



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

MANAGING PARADOX MINI-CASE SERIES

Stakeholderism and its tensions

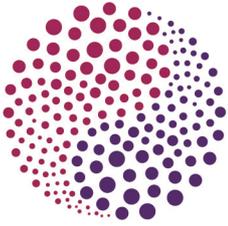
Miguel Pina e Cunha¹ and Stewart Clegg²

¹Nova School of Business and Economics

²University of Technology Sydney Business School

October 2020





European Forum on Paradox and Pluralism

Nova SBE Twinning Project

THE CASE

Five decades ago, in an often-cited work, Milton Friedman (1970) defended the thesis that “the business of business is business”, meaning that managers should focus on profit, respecting the law in doing so. The idea was instrumental in creating shareholder capitalism, the idea that an organizations’ executives have a responsibility towards their owners and must deliver “shareholder value”, an idea that has been embraced by many companies.

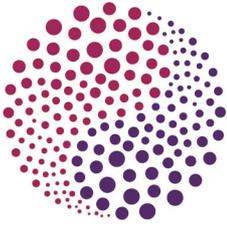
A competing value emerged as an antithesis to shareholder value; that organizations had many diverse stakeholders, in addition to shareholders, with diverse interests in the organization and its activities. The stakeholder approach has as its basic position that organizations should consider a number of interests, including shareholders but also customers, suppliers, communities, the natural environments, the planet. The Business Roundtable, a group of U.S. businesses, has recently advocated departing from a shareholder logic and adopting a stakeholder approach. In this logic executives are expected to articulate the interests of several diverse stakeholders.

The logic of stakeholders, despite its merits, raises a number of questions:

- Can managers effectively balance interests of multiple stakeholders that may not cohere?
- Indeed, is it possible to balance competing interests of stakeholders “in any way that does not give God-like powers to executives?” (*The Economist*, 2020, p.58)
- If executives assume these powers, what risks are entailed?

Concrete examples raise further issues. For example:

- Historically, Walmart has been a champion of shareholder capitalism, with a reputation of low prices, anti-unionism, “beating up suppliers, and bossing staff”. Recently the company has started to advocate gay rights and green energy.



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

Companies can, of course, change their philosophies. But these changes can also raise problems. For example, they may create cynicism rather than goodwill. Why should this be so?

- To what extent can CEOs make decisions that respond to different stakeholder constituencies? For example, Hobby Lobby, an Oklahoma-based Christian chain of craft stores denies its staff contraceptive insurance, because of religious motives. Is it legitimate for CEOs to proselytize their personal values as organizational values? For example, should liberal or conservative CEO activists promulgate organization values that are based on their personal views?
- Trade-offs are integral to business and stakeholder capitalism but is adopting stakeholder value a way of creating impossible trade-offs? Is this logic a way to improve the quality of capitalism or a shortcut to cynicism?

Useful sources:

Friedman, M. (1970). The social responsibility of business is to increase its profits. *The New York Times Magazine*, 13

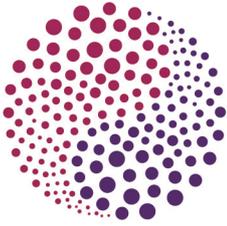
Raghunandan, A., & Rajgopal, S. (2020). Do the socially responsible walk the Talk? *Available at SSRN*.

The Economist (2020). The perils of stakeholderism. September 19, 58.

About the authors:

Miguel Pina e Cunha is the Fundação Amélia de Mello Professor at Nova School of Business and Economics, Universidade Nova de Lisboa (Portugal).

Stewart Clegg is Distinguished Professor at the University of Technology Sydney Business School. With Marco Berti and Arménio Rego they co-authored *Leadership Paradoxes* (Elgar, 2021).



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

TEACHING NOTE

The case can be used to problematize the practical difficulties raised by the stakeholder logic. This is not to deny its relevance or goodness but to consider some very real issues created by the inherent tensions between interests. Instructors may discuss issues related to:

- Implementation difficulties, for example, how to prioritize interests?
- Path dependence: when an organization changes its approach (e.g. Walmart) what risks are involved?
- Inconsistency: when an organization says one thing and does another, as happened with some signatories of the Business Roundtable Manifesto, how do different stakeholders respond?
- Communication strategies: how to ensure that the messages received by different stakeholders align in their transmission and reception?

Areas:

general management, stakeholder management, corporate social responsibility, business in society

Keywords:

shareholders, stakeholders, Walmart, trade-offs, competing organizational interests.