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# The Demands of Stakeholder Theory for Corporate Governance

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A RESPONSE TO Aimee Barbeau (2016), “Deliberative Democracy and Corporate Governance,” *Bus Ethics J Rev* 4(6): 34–40, <http://doi.org/10.12747/bejr2016.04.06>

## ABSTRACT

Aimee Barbeau advances a thoughtful critique of my article, “The Connection Between Stakeholder Theory and Stakeholder Democracy: An Excavation and Defense.” Although Barbeau does much to push forward the debate about corporate governance, she does it without undermining my thesis. For what Barbeau has shown is not that stakeholder theorists should not endorse stakeholder boards of directors, but that they should also endorse other ways for stakeholders to participate in decision-making processes within firms.

**AIMEE BARBEAU HAS** advanced a thoughtful critique of my article, “The Connection Between Stakeholder Theory and Stakeholder Democracy: An Excavation and Defense” (Moriarty 2014). Barbeau mines the literature on democracy more effectively than I did, and helps to push forward the debate about corporate governance, especially in the context of stakeholder theory. But, I will argue, Barbeau pushes for-

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ward the debate without undermining my thesis. On their most plausible interpretation, her claims supplement rather than challenge my conclusions.

Briefly, the central claim of my 2014 article is that stakeholder theorists should endorse “stakeholder democracy,” a governance arrangement consisting of a board of directors composed of representatives of each stakeholder group, with those representatives being elected by stakeholders themselves. Stakeholder theorists should endorse this arrangement on instrumental grounds: corporations are more likely to achieve the goal of balancing all stakeholders’ interests with stakeholder boards than with the boards they now have, i.e., ones composed of representatives of shareholders only. (Hereafter I will call these “shareholder boards.”) Stakeholder theorists endorsed stakeholder democracy in early writings; then they abandoned it. I argue that they should revert to endorsing it.

Barbeau (2016: 35)<sup>2</sup> argues that my article “inadequately addresses a growing literature in democratic theory and social choice theory which both point to the inadequacies of procedural voting and advocate for a more holistic understanding of democracy.” In what follows, I identify her three main criticisms and reply to them.

1. Barbeau’s first criticism is that my “argument rests on the key notion that interests are best accounted for by means of democratic voting” (35). However, research on voting shows that this may not be true in “organizational contexts” (36). Barbeau identifies two ways that interests may not be “best accounted for by means of democratic voting.”

A. First, she says that voting, “in order to function effectively, requires large numbers of participants, because small numbers can create a volatile voting situation where one or two votes can dramatically shift an outcome” (36). The problem for stakeholder boards, she says, is that there may not be large numbers of certain stakeholders, e.g., suppliers.

**Reply.** I do not see why voting requires large numbers of participants to function effectively. (Perhaps more needs to be said about what “effective functioning” in the context of voting is.) Suppose three friends are deciding which type of movie to go to: an action

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<sup>2</sup> Hereafter, parenthetical page references not otherwise qualified are to Barbeau (2016).

move or a romantic comedy. They decide to settle the matter by voting. Two vote for the action movie; one votes for the romantic comedy. As a result, they all go to the action movie. It is certainly true that in this case one vote “dramatically shifts” the outcome. If either of the two people who voted for the action movie had voted for the romantic comedy, all three would have gone to the romantic comedy. But this does not seem like a problem with voting as a decision procedure. Voting still seems like a fair way to decide, even if, in some cases, much depends on a single person’s vote.

**B.** Familiar imperfections in voting procedures, according to Barbeau, are a second way – or a set of ways – that people’s interests may not be best accounted for by means of democratic voting. These include “cyclical preferences, opportunities for strategic voting, and the ability to influence elections through agenda-setting” (36). The resulting problems can be mitigated at the political level by “political parties, constitutional structures, and separation of powers” (36). But none of these devices are (or should be) available at the organizational level.

**Reply.** I agree that imperfections in voting procedures present a problem for understanding the results of democratic voting as expressing the will of the people. But it is important to keep in mind my thesis. I claim that stakeholder theorists, in order to achieve their distributive goal of balancing all stakeholders’ interests, should prefer stakeholder democracy to the status quo, which is control of the board exclusively by shareholders. Barbeau provides – and I see – no reason to think that cyclical preferences, opportunities for strategic voting, and the ability to influence elections through agenda-setting will be more of a problem for stakeholder boards than for shareholder boards. So this criticism does not touch my argument. This said, Barbeau is correct to raise the issue. Whether one endorses a stakeholder board or a shareholder board, one must think carefully about the voting procedures the board uses.

2. Barbeau’s second criticism is that my argument “inadequately addresses the democratic problem of the tyranny of the majority” (37). “The formalization of stakeholder input,” she says, “can allow for the suppression of minority views by creating a false clarity about a stakeholder group’s interests” (37). As a result, “the push for voting as the only voice often leaves the marginalized without any voice, except for

a worthless and losing vote” (37). Barbeau says that minorities do better when they participate in democratic processes in ways other than voting in elections, e.g., by raising their voices in “the media, courts, and bureaucracy” (37).

**Reply.** There is a stronger and a weaker interpretation of this criticism. On the stronger interpretation, stakeholder boards are worse, from the perspective of achieving stakeholder theory’s distributive goal of balancing all stakeholders’ interests, than shareholder boards. Perhaps the thought is: stakeholder boards provide an *illusion* that stakeholders’ interests are factored into corporate decision-making, when in reality they are not. Because of this illusion, corporate managers are less solicitous of stakeholders’ interests than they should be. Barbeau does not provide evidence that this claim is true, however, and I see no reason to believe that it is. It assumes that boards would be more solicitous of stakeholders’ interests if this illusion did not occur. Against this, accountability in periodic elections provides an incentive for boards to consider stakeholders’ interests. If boards are not accountable in this way to stakeholders, then this incentive disappears.

On the weaker – and I think more plausible – interpretation of Barbeau’s criticism, the creation of stakeholder boards is not *sufficient* to achieve stakeholder theory’s distributive goal. For stakeholders’ interests to receive appropriate consideration by firms, stakeholders must be able to influence firm decision-making in ways other than voting, viz., by deliberation, access to courts (or the corporate equivalent), and so on. On this interpretation, I think Barbeau’s point is correct. However, I see it as supplementing rather than undermining my conclusion. I argue that stakeholder theorists should endorse stakeholder democracy in the form of stakeholder boards, as opposed to shareholder boards. Barbeau argues that stakeholder theorists should endorse stakeholder democracy in a richer sense. They should endorse, in addition to voting, deliberation, courts, and more. This seems sensible to me. (Though let me add that the non-voting aspects of democracy are not entirely neglected in my article. I note that the stakeholder democracy will have a “deliberative” aspect, as stakeholder boards will reason together about what decisions to make [Moriarty 2014: 829].)

3. Barbeau's third criticism focuses on representatives on stakeholder boards. She says that, at the political level, "representatives are not particularly responsive to the average voter. Rather, as Gilens and Page (2014) show, economic elites control American politics" (38). The same is likely to be true, she says, in the corporate context. The elites among the stakeholders will control corporate boards. As a result, she says, stakeholder boards will create a "veneer of democracy," which will in turn provide management "with a rationale to ignore other, potentially more important, forms of deliberative and non-voting participation" (39).

**Reply.** This criticism can be seen as a version of the second criticism. The second criticism suggested that, in a stakeholder democracy, some stakeholders' interests will receive too much weight. The third criticism identifies these stakeholders, viz., those who are wealthy and powerful. (And her solution to the problem is the same: recognize different ways that stakeholders can influence corporate boards.) My reply to this criticism is the same as my reply to the previous one.

To begin, note that this criticism (also) admits of a stronger and a weaker interpretation. On the stronger interpretation, Barbeau is saying that board members elected by stakeholders will be less responsive to stakeholders' interests than board members elected by shareholders. I see no reason to believe that this is true. To take an example from the political case: U.S. citizens might doubt how well U.S. officials represent their interests. But it does not follow that the interests of U.S. citizens would be better represented if U.S. officials were elected by Canadian citizens instead of U.S. citizens. On the weaker – and more plausible – interpretation of this criticism, Barbeau is saying that the election of representatives to boards is not sufficient to protect stakeholders' interests. Stakeholders in addition must have access to "deliberative and non-voting [forms of] participation" (39). I agree with this claim, but it should be seen as supplementing rather than undermining my point. I do not claim in my article that stakeholder boards are all that is needed to adequately represent stakeholders' interests, only that stakeholder theorists should endorse these boards over the status quo.

Barbeau may reply that I am missing her fundamental point. Her point, she may say, is simply that elections are problematic: they are

not guaranteed to result in representatives who faithfully represent their constituents' interests. But I agree with this too, and am happy to take it on board. Elections must be designed carefully so that they are not dominated by the wealthy and powerful. Indeed – and Barbeau does not go this far, but others would – we might decide that elections are so deeply problematic that they should not be used at all. Instead, we might choose representatives by lottery (Guerrero 2014). Even in this case, my main point is unaffected. Stakeholder theorists should still endorse stakeholder boards of directors, but now with members chosen at random from, instead of elected by, members of the various stakeholder groups.

In this response, I have not challenged in most cases the substance of Barbeau's arguments. Rather, I have shown that they not do not undermine my conclusions. What Barbeau has shown is not that stakeholder theorists should not endorse stakeholder boards of directors, but that they should endorse other ways for stakeholders to participate in decision-making processes within firms. This means that stakeholder theory has even more demanding implications for corporate governance than I claimed that it has.

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