

## MERITS OF CORPORATE PLURALIST OR STAKEHOLDER APPROACH IN NIGERIA\*

### Abstract

*A lot of people see a big corporation purely as an economic vehicle through which shareholders' wealth will be hugely maximised and they have no qualms once this singular corporate objective is met no matter the extent of inconveniences or discomfort the other corporate stakeholders may suffer in the course of actualising this shareholder primacy agenda. They are comfortable even when the quest by these companies to maximise shareholders' wealth becomes inordinate. In as much as no law is breached in the course of such a hot pursuit for shareholder wealth enhancement, they have no issues with that because, to them, a corporation is nothing else other than an economic entity which should and must play exclusively economic role just for their shareholders. These people, popularly referred to as shareholder primacy advocates, appear to forget that a corporation is not an island, but a social entity also which affects and is affected by a lot of stakeholders. As such, it ought to play social roles also. This has therefore prompted us to embark on this research voyage to see whether there are some tangible benefits derivable from these big corporations playing but economic and social roles to not only their shareholders but also to the non-shareholding stakeholders. This we did by employing the doctrinal research methodology. The researchers observed that it is in the overall interests of the shareholders that the corporation, no matter the kind of corporate objective in place in the country concerned, should be integrative of and concerned with the protection and promotion of the interests of non-shareholding stakeholders as doing so will be beneficial to shareholders as it will most likely result in increase in the corporate profit available to them and will cause the company to be seen as a good, responsible and ethical corporate citizen with its attendant benefits.*

**Keywords:** Corporations, Pluralist, Stakeholder Approach, Merits, Nigeria

### 1. Introduction:

Government, in a number of countries, especially in the Third World countries, are struggling to cope with the provisions of the much needed social and societal welfare and well-being as well as the infrastructural needs of the citizens. The same applies to meeting up with the security needs and challenges of the people. There is no gainsaying the fact that these are the basic responsibilities of the government, in fact, the very primary reasons why we have government in place, in the first instance.<sup>1</sup> It can hardly be doubted that any government, no matter how welfarist-inclined and peoples-oriented it is, cannot be able to meet up with all the social needs of her citizens. This must have prompted a lot of people to look for a robust alternative source for the provision of these important societal needs. Big corporations, because of their organisation, means or wealth as well as their reach and influence, are the entities next to government that can provide or help to provide these important assistance and facilities to the people.<sup>2</sup> Thus, attention is being increasingly paid and discussions are continually had on the ways big companies can aid in alleviating the needs, sufferings and challenging of the people,<sup>3</sup> their non-shareholding stakeholders and the communities upon which they operate. A lot of corporate stakeholder-advocates have therefore arisen to condemn and criticise shareholder-primacy advocates who are insistent that the sole or core responsibility of the corporation is to make maximum profit for its shareholders. Thus, the assertion of Milton Friedman that the business of the company is solely to make maximum profit for the investing shareholders is largely condemned by many scholars – the corporate stakeholder or pluralist advocates. This condemnation or criticism is rooted, amongst other things, on the fact that a lot of stakeholders, not only shareholders, contribute to the growth and developments of the corporation. As such, their interests should, thus, be put into consideration in corporate policy-making and implementation. Another reason behind broader-based corporate focus as against single-minded shareholder-welfare approach is what have been highlighted above – the fact that most governments are not and cannot be capable of providing, single-handedly or unaided, the social and security needs of her citizens. This is so, no matter how benevolent and welfarist-

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<sup>1</sup> See, for instance, s 14(2)(a) of the Constitution of Federal Republic of Nigeria, 1999 (as Amended) which provides that 'the security and welfare of the people shall be the primary purpose of government.'

<sup>2</sup> Some of these big companies are even richer, better organised, better managed, more influential and more powerful than some countries.

<sup>3</sup>In fact, globally, there is a strong shifting or transition of responsibilities and tasks from government to corporations. See J Makeinen and A Kourula (2012) 'Pluralism in Political Corporate Social Responsibility' *Business Ethics Quarterly* 650. They noted that the examination of the political and social roles of the company in society has currently 'experienced a revival.' *Ibid*,

oriented the said government is or can be. This has prompted these researchers to look into the advantages accruable to companies when they are pluralist or stakeholder-oriented in approach. The researchers observed that it is worthwhile for big companies to be pluralist or stakeholder-oriented in approach and therefore suggest that it is in the overall interests of the shareholders that big companies should adopt this broader stakeholder and social approach in its policies and operations because of the inherent profits available or accruable to the companies in doing so which will, ultimately, tickle down to the shareholders at the end of the day. The said benefits of wider corporate stakeholder approach are discussed in details later in this work. This work starts with treating the meaning of shareholder primacy approach, its implications, the arguments for a shift to stakeholder approach and the profits accruable from a stakeholder approach not only to the stakeholders themselves but to the corporate shareholders as well.

## 2. Meaning of Shareholder Primacy Approach:<sup>4</sup>

There are various forms of business organisations recognised and encouraged by corporate legislation of various nations. In Nigeria, for instance, we have sole trade or individual trade, partnership, co-operative society, statutory corporations etc. It is very obvious that these business organisations play crucial roles in the economic growth or advancement of the country as well as contribute hugely towards the stability of the country's economy and in the economic welfare and social wellbeing of the people. It, however, appears incontestable that registered companies are the most important unit of business organisation for carrying out economic activities nowadays. This is traceable, among others, to its legal personality,<sup>5</sup> perpetual succession, the opportunity for investment from numerous investors, ease of raising capital<sup>6</sup> and the strict legal control and the protection of members and creditors. These attributes or characteristics have placed big companies in a position where they have played and will continue to play big and ever-increasing roles in the development of the economy of the country and that of its shareholders.<sup>7</sup> The question is, to what extent has those big companies promoted the social welfare and well-being of their non-shareholding stakeholders? It is almost indubitable that the main essence of forming or incorporating a company or investing in its shares is to make economic gains or profit either through payment of dividends to the shareholders/investors by the company or through appreciation in the company's share value which will result in profit when eventually sold by the investor/shareholder. Supporting the above assertion, the International Accounting Standard Board stated that 'to an equity investor, a corporation is a source of cash in the form of dividends (or other cash distribution) and increase in the price of shares or other ownership interests'<sup>8</sup> The well known exception to this is a company limited by guarantee which, by virtue of s 26 of the Nigerian Companies and Allied Matters Act 2020<sup>9</sup>, is formed for the promotion of an interest or object which may be art, sports, science, culture, education etc. The income, profit or returns of such a company cannot be distributed among the members;<sup>10</sup> just as its property cannot be paid or transferred either directly or indirectly to its members.<sup>11</sup>

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<sup>4</sup> For a detailed discussion of this, see J.A Eze (2017) 'Shareholder Activism as a Possible Catalyst for Corporate Non-Shareholding Stakeholders' Inclusivity' 3(1) COULJ, 170. Simply put, shareholder primacy approach is the belief or notion that company exists or should exist purely and essentially for the promotion or enhancement of the economic benefits of the shareholders. To the advocates or supporters of this approach, the country's corporate legislation should be in-tune with this target. That is, the corporate objective of the country concerned should be in line with this. These advocates are of the strong view that company's profit should be enjoyed squarely by the shareholders. Consequently, they see company directors' utilisation of the resources of the company to benefit non-shareholding stakeholders in any way as altruistic, immoral, improper, abuse of their directorial position and therefore condemnable.

<sup>5</sup> A company has a legal personality distinct from those of its members. See *Salomon v Salomon* (1897) AC 22; 45 WR 193.

<sup>6</sup> These apply mostly to public companies. By virtue of s 24 of Companies and Allied Matters Act 2020, there is no restriction on the maximum number of shareholders a public company can have. There is also no restriction on the transfer and transferability of its shares. When this is done, the transferee becomes a member of the company. Again, the shares of such a company are quotable on the Nigerian Stock Exchange, thereby providing an easy market for the company's shares. All these aid, among other things, in its longevity or perpetual succession, its opportunity of having multitude of investors or shareholders and the resultant ease of raising money for its corporate business activities both through sale of its shares to the public and through borrowing from financial institutions, as well as through the issuance of debentures – a privilege uniquely available to companies.

<sup>7</sup> See J.O Orojo (2008) *Company Law and Practice in Nigeria* (5<sup>th</sup> ed.) LexisNexis, p 5.

<sup>8</sup> International Accounting Standards Board, 'Discussion Paper on Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information' (2006), [www.investmentfunds.org.uk/news/research/2006/topic/corporate\\_governance/imaresponsetoiasbdponconceptualframework.pdf](http://www.investmentfunds.org.uk/news/research/2006/topic/corporate_governance/imaresponsetoiasbdponconceptualframework.pdf)

<sup>9</sup> Hereinafter refers to as CAMA 2020.

<sup>10</sup> *Ibid.*, s 26(2) and (3).

<sup>11</sup> *Ibid.*, s 26(1).

The above fact may have moved some scholars and advocates to insist that the essence of business or company is business,<sup>12</sup> that is, the economic advancement or profit maximisation of its shareholders. In other words, its sole target is to make as much profit as possible for the shareholders. Anything outside this is outside its business. These advocates, otherwise generally referred to as shareholder primacy advocates, strongly believe that a company should not play any other role except that which it owes to its members or shareholders – ensuring maximum returns for their shareholding or investment in the company. Most of them have a strong stance that a company does not owe any responsibility, be it social or otherwise, to any non-shareholding stakeholder. Some of them even view the company directors discharging any responsibilities to non-shareholding stakeholders as altruistic,<sup>13</sup> immoral as well as an abuse of office, that is, a misuse or abuse of their fiduciary relationship or position with their shareholders.<sup>14</sup> Every attention and priority of the board, these shareholder primacy advocates maintain, should and must be accorded to the shareholders and their interests,<sup>15</sup> which, of course is that they receive maximum returns for their investment in the company.<sup>16</sup> The directors will breach their duties if they do not focus their attention in maximising profit for the members,<sup>17</sup> with this found expressed in *Dodge v Ford Motor Co*, where the Michigan Supreme Court stated that ‘a business corporation is organised and carried on primarily for the benefit of the shareholders. The powers of the directors are to be employed for that end.’<sup>18</sup> Under this shareholder primacy approach, there is no legal duty on the directors to prioritise any other interests, except if doing so will enhance the profits available to the shareholders.<sup>19</sup> Any money, these advocates argue, the directors spent in discharging any social responsibility is other peoples’ money and is therefore, unjust. By so doing, the directors are acting in a way antithetic to the interests of their ‘employers’ – the shareholders.<sup>20</sup> This position is premised on the alleged fact that shareholders are residual claimants or residual risk-bearers<sup>21</sup> and are, thus, the last in the rung to be settled, after every other persons or groups have been settled from the investment returns of the company. This is so, especially if the company runs into financial difficulties or becomes insolvent. Consequently, if enough profit is not made by the company, there will be little or nothing left for the shareholders to share at the end of the day. Hence, to them, companies should engage in aggressive wealth generation and maximisation. They see nothing wrong with this quest to maximise shareholders’ wealth - even when it is inordinate, insofar as it is done within the law. Of course, the generated wealth should and must not be used for social purposes as doing so will deplete the funds or dividends available for shareholders.

As can be gathered from the abuse, the crux of shareholder primacy approach is to ensure that companies are run to promote and enhance maximally the economic interests and wealth advancement of the shareholders through ensuring maximum return for their investment in the company. It is obvious that this approach is serving the shareholders and their interests excellently because under it, every profit generated by the company,

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<sup>12</sup> Milton Friedman famously said that ‘The Business of business is business’ M. Friedman, *The New York Times*, 13 Sept, 1970. He forcefully argued that a company owes only economic responsibilities to its shareholders. He insisted that a company owes no social responsibilities to non-shareholding stakeholders. In fact, according to him, the social responsibility of business is to increase its profit for its members.

<sup>13</sup> G.P Lantos (2002) ‘The Ethicality of Altruistic Corporate Social Responsibility’ 19(3) *Journal of Consumer Marketing* 203, at p 205.

<sup>14</sup> Under shareholder primacy approach, the board of directors owe their duties solely to the company, that is, the members/shareholders as a whole. See *Percival v Wright* (1902) 2 Ch 421.

<sup>15</sup> See J Brummer (1991) *Corporate Responsibility and Legitimacy*, New York: Greenwood Press, at p 103.

<sup>16</sup> *Greenhalgh v Arderne Cinemas Ltd* [1951] Ch 286, at p 291.

<sup>17</sup> A Keay (2010) ‘The Ultimate Objective of the Company and the Enforcement of Entity Maximisation and Sustainability Model.’ 10(1) *J.C.L.S* 35, at p 40. See also Bainbridge, S.M (2008) *The New Corporate Governance in Theory and Practice*, New York: OUP, at p 73, where he pointed out that ‘When the directors hire equity capital from shareholders, the directors undertake a contractual obligation to maximise the value of the shareholders’ residual claim on the corporation’s assets.’ This obligation is, of course, implied and not expressly stated in a formal contract.

<sup>18</sup> 170 N.W. 668, 684 (Mich. 1919).

<sup>19</sup> The stakeholder value advocates, however, hold a different view. See for instance, the opinion of J Dean (2001) *Directing Public Companies: Company Law and the Stakeholder Society*, London: Cavendish Publishing, at p 13. They insist that every corporate constituency deserves attention and must be considered in *its own right*. Emphasis added.

<sup>20</sup> The shareholder primacy advocates believe that if, for example, the board refrains from increasing the price of the goods so as to contribute to the social objective of preventing inflation, although a price increase would be in the best interests of the shareholders or the company, or that it expends money on reducing pollution above the amount that is in the best interests of the company or that is required by law in order to contribute to the social of improving the environment, or that it spends some money in providing infrastructure for the local communities or other social welfare packages or programmes, in all these cases, they insist, the board would be spending someone else’s money for a general social welfare, which is unacceptable.

<sup>21</sup> Some commentators disagree with this claim (that the shareholders are the residual claimants). See for instance, L Stout (2002) ‘Bad and Not-so-Bad Arguments for Shareholder Primacy’ 75 *Southern California L.R* 1189, at pp 1193-1194.

as far as the law is concerned, belongs to them completely<sup>22</sup> and not to any other non-shareholding stakeholder group.<sup>23</sup> Thus, Berle and Means' view was that the shareholders, between themselves, 'have the complete right to all of the profits which the corporation has made, and moreover were entitled to those profits which the management in reasonable exercise of its powers ought to make.'<sup>24</sup> They further averred that 'the expectation of the entire profit is the precise lure used to induce investment in corporate enterprise' in the capital market.<sup>25</sup> For Berle and Means, the position - that shareholders are entitled to all the profits of the company - is developed by the law by extending the traditional logic of property to the corporate situation, and shareholder primacy is thus justified by shareholders' property rights.<sup>26</sup> They insist that it is not in the shareholders' best interests if the board uses the profits of the company to benefit non-investing constituencies, and that such conduct would amount to an illegitimate utilisation of the corporate profits and therefore a breach of board's obligation to hold those properties in trust for the shareholders for their benefit.<sup>27</sup>

The above position has, however, attracted the criticisms and condemnations of the other group – the stakeholder or pluralist or corporate wider responsibility group - who avers, and strongly so, that a company is not just an economic but also a social entity, and, as such, should play or discharge social roles to its non-shareholding stakeholders. According to these advocates, the board of directors of a company is not to manage the corporation solely for the promotion and enhancement of the shareholders' interests but for the betterment of the interests of the various stakeholder constituencies who can affect or are affected by the activities, decisions or programmes of the company. This approach believes that the board has a responsibility to balance, as much as possible, the various stakeholder groups' interests when deciding the appropriate corporate action or decision to take at any given point in time.<sup>28</sup> They noted with dismay that in the 'drive to maximise shareholder value, the critical relationships with employees, customers, suppliers and the community have been sacrificed and long-term shareholder value has been destroyed.'<sup>29</sup> This should not be so as a corporation is not an island, existing in isolation. Yes, a corporation is not a black box divorced or separated from its wider social, political and ethical environment but a 'glocalised' player,<sup>30</sup> and, as such, should be conscious of and concerned with its social, political, ethical and environmental responsibilities. This should be so even in a jurisdiction where big companies are not legally mandated to be pluralistic in approach. There appears to be, at least, moral and social responsibility on them to do so as good corporate citizens.<sup>31</sup> It is believed that it is in the best interests of the company and those of its shareholders when the company is socially and ethically conscious and discharges its social and ethical responsibilities to the non-shareholding stakeholder constituencies. There is therefore an on-going campaign to move corporate purpose or objective away from a strict shareholder-centric to stakeholder-

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<sup>22</sup> A.A Berle and G.C Means (1932) *The Modern Corporation and Private Property*, New Brunswick and London: Transaction Publishers, at p 296.

<sup>23</sup> See also the decision in *Dodge v Ford Motor Co.* (1919) 170 N.W. 668. Here, Henry Ford took the view that the shareholders had been amply rewarded on their investment in the company and so proposed to declare no further special dividends but only the regular dividends in order, among other things, 'to employ still more men, to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes.' *Ibid*, at p 683. This was however, held to be 'an arbitrary refusal to distribute funds that ought to have been distributed to the stockholders as dividends.' The court pointed out that 'it is not within the lawful powers of the board to shape and conduct the affairs of a corporation for merely incidental benefit of shareholders and for primary purpose of benefitting others.' *Ibid*, at p 684. It was strongly stressed that the exercise of the board's discretion does not extend to 'the reduction of profits or to the non-distribution of profits among shareholders in order to devote them to other purposes.' *Ibid*

<sup>24</sup> Berle and Means (above, n 22), at p 297.

<sup>25</sup> *Ibid*.

<sup>26</sup> The old theories of the corporation that attributed ownership to shareholders and thereby justifying profit maximising objective has, however, been described as 'outdated, over-abstracted, over-static and far removed from the modern business environment and social reality.' See S Letza, X Sun and J Kirkbride (2004) 'Shareholding versus Stakeholding: A Critical Review of Corporate Governance' 12(3) *Corporate Governance* 242, at p 243.

<sup>27</sup> Berle and Means (above, n 22), at p 297.

<sup>28</sup> See A Keay, A (2007) 'Tackling the Issue of the Corporate Objective: An Analysis of the United Kingdom's 'Enlightened Shareholder Value Approach'' 29 *Sydney L.R* 577, at p 578.

<sup>29</sup> D Cassidy (2003) 'Maximising Shareholder Value: The Risk to Employees, Customers and the Community' 3(2) *Corporate Governance* 32, at p 32.

<sup>30</sup> G. Wilson (2011) 'From Black Box to Glocalised Player? Corporate Personality in the Twenty First Century and the Scope of Law's Regulatory Reach' 62(4) *N.I. LQ* 433.

<sup>31</sup> This notion must have moved Bowen to say, as far back as 1953 that 'The moral problem of the businessman is to recognise the social implications of his decision and to consider the social interest – so far as is possible and reasonable – in arriving at these decisions.' H.R Bowen (1953), *The Social Responsibilities of Businessman*, New York: Harper & Brothers, at p 30.

centric approach as companies ought to advance or promote public-serving purposes as against solely private gains.<sup>32</sup> Some of the merits of adopting this sort of corporate stakeholder approach are discussed below.

### **3. Advantages of ‘Inclusive’ Corporate Stakeholder Approach**

The importance of an inclusive corporate approach cannot be over-emphasised, as it is alleged that ‘the best and most successful companies have always been those that took seriously their wider responsibilities.’<sup>33</sup> Two things stand out in the clamour for an ‘inclusive’ and integrative approach to corporate governance: (a) the belief that the co-operative relationships between a company and its stakeholders are fundamentally important to the firm’s creation of wealth; and (b) the recognition of a connection between company’s ethical, social and environmental performance and the company’s success. With respect to this last issue, responsible corporate behaviour often makes a direct contribution to the company’s profit by reducing costs; for instance, environmental measures aimed at recycling waste and reducing energy consumption. Again, developing a reputation for a high standard of ethical, social and environmental responsibilities may give a company a distinctive presence in the market and increase the company’s market share.<sup>34</sup> On the other hand, a company that is perceived to behave irresponsibly may suffer market penalties.<sup>35</sup> This is especially so in a civilised and ‘sensitive’ nation where social monitors are very active and can easily help to bring the irresponsible and unethical behaviour of the company concerned to the attention of the public.<sup>36</sup> Consumers may decide to buy elsewhere. This may, sometimes, be as a result of an organised boycott.<sup>37</sup>

An ‘irresponsible’ company faces not only liability risks or costs but also reputational risks/costs. Companies with poor reputation may find it difficult to recruit and retain high-quality employees.<sup>38</sup> A number of investors are increasingly scrutinising a prospective company’s policies on wider social responsibilities before investing in the company.<sup>39</sup> There are also an increasing number of individual investors and investment institutions (like, ethical funds and public-sector pension funds) that are explicitly committed to responsible investment principles. It is expected that more inclination will be given to this and other related developments by the increasing requirement by many countries for pension fund trustees to state their policy, if any, on responsible investment.<sup>40</sup> The merits of ‘inclusive’ approach thus include:

#### **Increase in Corporate Income**

Corporate inclusion of the interests of non-investing stakeholders, *prima facie*, has the tendency of eroding the profits which would otherwise be available to shareholders. When it is, however, looked at from a broader perspective, it can, if properly harnessed and managed, lead to increase in the corporate income as it will portray the company before the public as a good and responsible corporate citizen as well as serving as a good public relations strategy. Agreeably, when employees are adequately taken care of, and have good and favourable employment terms and conducive working conditions, their job security guaranteed, good pensions guaranteed etc - they will most likely feel and see themselves as an integral part of the company. This generates trust and co-operation between the company and the employees and therefore has the possibility of boosting their morale and increasing their productivity and commitment to the company with the attendant increment in wealth generation for the company and its shareholders.<sup>41</sup> Again, a cordial relationship between the company and the local community in which it operates can boost its output to the advantage of the shareholders while the opposite may be the case when the friendship is absent. For instance, some of the multinational oil companies operating in the volatile Niger-Delta in Nigeria that are not in good relationship with their host communities lose

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<sup>32</sup> See for instance, L Johnson (2013) ‘Pluralism in Corporate Form: Corporate Law and Benefit Corporation’ 25 Regent University Law Review 269.

<sup>33</sup> Rt. Hon. Timms Stephen (MP) (Minister CSR, UK, 2008).

<sup>34</sup> The often cited examples in the UK are: the Body Shop and the Co-operative Bank.

<sup>35</sup> In a civilised society, market forces have a way of rewarding corporate responsible behaviours and at the same time, punishing corporate irresponsible conducts. See J Parkinson (2003) ‘Disclosure and Corporate Social and Environmental Performance: Competitiveness and Enterprise in a Broader Social Frame’ 3 J.C.L.S 3, at p 11. See also Punchedeva, P (2008) ‘The Role of Corporation Reputation in the Stakeholder Decision-Making Process’ 47(2) Bus & Society 272.

<sup>36</sup> See J.A Eze (2021) ‘Social Monitors as Agents/Catalysts of Corporate Socially Responsible Behaviours’ 6(1) *COOULJ* 253,

<sup>37</sup> *Ibid*, at pp 263-267.

<sup>38</sup> There is survey evidence which suggests that a good corporate reputation is regarded as more important than starting salary, fringe benefits, or sports and social facilities by potential employees. See Just Pensions, Socially Responsible Investment and International Development (London, 2001), at p 5.

<sup>39</sup> See J Parkinson (2002) ‘Inclusive Company Law’ in John de Lacy (ed) *The Reform of United Kingdom Company Law*, London: Cavendish Publishing, at p 47.

<sup>40</sup> See UK Pension Act 1995, s 11A.

<sup>41</sup> See J. Parkinson (2003) ‘Models of the Company and the Employment Relationship’ 41(3) British Journal of Industrial Relations 481.

billions of dollars annually due to plant shut down, plant vandalism, payment of ransom when their workers are kidnapped, hiring private security to guard their workers and facilities etc. Royal Dutch Shell PLC and SPDC Ltd (its Nigerian subsidiary) paid USD15.5 million in settlement to the people of Ogoni, Nigeria in 2009 for the company's involvement in the torture and execution by the military government of some activists protesting the company's destruction of the community and its environment. These expenses have a serious in-road into the profit that would otherwise be available to the shareholders. The Exxon Valdez oil spillage in Alaska, USA<sup>42</sup> is another case in point. Here, about 11 million gallons of crude oil were spilled. It is estimated that Exxon Valdez has paid 'anything from US\$ 4billion to over US\$ 9billion' in clean up and liability fees. Similarly, Shell BP's share price fell 17 percent after the Gulf of Mexico spill in 2010 – wiping £12 billion of the value of pension funds.<sup>43</sup>

#### **Reduction of Conflicts with Stakeholders, and Building of Productive and Trusting Relationships**

Being socially responsible and integrative of the interests and welfare of non-shareholding stakeholders can help a company in reducing conflicts. A constant conflict with the stakeholders is generally not very healthy to the image and progress of the company. When a company has less conflict with the stakeholders or activists owing to its inclusive and responsive approach to corporate issues, it will help it to build, *inter alia*, trust, a good reputation, brand name and goodwill. These will boost stakeholders' relationship with it and guarantee more confidence in their dealings with the company. They would thus be spurred to make more firm-specific investments and thereby promote corporate sustainability.<sup>44</sup> It may also increase the company's bargaining powers (for instance, in wage negotiations or negotiations with suppliers, creditors); raise the number and quality of the pool of available employees,<sup>45</sup> suppliers, customers; attract more investors and minimise the resources expended in settling disputes.<sup>46</sup> This will be to the overall benefit of the shareholders as it is expected to lead to increase in profit.<sup>47</sup> Again, factors such as good business ethics, company's consciousness of the environmental impacts of its activities; societal interests; and the needs of the local communities in which it operates can have a good effect on its reputation, as well as on its long-term success. Thus, Sternberg avers that a corporation that takes for granted the 'demands of business ethics, or gets them wrong, is unlikely to maximise long-term owner value.....The business that characteristically lies or cheats.....that treats its customers contemptuously, or its staff unjustly, or its suppliers dishonestly, will often find them hard to retain.'<sup>48</sup>

#### **Reduction in Strict Legal Regulation or Control of the Corporation by Government**

Just like human beings, corporations do not like or cherish operating in a jurisdiction or country where there are in existence, too much legal control or regulations of their activities by the government and its agents. They feel choked when too many laws are in place as such rules and regulations may have stifling effects on their corporate activities. Of course, in a number of cases, government put in place many stiff penalties accompanying non-compliance or partial compliance with such legal rules and regulations. These punishments or penalties do have serious in-roads into the coffers of the company. This have prompted a number of firms to, on their own, put in place certain self-regulations and co-regulations to regulate their corporate activities by themselves in a bid to wade-off or minimise strict legal regulation or control by government.<sup>49</sup> It is apparent that government will have cause to put in place maximum corporate legal control when companies behave irresponsibly, unethically and are unconcerned with the welfare and well-being of their non-shareholding stakeholders, especially in the area of the negative environmental impacts of their corporate activities to the local communities. When, however, these companies are responsible and responsive and play their social responsibility roles very well, there is likelihood that strict government regulation will be brought to the barest minimum to the overall benefit of the shareholders as this will result to increase in corporate profit or dividends available to them.

#### **4. Conclusion**

From the foregoing, it becomes clear that it pays a company more to be stakeholder-oriented instead of paying all its attentions solely to the advancement of the economic well-being of the shareholders. Contrary to the widely held

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<sup>42</sup> In March 24, 1989. See <http://www.marise.org/ics/issues/exon/vald.htm>.

<sup>43</sup> Sun Newspaper, 17<sup>th</sup> May 2013, at p 42. The company's total estimated bill for the spill is £26.1billion. This amount integrates/covers compensation payments to the victims, clean-up costs and fines. See 'BP Wins Court Battle Over Gulf of Mexico Spill Claim' London Metro Newspaper, Friday, 4<sup>th</sup> October, 2013, at p 47.

<sup>44</sup> See J.K.S Ho (2010) 'Is Section 172 of the Companies Act 2006 the Guidance for CSR?' 31(7) Company Lawyer 207, at p 209; L Roach (2005) 'The Legal Model of the Company and the Company Law Review' 26 Company Lawyer 98, at p 100.

<sup>45</sup> See D Greening and D Turban (2000) 'Corporate Social Performance as a Competitive Advantage in Attracting a Quality Workforce' 39 Business and Society 254.

<sup>46</sup> R Heinkel, A Kraus and J Zechner (2001) 'The Effect of Green Investment on Corporate Behaviour' 36(4) J.F.Q.A 431.

<sup>47</sup> See G Heal (2005) 'Corporate Social Responsibility: An Economic and Financial Framework' 30(3) Geneva Papers 387.

<sup>48</sup> E Sternberg, (1995) *Just Business: Business Ethics in Action*, London: Warner Books, at p 19.

<sup>49</sup> See J.A Eze and A.C Akpunonu (2022) 'Civil Regulation' and Corporate Social Performance Enhancement' 4(1) Int'l Review of Law and Jurisprudence.

misconception that adopting stakeholder or pluralist approach will deplete the investment returns available to the shareholders, it will most likely appreciate it, especially in the long-run as doing so will reduce consumer boycott of the goods and services of the company concerned, enthrone consumer loyalty and increase their custom//patronage, ensure employees' loyalty and dedication to duty, reduce conflicts with local community and other stakeholders, reduce the money spent in legal actions and payment of damages to the aggrieved or injured stakeholders, reduce and minimise government strict regulation of the industry with its attendant costs or fines, reduce negative publicity corporate irresponsible and unethical practices will attract/give the company,<sup>50</sup> reduce monitoring of the company by social monitors,<sup>51</sup> enable the company to hire the best hands as ethically-conscious workers will like to be associated with and work for such an ethically and socially responsible corporation. All these will, at the end of the day, culminate into more corporate profit for the company and, of course, more investment returns for the shareholders either in the form of cash paid to them as dividend or appreciable appreciation in the value of the company's shares in the stock market.

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<sup>50</sup> See generally, Warwick, S.L (1992) 'The Relationship between Intense Media Exposure and Change in Corporation Reputation' 31 *Bus and Society* 33.

<sup>51</sup> See J..A Eze (2021) 'Social Monitors as Agents/Catalysts of Corporate Socially Responsible Behaviours'6(1) *COOULJ* 253.