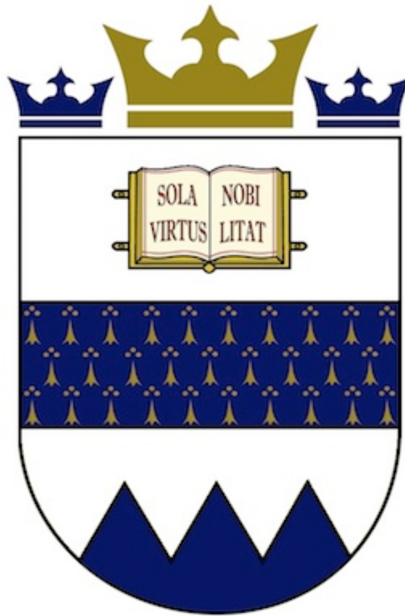

UGSM-Monarch Business School

Stakeholder Theory: The Case of Africa Sun Oil

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Introduction

Stakeholder theory, which was developed by Freeman (1984), has been a topic of interest to scholars engaging in CSR research for several decades and is arguably one of the most influential theories in in the field. Crane (2013) explains that stakeholder theory is mainly a managerial tool which assists companies in fulfilling their social obligations. These obligations have over the years become increasingly important, as the demands of society are continuously growing. Buchholtz and Carroll (2009) argue that the modern business organization is the institutional centerpiece of a complex society, which consists of many people with a multitude of interests, expectations and demands that have to be met. A strong argument has, therefore, been made for stakeholder inclusion in business thinking and processes. Stakeholder theory is used in most areas of CSR and has also been linked with business ethics, which emphasizes the ethical responsibility business has to its stakeholders. A case study, which depicts a corporate crisis faced by a South African company, will be utilized to demonstrate the practical application, potential benefits and challenges posed by the theory.

Origin And Development Of Stakeholder Theory

Stakeholder theory aims at explaining the nature of relationships between organizations and their stakeholders, and how firms can benefit from managing these relationships. According to Donaldson and Preston (1995), more than 100 articles and a dozen books have been devoted to this topic, and the stakeholder concept has become a key to understanding business and society relationships.

The origin of the stakeholder concept may be traced back to Adam Smith and references made in his book *The Theory of Moral Sentiments* (Mainardes, Alves & Raposo, 2011). The term was again introduced in 1963 by the Stanford Research Institute in an attempt to generalize and expand the notion of shareholders as the only group that management needs to consider (Jongbloed, Enders & Salerno, 2008). Within this perspective, Freeman (1984) acknowledged the importance of managing the interests of other stakeholders, and subsequently developed stakeholder theory as a new approach to strategic management. The origins of this theory draw on four key academic fields, namely sociology, economics, politics and ethics, and especially the literature on corporate planning, systems theory, CSR and organizational theory (Frooman, 1999).

With the growth and expansion of the business enterprise, the stakeholder concept evolved from the traditional production view of the firm, where stockholders considered those that supplied or bought products or services as their only stakeholders, to the managerial view where business began to acknowledge responsibilities toward other constituent groups (Buchholtz & Carroll, 2009). Buccholtz and Carroll (2009) explain that major internal and external changes to business and the environment led to a revolutionary mind-set change in how managers perceived the multilateral relationships with various stakeholders, and the potential benefits of fostering these relationships. This ultimately resulted in the stakeholder view of the firm, which encompasses many different individuals and groups that can be found in the internal and external spheres of business activities.

Freeman's (1984) stakeholder model recognized the importance of managing the multilateral relationships that existed between a much broader range of stakeholders. The objective of his work was to offer an alternative form of strategic management as a response to rising competitiveness, globalization and the growing complexity of company operations (Mainardes, Alves & Raposo, 2011). The growing concerns with corporate governance and other aspects brought about by globalization, such as transparency and the influence of the media, has led to the stakeholder concept gaining popularity. Despite the widespread usage and rise in popularity of the theory, managers are still grappling with what exactly is a stakeholder. According to Mainardes, Alves and Raposo (2011) countless definitions have been put forward, and the works of Bryson (2004), Buccholtz and Rosenthal (2005), Pesqueux and Damak-Ayadi (2005), Friedman and Miles (2006) and Beach, Brown and Keast (2008) contain a total of 66 different concepts for the term "stakeholder". Although there is no clear consensus on one definition acceptable to the majority of scholars, these definitions reflect one principle, namely that the company should take into consideration the needs, interests and influences of individuals and groups who either affect or may be affected by its policies or operations (Frederick, Post & St Davis, 1992). Clarkson (1995) argues that the stakeholder concept contains three fundamental factors, namely the organization, the other actors, and the nature of the company-actor relationships. Frooman (1999) adds that these company-stakeholder relationships are dyadic and mutually independent. Despite the myriad of definitions of the stakeholder concept, a large majority of studies adopted the definition by Freeman (1984), which describes a stakeholder as any group or individual that "can affect or is affected by the achievement of an organization's objectives" (Benn & Bolton, 2011, p. 196).

Types Of Stakeholders

To appreciate the concept of stakeholders, the idea of a having a “stake” in business needs to be understood. Buccholtz and Carroll (2009) define a stake as an interest in or a share in an undertaking. This stake can range from merely having an interest in the affairs of the organization, to having a legal claim or a share in the business. The stake can also include a right to something, which could be a right to certain treatment or a moral right. Any individual or group that has one or more of the various kinds of stakes in an organization, can therefore be described as a stakeholder (Buccholtz & Carroll, 2009).

Within the broad context of the theory, it is noted that diverse stakeholder groups interact with a company, and Clarkson (1995) subdivides these groups into primary and secondary groups. Primary stakeholders are those with formal or official contractual relationships with the company, such as clients, suppliers, employees, shareholders, among others. Secondary stakeholders are those without contracts, such as government authorities or the local community (Clarkson, 1995). Clarkson (1995) argues that primary stakeholders have an interdependent relationship with the firm, and these stakeholders have a direct impact on the organization’s activities. Secondary stakeholders, who are affected or may have an impact on the organization’s activities, may represent legitimate special interests or public concerns. These stakeholders may not engage in direct transactions with corporations or be critical to the organization’s survival (Benn & Bolton, 2011).

Freeman (1984) was the first researcher who emphasized the strategic importance of other groups and individuals to the company, other than the clients, suppliers,

employees and shareholders. As there were so many groups of stakeholders listed by Freeman (1984), a need was identified to group them in order to simplify the stakeholder management process. According to Kaler (2002), there are two major types of stakeholders, namely “claimants” who have a claim on the services or products of a business, and “influencers” who have the potential to influence the operations of the business. Although some of these claimants and influencers might not engage in formal transactions with organizations, and would therefore be classified as secondary stakeholders, their ability to affect the organization, especially in terms of its reputation should not be underestimated.

Phillips (2003) distinguishes between normative, derivative, and dangerous or dormant stakeholders. Normative stakeholders are described as those individuals or groups to whom the organization has a moral and ethical obligation, such as its employees who can have a direct impact on the firm. Derivative stakeholders are those to whom the organization has no direct obligation, yet they have the ability to harm the organization. This could include secondary stakeholders, for example the media. Lastly, dangerous or dormant stakeholders, such as activists to whom the firm has no obligation, may also be capable of harming the organization (Benn & Bolton, 2011). Capron (2003) includes a further group, namely silent or absent stakeholders, whose interests need to be recognized through existing groups. Pesqueux and Damak-Ayadi (2005) distinguish between internal stakeholders, “traditional” external stakeholders, and other external stakeholders who hold the power to influence matters. For Culpin (1998), stakeholders can be institutional (those involved in laws, regulations), economic (stakeholders operating in the

markets of the company), or ethical, emanating from ethical or political pressure groups (Pesqueux & Damak-Avadi, 2005).

Features Of The Stakeholder Model As Theory

Jones and Wicks (1999) and Savage, Dunkin and Ford (2004) identify basic premises of stakeholder theory. Firstly, the organization enters into relationships with many groups that influence or are influenced by the company, namely the stakeholders. Secondly the theory focuses on the nature of these relationships in terms of processes and results for the company and its stakeholders. Lastly, the interests of all legitimate stakeholders are of intrinsic value. The stakeholder approach has been used extensively by business ethicists to explore the ethical consequences of managerial behaviour on stakeholders (Freeman & Velamuri, 2005).

Donaldson and Preston (1995) proposed different ways in which stakeholder theory has been applied to business ethics, namely as descriptive, instrumental and normative theories. Descriptive or empirical formulations present a model describing what the corporation is. This theory is intended to describe and explain how firms or their managers actually behave (Jones, 1995). According to Donaldson and Preston (1995), the theory is used to explain specific corporate characteristics and behaviour. For example, stakeholder theory has been used to describe the nature of the firm, how managers act and what they think about the strategic components (Donald & Preston, 1995). Wood (1994) advocated that the descriptive theory of the stakeholder should extend over two facets, namely describing the organizational reality and describing the company-stakeholder relationships. Descriptive theory

resulted out of the need to describe specific characteristics and behaviours, including the nature of firms (Brenner & Cochran, 1991), how managers perceive their companies (Brenner & Molander, 1977), how organizations are managed (Halal, 1990, Clarkson, 1991, Kreiner & Bhambri, 1991), and the diffusion of social information (Ullman, 1985).

The stakeholder theory is also instrumental, in that it purports to describe what will happen if managers of firms behave in certain ways. According to Donaldson and Preston (2005, p. 67), it establishes a framework for "examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals". The instrumental perspective, which was initially proposed by Jones (1995) and further developed by Donaldson and Preston (1995), explores how the stakeholder model may be used to achieve performance objectives, often used as a tool for strategic decision-making (Mainardes, Alves & Raposo, 2011). The instrumental perspective of stakeholder theory is based upon organizational economics, especially agency theory, transaction cost theory and corporate behavioural ethics (Jones, 1995).

The fundamental basis of stakeholder theory is normative, as it is concerned with the moral propriety of the behaviour of firms and their managers. The normative approach accepts that stakeholders have legitimate interests that need to be considered, and that these interests are of intrinsic value. Each stakeholder needs to be considered for its own sake and not because of any other reason, such as furthering the interests of the shareholders (Donaldson & Preston, 2005). The normative approach to the theory views stakeholders as an "end", whereas the

instrumental approach, in contradiction hereto, views stakeholders as a “means” to achieving some other objective, such as increasing profits or enhancing reputation. Donaldson and Preston (1995) also proposed a fourth theory, which is referred to as a managerial theory that offers a guide to managerial action. This managerial perspective, according to Freeman and Velamuri (2005), has received the least attention in recent times, despite having been at the roots of the stakeholder concept of the Stanford Research Institute. Each of these uses of stakeholder theory is of value, but the values differ in each use.

Stakeholder Theory Within The CSR Debate

One major challenge of the stakeholder approach is to determine whether it should be seen mainly as a way to improve stakeholder relationships, or as a way to advance ethical behaviour towards stakeholders. Branco and Rodriques (2007) argue that a useful notion of CSR should be based on a stakeholder view, as social issues deserve moral consideration of their own and should guide managers to consider social impacts of activities. The modern conception of CSR implies that companies are seen as having an obligation to consider society’s long run needs and desires, which implies that they engage in activities that promote benefits for society, whilst minimizing any possible negative consequences of their actions. However, some argue that the contribution of concepts such as CSR is “just a reminder that the search for profit should be constrained by social considerations” (Valor, 2005, p. 199).

The concept of CSR is increasingly analysed as a source of competitive advantage and not as an end in itself (Branco & Rodriques (2006). Over the years the concept

has evolved from being considered costly to a strategy which most companies can benefit from. Many authors agree that companies benefit from CSR initiatives in the long term (Hess, Rogovsky & Dunfee, 2002, Porter & Kramer, 2002, Smith, 2003). Stakeholder theory as a complimentary body of literature, is considered imperative in the operationalisation of CSR (Matten, Crane & Chapple, 2003). Jensen (2001) argues that “enlightened value maximization” and “enlightened stakeholder theory” can be viewed as identical. Enlightened value maximization uses stakeholder theory to consider that a company cannot maximize value if any important stakeholder is ignored or mistreated. Enlightened stakeholder theory considers long-term value maximization as the objective function of the company, which eliminates the dilemma when having to consider multiple objectives as in traditional stakeholder theory (Branco & Rodriques, 2007). The question can be asked as to what differentiates stakeholder theory from the enlightened value maximization. Stakeholder theory assumes that values are necessarily and explicitly a part of doing business, and rejects the separation theory which implies that ethics and economics can be separated (Freeman, Wicks & Parmar, 2004)

With the evolution of the CSR concept, Frederick (1994) pointed out a distinction between social responsibility and social responsiveness. The first stage, referred to as CSR1, focused on the obligations of firms to work for social betterment. In the 1970s there was a shift to social responsiveness (CSR2), which referred to the “capacity of a corporation to respond to social pressures” (Frederick, 1994, p. 151). Frederick (1986) went further to develop a new stage named CSR3, which included the moral aspect in decision-making. In a more recent work, the author describes CSR4 as a stage “enriched by natural sciences insights” (Frederick, 1998, p. 41).

Frederick argues that even business is brought about by cosmological processes and to understand the cosmos we need to revert to sciences. This includes all forms of sciences and will inevitably direct us to religion. Religion is this context refers to a nature-based religious impulse, which ties back to the cosmos and its dominant natural processes (Frederick, 1998).

Building on various concepts and definitions relating to the responsibility of companies, Carroll (1991) argues that CSR encompasses four categories, namely economic, legal, ethical and philanthropic (discretionary) responsibilities. Economic responsibilities indicate that companies have an obligation to produce goods and services that consumers require or desire, whilst being profitable. Legal responsibilities entail the pursuit of economic activities within the legal parameters that apply, whereas ethical and philanthropic responsibilities encompass general responsibilities of what is considered right and good for society (Carroll, 1991). Ethical responsibilities might not be enforced by laws, but rather reflect unwritten codes, values and expectations from society. Discretionary responsibilities are philanthropic in nature, and are often not prescribed by policies, codes or regulatory frameworks. Carroll (1991, p. 43) provides a linkage to stakeholder theory by stating that there is a "natural fit between the idea of CSR and an organization's stakeholders". The stakeholder concept, further, personalizes social responsibilities by specifying groups or persons towards whom companies are responsible.

Wood (1991) argues that the basic idea of CSR is that business and society are interwoven, and that society has certain expectations that business will perform appropriately. She developed a framework which links Carroll's four categories with

CSR principles, namely the principles of legitimacy, public responsibility, and managerial discretion. Wood (1991) suggests that companies use three kinds of processes to implement these principles: environmental assessment, issues management, and stakeholder management. The success of issues management, which has developed into a rather new area referred to as risk management, depends largely on effective stakeholder management. Wood and Jones (1995) present a stakeholder framework, based on Wood's (1991) definition of corporate social performance, which redefines the outcomes as internal stakeholder effects, external stakeholder effects, and external institutional effects. These authors hold that stakeholders have three roles, namely they are the sources of expectations about what is considered desirable and undesirable company performance, they experience the effects of corporate behaviour, and they evaluate the outcomes of the company's performance (Wood & Jones, 1995). From a stakeholder theory perspective, corporate social performance can be measured according to the extent to which a company meets the demands of its stakeholders. Corporate social performance, therefore, refers to a company's ability to meet or exceed stakeholder expectations regarding social issues (Husted, 2000). Although Clarkson (1995) distinguishes between stakeholder issues, which are managed in terms of a stakeholder management framework, and social issues, companies would have to consider and be guided by societal concerns when managing their stakeholders.

Lantos (2001, 2002) proposes a typology of corporate social responsibilities which is considered a useful development of Carroll's model, as it distinguishes between ethical and philanthropic responsibilities, and because it addresses the purpose with which companies engage in CSR activities. Ethical responsibilities are explained as

being morally mandatory, and include the firm's duty to prevent and rectify harm or social injuries, irrespective of the financial cost to the firm (Branco & Rodriques, 2007). Lantos (2001) emphasizes that even if harm cannot always be avoided, it should be minimized where possible. Altruistic responsibilities entail going beyond ethical responsibilities to address social problems that have not been caused by the company, such as welfare concerns (Lantos, 2001).

From the various models and frameworks provided, it can be argued that companies have responsibilities to a wide range of stakeholders, which are not limited to shareholders. Furthermore, these responsibilities extend beyond the production of goods or services, or merely focussing on profits. The stakeholder model holds a myriad of benefits for companies that are committed to engage in social responsibility activities, and these range from achieving organizational objectives, building reputation, to advancing the interests of society as a whole. By identifying opportunities and actively building stakeholder relationships, companies may benefit their own interests as well as those of the society within which they operate.

Limitations And Deficiencies Of Stakeholder Theory

Criticisms of the stakeholder theory, as proposed by Freeman (1984), include an observation by some scholars that he fails to provide an adequate theoretical basis for explaining firm behaviour or the behaviour of individuals, whether internal or external (Key, 1999). According to Key (1999), Freeman's theory provides an inadequate explanation of process, incomplete linkage of internal and external variables, insufficient attention to the system within which business operates, and inadequate environmental assessment. One of the key limitations of the theory

seems to be the content of the term stakeholder, which is considered relatively vague (Jones & Wicks, 1999). Furthermore, as stakeholder theory provides no formal process or means of balancing the interests of various stakeholders, managers are given unlimited powers to decide what stakeholder interests receive attention (Buccholtz & Rosenthal, 2004). As managers have the authority to prioritize stakeholders, the process could lend itself to possible conflicts of interest, which might be difficult to detect or avoid, and which poses a serious ethical dilemma for the firm.

Vos, Vos & Moorman (2005) argue that stakeholder theory does not respond to the needs or demands of stakeholders, given that these are dynamic, latent, and difficult to establish. Another deficiency of the stakeholder theory, which has been identified by Key (1999) relates to the fact that the theory incorrectly approaches the environment as something which is static, and the element of change that takes place over time is not explained. This deficiency poses practical problems for risk managers who have to manage change. Other than dealing with change and the unpredictability of events, companies seem to find it difficult to determine the extent of their social responsibilities.

The Case Of Africa Sun Oil

The factory of Africa Sun Oil, which is situated in Durban, South Africa, was gutted by fire on the evening of 26 March 2015. According to estimations more than 500 000 litres of vegetable oil spilled into the canal, and the oil soon reached the entrance of Durban harbour, which is adjacent to the factory. As part of the measures to contain the incident, the Department of Environmental Affairs (DEA)

instructed the owners of the factory to act as soon as possible, and Africa Sun employed a commercial clean-up factory to attend to the problem. In addition, Transnet National Ports Authority boomed off the canal in an attempt to contain the oil, but these efforts failed due to high tides. Over the next two days additional booms and bio-absorbing agents were positioned to contain the oil in the harbour, but members of the Bluff Yacht Club complained that the spill caused severe damage to 68 yachts at the club. Shrimp were seen floating on the surface, while other dead fish and birds were reported. The DEA dispatched technical and compliance officials to inspect the incident and ensure that salvage operations were consistent with the prescripts of the Integrated Coastal Management Act and the National Oil Spill Contingency Plan. Meanwhile, the Centre for the Rehabilitation of Wildlife responded to the call of birds in distress. Residents accused the eThekwini Municipality of not doing enough to maintain the allegedly faulty weirs in the canals leading to the harbour (Hanekom, 2015).

The scale of the devastation caused by the blaze that swept through the Africa Sun Oil refineries shocked investigators as the continued to sift through the ruins of the factory. As temperatures soared to over 3000 degrees C, the local fire brigade failed to save the building or any of the oil containers. The Department of Labour confirmed that they found massive oil leaks under the neighbouring railway tracks. Their forensic teams were sent into the building, wearing special protective gear, as asbestos exposure was feared.

According to the latest report in The Citizen of 6 May 2015 (Hanekom, 2015) the Bluff Yacht Club and the Quayside, which were used by tourism ferries as well as a

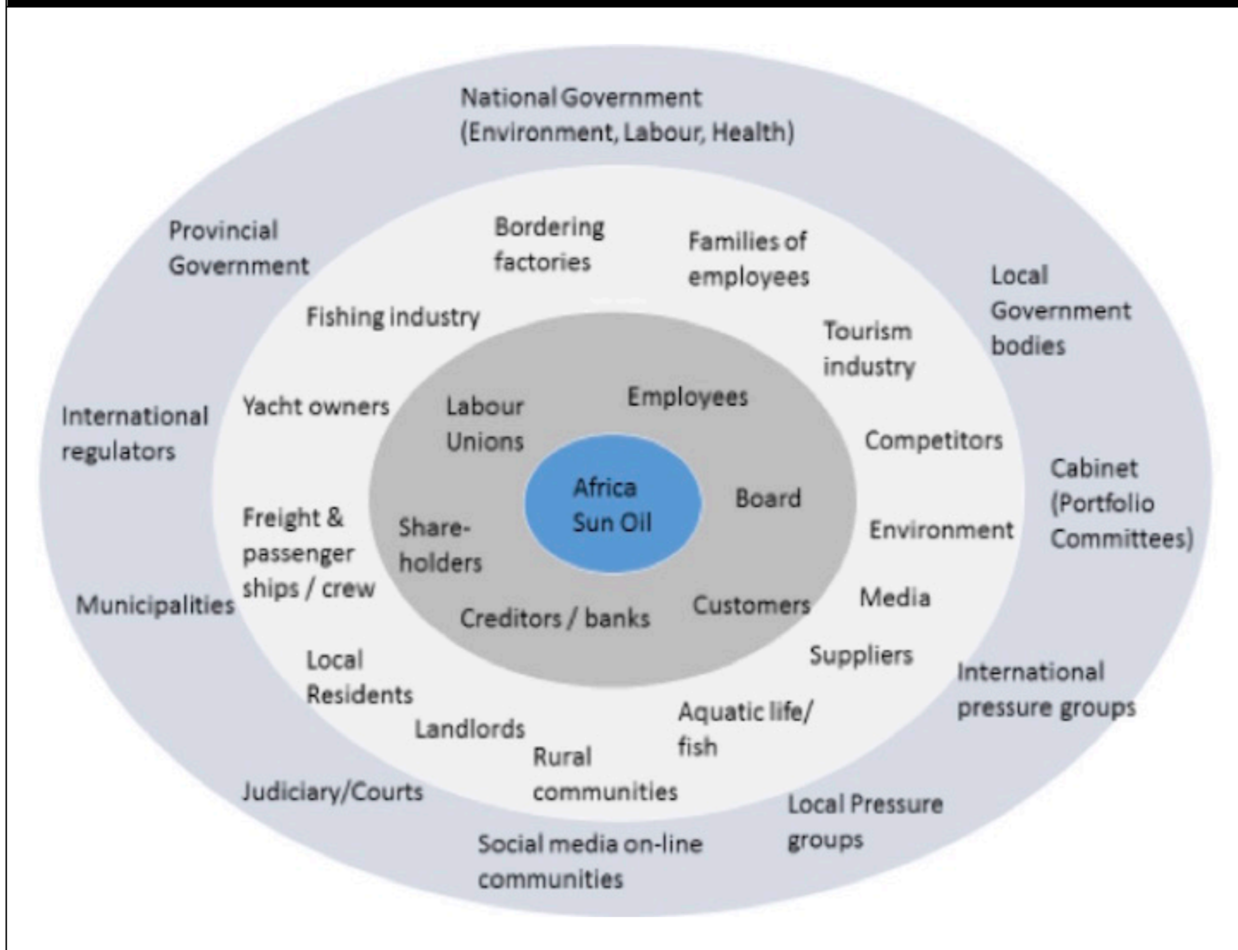
neighbouring food factory, had been damaged. A forensic team found that the fire was caused by an electrical fault, and a prohibition notice was served on Africa Sun Oil preventing it from tampering with evidence which could confirm rumours about the poor maintenance of the factory's electrical wiring. The DEA also issued a directive to the directors of the company, instructing that they provide particulars of the root cause of the incident, an estimate of how much oil was spilled and exactly how much has been recovered, any risks posed to public health, safety and property, the toxicity of substances or by-products released, and steps taken to avoid or minimize the effects of the incident on public health and the environment. To date Africa Sun Oil has not provided the information or communicated directly with any of the affected parties, other than the DEA and government entities. According to their website, they have an active interest in social responsibility and a number of community-based projects are mentioned. ("Africa Sun Oil", 2012)

Mapping Of Stakeholders

As shown in Figure 1, Africa Sun Oil has a large number of stakeholders which should be considered. Furthermore, these stakeholders are widespread, varying from individuals and businesses, to the environment and government authorities.

Figure 1 depicts the stakeholders of the company in terms of their stakes, with the primary stakeholders (most inner circle) who have the biggest stakes, secondary stakeholders (middle circle) who can indirectly affect or be affected by the company's activities, to the tertiary stakeholders (outer circle) who are responsible for overseeing compliance, either formally as in the case of government entities, or informally as pressure or interest groups.

Figure 1
Africa Sun Oil Stakeholder Map



Source: Benn & Bolton, 2011, p. 199

Buccholtz and Carroll (2009) categorize stakeholders as primary and secondary, and social and non-social. Primary social stakeholders have a direct stake in the organization and are considered most influential, whereas secondary social stakeholders may be extremely influential, especially in affecting reputation and public standing, but their stake in the organization is more indirect. Management's level of accountability to a secondary stakeholder may be lower, but those groups may have significant power and often represent public concerns, which implies that

they cannot be ignored (Buccholtz & Carroll, 2009). Buccholtz and Carroll (2009) describe non-social stakeholders as the environment, future generations, non-human species and environmental and animal interest groups.

Since Freeman (1984) offers such a broad definition of a stakeholder, which can imply virtually anyone, there has not been much agreement on the conditions required for a stakeholder to be considered important. According to Crane (2013) stakeholder theorists differ considerably on whether it is advisable to adopt a broad or narrow view of a firm's stakeholder universe. The management of African Sun Oil appears to follow a narrow view, limiting their universe to stakeholders that have legitimate relationships with the company. Clarkson (1995) offers a narrow definition of stakeholders as voluntary or involuntary risk-bearers. He argues that voluntary stakeholders bear some form of risk as a result of having an investment of some sorts in the firm, whereas involuntary risk-bearers are at risk due to the firm's activities. According to Clarkson (1995), risk is synonymous to having a stake and he therefore narrows the stakeholder field to those who have legitimate claims.

The management of African Sun Oil, by failing to engage with stakeholders such as the local communities that depend on the water from the nearby rivers, are expressing a lack of interest in dealing with external constraints which relate to the social circumstances of the poor. The owners of private yachts or sports fanatics that practice in nearby waters, would be classified as involuntary risk-bearers by Clarkson (1995). These stakeholder groups which do not have direct relevance to the firm's economic interests, are not considered important stakeholders in terms of the narrow view (Crane, 2013). Whether stakeholders should be considered as

important, would depend on their major characteristics or attributes, and the specific situation.

Prioritizing Stakeholders: The Balancing Act

Considering that large companies might have a wide range of stakeholders, with various interests that have to be balanced, managers often find it difficult to determine where they should be applying their attention. Mitchell, Agle and Wood (1997) proposed a three-factor model entitled “stakeholder salience”. This model is aimed at explaining why managers should consider certain classes of entities as stakeholders, and how stakeholder relationships can be prioritized. These authors put forward three factors, namely power, legitimacy, and urgency, which vary depending on the prevailing circumstances (Mitchell, Agle & Wood, 1997).

Power refers to the stakeholder’s power over the organization, and this power may be coercive (strength or threat), normative (legislative, media) or utilitarian (holding resources or information). According to Buccholtz and Carroll (2009, p. 89), power refers to “the ability or capacity to produce an effect”. This power is not described as a steady state, as it can be acquired as well as lost (Crane, 2013). Legitimacy refers to the perceived validity of a stakeholder’s claim to a stake, and examples of such stakeholders include employees, owners and customers. These stakeholders have high legitimacy due to their explicit, formal and direct relationships with a company. Narrow-definition scholars, particularly those seeking a ‘normative core’ for stakeholder theory, tend to focus exclusively on the legitimacy of a stakeholder (Crane, 2013). Urgency is based on time sensitivity, which indicates the need for speed in the organizational response (Buccholtz & Carroll, 2009). Although time

sensitivity is necessary, it is not sufficient to identify a stakeholder's claim as urgent (Crane, 2013).

Starik and Driscoll (in Buccholtz & Carroll, 2009), suggest that proximity should also be considered an attribute. This indicates the physical distance between the organization and its stakeholders. Stakeholders who share the same space or are adjacent to the location of the firm, have the ability to affect or be affected by the firm. Considering whether a stakeholder possesses a certain attribute can be subjective, and managers often make these decisions without consulting broadly. Mitchell, Agle and Wood (1997) argue that their model is dynamic, as the attributes of power, legitimacy and urgency are variable, the attributes are socially constructed, and not all stakeholders are aware that they possess one of more attributes.

According to Crane (2013), the salience of latent stakeholders will be considered low, as they only possess one single attribute. Dormant, discretionary and demanding stakeholders fall under this category, and might not receive any attention from the firm. Expectant stakeholders, such as dominant, dependent and dangerous stakeholders, possess two of the three attributes and the level of engagement between the firm and these stakeholders is likely to be higher. Definitive stakeholders, such as the stockholders of a firm, possess all three attributes and their salience will be considered high (Crane, 2013). Although the stakeholder salience model is useful in prioritizing stakeholders, Key (1999) argues that company response to these stakeholders and the process that needs to be followed, are not adequately explained.

Africa Sun Oil's Response To The Crisis

Since Africa Sun Oil faced a crisis situation, their stakeholders would have to be dealt with differently, and if the company adopted a proactive approach, it would be reasonably expected that engagement would occur more readily. Alpaslan, Green and Mitroff (2009) propose that a greater emphasis on the stakeholder model may help companies prevent crises or recover from them more successfully.Crisis management involves two broad phases, namely the first phase where organizations aim to identify and interact with stakeholders and potential victims to prevent crises from happening, and the response phase in which firms aim to minimize stakeholders' losses that result from crises (Pearson & Clair, 1998). A company's behaviour towards stakeholders during the preparation and response phases may range from denial, forced compliance, and voluntary compliance to going beyond legal expectations (Shrivastava & Siomkos, 1989). Clarkson (1995) provides a similar fourfold typology: deny responsibility, admit responsibility but fight it, accept responsibility, anticipate responsibility.

Crises or the attribute of urgency, especially when combined with power or legitimacy, may increase the salience of stakeholders, as well as their potential influence on stakeholder value (Frooman, 1999, Frooman & Murrell, 2005). According to Alpaslan, Green and Mitroff (2009), increased stakeholder salience which is triggered by a crisis, may take three forms, namely dormant stakeholders may become dangerous, discretionary stakeholders may become dependent, and dominant stakeholders may become definite. Africa Sun Oil decided to focus on the claims of a few legitimate tertiary stakeholders, which included government, the local municipality and formal government entities that are concerned with developing and

upholding policies relating to environmental pollution. It appears that no attempts were made to communicate with any of the other external stakeholders, and the media had to depend on information received from the community and government entities. According to the media, local stakeholders had little participation in any of the company's policy or decision-making processes prior to this crisis, and the only consultation with external stakeholders that are mentioned on their website, are those involved in formal CSR projects. This indicates that the company has failed to uphold the value of transparency, which appears as a corporate value on their website, while lacking a proper communication policy.

Africa Sun Oil's reaction to the crisis has caused dormant stakeholders, which include the owners of yachts and tourism agencies, to become dangerous by using the media to raise their concerns. Discretionary stakeholders, such as the rural residents who might require medical treatment after drinking the polluted water or eating the contaminated seafood, might turn into dependent stakeholders, which could result in further expenses. By not communicating with these stakeholders, the company could face additional risks which might have catastrophic consequences. Alpaslan, Green and Mitroff (2009) explain that dialogue with relevant stakeholders can assist organizations to build trust, proactively identify potential risks and opportunities, foster innovation, enhance company image, secure the licence to operate, and to develop or evaluate a CSR strategy.

Africa Sun Oil executives denied all responsibility for the incident, despite forensic evidence pointing to poor electrical maintenance. Rather than considering the concerns and interests of their stakeholders, the owners ignored the pleas made by

various individuals and groups, opening themselves up to serious criticism and reputation risk. The strategy opted by the management of the company, furthermore, limited access to valuable resources and information which could have assisted in dealing with the crisis situation more effectively. Jones (1995) emphasizes that top managers' values reflect the values of the organization. Alpaslan, Green and Mitroff (2009) take this a step further by arguing that the corporate governance perspective valued and adopted by the firm influences the managers' perceptions of stakeholder salience, and their subsequent crisis management behaviour. The management of Africa Sun Oil exhibited reactive crisis management behaviour, denied responsibility and blamed the incident on a mechanical fault. In terms of Carroll's (1979, 1991) four categories of social responsibilities, they focussed solely on their economic responsibilities and made a minor attempt to show compliance with minimum standards. The company ignored their ethical and philanthropic responsibilities, and showed no concern for society's expectations.

The Underlying Ethical Rationale For Africa Sun Oil's Behaviour

Africa Sun Oil's handling of the crisis exemplifies the shareholder model, which is grounded in the idea that managers concentrate their resources and attention on maximizing shareholder value (Friedman, 1970). It also resonates with instrumental ethics, "which advocates employing 'good ethics' as a means to increase shareholder value" (Quinn & Jones, 1995, p. 22). The company has a CSR policy statement on its website, proclaiming its seriousness about being a good corporate citizen, and citing examples of programmes supporting the community ("Africa Sun Oil", 2012). However, these projects seem to be part of their marketing strategy, as management actions contradict the values statement on the company website.

Carroll (2000) proposes three models of ethics management which describe the ethical rationale of different management styles, namely moral, immoral and amoral management. Moral management conforms to the highest standards of ethical standards of conduct, and aspires to consider the interests of all relevant stakeholders. Immoral management, on the contrary, focuses on exploiting opportunities for corporate or personal gain, and management actions and decisions indicate an active opposition to what is considered ethical. Amoral management, which is divided into intentional and unintentional amoral conduct, occurs when managers do not include ethical considerations into decisions, actions, or behaviour, as they do not think about business activity in ethical terms. Intentional amoral managers are neither moral nor immoral, yet these managers view business and ethics as two separate activities, with different rules that apply to different activities (Carroll, 2000).

The managers of Africa Sun Oil exhibit characteristics of unintentional amoral management, as they are inattentive to the fact that business decisions may have negative consequences for others. Management clearly lacks moral awareness, and seem less concerned with the negative impact that the oil spill has had on stakeholders, especially those that are not usually considered important to the firm. Profitability and compliance to legal prescripts overshadow ethical considerations, and the law is considered as the parameters within which business pursuits take place. As a company operating in an environment fraught with poverty and social problems, it would be reasonable to expect a higher level of concern and accountability for the health and safety of the local communities. According to

Rossouw, Prozesky, Van Heerden and Van Zyl (2006), a number of scholars in the field of African Ethics have argued that the ultimate success of any organization operating in an African environment is premised on the *Ubuntu* framework. The African ethic of *Ubuntu* is one of the core ethical values that African cultures provide, and underpins the very communal nature of African society. This ethical principle places a high value on sound human relationships, and is well expressed in the Nguni aphorism “Umuntu ngumuntu ngabantu”, which means ‘You are a person through others’ (Rossouw, Prozesky, Van Heerden & Van Zyl, 2006). Considering the *Ubuntu* philosophy, where an organization is seen as a community consisting of different members or stakeholders, Africa Sun Oil would benefit from adopting an inclusive-stakeholder approach.

Conclusion

The concept of CSR has evolved from being considered as detrimental to a company’s profitability, to being beneficial, especially in the long run (Hess, Grogovsky & Dunfee, 2002, Porter & Kramer, 2002, Smith, 2003). Despite criticism from those that disagree with Freeman’s theory, the emergence of the stakeholder model has led to organizations becoming more aware of the interests and possible affect that primary and secondary stakeholders can have on their long-term success. Although stakeholders might have interests that need to be satisfied, they may also provide valuable contributions and resources to organizations. The stakeholder theory emphasizes the importance of managing stakeholders, whether for some form of contribution or just to ensure cooperation from all parties that can affect or be affected by the organization. It also raises awareness of organizations’ moral

obligations towards society at large, irrespective of whether specific actions are required by law.

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