclopedic Dictionary of Business Ethics* (Freeman 1997) identify stakeholder theory as one of a tiny handful of recognized models for interpreting corporate responsibility. As the term rose to prominence, it acquired more solidity, and while varying interpretations of it can be found, a core of meaning pervades current stakeholder literature.

The success of the stakeholder terminology and of its accompanying theory has not been accidental. One of the influential forces galvanizing attention was the six-year effort on the definition of the corporation, sponsored by the Sloan Foundation, that situated the stakeholder concept at the center of its project. Through this project, books, conferences, meetings with stakeholder groups, and finally the "Principles of Stakeholder Management," commonly referred to as the "Clarkson Principles," brought energy and interest to stakeholder research.

The Clarkson Principles are the impetus for the present symposium in the *Business Ethics Quarterly*, and it is emblematic of the academic stakeholder revolution itself. The word "Clarkson" refers to the late management theorist, Max Clarkson, legendary for his early support of the stakeholder concept (Clarkson 1991). The principles themselves emerged slowly through a process underwritten by the Sloan Foundation beginning in 1995, in which an international group of management scholars, including Clarkson himself, explored the role of the large corporation in modern, highly interdependent economies. The scholars' goal, reflected later in the Principles themselves, was to develop a broad conception of the corporation as a vehicle for advancing the interests of, and responding to the concerns of, multiple and diverse "stakeholders," defined

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as persons and groups that stand to benefit from, or be harmed by, corporate activity. Underlying both the initiative and the Clarkson Principles themselves was a growing conviction among many participating scholars that mutually satisfactory relationships with a wide range of stakeholders are a critical requirement for successful corporate performance over the long term. Yet the Principles incorporated a variety of perspectives. Ideas were solicited from literally hundreds of scholars. Among the most active of these were James E. Post, Allen Kaufman, Michael Deck, Lee Preston, Leonard Brooks, and Max Clarkson himself. Readers will find the text of the Clarkson Principles in the Appendix at the end of the symposium articles.

Because I was aware of the importance of the earlier efforts and of the appearance of the Principles themselves, when I was encouraged by Lee Preston to help in editing an academic symposium on stakeholder theory, I seized the chance. The present symposium in *BEQ* is the result.

Ideology begets nonsense of a kind that this collection of papers attempts to avoid. You will find in this collection no chorus of halleluiahs praising stakeholder theory. The writers here provide a lively mix of views—some support traditional stakeholder conceptions, some criticize them, and some work to expand the theory's implications. Among the articles that criticize key stakeholder perspectives is one by financial theorist, Michael Jensen, and another by legal scholars, Eric Orts and Alan Strudler.

Stakeholder theorists have challenged traditional views that lie at the nexus of modern economics and management theory. Among these challenged views is the special privilege of the goal of shareholder return, as well as the emphasis on the increasingly sophisticated tools devised to achieve it. No well-known writer on stakeholder theory has questioned the importance of shareholder value, but many have written that theory and practice should at times balance the importance of the value of money with that of other values.

One of the articles in this symposium that echoes this theme is "Business Ethics and Stakeholder Theory," written by the philosopher, Wesley Cragg. He considers stakeholder theory a possible answer to one of the world's oldest moral questions, namely, "Why be moral?" or "Why take ethics seriously?" By extension we ask today, "Why should corporations be moral?" That is, why should corporation care at all about ethics? Cragg asserts that a building block underlying twentieth-century moral systems in the industrialized democracies of Europe and North America, as well as the policies of the United Nations and other international institutions, is the view that "in fundamental ethical matters, everyone ought to count, and all ought to count in the same way. Within this outlook, one absolute requirement of ethical thinking is that we respect other human agents as subjects of practical reasoning on the same footing as ourselves."

This principle, he argues, lies at the heart of stakeholder theory. And it is, in turn, an important part of the answer to the question, "Why should corporations be moral?" Dispelling an obvious objection to his own view, he adds that the principle does not demand that the interests of every stakeholder have *equal* status in corporate decision making; but only that the legitimate concerns of stakeholders be equitably addressed.

Cragg endorses, hence, what he calls "multiple accountability" to the corporate entity. But one might ask: Does not such multiple accountability make management's task considerably more complex? Cragg grants the point, but argues that this fact simply represents the price of achieving clarity in thinking about corporate responsibility. It is not, as some might imagine, a fiction promulgated by stakeholder theory for the simple reason that complexity is a pervasive feature of all modern business environments.

The next two articles in this symposium grant Cragg's multiple accountability thesis, but do so by proposing that stakeholder theory supports a specific political value, namely, "global corporate citizenship." The first of these articles, entitled "Global Corporate Citizenship: Principles to Live and Work By," is written by the management theorist, Jim Post, and the second, "Business Citizenship: From Domestic to Global Level of Analysis," is written by management theorists Jeanne Logsdon and Donna Wood. All see the concept of global corporate citizenship emerging naturally from the stakeholder assumptions, and address the implications of citizenship for corporate managers, other corporate stakeholders, and for the teaching of management theory. They argue further that the formulation of stakeholder concepts in the Clarkson Principles informs the concept of citizenship itself. For example, Post asserts that the "Clarkson Principles are a clear statement of where global corporate citizenship begins (though not where it ends) in the modern world."

The extension of duties of citizenship to managers is also reflected in political theorist Allen Kaufman's article, "Manager's Double Fiduciary Duty: To Stakeholders and to Freedom." He argues that managers have a *double* fiduciary duty: One to the corporation's constitution and its stakeholders; and the other to the broad constitutional arrangements that secure rules for spontaneous association. Managers have a duty of care to their firm's stakeholders, and, collectively, managers have a duty of loyalty to develop freedom. Thus professional managers, qua professionals, must promote a good larger than making shareholders and themselves rich. Reflecting this view, he argues that the Clarkson Principles offer one of the most cogent challenges to financial agency theory's intellectual hegemony.

The weaknesses, not the strengths, of stakeholder theory serve as the departure point for the final two articles in the symposium. Both identify weaknesses in prevailing stakeholder theory and make recommendations for its refinement and suggest limitations on its application. In Orts and Strudler's "The Ethical and Environmental Limits of Stakeholder Theory," stakeholder theory is first praised ("stakeholder theory has much to recommend it") only later to be condemned. The authors grant that stakeholder theory is particularly useful as a heuristic for thinking about business firms properly as involving the economic interests of other groups beyond those of the shareholders or other equity owners (reflecting the same "multiple accountability of the earlier authors"), but allege that it is especially *unuseful* in interpreting environmental issues. Because stakeholder theory makes its focus the interests of *human* participants in business enterprise, the interests of *nonhuman* living forms evaporates. Stakeholder theory thus hits intractable philosophical difficulties by being conceptually unable to give credible ethical principles to business managers who must deal with topics, such as the environment, not directly involving human beings.

Each of the aforementioned five articles acknowledges and supports managers' "multiple accountability" to stakeholders. Indeed, Cragg takes pains to deny that the managerial complexity created by multiple accountability is pernicious. But our last author, the well-know financial theorist, Michael Jensen, finds multiple accountability both pernicious and a good reason to return to and to revise the assumptions of stakeholder theory. The reason why the traditional stakeholder approach is flawed, he argues, is that it violates the reasonable norm that any well-managed organization "must have a single-valued objective as a precursor to purposeful or rational behavior." Because the advocates of traditional stakeholder theory seem unable to specify how to make the necessary trade-offs among the competing interests of different stakeholder groups, they hand managers a theory that makes purposeful decisions impossible. And, with no way to keep score, stakeholder theory forces managers to be unaccountable for the very actions through which they must be evaluated.

Jensen does not, however, abandon stakeholder theory. While traditional stakeholder approaches are seriously flawed, he argues that an "enlightened stakeholder" approach makes sense.[1] "Enlightened stakeholder theory," he writes, "utilizes much of the structure of stakeholder theory but accepts maximization of the long-run value of the firm as the criterion for making the requisite trade-offs among its stakeholders." Hence, "managers, directors, strategists, and management scientists can benefit from enlightened stakeholder theory because it *specifies long-term value maximization or value seeking as the firm's objective* [my italics] and therefore solves the problems that arise from the multiple objectives that accompany traditional stakeholder theory." To keep score, one needs a yardstick; hence, Jensen provides the yardstick.

This brief survey dulls the luster of the individual articles, each of which I commend to your reading. In conclusion, I want to extend a special thanks to George Brenkert, Senior Editor, *BEQ*, to Al Gini, Associate Editor, *BEQ*, and, of course, to the Sloan Foundation, without whose commitment the symposium would not have been.

Notes

[1] In the literature, a similar class of approaches has been called the "instrumental stakeholder" approach. (See, for example, Jones, T. M. [1995] "Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics," *Academy of Management Review* 20(2) 1990: 404–437. Donaldson, T. and L. Preston [1995], "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications," *Academy of Management Review* 20(1): 65–91.)

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