

A Critique of Stakeholder Theory

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Stakeholder theory is a view of business ethics within market economies that has become increasingly popular since its emergence in the 1960s (Pallavicini 1968; Kroos and Schwab 1971; Freeman 2010 [1984]; Donaldson and Preston 1995; Friedman and Miles 2002; and Phillips 2003). It stresses the need within corporate governance to satisfy “stakeholders,” the people and organizations with whom companies have interdependent relationships. As such, it differs from the shareholder theory of governance, which asserts that managers’ primary responsibility is making profits for their corporation’s owners. The basic concepts, normative claims, and philosophical premises of stakeholder theory have, however, attracted significant criticism.

To some, key theoretical concepts of stakeholder theory are imprecise, with even the term “stakeholder” remaining an essentially contested concept. Mitchell, Agle, and Wood (1997), for instance, categorize stakeholders in terms of their decision-making power, social legitimacy, and perceived urgency of claim. Despite this and other attempts at greater precision, however, myriad definitions still vie for primacy in the academic literature (Miles 2017). In turn, this creates uncertainty about how useful the idea of stakeholders actually is for theory-development and empirical testing (Miles 2012).

Normative criticisms of stakeholder theory focus on its central claim that managers have a fiduciary duty to consider a wide range of stakeholder needs. Some argue that stakeholder theory applies the idea of the social contract to the corporation, for example, and thereby undermines principles foundational to the market economy (Mansell 2013). More concretely, such critics object that companies already pay their employees for labour, deliver goods and services to their customers, pay taxes, and obey the law; already giving so much, the argument goes, makes additional obligations unreasonable (Marcaux 2003).

Finally, Blattberg (2000: ch. 6) has advanced a philosophical critique. He contends that stakeholder theory relies excessively on negotiation as a means of resolving the conflicts that can arise between various stakeholders’ interests. To

* In Thomas Clarke, Coral Ingle, and Wafa Khelif, eds., *Elgar Encyclopedia of Corporate Governance* (Northampton, MA: Edward Elgar Publishing, 2024).

Blattberg, negotiation is limiting as it tends towards a zero-sum dynamic in which parties are asked to compromise their values in the search for common ground. He therefore recommends trying conversation before negotiation to resolve conflict, since the former – by reconciling the parties’ interests – can actually produce synergistic outcomes.

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