Chapter 2
From Agency Theory to Stakeholder Theory

INTRODUCTION

This chapter concerns itself with elaborating on the epistemic distinctions between agency theory and contemporary stakeholder theory. The chapter first draws readers’ attention to the inequality and lack of fairness in an evolving global system under the aegis of economic globalization. One of the main conclusions of this chapter is that globalization requires some modification both at the level of business practice and at the level of its various theoretical conceptualizations. The chapter draws on the discussion of various authors who have emphasized the notion that perhaps a critical stakeholder approach to the theory of the firm might help modify existing theoretical perspectives. It is suggested that these alternative theoretical explanations and paradigms might also help to correct our understanding of some of the deleterious effects of the operations of MNCs in Africa and elsewhere in the developing world.

AGENCY THEORY AND STAKEHOLDER THEORY

Protests against globalization are not entirely about the mere fact of globalization. The key issue at stake is the level of inequality and lack of fairness in a world system that globalization has given rise to. This indicates that the distribution of benefits or economic gains from globalization linked to the activities of MNCs requires modification (Sen, 2002). One would submit

that countries in Africa and other parts of the developing world have suffered dearly from this lack of fairness under the regime of globalization. Thus, these historical and structural iniquities crystallize the need for consolidating corporate governance frameworks to reflect the aspirations of all relevant stakeholders in Africa and in other parts of the world, where most of those excluded from the current economic gains of globalization live.

Thus, one would suggest that theories of corporate governance linked to the micro-level foundations of firms provide valuable insights into some of the issues at stake. In an article by Garriga and Mele (2004, p. 51) the authors conclude that the Corporate Social Responsibility (CSR) field presents a landscape of theories and approaches. Thus, the authors categorized CSR theories and main approaches in four groups:

- Instrumental theory, in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results;
- Political theories, which concern themselves with the power of corporations in society and a responsible use of this power in the political arena;
- Integrative theories, in which the corporation is focused on the satisfaction of social demands; and
- Ethical theories, based on ethical responsibilities of corporations to society.

**INSTRUMENTAL, INTEGRATIVE, AND ETHICAL THEORIES**

Among other tasks, the researcher shall provide some accounts of two contrasting ethical theories of the firm that fall under the classification above: agency theory and stakeholder theory. Both theories, while working within the same ideological framework of managerial capitalism, have nevertheless, arrived at contrasting conclusions regarding the nature of the modern corporation (Freeman, 2005).

The ideological foundations of agency theory have been faulted for their lack of consideration of the diversity in corporate governance regimes (Triantis and Daniels, 1995). Agency theory has proclaimed shareholder interests to be the ‘general interest’ because they are assumed to be the most appropriate
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