Leadership and Stakeholding

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Introduction

What is the nature of *leadership*? This question has perhaps never had more importance than in recent days. While there are a great many self-professed 'leader' working in industry, politics and other areas, there might appear to be a growing disconnect between our common expectations from leaders and the varieties of alleged leadership on display. The recent global banking crisis is one of many examples where there were plenty of leaders, but arguably too little leadership. Virtually everyone was affected, but yet there was little accountability. This has helped contribute to eroding public confidence in our institutions and in the ability of our elected governments to regulate them satisfactorily.

There is a need to clarify the concept of leadership in light of these crises exposing three key elements: leadership as *sustainable* providing stability, leadership as *accountable* to enable transparency and leadership as *ethical* to set normative limits for what is permissible. I examine in this chapter these elements as built around an important principle of *stakeholding*. This can be stated briefly as the claim that those who have a stake should have a say about outcomes affecting them. I argue below that stakeholding is central to leadership because it helps identify how it can be sustainable, accountable and ethical. Each of these three key elements is examined in turn. It has been argued before that stakeholding theory can offer a persuasive view about business ethics.

My account here is distinctive because I transform a concept found in that literature and develop it as a principle of justice, and a principle that confirm sound leadership. Stakeholding is not merely about the good management of others or a process, but an important part of leadership—and being a leader—as well. The idea of leadership needs to be reconfigured to some extent, or rather it reconceptualised to better track the qualities that leadership should possess. My argument is that stakeholding is useful for bringing out these qualities—leadership as sustainable, accountable and ethical—in a powerful restatement.

Leadership as sustainable

So how does *stakeholding* inform a compelling understanding about *leadership*? The first step is to consider the roots of stakeholding in stakeholder theory. These roots are closely associated with the still growing literature on business ethics and corporate governance (Freeman, et al 2010; Kaler 2003; Plender 1997). This research originated with R. Edward Freeman's *Strategic Management: A Stakeholder Approach* published in 1984 and later popularised further by Will Hutton's defence of 'the stakeholder economy' (Freeman 1984; Hutton 1995). These early accounts of stakeholder theory argued for a new alternative to the orthodox views about business and its management.

One orthodox view is that firms exist purely for profit creation to benefit their shareholders. According to Hutton, this view of firms is that they adopt the mind-set that 'they eat what they can kill' where every penny of income generated is considered to be theirs and theirs alone.[1] The firm as profit creator attempts to eat everything it can in its path and never fully satisfied.

The orthodox view suffers from several problems. One is it does not aim for sustainability. The firm's attempts at profitable growth are measured in the short-term. Firms engorge themselves today without much thought for tomorrow. Firms do not aim primarily at self-perpetuation, but profitability. A second problem is a lack of accountability: if the firm aims to increase profits, then it is thought this helps drive us towards greater efficiencies. These often include a more 'efficient' leadership structure—or, in other words, a top-down structure where decisions are made at the top by a few and distributed to the many below. Such a structure prioritises swift decision-making over transparent, collective decision-making. A final problem is the lack of ethics: there seem few normative constraints on a firm's activity beyond that which makes it possible. But can such problems be addressed without sacrificing enterprise and entrepreneurial activities?

Stakeholder theory arises as an alternative meant to provide answers to problems faced by the orthodox view. It defends a new model for firms that provides for stability, enables transparency and sets normative limits on their activities. This theory puts *stakeholders*, not profits, at its heart. Stakeholders are defined simply as those who have a stake in outcomes: each is a partner engaged in a shared project actively promoting some shared conception of the good. Instead of understanding the firm then as about generating profits (and so focusing on how profits can be maximised), stakeholder theory views the firm as the collective activity of stakeholders and so focuses on their relevant relationships to each other. The idea of the stakeholder economy sets out a new alternative for more than the management of any single firm, but a perspective on how a centre-left view of economic justice might be forged (Freeman, et. al. 2007; Hutton 1999; Hutton 2010).

One central idea motivating stakeholding is sustainability. Stakeholding is only opposed to profit maximisation when it is pursued for its own sake—and not for its stakeholders. A wide variety of people have a stake in the success in a firm. These include those who work for it, but also their dependents and the firms that do business with it. The state also has a stake in the success of its firms as a means to secure economic growth as well as tax revenues. For stakeholder theory, shareholders are not the only ones who count. This is because shareholders do not exclusively have a stake in the success of a firm.

So stakeholding rejects the idea that the firm should aim to accumulate as much as it can for those in the firm; but, instead, defends the view that firms should benefit stakeholders. This shift from the focus on benefitting shareholders to stakeholders is a move away from short-termism to sustainability. Why? Consider the Profit-Only Firm. Its focus—and identity—is bound up in its profit creation. If market conditions brought this to an end, then supporters of the orthodox view might exclaim, 'So what?' Where firms fail to be profitable, they die and this is how markets develop over time. Now consider the Stakeholder Firm. Its focus is on its stakeholders. Many of those with the larger stakes will work directly for the firm, but not all stakeholders do. This leads to a very different outcome whereby if its future became threatened this *would* become a problem. This is not because stakeholder theory claims what exists today must or should exist in future. Instead, the failure of firms to remain sustainable is a problem where they fail to benefit stakeholders. If Profit-Only Firms die, there are other firms to turn to. When Stakeholder Firms are under threat, the problem is not only one for those in the firm, but rather all those with a stake in its continuation. Sustainability matters and has an importance for the firm as a firm organised by stakeholders.

This has clear relevance for leadership. The Profit-Only Firm view of leadership is built around a (too) narrow consequentialism where managerial decisions are legitimated and supported by their ability to contribute to profitability. If this firm were to fail at securing profits, then this structure could not be sustained nor might the firm continue to exist. This form of leadership is maxmising and future-oriented, but short-term.

The Stakeholder Firm view of leadership is inclusive and long-term, accounting for backward-looking and forward-looking considerations. If leadership is about stakeholding, then it must be inclusive to bring together relevant stakeholders. Decision-making cannot also be solely focused on *this* firm and *its* promotion either. This is because there are stakeholders outside the firm, persons with a stake in the firm's outcomes. The stakeholder model of leadership is not a view of how one should decide matters for all, but how all who have a stake can feed into a sustainable, decision-making process.

Those who have a stake should have a say. The issue is then how best to enable such a structure to ensure it is workable and delivers sustainability. We turn to this in the next section.

Leadership as accountable

Stakeholder leadership is about more than ensuring sustainability, but securing accountability. Consider again the orthodox view if the Profit-Only Firm. Accountability in that sphere is about an accountability to shareholders to deliver on short-term profit creation. Those in executive positions benefit most because they are accountable to shareholders for the decisions made. Of course, executives cannot claim the greatest rewards for taking the biggest risks, as the burdens of profitability can often take the form of restructuring and efficiency-savings leading to most job losses endured by those not on the executive team. To be accountable is not so much to be held to account in general—otherwise, more might share in the success (or failure) of the firm rather than benefits moving only to the top and not the bottom of the managerial structure.

Notice that this view of accountability is largely *post facto*, or 'after the fact'. We hold executives to account for the decisions reached after we witness their outcomes. Accountability is about examining the outcomes of decisions already made. To be held to account is to be judged for actions already performed.

Compare this with the view of the Stakeholder Firm. Accountability here is diffused and spread out across all stakeholders. This view rejects the idea that the executive is accountable only to its shareholders because they are not the only persons with a stake in the future success of the firm. Stakeholders include a wider range of people than firm employees and shareholders alone. Likewise, the stakeholder view of leadership is a more expansive view about the leader's decision-making and its outcomes.

But what does it mean to be 'accountable' in this way? One central idea is the importance of *transparency*. If those who have a stake should have a say in outcomes that may affect them, this requires these stakeholders to possess sufficient information. Each must have access to information about available and likely outcomes. So it is not enough that information is 'out there'; it must also be accessible to persons as stakeholders. Transparency is necessary for accountability because all potentially relevant information must be made available *and accessible*.

This point can be clarified by an example. In his *Philosophy of Right*, G. W. F. Hegel defends the right to trial by jury on a distinctive ground, namely, transparency (Brooks 2013: 94—95). He argues that juries are required because without them:

> knowledge [*Kenntnis*] of right and of the course of court proceedings, as well as the ability to pursue one's rights, may become the property of a class [*Stand*] which makes itself exclusive . . . by the terminology it uses, inasmuch as this terminology is a foreign language for those whose rights are *at stake* (Hegel 1990: §228).

The difference between a judge-only trial versus a jury trial is not the amount of information available, but its accessibility. Each might present the same evidence and raise the same legal issues. However, genuine accountability is not achieved through mere exposure to information. The judge-only trial is problematic because it risks becoming an event where only the legally trained can access the reasons supporting trial outcomes. The jury trial better guarantees the trial's procedures and outcomes will be accessible to the defendant because his or her peers are similarly situated (insofar as all lack full legal knowledge) and so the decisions reached by a group of 12 such citizens can serve as a good barometer for what we can and should expect most defendants to understand (Brooks 2004). In other words, we require *accessibility* to secure *accountability*.

This impacts on our understanding of leadership because it cannot be about accountability where those who have a stake in outcomes are unable to access the relevant information to support their decision-making. Consider one illustration of what is often thought to be political leadership: the ready availability of information online about government-related activities. This has certainly had a welcome effect of exposing political decision-making to greater scrutiny, but there remains the possibility of the general public becoming overwhelmed by the sheer volume of available information. The problem is much of this matter may be relatively inaccessible: we all might have opportunities to consider such material, but many of us might lack sufficient knowledge to engage with others. Leadership should view the availability of information as undermined by any lack of accessibility: the two go hand-in-hand. Stakeholding is not only about bringing together people who *are* stakeholders, but engaging with them *as* stakeholders.

This speaks to particular form of relationship between stakeholders. This is complex and part of the criticism faced by stakeholder theory (Prabhakar 2004). The main worry is simple: who are the stakeholders? (Kaler 2002). For example, it is not obvious that corporate partners of any single firm form an exclusive stakeholder group. This is because these partners are not alone in sharing a stake in that firm's future performance. The problem about who to include is then also a problem about numbers: how many stakeholders are there? Stakeholder theory's defenders, such as Will Hutton, claim we're *all* stakeholders: 'companies should be run and managed balancing the interests of shareholders, customers, employees and wider society, rather than prioritising shareholders' (2010: 151). We are all stakeholders in the firm's future success occupying various different roles, such as the workforce, the senior management, customers, supply firms, the families of each and wider economy.

But if we're all stakeholders, how can firms make any decisions? The answer lies in variable power distribution. To say many, if not all, have some stake in outcomes potentially affecting them if not to say every person has an equal share or that the outcome effects from decisions will be shared equally. Some will have more of a stake than others. Some might have different stakes depending upon other factors. So perhaps persons running a firm have a largest stake and even the largest say about outcomes. This does not mean they can or should avoid consulting with all other stakeholders.

Restorative justice conferencing is a useful illustration of stakeholding in practice (Brooks 2012: 65—68, 71—73, 77—84). Restorative justice is an alternative to the formal trial procedure for determining sentencing outcomes for criminal offenders.[2] Instead of a trial, restorative justice aims to provide a context for healing between offenders and their victims as well as others. This is done by bringing together the offender, victim, their support networks (often a spouse or close friend) as well as individuals from the local community conducted by a trained facilitator. The victim speaks first to express the impact of a crime on him or her. Others speak with the offending going last. The meeting is predicated on the offender accepting guilt for the crime and often the offender will apologise to the victim. The benefits of restorative justice have been impressive: it delivers higher participant satisfaction for all participants, can lead to up to 25% less recidivism and can save £1 for every £9 spent (Brooks 2012: 83).

Restorative justice conferencing is a form of stakeholding. It brings together persons who have a stake in outcomes. This includes the victim, the offender, their close family and friends, but also the general public. Yet, it is clear that some have greater stakes than others. For instance, victims and offenders might each be thought to have the largest stakes: the victim as someone subjected to a public wrong and the offender as a person that will be punished. It is admittedly difficult to come to any clear view about the number of other potential stakeholders—including ‘the public’ of you and me—who may be affected by the criminal justice system’s outcomes beyond ensuring the conference’s workability.

Crucially, all participants to a restorative justice conference have a say on its outcome; namely, the punishment of the offender. These stakeholders have a stake and so can engage with other stakeholders about outcomes. This renders restorative justice unique: instead of the top-down decision-making by judges and magistrates in court, restorative justice is a more collaborative enterprise where different stakeholders engage each other to create outcomes that can be shaped by this engagement. Each is also accountable to each other through practical reasoning about outcomes.[3]

Stakeholding brings out the dimension of accountability that is an important part of leadership. Stakeholder accountability requires transparency, but also engagement that is effective without requiring a hierarchical structure. Restorative justice is not a mere analogy, but an example of stakeholder accountability in practice. It illustrates a model whereby persons with stakes in outcomes should—and do—have a say about them engaging with others as fellow stakeholders. The restorative justice model is one example of how both the process and its outcomes can benefit from a stakeholder model.

Leadership as ethical

There is also an *ethical* dimension to the kind of accountability that stakeholding supports. This is aimed at setting normative limits for what is permissible. Leadership is not merely occupying a privileged position and maintaining it (*e.g.*, sustainability). Nor is leadership only providing decisions that are publically accessible in a transparent process (*e.g.*, accountability). Leadership requires that sustainability and accountability work in certain ways that bring out normative implications.

The ethics of the Profit-Only Firm is simple: rightness and wrongness are not central; profit creation is all that counts. So corners can be cut and perhaps long-term sustainability sacrificed in the blind pursuit of maximising profitability for today. Pursuing profits lacks sufficient normative constraints. Any such constraints that are used might endorse different goals. For example, market regulations may undermine profit creation for a firm in the short-term in the name of securing other goods, such as a more sustainable market.

The Stakeholder Firm views things starkly different. Effective leadership is not only about ensuring the firm can continue to benefit its stakeholders, but undertaken as an exercise in stakeholding. So it is not only important to identify the relevant persons: we must also ensure a certain relationship between them. This is described by Hutton as fundamentally about inclusion where this is ‘not a one-way street’ and demands reciprocal obligations (1999: 74; see Fassin 2012).

Stakeholders must engage one another as stakeholders. What is its importance? Consider Philip Pettit’s ground-breaking work on republicanism (2001). Pettit argues that citizens must engage each other with ‘discursive control’ through shared, deliberative interaction where each has the ability and opportunity to contribute (2001: 70). Each person ‘must be able to see their own signature’ in their attitudes and actions (Pettit 2001: 79). To enjoy discursive control, our freedom is secured where we satisfy an ideal of non-domination and not subjected to arbitrary interference (Pettit 2001: 138).

Stakeholding is compatible with republican freedom. Citizens exercising discursive control free from domination engage others as free and equal stakeholders. Each has a stake in outcomes and so each should be able to enter deliberations about how these outcomes are decided. A stakeholder is a citizen who enjoys freedom as non-domination.

However, stakeholding further develops republican freedom. Republicans, such as Pettit, claim that there is not one political discourse, but several with different memberships.

No one might be a member in all, but some may have memberships across more than one (Pettit 2001: 72). But which public discourses are there and who ought to be recognised as participants? Stakeholding offers an answer. Different areas of public life may include various memberships that reflect the multiple stakes citizens might have in each. Public affairs—to be 'public'—affect us all and so we each have some stake in their outcomes. Some stakes may be greater than others.

For example, public funding for the arts concerns everyone, but some, such as artists and musicians, might have greater stakes than others. Criminal justice is of public concern, but some, such as defendants and victims, may possess greater stakes than others, too. Precise determinations about relative stakes in every case might be difficult and hotly contested. Nonetheless, stakeholding can offer some insight into distinguishing between different discursive groups and their members more clearly than republicanism. This is because stakeholding claims those who have a stake should have a say and so provides a principled view on group membership.[4]

Stakeholding further develops republican theories in another respect. Republicanism claims non-domination is secured through discursive control: citizens enjoy republican freedom where they can exercise an opportunity for dialogue without arbitrary interference. Republicans mistake the opportunities to exercise discursive control for non-domination. The idea is that citizens should be held accountable and lack a right to complain should they fail to exercise available opportunities. But my only having opportunities is insufficient. Citizens must see themselves as stakeholders. If they fail to see their having a stake, then they may be insufficiently motivated to have a say even where opportunities for public deliberation are widely available. Citizens must have an interest as stakeholders to incentivize their public deliberation.

This raises a special problem for stakeholding. I have argued that providing opportunities for stakeholding is insufficient: individuals must possess a conviction about their being stakeholders. The problem is whether it is more tolerable to have opportunities for the exercise of stakeholding where many citizens fail to acquire this belief or instead a polity where many share the conviction they are stakeholders, but where opportunities are more limited. The criticism directed at republicanism is that it can be satisfied by the former without regard for the latter: what matters most is the existence *in fact* of opportunities. This does not deny the importance for ensuring citizens are aware of these opportunities, but convictions about stakeholding are much less important. However, both elements are necessary for stakeholding to become manifest: citizens should understand themselves as stakeholders with sufficient opportunities to exercise stakeholding. Nonetheless, beliefs are important for stakeholding in a way they are not for republicanism. If citizens are to enjoy freedom as non-domination, then they must see themselves as non-dominated which stakeholding can help secure.

Alienation is perhaps the greatest concern for stakeholding. Someone who is alienated lacks the sense of self as connected and engaged with others. But this can only be a problem if our social and political world is worth having. For stakeholding, it is not only important that people are seen as stakeholders, but that they see themselves in this light.[5]

Conclusion: leadership as stakeholding?

I have argued for a new model of leadership from a different perspective. I have focused on stakeholding: this is the idea that those who have a stake should have a say about outcomes. This idea finds original expression in the business ethics and corporate governance literature, but it is an idea that has applications elsewhere. Stakeholding is about more than a compelling alternative to structuring the decision-making process of firms, but it can also provide us with significant insights for leadership.

The first claim is that leadership is about sustainability. When we consider what leadership means, many of us will think of someone who maintained a position of leadership that was maintained. Stakeholding makes clear a new way of thinking about sustainability whereby it is one of several goals and not to be considered in isolation from them.

The second claim is that leadership is about accountability. This is often thought to mean those who decide are held to account after decisions have been made. We effectively reward and punish when speaking about 'accountability' for decisions already made in the past. Stakeholding argues that accountability must include accessibility and that the process can be as important as its outcome. Leadership is not only about effective decision-making, but follows an interactive engagement with others who have a stake in outcomes, too. Crucially, stakeholders must not only be able to access available information, but it must be accessible for them to truly engage with others as stakeholders.

Finally, the third claim is sustainability and accountability are exercised within clear normative boundaries. It is important that not only should stakeholders have opportunities to exercise stakeholding, but they must be able to view themselves as stakeholders. This rests on a larger question about whether our social and political world is a world worth having a stake in. This larger, background issue is highly relevant, but beyond the confines of my discussion here.

Nonetheless, I have argued for a new view of leadership and ethics.[6] Stakeholding is more than a metaphor imported from a different literature, but has clear relevance for how we think about leadership and related issues of justice. Leadership is best conceived as a form of stakeholding. This chapter has tried to explain this case.

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[1] See http://www.totalpolitics.com/print/5558/its-not-big-but-fair-will-hutton.thtml.

[2] Restorative justice has other applications, but I will focus only on its use in the criminal justice system for this example.

[3] Restorative justice is also interesting because of its ability to address 'penal pluralism' in a new way. Penal pluralism is the idea that punishment can and should possess multiple penal purposes (Brooks 2014a). So instead of having to select *either* retributivist desert, deterrence or rehabilitation, penal pluralism seeks to integrate them together into a 'unified theory of punishment' (Brooks 2012: 123—48). Restorative justice can have a unified character by supporting multiple penal purposes, such as desert (ensuring punishment to only those confirming their guilt), deterrence (providing penalties sufficiently strong to dissuade others from engaging in similar activities), rehabilitation (focusing on tackling factors linked with reoffending) and others (Brooks 2014b).

[4] My account of stakeholding is normative. As such, it is meant to apply across multiple areas—and I do not believe it is limited to leadership alone. I have already noted the relevance of stakeholding for business ethics and discussed its relation to political and economic justice. But should associations and non-public forms of community and organisation adopt some kind of stakeholder model? Possibly yes, if it can be agreed that is sufficiently valuable to engage others as stakeholders in these domains.

[5] A critic might respond that what I refer to is merely 'consultation', but this is not the case. To be consulted does not require that I provide feedback, or that my feedback is taken seriously or that I am engaged as someone with a stake. Instead, my standing may be nothing more than the receiver of a mass distributed *communique*. Stakeholding refers to something much deeper regarding the relational engagement between participating individuals and their self-identities as stakeholders who reciprocally recognise each other as stakeholders.

[6] Should leadership depend on 'success'? I do not think so. My stakeholder account defends a principled normative approach. While consequences matter, I'm unpersuaded they should be the sole metric for determining success. This is, in part, because consequences may be *shaped* by effective and justifiable leadership without being *determined* by it. So normatively 'good' leadership cannot be judged on outcomes alone, but how these are pursued. The stakeholder account attempts to deliver satisfactory results, but focussing first and foremost on the processes that produce them.