

Laszlo Zsolnai  
Professor and Director  
Business Ethics Center  
Budapest University of Economic Sciences  
email: laszlo\_zsolnai@interware.hu

## **Extended Stakeholder Theory**

*Category:* Research paper

*Keywords:* stakeholder theory, social responsibility, future generations, sustainability

*Purpose of the paper:* The paper proposes a normative reinterpretation of the stakeholder concept. It argues that all stakeholders are morally considerable, and only those parties are stakeholders, which are morally considerable. Business organizations affect the fate and survival of natural ecosystems and the life conditions of present and future generations thus nature, society and future generations should be included among the stakeholders of business.

*Methodology/approach:* The paper employs Hans Jonas' theory of responsibility for redefining social responsibility of business. Jonas' imperative of responsibility implies that business has a one way, non-reciprocal duty caring for the beings which are under the impacts of its functioning. A controversial World Bank case is analyzed for showing what the imperative of responsibility and the extended stakeholder framework imply.

*Findings:* The paper presents the implications of the extended stakeholder framework for the transformation of business. It is argued that business should be sustainable, pro-social, and future respecting. That is, business should contribute to the conservation and restoration of the natural world, to the development of human capabilities and to the enhancement of the freedom of future generations.

*Value of paper:* The extended stakeholder framework developed in the paper may help scholars and practitioners to treat issues of sustainability, pro-socialness and future generations in one coherent model of business.

The paper proposes a normative reinterpretation of the stakeholder concept. The first section argues that all stakeholders are morally considerable, and only those parties are stakeholders, which are morally considerable. Business organizations affect the fate and survival of natural ecosystems and the life conditions of present and future generations thus nature, society and future generations should be included among the stakeholders of business.

The second section uses Hans Jonas' theory of responsibility for redefining social responsibility of business. Jonas' imperative of responsibility implies that business has a one way, non-reciprocal duty caring for the beings which are under the impacts of its functioning.

The third section analyses a controversial World Bank case for showing what the extended stakeholder framework imply. It is showed that the proposal to encourage more migration of dirty industries to less developed countries is unacceptable because such a policy would be negative from the extended stakeholder perspective, and some welfare improvement in the developed countries cannot compensate for violating vital stakeholder values.

The fourth section presents the implications of the extended stakeholder framework for the transformation of business. It argues that business should be sustainable, pro-social, and future respecting. That is, business should contribute to the conservation and restoration of the natural world, to the development of capabilities of the members of society and to the enhancement of the freedom of future generations.

#### 1. *Normative Reinterpretation of the “Stakeholder” Concept*

The term ‘*stakeholder*’ has been widely used in business and public administration. *Edward R. Freeman* summarized the history of the stakeholder concept as follows. (FREEMAN, R.E. 1984: pp. 31-51.)

The term “stakeholder” was introduced by the *Stanford Research Institute* in 1963 as a *generalization* of the notion of “*stockholder*”. The stakeholder concept was

originally defined as “those groups without whose support the organization would cease to exist.” In the 1970’s systems theorists, especially *Russell L. Ackoff* and *C. West Churchman* “rediscovered” stakeholder analyses. Ackoff argued that many societal problems could be solved by the redesign of fundamental institutions with the support and interaction of the stakeholders in the system. (ACKOFF, R.L. 1974)

During the 1980’s the stakeholder approach won considerable acceptance in *organization theory*, in the *corporate social responsibility* literature, and in *strategic management*. The standard definition of the concept can be stated as follows: “stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization’s objectives.” (FREEMAN, E.R. 1984: p. 46)

From a normative perspective some modification of the stakeholder concept is required. I propose a *generalization* and an *ethical restriction* of the notion. (ZSOLNAI, L. 1996)

According to the new definition *stakeholders* are those *beings* that *are affected* by the functioning of an organization. This definition provides an ethical restriction on the original notion because those parties are excluded among the stakeholders who can affect the functioning of an organization but are not affected by it. Those parties are *kibitzers*, not stakeholders.

This conceptualization meets the theoretical demand presented by *Kenneth E. Goodpaster*. All stakeholders are morally considerable, and only those parties are stakeholders, which are morally considerable. (GOODPASTER, K.E. 1991)

My proposed definition is also a generalization of the original notion because it permits considering beings other than human individuals and groups, namely *biological creatures*, *ecosystems*, and even the *Earth as a whole*. Similarly, stakeholders are not necessarily presently existing beings. There can be *future beings* as well.

In contemporary biology living creatures are considered as *autopoietic systems*. ‘Autopoiesis’ means *self-making*. Chilean biologists *Humberto Maturana* and *Francesco Varella* are pioneers in this field. According to Maturana and Varella *cognition* is an inherent characteristic of all forms of life. A living organism *brings forth its world* by making distinctions. Cognition results from a pattern of distinctions, and distinctions are perceptions of difference. The theory describes *autonomy* of the living organism regarding its response to the environment in the terms of structural coupling and non-linear behavior. (CAPRA, F. 1996: 304-306.)

Ecosystems are considered as *co-existing populations* of plants, animals, and microorganisms in close interaction with sunlight, air, water, and soil. Bioregions like, for example, the *San Francisco Bay*, the *Danube River*, *Amazonia* or *Siberia* can be considered as large-scale ecosystems.

Ecosystems are *supra-individual* entities. Their key players are not individual biological creatures but populations. The co-existence of populations is regulated in ecosystems; some populations multiply and flourish while other populations migrate or become extinct.

The long-term dynamic of ecosystems are called *succession* that is, having a directional change in the structure, form and function of co-existing populations. They develop new emphasis, different bases and forms.

During the succession process the biomass production progressively increases; the decomposer elements become large and more important, and the diversity of species and complexity of their balance grow. In early developmental stages the biomass production exceeds the biomass consumption: there are some *niches* for new populations. When biomass production and biomass consumption become nearly equal then ecosystems reach their mature, *climax state*. (PUTMAN, R.J. & WRATEN, S.D. 1984)

Now let us turn to the Earth as a whole. In his Gaia theory *James Lovelock* showed that the Earth is not a passive substratum of life but has been playing an active role in conditioning and sustaining the life itself. (LOVELOCK, J. 1979)

A simple thought-experiment designed by Lovelock can illustrate the point. Let *Dasyworld* be a planet like the Earth. Over billions of years its Sun gets warmer. *Dasyworld* has nothing but soil and two species of daisy, black and white, competing with each other. Early on, when the Sun is young and cool, only the black daisies flourish because they absorb more of the sun's warmth than white daisies do. Their competitive advantage ensures that they spread over the planet. That makes the planet dark, more absorbent of sunlight, and thus warmer. As time goes on, the white daisies, capable of reflecting away more of the sunlight and thus keeping cool, gain the upper hand. The warming effect of black daisies and the cooling effect of white daisies complement each other and the daisies keep the planet at the temperature most suited to them.

According to the Gaia theory the Earth should be viewed as a giant network of all the terrestrial and aquatic ecosystems. The Earth does have *systemic patterns* and *global mechanisms* above and beyond any particular ecosystem. (MARGULIS, L. 1998)

*Future generations* do not yet exist but we have obligations to them. *Edith Brown Weiss* advanced three basic principles concerning future generations. (BROWN WEIS, E. 1989: p. 38.)

First, each generation should be required to *conserve* the *diversity* of the *natural* and *cultural resource base*, so that it does not unduly restrict the options available to future generations in solving their problems. Second, each generation should be required to *Maintain* the *quality* of the *planet* so that it is passed on in no worse condition than the present generation received it. Third, each generation should provide *access* to the *legacy* from *past generations* to future generations. These basic principles can be satisfied if we consider *every generation* as *equal* and do *not* presuppose anything about the *value-preferences* of future generations.

Business organizations affect the fate and survival of natural beings and the life conditions of present and future generations. Thus nature, society and future generations should be included among the stakeholders of business.

The extended stakeholder framework developed here is in a contrast with the more common use of the stakeholder theory. *Conventional stakeholder theory* usually considers employees, owners, customers and suppliers as the sole stakeholders of business. These groups not only affected by business but also affect its functioning and success. Thus conventional theory bases the social responsibility of business on *self-interest*. The extended stakeholder approach aims to transcend this position and sees social responsibility as a non-reciprocal duty to guarding beings.

## 2      *The Imperative of Responsibility*

*Hans Jonas*, the outstanding German-American philosopher has injected moral responsibility in the contemporary moral discourse. Jonas published the German version of his theory of responsibility in 1979 under the title “Das Prinzip Verantwortung. Versuch einer Ethic fur die Technologische Zivilization”. The re-written and enlarged English edition was published in 1984 under the title “The Imperative of Responsibility: In Search of an Ethics for the Technological Age”. (JONAS, H. 1979, 1984)

Jonas argues that the nature of human action has changed so dramatically in our times that this changed nature of human action calls for a radical *change* in *ethics* as well. He emphasizes that in previous ethics “all dealing with the nonhuman world, that is, the whole realm of techne was ethically neutral. Ethical significance belonged to the direct dealing of man with man, including man dealing with himself: all traditional ethics is *anthropocentric*. The entity of ‘man’ and his basic condition was considered constant in essence and not itself an object of reshaping techne. The effective range of action was small, the time span of foresight, goal-setting, and accountability was short, control of circumstances limited.” (JONAS, H. 1984. pp. 4-5.)

According to Jonas new dimensions of responsibility emerged because *nature* became a subject of human responsibility. This is underlined by the fact of the irreversibility and cumulative character of human impact on the living world. *Knowledge*, under these circumstances, is a prime duty of man, and must be commensurate with the causal scale of human action. We should seek “not only the human good but also the

good of things extrahuman, that is, to extend the recognition of ‘ends in themselves’ beyond the sphere of man and make the human good include the care of them.” (JONAS, H. 1984. pp. 7-8.)

For Jonas an imperative that is responding to the new type of human action might run like this. “Act so that the effects of your action are compatible with the permanence of genuine human life”. Or expressed negatively: “Act so that the effects of your action are not destructive of the future possibility of such life”. (JONAS, H. 1984. p. 11.)

Jonas argues that our duties to the *future generations* and to *nature* are independent of any idea of a right or reciprocity. Human responsibility is a *non-reciprocal duty* to *guarding beings*.

Jonas states that the necessary conditions of moral responsibility are as follows. “The first and most general condition of responsibility is causal power, that is, that acting makes an impact on the world; the second, that such acting is under the agent’s control; and the third, that he can foresee its consequences to some extent.” (JONAS, H. 1984. p. 90)

Jonas underlines that prospective responsibility is never formal but always *substantive*. “I feel responsible, not in the first place for my conduct and its consequences but for the *matter* that has a claim on my acting.” For example “the well-being, the interest, the fate of others has, by circumstance or by agreement, come to my care, which means that my control *over* it involves at the same time my obligation *for* it.” (JONAS, H. 1984: p. 92. & p. 93.)

Jonas differentiates between *natural responsibility* and *contractual responsibility*. “It is the distinction between natural responsibility, where the immanent ‘ought-to-be’ of the object claims its agent *a priori* and quite unilaterally, and contracted or appointed responsibility, which is conditional *a posteriori* upon the fact and the terms of the relationship actually entered into.” (JONAS, H. 1984: p. 95.)

The *parent* and the *statesman* are presented as ideal types of natural responsibility and contractual responsibility, respectively. The parent is responsible for his or her child

not because of the child's own will or even contrary to it. But the responsibility of the statesman comes from the political contract that he or she has established with his or her constituencies.

Applying Jonas' theory of responsibility to business we can say that business has a one way, non-reciprocal duty caring for the beings which are under the impacts of its functioning. With conventional stakeholders (employees, owners, customers and suppliers) business has contractual responsibility but with nature, society and future generations it has natural responsibility. Both types of responsibility are important and cannot be neglected.

### 3. *A Case Study*

A controversial *World Bank case* is instructive for showing what the imperative of responsibility and the extended stakeholder framework imply.

In the early 1990s, some economist advisors of the World Bank were considering that the World Bank should encourage *more migration of dirty industries to less developed countries* (LDCs). The argument was as follows:

“The measurement of the costs of health-impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. (...) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. (...) The demand for a clean environment for aesthetic and health reasons is likely to have very high income-elasticity. The concern over an agent that causes a one-in-a-million in the odds of the prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-5 mortality is 200 per thousand. Also, much of the concern over industrial atmospheric discharge is about visibility-impairing particulates. These discharges may have very little health impact. Clearly, trade in goods that embody aesthetic pollution concerns could be welfare enchanting.” (*The Economist*, February 8, 1992)

In the case the World Bank has a rich variety of stakeholders because not only citizens of developed and less developed countries can be affected by the World Bank environmental policy but also the natural environment and the future generations.

The most important stakeholders can be identified as citizens of the developed countries, dirty industries in the developed countries, citizens of the less developed countries, the natural environment affected by dirty industries in the developed countries, the targeted natural environment in the less developed countries, and future generations.

Migration of dirty industries to LDCs would be *good* for the citizens of developed countries, for the dirty industries, and for the natural environment affected by those industries in the developed countries. But it would be *bad* for the citizens of less developed countries, for the targeted natural environment in the less developed countries, and for future generations because environmental pollution is much more controllable in the developed countries than in the less developed countries.

Because of inter-species and inter-generation justice we can argue that *equal weights* should be attributed to nature, society, and future generations. We should not discriminate between citizens of the developed countries and citizens of the less developed countries. Similarly, we should not discriminate between the natural environment in the developed countries and the natural environment in the less developed countries. Considering all the parties that are served by dirty industries, they can get similar weight as citizens of the developed countries.

Considering the above arguments we should conclude that The World Bank *should not* encourage migration of dirty industries to less developed countries. Such a policy is negative from the stakeholder perspective, so some questionable welfare improvement cannot compensate for the violation of vital stakeholder interests. The rejection of the policy option is justifiable also in the case if citizens of the less developed countries get full monetary compensation from citizens of the developed countries.

The World Bank has responsibility toward both the developed and less developed countries, as well as toward the natural environment and future generations. It should develop policies, which are consistent with its undeniable responsibility.

#### 4      *Transformation of Business*

Business has a one way, non-reciprocal duty caring for the beings which are under the impacts of its functioning, especially nature, society, and future generations.

From an *ecological perspective* the integrity of nature is a central value. The notion of ecological integrity was first introduced by the American naturalist, *Aldo Leopold*. He wrote: “a thing is right when it tends to preserve the integrity, stability, and beauty of the biotic community. It is wrong when it tends otherwise.” (LEOPOLD, A. 1949)

Business can be considered sustainable if it does not violate the integrity of nature.

From the *societal perspective* human capabilities are important. *Amartya Sen* proposed to understand human well-being in the terms of capabilities. Capability is a reflection of the freedom of a person to achieve valuable functioning. Thus capabilities can be interpreted as substantive freedom that people enjoy. (SEN, A. 1992)

Business can be considered pro-social if it contributes to the development of human capabilities.

How can we evaluate business activities from the perspective of *future generations*?

*Edith Brown Weiss* argues that the freedom of future generations can be provided by satisfying the following principles (BROWN WEIS, E. 1989)

- (i)      conservation of options;
- (ii)     conservation of quality;
- (iii)    conservation of access.

A business activity can be considered future respecting if its aggregate impact on future generations is not negative.

The extended stakeholder frameworks calls for a radical transformation of business:

- (1) Business should be *sustainable*, i.e. should contribute to the conservation and restoration of the natural world.
- (2) Business should be *pro-social*, i.e. should contribute to development of capabilities of the members of society.
- (3) Business should be *future respecting*, i.e. should contribute to the enhancement of the freedom of future generations.

In their present forms not all business organizations might be able to make considerable steps in the direction of sustainability, pro-socialness and respect for future generations. It is a demanding job for future research to investigate how the conflicts between conventional stakeholder groups and extended stakeholders can (or cannot) be reconciled.

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