Chapter 76
Can Management Have Multi-Fiduciary Stakeholder Obligations?

Abe Zakhem
Seton Hall University, USA

ABSTRACT

Evan and Freeman (1988) once argued that managers have fiduciary obligations to act in the vital interests of all organizational stakeholders. For some, this "multi-fiduciary" approach is paradoxical, as one cannot simultaneously put the interests of each respective stakeholder ahead of the interests of all other stakeholders; hence, the "stakeholder paradox." This chapter argues for a version of multi-fiduciary stakeholder theory. The argument is based on the following claims. Fiduciary obligations ought to be imposed to control the opportunistic exploitation of the especially vulnerable and dependent. The conditions of special vulnerability and dependence that generate fiduciary obligations are present in various manager-stakeholder relationships. Finally, when properly understood, multi-fiduciary stakeholder theory is logically consistent and morally advantageous.

INTRODUCTION

Stakeholder management theory grew in opposition to the shareholder centric model of the firm. On the shareholder centric view, managers are obligated to make decisions that are in the best interests of a firm's shareholders. Milton Friedman's (1970) very influential pronouncement that the only corporate social responsibility is to maximize company profits represents this view. For Friedman and others, a shareholder centric perspective is optimally good in that it is the most efficient decision making framework and minimizes managerial opportunism, best generates company wealth and social value, and contributes to a free and democratic society. Additionally, the shareholder centric perspective is right to the extent that it respects shareholder proprietary rights and fulfills corresponding managerial contractual/agential duties and obligations.

DOI: 10.4018/978-1-4666-9845-1.ch076

For many stakeholder theorists, there are persuasive empirical, strategic, and moral reasons to reject the shareholder centric view (Donaldson & Preston, 1995). In a very general sense, stakeholders are individuals or groups with a claim or an interest in managerial decision making. Stakeholder advocates argue that the shareholder centric framework does not accurately describe how wealth, company, and social value is produced and does not align with current laws (Freeman, 2008). Furthermore, and due in large part to descriptive and empirical shortcomings, the shareholder centric view does not provide an optimal strategic framework for advancing organizational interests. Even those who advocate for using a shareholder centered metric for guiding managerial decision making and measuring performance tend to encourage adopting an instrumental or "enlightened" stakeholder framework (Jensen, 2002). Additionally, many others question the normative foundations upon which the shareholder centric view is founded and argue that stakeholder management theory provides a better account of what is good, right, virtuous, and just (Freeman, Harrison, Wicks, Parmar, & Colle, 2010; Freeman, 2008; Phillips, Freeman, &Wicks, 2003).

Despite the fact that Friedman's arguments and the shareholder centric position in general have met with sharp and sustained criticism (Desjardins & McCall, 2014, pp. 11-22), the notion that managers owe special moral obligations to shareholders still endures. Defenders of the shareholder centric view often draw on the fiduciary relationship between managers and shareholders to explain why managerial obligations owed to shareholder are so special, i.e., why these obligations should supersede positive duties to advance other stakeholder interests. Briefly, fiduciary relationships arise when one party (the beneficiary) entrusts another (the fiduciary) with limited-access and control over valued property or assets, such as one's health, legal status, or equity, for a limited purpose, such as medical care, legal defense, or money management. Fiduciary obligations carry the highest legal expectations for honesty, care, and loyalty and stand in sharp contrast with typical market relationships in which all parties are allowed and often expected to act solely for their own self-interest. In particular, fiduciary relationships generate concrete obligations to steadfastly advance beneficiary interests, strictly avoid conflicts of interests, and forego the opportunistic exploitation of beneficiary trust.

Taking direct aim at the special status often awarded to shareholders, Evan and Freeman (1988) tried to shift the narrative from shareholders to stakeholders by extending management's fiduciary obligations to include protecting the vital interests of *all* stakeholders, and not just shareholders. They even suggested that stakeholders ought to be appointed to corporate board of directors to ensure that all vital interests are represented and protected. Evan and Freeman, and Freeman alone, found normative support for these claims; arguing specifically that stakeholders are owed a basic degree of equal recognition and respect in Rawlsian and Kantian moral theories.

Apart from specifically critiquing the moral foundations of this position, critics argued that Evan and Freeman's "multi-fiduciary" view of managerial obligations leads to what is commonly referred to as the "stakeholder paradox" (Goodpaster, 1991). Alexi Marcoux (2003) explains that multi-fiduciary stakeholder theory is paradoxical to the extent that it demands that managers simultaneously put the interests of each respective stakeholder ahead of the interests of all other stakeholders, which is logically impossible. In short, a manager cannot grant all stakeholders the special status that fiduciary duties imply. To do so is not only conceptually inconsistent, but to the extent that stakeholder conflict is inevitable, the multi-fiduciary is also practically unmanageable. Since Goodpaster (1991) introduced the "stakeholder paradox," many have debated the nature and extent of fiduciary obligations and the special status of shareholders or if indeed there is such a special status (Jensen, 2007; Buchholz & Rosenthal, 2004;

Related Content