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The Discussion on Stakeholders in Contrast with the Shareholders Theory: Reconciliation to a Conscious Capitalism

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Abstract

This article describes the stakeholder theory and the shareholder theory, as normative theories about business ethics. Their differences are observed, as well as the way in which they support each other. Finally, these theories are complemented by conscious management (Conscious management), and the importance of a holistic view of the purpose of organizations that includes investors, society and the environment.

Keywords: Conscious Management, Shareholders Theory, Stakeholders Theory

1. Introduction

Stakeholder and stakeholder theories are classic theories of corporate social responsibility, that tell how the role of business should be. They can also be seen as normative theories on business ethics. The former act in favor of investors, while the latter observe all collaborators and stakeholders not only as a means but also as an end of the organization.

Conscious Management[8] transcends the boundaries of Corporate Social Responsibility and explains how businesses should maintain a higher purpose, understand that stakeholders are inter dependent and businesses must be managed in a way that optimizes the value for all of them in a holistic and integral way.

2. Theoretical Review

The theory of the stakeholders and the theory of the investors are normative theories on the ethics of the businesses.

On the one hand, the shareholder theory asserts that the sole corporate responsibility of companies is to use resources and engage in activities designed to increase profits in free competition, without deceiving or committing fraud. It also states that executives should act only in the interests of investors rather than in their own[4].

Stakeholder theory, for its part, states that managers have an obligation both to investors and to individuals who voluntarily or unintentionally contribute to a company's wealth-building activities and capabilities, which are, for example, their potential beneficiaries and risk-takers. This includes customers, employees, suppliers and the local community. Managers are the agents that ensure that the ethical rights of stakeholders are not violated, as well as balancing the legitimate interests of stakeholders when making decisions[3].

The fundamental distinction between the two theories is that, in stakeholder theory, the interests of all of them should be considered at the cost of a reduction of profits. While in investor theory, stakeholders are a means to achieve utility, stakeholder theory is also an end[2].

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Critics of investor theory have misinterpreted it. They have devised a bunch of executives with total urgency and willingness to do whatever it takes to make a profit. This type of Machiavellianism has taken place, but according to the Theory of Investors, managers are required to increase profits only through legal and non-deceptive means. It has also been seen as a pursuit of profit maximization at the expense of long-term profit, which is not necessarily so proposed from theory. In addition, it is alleged that under this theory there is no place for the creation of foundations, charitable projects or investments to improve the education of employees. But this depends on the behavior of investors and managers.

On the other hand, stakeholder theory is also misinterpreted in many cases. It is alleged that stakeholder theory does not care about utility for the company. Although in this theory, the ultimate goal is the interested members, and this is achieved through a balance between the interests of all, including the investors, who want to make a profit. Obviously the benefit of the interested parties cannot be given without assigning the corresponding benefit to the investors.

Let's consider that the two theories converge, in the sense that if managers are concerned about all stakeholders, they will ultimately maximize profits and returns over the long run, which benefits investors. Both theories complement each other, and the social and environment in which companies operate is also important. Terms such as "maximizing the value of shares" should be replaced by "maximizing the value of our company", or "maximizing the value delivered to society".

In the practice of companies and markets, it has been seen that many executives have acted against the interests of investors with unfair practices. In the same way, it has been seen that the investors have acted against the stakeholders in favor of increasing their profits. Globalization has led to many social abuses at the international level, with full emphasis on maximizing profits, for example in the manufacturing of transnational corporations' products[7]. Environmental damage has been equally significant, particularly affecting developing countries[1].

It is observed that Friedman's version of liberalism has colonized all the disciplines of the second half of this century. The roots of this ideology lie in the philosophy of radical individualism articulated by Hume, Bentham and Locke, among others. The misuse of these theories in administrative practice leads to a situation of opportunism, to win at all costs, leaving aside the ethical values in the administration[5].

The purpose of a business firm is not simply to produce profits, but to find itself in its very existence as a community of people who in many ways strives to satisfy needs, and who form a particular group at the service of the whole of society[6]. In his article "What Conscious Capitalism Really Is," John Mackey[8] makes a clear distinction between Conscious Capitalism and Corporate Social Responsibility.

A Conscious Capitalism implies maintaining the vision of the "higher purpose", beyond trying to make money. Although there is nothing wrong with making money, this is not by itself the absolute purpose of the company. A great company is characterized by having great ideals, looking for the good (such as education, health, quality of life). The truth (discovering other levels of knowledge). The heroic (the courage to do what is right to change and improve the world).

Another characteristic of Conscious Businesses is to understand that these must be managed in such a way as to optimize the creation of value for the main stakeholders such as customers, employees, suppliers, investors, society and the environment. Although there is awareness that there may be conflicts, you can look for win-win solutions to eliminate them, seeking harmony of interests. The Conscious Business leader usually has systemic thinking skills, and understands relationships between interdependent stakeholders, always looking for everyone to win.

Conscious leadership implies not only that the organization has a high purpose, but that there is a commitment of leadership at all levels of the organization towards this purpose. It is especially important that the Director General and other senior leaders embody the purpose of the organization, beyond seeking to maximize their own personal power and compensation.

A conscious culture is fundamentally a philosophy, a way of thinking about how to run and manage business in the 21st century, which leads to greater value creation for all. To greater awareness and leadership among people, it will become the dominant business paradigm. Today, consumers are better informed and take a more active and effective role with regard to companies and their corporate social responsibility. There is also a more horizontal relationship between investors and stakeholders.

Conscious Capitalism is more than a moral thing about "doing good"[9]. It seeks excellence, human knowledge, create beauty, solve problems and build value of different types. Business does not need anything special to be virtuous.

It does not need to give away large sums of money to a non-profit organization. The important thing is to consider its processes and results holistically, how they affect all stakeholders. Look for synergies, maintain an ecosystem view. Social responsibility is embedded in the "high purpose" of the company.

3. Conclusions

The theorists of the investor (shareholder) and the theories of the stakeholder, although they seem contradictory, are complementary. While the former emphasizes the benefit of investors, the latter focuses on the benefit of all stakeholders. Together they guarantee the benefit of both investors and society and the environment in which companies create value. However, none of these theories is enough in the 21st century. Competitiveness among companies, interconnection in the information age and a society with greater access to information, require a more adequate paradigm.

Conscious Capitalism is a proposal to give purpose to companies, their members, to give value to society and the environment. It can fit both theories, but it is more holistic and integrative.

Both capitalism and corporations have negative marks around the world. They often see themselves as ambitious, selfish, exploitative, and unreliable. Focusing on the highest purpose of business and understanding the importance of creating value for all key interdependent stakeholders, Conscious Capitalism has the potential over time to develop and enhance the reputation of business around the world.

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