What is stakeholder democracy? Perspectives and issues

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Introduction

‘Stakeholder democracy’ is an intriguing idea. The basic proposition – that stakeholders participate in processes of organizing, decision making, and governance in corporations – is for many people an alluring prospect. It chimes well with current demands for greater corporate accountability and offers a compelling evaluative framework for assessing corporate responsibilities to society. However, in an age of intensified shareholder capitalism and increasingly complex global market systems, it can also appear to be little more than a hopelessly idealistic vision. Could shareholders really give up their unique claims on the firm? How can corporations realistically balance the competing claims of disparate stakeholders in an organized framework of corporate governance? And ultimately, is democracy actually even a better, or more effective, way of controlling corporations than the current mix of market and state-based mechanisms that operates in most industrialized countries?

Discussions such as these are starting to emerge in the pages of Business Ethics: A European Review and other like-minded journals concerned with the role of business in society. However, as yet, the concept of stakeholder democracy has remained at the fringes of these debates – occasionally alluded to, but rarely if ever defined, dissected, or deliberated on. It remains a distinctly underdeveloped concept in the business ethics literature, with hardly a single academic article or book published specifically on the subject of stakeholder democracy. Significantly though, there have also been various, albeit rather limited, ventures elsewhere in the academic literature. This includes other management studies sub-disciplines, such as organizational behaviour, human resources management, corporate governance, and accounting, as well as broader social science disciplines, including economics, law, politics, and sociology. It is for these reasons that we have sought to bring stakeholder democracy to the fore in this special issue, and to do so in a spirit of multi-disciplinarity – namely, by exploring the particular contributions that different disciplinary perspectives bring to bear on our understanding of the concept. We were especially pleased to do so in a journal dedicated to advancing our understanding of business ethics from a European perspective, not least because it has been in Europe where many of these intellectual forays and practical experiments in stakeholder democracy (e.g. works councils) have taken place.

In this relatively brief introductory piece, we will begin mapping out the conceptual territory of stakeholder democracy. After an initial exploration of the emergence of the concept and its progeniture in industrial/workplace democracy, we will discuss the metaphorical nature of democracy when applied to corporations, and examine some of the implications of this translation of a political concept to the realm of economic organization. Finally, we will explore the case for a multi-disciplinary view of the concept.

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and give an outline of the subsequent papers in the special issue.

**The emergence of the concept of ‘stakeholder democracy’**

As what could be regarded as its introduction into the mainstream of management thinking with Freeman’s (1984) landmark book, stakeholder theory has become an established part of management theory and is still a subject of an ongoing academic debate in management studies (e.g. Jones & Wicks 1999, Stoney & Winstanley 2001, Friedman & Miles 2002). So widespread has been its reception that its original progenitor recently even felt the urge to clarify ‘what stakeholder theory is not’ (Phillips *et al.* 2003). Even beyond the narrow remit of management and academia, the application of stakeholder thinking to broader society has become increasingly popular over the last decade (Hutton 1995), leading to what some have referred to as ‘stakeholder capitalism’ (Kelly *et al.* 1997). It is in this context that the term ‘stakeholder democracy’ has gained some momentum (Barnett 1997).

Although the stakeholder debate did not originally focus specifically on democracy, calls for corporate accountability and transparency, societal participation in corporate decision making, and representation of broader societal interests in corporate governance processes have all grown in recent years. There are a variety of reasons for this palpable unrest about the corporate role in society. Some doubts have been fuelled by the major scandals of the early 2000s, especially in the US, where the stakes, interests, and rights of shareholders were clearly infringed in various ways (Child 2002, Kochan 2002, Stelzer 2004). More broadly, in the context of globalization, corporations have been accused of misconduct towards the natural environment, of breaches of human rights in the developing world, or of usurping public space through advertising (Klein 2000), to name just a few. With corporations ‘taking over’ (Hertz 2001) formerly public and governmental functions, and influencing governments on various levels, there is considerable unrest about the growing power of multinationals in a globalized economy. The international success of documentary films such as ‘The Corporation’ (based on Bakan 2004), ‘Supersize Me’, and others has given voice to the concern that corporations have grown into a role that disenfranchises significant parts of society at the cost of the pursuit of profit and power. When corporations are perceived as effectively ‘ruling the world’ (Korten 2001), it is hardly surprising that there is an escalation in thinking about how corporations can be organized in a more democratic manner.

So, what we have seen is a growing interest in the idea of stakeholder democracy, albeit one that has yet to be translated into an identifiable body of work that specifically sets out to conceptualize the idea in a rigorous and scholarly way. There have been very few dedicated treatments of stakeholder democracy (with the notable exception of Turnbull’s ongoing work in Australia (e.g. Turnbull 1994)), and even the term itself has yet to feature prominently in academic and practitioner debates. Nonetheless, the notion of democracy and the business enterprise has been discussed in management studies for some time (Gratton 2004), although it has rarely been framed explicitly as ‘stakeholder democracy’. The main interest has been in industrial or workplace democracy (e.g. Collins 1995, Whitty 1996, Ramsay 1997), with a particular focus on employee participation and involvement in corporate decision making. Even in the seminal work on stakeholder theory, Freeman (1984) himself refers to ‘corporate democracy’ in the concluding sections of the book as an appropriate way of appreciating the rights and the interests of stakeholders in the governance of the corporation. Interestingly, his ideas are rather biased towards increasing the influence of (democratically elected) governmental actors on corporations, thus making sure that corporations serve the interests of the wider society. This ‘citizen’ or ‘public interest’ participation is at the core of his thinking, but he leaves it to later work (Evan & Freeman 1993) to suggest some more detailed mechanisms for implementing these ideas.

Crucially, Freeman’s view encompasses the different stakeholder constituencies in their entirety,
including consumers, suppliers, shareholders, and employees. However, much of the management literature discussing the notion of democracy has focused almost exclusively on this latter stakeholder group – employees – and even the majority of recent work on ‘corporate’ (Engelen 2002, de Jong & van Witteloostuijn 2004), ‘dialogic’ (Powley et al. 2004), ‘organizational’ (Kerr 2004), or even ‘stakeholder’ (Turnbull 1994) democracy has rarely examined stakeholder groups other than employees in any detail. This is somewhat limiting in that it is the intersection of multiple interests and interdependencies that gives stakeholder theory – and by extension stakeholder democracy – much of its analytical bite. Nevertheless, the democracy literature on employees is important in that it has surfaced some of the central organizing themes of the broader stakeholder democracy debate.

Workplace democracy, and ‘the search for effective means by which employees might exert equitable influence over matters affecting their working lives is as old as capitalism’ (Ramsay 1997: 314). The main issues in workplace democracy are employee participation in decision making, inclusion of employees in corporate governance processes, and co-determination of organizational strategy. There are various instruments and institutional arrangements that have been discussed in this respect, varying from works councils (or other employee bodies invested with certain participatory rights) right up to increased levels of ownership in the firm. Particular attention in this latter context is directed to cooperatives as an example of democratic governance of a corporation and as an alternative model of corporate governance beyond the market and hierarchy set-up (Turnbull 1994, Varman & Chakrabarti 2004).

There is, however, some ambiguity about the results of these versions of democratic inclusion of employees (Harrison & Freeman 2004). On the one hand, there is the expectation that more democratic organizations will benefit from more committed and responsible employees, and that enhanced levels of discretion will lead to more innovative firms with a better skilled workforce. For instance, Engelen (2002: 402) argues that, ‘co-decision making by works councils improves the quality and availability of knowledge, prevents short-sightedness and short-termism, puts managers under a beneficial pressure to legitimatize their decisions, and generates loyalty and involvement among workers.’ On the downside, critics argue that democratic processes are time and labour intensive and could lead to sub-optimal decisions with ultimate negative effects on performance and efficiency. Moreover, as Kerr (2004) argues, the very notion of democracy sits uneasily with the way most companies are set up and function. Those in power, in most cases shareholders and senior management, cannot be expected to voluntarily give up their power. At best, business firms can be ‘democratic hybrids’ (Courpasson & Dany 2003) combining bureaucratic systems asking for obedience with pockets of democratic self-determination by employees.

Finally, commentators highlight the contextual rationalities under which democratic forms of governance are likely to work. Kerr (2004), for instance, highlights the particular role of industries and sectors in enabling or constraining workplace democracy. He argues that democratic processes are more likely to contribute to performance and efficiency in industries that depend on a highly skilled and creative workforce, or in service industries that require close attention by employees to individualized customer preferences. In a similar vein, Soskice (1997) adumbrates the role of national culture and institutions. He warns against transferring the Northern European model of stakeholder democracy to the Anglo-Saxon model of corporate governance, particularly because the functioning of the democratic model is deeply dependent on key institutions, such as long-term financing, effective vocational skill development, and deeply entrenched rules and rituals of participation. On balance, the debate on workplace democracy is marked by some optimism, but it is shot through with various contingencies, caveats and cautions that offer a profound challenge to the prospects, and indeed the value, of democracy among employee stakeholders.
Democracy as a metaphor for stakeholder involvement

In terms of the *stakeholder* element in ‘stakeholder democracy’, the above-mentioned renditions of corporate or workplace democracy are also somewhat problematic in another sense. As Kerr (2004: 86) puts it:

> From the stakeholder perspective, in fact, it might be argued that ‘too much’ democracy (i.e. too much representation of employee interests) must inevitably come at the expense of the organization’s other stakeholders.

In the context of current criticism about the role of corporations in society, the key problem is often not so very much that the interests and rights of employees are infringed upon, but that, on the contrary, those of stakeholders outside the organization are ignored or abused: human rights violations in suppliers’ factories; disregard of indigenous communities in major mining and extraction projects; irresponsible marketing of unhealthy products; environmental degradation in the community; disenfranchisement of the electorate through corporate lobbying; contempt of shareholders and customers in ‘fat cat’ executive remuneration decisions, etc. Consequently, a first step in appraising the notion of stakeholder democracy would be to appreciate that democratic influence should not only extend to one stakeholder group but should include some degree of participation for all stakeholders of the organization and a fair and simultaneous treatment of all their individual interests.

This leads to a second problem in the context of the *democracy* element of ‘stakeholder democracy’. Most commentators from a business perspective appear to be fairly certain as to what ‘democracy’ actually means and how it would translate into an organizational context. So, for instance, Courpasson and Dany (2003: 1252) define democracy as (1) ‘commitment of all involved to respect both individual freedom and personal responsibility’, (2) ‘the notion of the sovereignty of the people and political equality between persons’, (3) ‘a belief in the role of individual and collective reason in the administration of everyday business’, and finally (4) ‘procedural stability and reliability’. In a similar vein, Kerr (2004: 84) compiles another foursome of characteristics of what democracy should mean: (1) ‘accountability to the governed’, (2) ‘equal right of participation’, (3) ‘free exchange of information’, and (4) ‘representation of the governed’.

One could easily prolong this list of lists. The key problem though, we would contend, is that these renditions of ‘democracy’ all involve a translation of the concept from the political to the organizational realm, and as such often miss the nuances and cadences that have accompanied the development of thinking about democracy in the political sciences. Analogous to Moon et al.’s (2005) analysis of the usage of the terminology of ‘citizenship’ in a business context, we would suggest that ‘democracy’ is a vigorously contested concept in politics, and one whose meaning is strongly value-laden, complex, and open to different meanings and renditions. As such, it is of little surprise that the meaning of stakeholder democracy, and the extent to which it is implemented in a business context, is ill defined and fuzzy when the concept of ‘democracy’ is a contested concept already in its original meaning. For the Swiss, democracy would entail the direct participation of a local community in collective decision making. For others, it would mean a particular form of parliamentary representation. And for others even, democracy is a way of organizing society according to certain Western values brought to countries of completely different cultural and religious traditions on the wings of a Tomahawk missile.

There is no single authority on the definition of the term democracy, and this has direct implications for the adoption of this language in a business context. To begin with, because the concept is so value-laden, it cannot be regarded as simply another management concept that enhances (or not) the profitability of companies in certain industries, sectors or institutional settings. Democracy is an attractive metaphor because it embodies many of those broadly shared values on which most ‘civilized’ countries are based, and it is against this backdrop that the usage of this term in a stakeholder context
becomes attractive. Moreover, as the original concept is so complex, it is far too narrow to discuss it with regard to one particular stakeholder group and with well-defined mechanisms, structures, and processes in mind. After all, what sense does it have to talk of democracy in and around the corporation when one is only actually concerned with a single set of stakeholders, namely employees? This speaks as much of the potential disenfranchisement of other stakeholders such as customers and suppliers as it does of enhanced stakeholder democracy. And finally, given that the concept is still as yet open to contestation, a bespoke democratic stakeholder process cannot simply be implemented by the corporation and labelled as ‘democratic’. Any claims for enhanced democracy will always be contestable, and broadly acceptable systems and procedures will inevitably only arise after a prolonged period of consultation and negotiation.

Ultimately, as Harrison and Freeman (2004) argue, it is important not to mistake the translation of the underlying principles or ideals of democracy with the translation of the specific manifestations of democracy found in the political realm (e.g. the granting of decision-making power, voting procedures, and systems of governance). As they contend, the governance of some stakeholder relationships looks more like that found in the political system than others – e.g. shareholders can vote their representatives onto a board – but this does not necessarily mean that this system should be reproduced for all stakeholder relations to make them more democratic. Similarly, Engelen (2002: 402) concludes that

Corporate democracy does not mean that the firm must be turned into a city council or a national parliament. Intelligent models of democracy allow for a division of democratic labour to accommodate constraints of time, expertise and motivation, for democracy is not the same as granting everyone a complete say on every topic. People do not differ only with regard to the time they have available, but also with regard to their willingness to spend that time on participatory activities.

So, based on this analysis of democracy as a contested concept, what could be the actual meaning of ‘stakeholder democracy’ in a business context? First, in terms of the core values democracy stands for, we would suggest that a stakeholder democracy consists of firm–stakeholder relations based on self-governing and voluntarism (Harrison & Freeman 2004). These two aspects reflect the fundamental philosophic underpinnings of democracy that are also at the core of the very notion of stakeholder thinking: to treat stakeholders not just as a means but also as an end in themselves (Evan & Freeman 1993). Given the complexity of the term, we would argue that stakeholder democracy manifests itself – albeit in varying degrees – not only in the relations to all stakeholder groups, but it will also affect all areas, functions and departments of the business. And finally, applying a relatively open concept from a political context to business, we would include in the notion of stakeholder democracy a whole plethora of ways of (self-)government on a voluntary basis, far beyond those mechanisms that would narrowly mirror the political system of parliamentary democracy.

Stakeholder democracy as an object of multi-disciplinary inquiry

We have argued thus far for a view of stakeholder democracy that sees it as a metaphor for certain core democratic values (self-governance and voluntarism) in the relations of stakeholders with firms. As such, the concept pertains to all aspects of a business and calls for a broad and creative application of the core idea to a plethora of instruments, strategies and approaches. We would therefore argue that stakeholder democracy should be explored from a range of disciplinary perspectives applied to the study of business organizations. These include the various disciplines of what is commonly regarded as the core disciplines in ‘business’ or ‘management studies’, such as human resource management, marketing, accounting or corporate governance. However, to adequately appraise the complexity and openness of the concept, crucial insights for the topic can also be expected to be gained from a perspective that includes relevant social science disciplines, such as politics, law, philosophy and economics.
Based on this understanding, this special issue continues with five articles – four academic articles and an edited panel discussion of academics ‘in conversation’ – drawn together to explore the notion of stakeholder democracy from a multi-disciplinary perspective. Earlier versions of the five articles were all first presented at the Annual Symposium of the International Centre for Corporate Social Responsibility (ICCSR) at Nottingham University Business School in November 2003. The title of the symposium, *Stakeholder democracy – perspectives from across the business disciplines*, reflects the aims of the event to capture a range of perspectives on stakeholder democracy in order to begin to build a more complex, but hopefully more theoretically rich, understanding of the meaning, manifestations and potential of stakeholder democracy both as an analytical concept and as a project of practical reform.

The first paper, by James Fitchett, explores the notion of stakeholder democracy from the business sub-discipline of marketing. This paper provides a refined and fine-grained picture of the notion of democracy in the firm’s relation to its consumers and thus sheds a more differentiated light on some of the rather blunt optimism attached to equating consumption decisions with the democratic consent of the shopping electorate (e.g. Beck 1997). Fitchett in particular exposes the openness of the idea that, while marketing thinking vividly endorses parts of the democratic metaphor in responding to consumer needs (the customer as ‘king’), companies at the same time often tend to treat their customers as ‘prisoners’ and try to ‘constrain, manage and bind the consumer into submission’.

The second contribution in this special issue, by Brendan O’Dwyer, is from the perspective of accounting. This sub-discipline of management has a well-established critical tradition that has exposed and explored the need for corporations to communicate more openly, and more broadly, with stakeholders beyond the narrow remit of the managerial model of the firm. This paper is particularly interesting when discussing the complexity of the metaphor of stakeholder democracy because it highlights some of the technical difficulties as well as the ambiguities of approaches and instruments targeted at greater openness and accountability of companies towards their stakeholders.

The paper by Tony Royle, from the perspective of human resource management, touches on a number of topics that are at the core of much of the literature on workplace democracy. Coming from an understanding of democracy analogous to the pattern of parliamentary democracy, HRM and industrial relations have long discussed democracy in the context of voting and representation of employee interests in the board of governance. Royle’s analysis, however, suggests that even if institutional and legal arrangements require some degree of democracy in business, this approach is going to be largely futile if the core values of democracy are not shared and embraced by corporations, their managers, and even employees themselves.

Grahame Thompson and Ciaran Driver approach the topic from the perspective of corporate governance and international management. Based on their earlier work on corporate governance and democracy (Thompson 1997, Thompson & Driver 2002), the paper explores mechanisms for enhancing democratic control and accountability of multinationals, where their scope of activities reaches beyond that of the (nominally democratic) nation state. Their analysis exposes the complexity of the democracy metaphor in a global economic context but also showcases potential solutions to the democratic deficit. Their suggestions of ‘championing’ and ‘stewardship’ will probably not satisfy a notion of democracy narrowly drawn from a parliamentary political context; they do, however, show that in implementing some core elements of the metaphor of democracy, many of the approaches could be promising, at least incrementally and preliminarily. Stakeholder democracy in governing multinational firms therefore could be regarded as an interesting, but as yet unresolved, work in progress.

The final article, by Crane et al., is an edited summary of a panel discussion at the ICCSR symposium that sought to explore the different core ideas and values attached to the notion of stakeholder democracy in various disciplines and
sub-disciplines relevant to business. In conversation with scholars from law, economics, management and critical management, the discussion identifies novel perspectives on stakeholder democracy suggested by particular disciplinary lenses, and concludes that real inter-disciplinary work in this area has significant epistemological potential that has yet to be tapped, but that could lead to important new insights into the nature and potential of stakeholder democracy.

We hope that readers will find the various perspectives presented in this special issue to be intellectually stimulating and that they will contribute to a greater understanding of the emerging concept of stakeholder democracy. Perhaps even more than that, we hope that they inspire readers to engage in parallel and related debates within other disciplinary areas, and ultimately stimulate further multi- and inter-disciplinary research on stakeholder democracy in the years to come.

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It was with great sadness though that we learned of the sudden death in February 2004 of one of the contributors to this issue, John Parkinson, shortly after he had participated at the ICCSR symposium. John was one of the leading academic company lawyers of his generation, contributing to both the scholarly analysis and the practical development of English company law in relation to corporate responsibilities to stakeholders. He shall be sadly missed, both personally and professionally, and as a mark of respect, this special issue is dedicated to him.

References


