ESSAYS ON 21ST-CENTURY PR ISSUES

# WITHER STAKEHOLDER DOCTRINE?

PAUL SEAMAN

# **Wither stakeholder doctrine?**
*Paul Seaman*

In 1994 Tony Blair promised to turn the UK into a "stakeholder society" when he declared *New Labour, New Britain*. It was the cornerstone of his "Third Way" politics. But nobody's talking about either term in the current UK General Election. Maybe the wheels will come off the "stakeholder" rhetoric in business too.

Here's a muse on how the stakeholder doctrine failed both politics and business and how it may not survive the challenge from the BRIC countries where there's a bit more realism about life.

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## Politics is everybody's business

Let's start in the present with UK politics. Then we'll turn to how stakeholder doctrine originated in the trendy 1960s in the business sphere. Finally, I'll make the case for saving the term "stakeholder".

What a difference thirteen years makes. Tony Blair's mission, he said, was to use the stakeholder concept to redefine rights and obligations and to extend accountability in society. Under Mr Blair there was a flurry of government-NGO-private business partnership arrangements. The "Third Sector" swam into view. This was the stuff which Geoff Mulgan and the think tank Demos were promulgating. I suppose the point was that Thatcher gave us popular capitalism and Blair's mission was to widen the remit to a new participatory, networking society. Trying to move things on, and find a new Tory mission, Mr Cameron castigated Mr Blair's "bureaucratic accountability" (all that tick-boxing, all those targets which Blair actually inherited from John Major), which he claims he's going to smash. Mr Cameron has his own "power to the people" agenda, and we'll see if it happens.

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http://goo.gl/9iMAP

As the New Labour project makes way for David Cameron's Tories (or something less new than New Labour), we should remind ourselves that the slogan was a fiction. The new active politics was top-down, not bottom-up. This really did mark a significant shift from past practice: Tony Blair's infamous decision-making "sofa government" was the most unaccountable clique to rule the UK in modern times. It was perhaps even more closed than aristocratic rule once had been. The involvement of stakeholders turned into the manipulation of stakeholders and the sidelining of a democratically elected parliament.

Of course the idea that politics is everybody's business – that we are all stakeholders in it – is the very core of modern democracy. The term may have gone out fashion in politics, but the political class is obsessing on how to engage people, which is much the same as trying to make more people feel like stakeholders. Indeed, the tragedy is that so many people don't feel and act like social stakeholders. They've volunteered themselves to be on the sidelines, not least by not voting. It's tempting, too, to think of anti-social people as being the reverse of stakeholders. It's enough to make one nostalgic for the idea that people are stakeholders in the degree to which they pay taxes and don't sponge, but that's another story.

But whilst the idea of everyone being a social or political stakeholder – at least in principle and as an ideal – is valid, and whilst the phrase was borrowed by politicians from business, I don't think it make sense in a business context.

So now let's go back a bit and look at how stakeholder doctrine worked its way into business.

## The 1960s origins of stakeholder doctrine

The word stakeholder has been around most likely since the 1930s, perhaps before. But its modern persona began to take shape in the 1960s. According R Edward Freeman's history of the term:

> *"The actual word "stakeholder" first appeared in management literature in an internal memorandum at Stanford Research Institute (now SRI International, Inc) in 1963. The term was meant to generalize the notion of stockholders as the only group to whom management need be responsive. Thus, the stakeholder concept was originally defined as "those groups without whose support the organization would cease to exist."*

The groups defined as stakeholders back then consisted of little more than shareowners. So it was tightly defined and designed to help organisations understand and achieve their corporate objectives. But over time, as Freeman describes it, the meaning of stakeholder theory changed dramatically. It began to include people whose personal interests were closely related to those of a firm (employees and so on). As the doctrine evolved it eventually came to be defined, as Freeman put it, *"any group or individual who can affect or is affected by the achievement of the organization's objectives."* It later evolved to mean the whole of society. This radical development in stakeholder theory dates from around 1975 with the introduction of the "stakeholder audit". The aim of this was to measure the social costs and benefits of business to all its stakeholders and to give them equal importance to financial results. So what was a deliberately narrowing term transmogrified into its reverse: something as wide as possible.

Freeman identified "stake" as an "interest" or a "share" (in an undertaking) and he considered three groups of stakes: Equity stakes (held by shareholders); economic or market stakes (employees or customers); influencer stakes (interest or activist groups).

Of course, stakeholders like publics are often found in more than one role. Employees can be shareholders, customers can be activists, suppliers might be creditors etc. Their interests might be contradictory in the different roles they occupy. Moreover, the stakeholder's perception of his or her own interest might not be measurable clearly either by consultation and or research (that's an issue I've looked at on my PR blog[1 2 3] in relation to Edelman's trust survey results).

1 http://paulseaman.eu/2010/01/edelmans-trust-survey-interrogated/
2 http://paulseaman.eu/2009/07/edelman-trust-survey-requires-scepticism-again/
3 http://paulseaman.eu/2009/01/would-you-trust-a-trust-survey/

## Reasons to cutback on stakeholder hype

Here are my concerns about the stakeholder doctrine in business:

- Firms were no longer run for the benefit of their owners who risked their capital in them.
- The objective of business with stakeholder theory became the balancing of stakeholder interests (this precluded favouring one group over another) rather than maximising shareholder value by achieving specific corporate objectives as defined by the owners.
- The foundation stones of capitalism are the concepts of private property, the rights of its owners to exploit it, and the first duty of its agents being owed to principals. Those foundations have not been overthrown in a social revolution. Rather they remain legally binding but weakened by populist nonsense in the public domain. The suspicion has to be that stakeholder theorists are crude propagandists trying to effect change by the back door, or that they are self-deluded.
- Stakeholder theory created ambiguities for corporate governance – exactly to whom and for what is management accountable?
- If management is effectively accountable to everybody, then it is not accountable to anybody.
- If "active publics" define stakeholders, as Jim Grunig seems to suggest, then perhaps that gives them power over the silent majority that they don't deserve? For sure, laws and democracy were long-ago designed to limit activist power in the interest of the greater good.
- The specificity of the terms stakeholder, public and "activist public" as useful categories is rendered meaningless if one accepts Freeman's definition of what constitutes a stakeholder, which includes the unborn, the environment and much more.
- At its most absurd stakeholder theory identifies irreconcilable forces as each other's stakeholders. Hence Greenpeace becomes a stakeholder in the nuclear industry.
- Stakeholder theory does little to tackle the real problem business faces today; which is that managers have become unaccountable to their owners for their poor results. Today's recession is partly caused by irresponsible bankers destroying shareholder value because they pursued short-term interests. The recession is about falling profits, failing businesses and their social consequences, not a shortage of CSR (BTW: corporate governance is not primarily about the relationship of corporations to society).
- Right now, business has to make brutal decisions. Consensus will matter but so will speed and agility. Stakeholder management techniques, if taken seriously, are slow. They lack the robustness to be tough and to set priorities which produce clear winners and losers.
- The insight that stakeholder theorists claim as theirs that relationships, networks and consent are crucial to business success has been known since trading in goods and services began.

photo: "Jon & Marsha" by Jon Lebkowsky
http://www.flickr.com/photos/weblogsky/87627236

## How some of this works in politics

» Politicians who big-up stakeholder politics on the basis that it's participatory can be taken with a pinch of salt. New Labour went in for the Big Conversation and masses of consultation, but it often turned out to be a sham.

» In the modern perverse definition, stakeholders are self-defining. Victims – or anyone who says they feel strongly – have to be listened to as though they were experts.

» Representative democracy empowers people who go to the trouble of getting elected: stakeholder politics risks undermining that process.

## Whose side are PRs on?

One of the startling logical implications of stakeholder theory for public relations professionals (let's just call them 'PRs') is that we no longer remain representatives of our employers. Rather we become brokers of different interest groups, listeners, facilitators and managers of the many stakeholder relationships an organisation has. In this brave new world PRs are more likely to want appear on the side of activists or competitors than on their employer's side. This fiction needs a reality check in the interest of transparency.

What then was the great attraction of stakeholder theory? In my view it was the opportunity to have power without accountability or risk. This compelling doctrine is a hippy hangover from the post-World-War-II boom. It promised all the benefits of business and political life without the responsibility and disciplines of them; no wonder it became popular among freeloaders.

photo: "poker spoils" by woodleywonderworks http://goo.gl/994TD

## How to rescue the term stakeholder

Stakeholder theory therefore requires a radical overhaul because the challenges ahead call for risky and accountable leadership. So it will either reform, get real, or be blown away by necessity as the democratic West reorganizes to compete with the BRIC countries.

We should begin with this proposition. It's a nice compromise, I think. Stakeholders are people with a stake in a firm's – or any entity's – well-being. So yes, it can be much wider than shareholders or voters alone. What's more, legitimate stakeholders may differ very strongly about what a firm's or country's aims should be, just as shareholders and voters can. Plenty of people who are not strictly speaking stakeholders may have very interesting and useful views to contribute. Having skin in the game is not the measure of a person's value to a firm or to the rest of us. But the more skin you have in the game, the more of a stakeholder you can legitimately claim to be. If we are to rehabilitate the stakeholder category usefully, we must first cut the crap.

*Note: I owe a debt to Elaine Sternberg's "Stakeholding: Betraying The Corporation's Objectives", SAU, 1998, for insight on this challenging topic.*

# Paul Seaman

Biography

In countries as diverse as Switzerland and Nigeria, I have worked in environments ranging from multinational boardrooms to environmental disaster zones.

I've managed corporate, crisis and product PR. I have dealt with every kind of media. I've counselled at the highest levels and have sorted things out at street level. I live and work near Zurich, Switzerland.

## A little more detail of a campaign life

In the 1970s I campaigned for a socialist Britain (and for various health and transport causes later). In the 1980s I did PR for a union in the finance sector. I suppose that's when I switched sides and started working on PR for the finance industry – just as it went into its late 80s meltdown. But Britain is a robust as well as an argumentative place, and it was surprisingly easy to make my case that mortgages had always been advertised as coming with risk.

Perhaps with a nose for the unpopular, I then went into PR for the nuclear industry – then a pariah. This culminated in 1996 with the life-changing experience of fronting the 10th anniversary of the Chernobyl disaster. I worked from the site itself, exploding media myths and lapping up close encounters with nuclear heroes.

For the next ten years I did PR for the IT sector, both product and corporate. So I was getting the media to flog our kit for us. And then getting them to buy into my bosses' M&A strategy. There was much less blood on the carpet but I had fun and learned a lot.

Enthused by my IT experience, I started a trading firm a few years ago. I cashed-in quite profitably. And again, I'd learned a lot.

More recently, I have taken this varied experience to work for a Ukrainian "oligarch" who was flirting (quite well) with CSR and then for a burgeoning indigenous PR house in Nigeria as it helped a huge range of firms produce world-class messages. These were vivid experiences, to say the least, and not to be missed.

What does this tell you? I love the challenge of advocacy, whatever the case, product or place. I love a scrap. I am proud of my portfolio CV. It doesn't begin to tell you how much I love team-work. It may be an age thing, but I've also loved mentoring youngsters.

Here's a conclusion. I have learned to respect people who run things, invent things, make things happen – especially when the chips are down.

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