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CLASSIFYING EMPLOYEES AS STAKEHOLDERS

Michelle Greenwood

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Abstract

Stakeholders are everywhere. By most accounts, employees are stakeholders. But what does classifying a group of individual employees as stakeholders mean? This paper explores the labelling of employees as stakeholders by considering a number of issues: the ubiquity and power of the stakeholder heuristic; threats to the pluralist underpinnings of stakeholder theory; the manner in which employees are identified as stakeholders; and the implications of labelling employees as stakeholders. It is argued that act of labelling and treating employees as stakeholder may well serve the interest of the organisation rather than the interests of employees.

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INTRODUCTION

Stakeholders are everywhere. By most accounts, employees are important stakeholders in the firm. According to Michelin “Few stakeholders are as vital in a business as its workers. A worldwide company has to invest a great deal to respect all staff interests. Staff have a big interest in the success of the company.” (The Times 100, 2006, p.1). For Chevron Texaco (2003) “employees are vital stakeholders who are critical to helping our company meet its obligations to investors, partners, customers and governments”. From a legal perspective, Lynch-Fannon argues “employees are the most significant non-shareholding corporate stakeholding group” (2004 p.155).

But what does classifying a group of individual employees as stakeholders mean? This paper explores the labelling of employees as stakeholders by considering a number of issues: the ubiquity and power of the stakeholder heuristic; threats to the pluralist underpinnings of stakeholder theory; the manner in which employees are identified as stakeholders; and the implications of labelling employees as stakeholders. It is argued that act of labelling and treating employees as stakeholder may well serve the interest of the organisation rather than the interests of employees.

UBIQUITY OF THE STAKEHOLDER CONCEPT

The word stakeholder is “an obvious literary device meant to call into question the emphasis on ‘stockholders’” (Freeman, 1999, p. 234). The traditional definition of stakeholders as “any group or individual who can affect or is affected by the achievement of the organisation objectives (Freeman, 1984, p. 46)” acknowledges that stakeholders can influence the organisation, but also are affected by the organisation. It is the latter aspect of the definition that recognises the stakeholders’ stake or claim in the organisation (Kaler, 2002) and therefore their right to benefit or be protected from harm (Phillips, 1997).

It is now evident that “the term stakeholder is a powerful one” (Phillips, Freeman, & Wicks, 2003, p.479). The stakeholder concept has grown in prominence over recent years due to public interest, increased coverage in the media, concern about corporate governance, and its adoption by ‘third-way’ politics (Hutton, 1998). The popular use of the term was demonstrated in a speech given by the UK Opposition Leader, Tony Blair in 1996[1]. According to Freeman and Phillips, (2002, p.332) “the past 15 years has seen the development of the idea of stakeholders into an ‘idea of currency’”. It is now used as everyday terminology in business (for example Australian Stock Exchange, 2001; World Economic Forum, 2003; Westpac, 2002). In the opinion of Donaldson (2002):

> Today the term has arrived. Management journals and consultants flaunt it, and articles devoted to one or another interpretation of stakeholder theory are commonplace.

The popular stakeholder heuristic (Mitchell, Agle, & Wood, 1997) represents a rare case where philosophical terminology has become part of the popular lexicon (Bowie, 2002). However, we are cautioned that when used unreflectively, the managerial prescriptions and implications of stakeholder theory are limitless (Phillips et al., 2003). Indeed the “ambiguity and indeterminacy of the concept may appeal to those…who seek to use it rhetorically” (Stoney & Winstanley, 2001, p.625).

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[1] Blair’s stakeholder speech was seen as the foundation of his attempt to forge a distinctive philosophy and image for New Labour (Preston, 1996).

THREATS TO PLURALISM IN STAKEHOLDER THEORY

Stakeholder theory has been criticized from the left for being managerialist and by the right for being socialist. For some the thesis of stakeholder theory is potentially radical: to suggest that non-owners have property rights in the firm is an anathema to neo-classical economic theory (Friedman, 1970) and tantamount to socialism (Sternberg, 1999). But stakeholder theory is, if nothing else pragmatic. Being cast as a theory of strategic management (Freeman, 1984), it has been defended for its libertarian roots (Freeman & Phillips, 2002). Indeed, is has been argued that the stakeholder concept has been framed from the perspective of the business firm and used for purposes of managerial control and the disenfranchisement of powerless stakeholders (Banerjee, 2000). More accurately, stakeholder theory holds the middle ground of pluralism and suffers limitations to this effect.

On examination it can be seen that stakeholder theory is, in fact, a theory of political pluralism (Stoney & Winstanley, 2001). Like the pluralist dimension in industrial relations, stakeholder theory is underpinned by an assumption of diversity of interests between stakeholder groups, in contrast with a commonality of interests within stakeholder groups (as will be discussed later). Stakeholder theory assumes that, with respect to the organisation, stakeholders are distinct groups with valid needs and interests. Stakeholder theory is meaningful in the context of diverse organisational stakeholder interests and the potential for conflict between these interests. In the words of Frooman (1999, p.193): “If the potential for conflict did not exist - that is if the firm and all its stakeholders were largely in agreement – managers would have no need to concern themselves with stakeholders or stakeholder theory”.

In common with theories of collaboration, stakeholder theory tends to sidestep the issue of power (Clegg & Hardy, 1996; Everett & Jamal, 2004). Using established Marxist criticisms of pluralism, Stoney and Winstanley (2001), argue that stakeholder theory provides an overly-simplistic conceptualisation of power as a commodity that can be negotiated between the organisation and stakeholder groups and, thus, is limited in its explanation of the means by which different interests of stakeholder groups arise and are generated in society. Without the capacity to distinguish the divergent interests of stakeholders from those of the organisation, stakeholder theory may be readily subverted to a unitarist concept.

EMPLOYEES ARE STAKEHOLDERS

Employees are identified as stakeholders in the organisation from almost all stakeholder perspectives (Greenwood, 2007). Employees are closely integrated with the firm and this gives them a “peculiar role among stakeholders” (Crane & Matten, 2004, p.224). They contribute to the firm in fundamental ways. However, employees actually ‘constitute’ the firm: they are in many cases the most important factor or ‘resource’ of the corporation, they represent the company towards other stakeholders, and they act in the name of the corporation (Crane & Matten, 2004).
Employees are greatly affected by the success or failure of the firm; having an investment of experience and specialised skills (Maltby & Wilkinson, 1998), accrued resources, and personal relationships; and are dependent upon their employer’s success through income or equity. People often make a substantial investment in their work: a geographical move, a change in relationships, and further investment in training. Accompanying this investment, workers often depend on their work for social relationships, self-identity, and self-actualisation (Crane & Matten, 2004). It is on this basis that employees can be identified as having a moral claim (Kaler, 2002) and high legitimacy (Mitchell et al., 1997) in the firm.

From the organisation’s perspective, employees have significant influence on the firm and as such high power relative to other stakeholders (Mitchell et al., 1997). It is noted that individuals and groups often belong to more than one stakeholder category (Greenwood, 2001). An employee also may be an owner, a member of the local community, a manager in the organisation, active in a union or a combination of these. In addition, stakeholder groups are rarely homogeneous

(Greenwood, 2001). In any organisation there are likely to be individuals from different racial and cultural backgrounds, with varying family circumstances, with different physical abilities and limitations or employed under different work arrangements. Such individuals may have markedly different interests in the workplace. They must, however, share a number of elemental interests in order be considered a stakeholder group.

Despite holding the stakeholder attributes of high legitimacy and high power, employees are not assured fair treatment by their employers. The position under Australian corporate legislation is that, despite their substantial investment in the organisation, employees are vulnerable in regards to redundancies, relocations or closures, or corporate insolvencies (Anderson, Darvas, Forsyth, Gumley, & Welsh, 2006). Anderson et al. (2006) note that it is difficult for employees to either avoid harmful situations or to achieve their dues in such situations. Employees may not have information on warning signs of corporate failures, nor can they protect their interests as fully as other stakeholder groups. Where a company has failed, claims of secured creditors are met before unsecured creditors, including employees (albeit employees have priority amongst these groups). Jacoby (2005) notes that in US public companies, the risks associated with business have been shifted over time to ordinary employees.

IMPLICATIONS OF LABELLING EMPLOYEES AS STAKEHOLDERS

By identifying a group, such as employees, as a stakeholder group it is assumed that the group holds homogeneous interests or values (Greenwood, 2001), role based (Wolfe & Putler, 2002), stable (Maltby & Wilkinson, 1998), and exists as an entity (Gibson, 2000).

Most stakeholder theorists assume homogeneity of interests and priorities within stakeholder groups (Greenwood, 2001; Wolfe & Putler, 2002) as the group is delineated by shared interests. Interests may be shared without necessarily sharing values. Within stakeholder theory, those individuals or groups comprising a stakeholder, share interests to the extent that they act in unison in their relationship with the organisation, or with other stakeholder groups but do not necessarily share values. Further, as with political pluralism, stakeholder theory assumes that the organisation and its stakeholders hold common interests, the rationale for their relationship, and divergent interests, thereby retaining separate identities. The existence of common interests between the organisation and its stakeholders, however, does not imply that they share common values. Furthermore, alignment of employees' values with those of the organisation may be a means of managerial control (Provis, 1996).

Definitions of stakeholder groups are generally role based (Wolfe & Putler, 2002); that is, derived from the group's role assuming the members share significant interests, for example, an employee group expects fair working conditions. However, a stakeholder group does not necessarily share broader interests or values. Individual differences such as gender, religion, ethnicity, and roles external to the organisation impinge on interests and priorities. In addition, whilst group members may share opinions regarding issues directly related to their stake, they may disagree on other issues: for example, employees may agree on collective bargaining issues but disagree on philanthropic giving (Wolfe & Putler, 2002). Demographic features, however are also limited as defining stakeholders, for example, all female constituents (employees, owners, bankers) do not share a common set of interests. Despite its limitations, a role-based model for the categorisation of organisational stakeholders is pervasive.

Another notion implied by stakeholder concept is that there is continuous membership of a group by particular individuals or types of individuals. The ongoing membership of the stakeholder groups by particular individuals is becoming even less likely in an environment marked by increasing change. In the employee stakeholder category, changing patterns of work emphasise flexibility and the demise of long-term employment relationships (Maltby & Wilkinson, 1998). Employment trends in Australia show a significant increase in the number of non-permanent contractors, agency workers and outworkers increased by nearly 40 per cent in five years - up from 4.7 per cent in

1990 to 6.5 per cent in 1995 (AWIRS, 1995). The increase in non-permanent work has significant implications on both the nature of the stakeholder and nature of the stake. The departure of particular individuals from the stakeholder group may undermine the group's interests, unless replaced by others who hold similar interests. For example, despite performing the same work, a stakeholder group of permanent staff has significantly different interests to a stakeholder group of contractors.

Stakeholder theory is advanced by the notion that the stakeholder group exists beyond the sum of the individuals comprising that group and is an entity or actor in its own right, thus as a collective moral agent. According to Gibson (2000), stakeholder theory is predicated on the implicit notion of group interests, otherwise it is simpler and clearer to depict individuals in relation to the organisation. The company may offer respect and benefit to the stakeholder group as a whole, but this is not equivalent to the moral treatment of individual employees. Group application of collective-based universal rules may undermine the dignity of individuals by not allowing for distinctive and individualistic concerns (Gilligan, 1982; Koehn, 1998).

Viewing stakeholders as homogenous, stable, role-based groups, holding shared rather than divergent interests, aids management efforts to align stakeholder interests with organisational goals. For example, in a study of 15 Australian cooperative research centres, communication activities aimed at external stakeholders focused on influencing the homogeneity of stakeholder groups, as well as encouraging these groups to think and act in terms of their group identity and the associated values, norms, and behaviour (Riedlinger, McKay, & Gallois, 2004). We are cautioned by Rowan (2000) that treating employees with respect requires not grouping them in statistical categories for the purposes of restricting their personal freedom.

CONCLUSIONS AND FURTHER RESEARCH

Despite the pluralist underpinnings of stakeholder theory, the construction of employees as stakeholders has been shown to have the potential for serious unitarist consequences. By classifying employees as stakeholders employee values (cf. interest) may be assumed, thereby treated as homogenous and aligned with the organisation; employees may be categorised by their interests as employees whereas they may have predominant interests in their other capacities, including non-role based capacities such as gender, race; and employees may be treated as an entity not as individuals so that respect and duty of care provided for the individual may be mitigated.

Worthy of further investigation is the notion that the treatment of employees as stakeholders potentially mitigates other relationships employees may have with the firm. If employees are "stakeholders" not "persons" respect for the individual and personal care may be compromised. If employees are "stakeholders" not "owners" then financial gain and structural control mechanisms may be unavailable. If employees are "stakeholders" not "union members" union membership and collective representation may decline. If employees are "stakeholder" not "employees" their divergent values and interest may be suppressed.

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