STAKEHOLDER RELATIONSHIPS: WHAT A GAME!

by

Lebura, Sorbarikor

PhD Student,

Department of Strategy and Management,

Leicester Business School

De Montfort University

Leicester, UK.

Email: sorbarikor.lebura@email.dmu.ac.uk

Office: +44 116 2577510

Abstract

The debate on what role business is supposed to play in society while carrying out its day to day activities has been on the front burner of business discussions, with various scholars taking sides with either the shareholder value maximisation or stakeholder consideration views. This has led to an increased interest in the area in recent times and has opened new areas of research, one of such being the exploration of stakeholder relationships.

This paper is a part of an ongoing research into Stakeholder Relationships in the Nigerian Oil Industry, with a view to understanding the nature of these relationships. There have been the application of diverse theories to the study of stakeholder issues, but there seems to be little done in the use of Social Contract and Game Theories to study the area. As a result, this paper uses both theories together to explore the complexities involved in these relationships.

The methodology used in this paper is mostly based on the review of literature derived from the main research work. A conclusion is reached that both theories can be very relevant and useful in furtherance of the discussion of stakeholder relationships and CSR.

Introduction

This paper is aimed at making a case for the application of both Social Contract and Game theories to the study of Stakeholder Relationships, based on literature available at the time. These relationships between stakeholders are seen as games that are played out by different players with divergent interests and outcomes in mind. These result in various decisions and actions being made by the various parties involved in the relationship, while this is supposed to be guided by the terms agreed by the parties when getting into the relationship. Consequently, it becomes expedient that social contract theory and its place in such interactions be explored. However, it is nearly impossible to discuss stakeholder related issues and topics in isolation from Corporate Social Responsibility (CSR), which could be regarded as the broad area under which this paper falls.

What is known today as CSR has witnessed an increased interest from both academics and practitioners in recent times, as reflected in it being diversely labelled as ‘Corporate Social Responsibility (CSR)’, ‘Social Responsibility’, ‘Corporate Sustainability’, ‘Corporate Citizenship’. This popularity is given further credence by the number of articles and patents available in the subject area, as well as increased membership of organisations such as The Global Reporting Initiative (GRI), World Business Council for Sustainable Development (WBSCD), Business for Social Responsibility (BSR), Business in the Community (BITC) and AccountAbility.

A search by the author on Google Scholar in early July 2011 returned over one million articles and patents (including citations), with some reference to CSR. The World Business Council for Sustainable Development (WBSCD) prides itself as a CEO-led global association that has membership strength of over 200 companies (WBCSD, n.d.). Business for Social Responsibility (BSR) is an organisation that has grown from its establishment in 1992 to having over 250 companies as its members in 2010 (BSR, 2010). Business in the Community (BITC) presently has a membership of over 800 companies and organisations with an interest in CSR spread across different business areas and industries in different countries of the world (BITC, n.d.). The reporting guidelines produced by The Global Reporting Initiative (GRI) are used by over 640 organisations that are regarded as Organizational Stakeholders (GRI, n.d.), with over 1000 firms declaring that they use these guidelines in a network of over 30,000 members globally (GRI, 2007). Similarly, AccountAbility is another organisation whose AAA1000 standards have been widely used by practitioners in CSR and related areas since 1995 as guide to what should be reported by firms in their interactions with stakeholders (AccountAbility, n.d.).

It would be expected that for such a popular concept there would be a universally accepted definition of what it means. However, this is not the case as it is yet deemed to be unclear (Amaeshi and Adi, 2007) especially as it can be adapted to mean anything depending on who is defining it. According to Votaw (1972), it means something to everyone interested in it, but such a meaning is not the same for everyone. Lebura (2009) asserts that this can be attributed to the diversities of the various individuals and groups involved with the concept, which influences their perspectives and views of the concept.

The definitions of the concept have touched on various aspects of business, such as responsibility (Donham, 1927; Bowen, 1953); decisions beyond corporate economic interests (Davis, 1960); expectations of society (McGuire, 1963; Carroll, 1979); business activities and their external impacts (Davis and Blomstrom; 1966); improved societal well-being (Kotler and Lee, 2005; Eweje, 2006); an unnecessary tax (Friedman, 1970; Knox et al, 2005). These authors and their different definitions reflect that there is a divide between those who think that business owes it to society to be concerned about its impact on the latter. On the other hand, the likes of Friedman (1970) and Knox et al, (2005) are in favour of shareholder value maximisation, strongly insisting that CSR is an unnecessary burden that businesses do not deserve. Some other authors (Drucker, 1984; Porter and Kramer, 2006) have posited that the best approach is for businesses to take proactive steps by including it as an aspect of their strategies. They insist that this will lead to a win-win situation where the firm profits, while society is also better off for it.

Notwithstanding the differences in definitions, there seems to be an agreement that the concept is aimed at making stakeholders of the firm more developed (Ojo, 2009). Walton (1967) had earlier indicated that the concept is about a good relationship between business and society, thereby making stakeholders the main focus of it. This means that the success of the concept is determined by the type of relationships existing amongst stakeholders (Maak, 2007), as it requires the support of the latter to achieve its aims (Andrioff and Waddock, 2002). According to Du, Bhattacharya and Sen (2010), such relationships will assist firms to prioritise their efforts and channel resources to more critical areas of impact. Clarkson (1995) agrees that prioritisation is crucial as firms are in short supply of resources to attend to every social need, making it expedient that their emphasis should be on stakeholder needs and issues first. Based on the above definitions, CSR could be defined as a situation where a business strategically undertakes activities that will improve the lives of its different stakeholders.

Another challenging topic in the area has been that of identifying who could be referred to as a stakeholder, with authors pointing to different attributes that can qualify an individual or a group as one. Phillips and Reichart (1998) have even indicated that theoretical advancements in the area will not become a reality until there is a proper definition of those that could be called stakeholders. Dodd, (1932) posited that anyone or group that has a dealing with a firm can be referred to as its stakeholder. Also, stakeholders have been viewed as everyone upon whom the firm depends in one way or the other for its survival (SRI, 1963 cited in Freeman, 1984; Freeman & Reed, 1983; Bowie, 1988). Rhenman (1964 as cited in Nasi, 1995) disagrees with this position, insisting that the stakeholder is actually the dependent party in the relationship, pointing out that it is such dependence upon the firm that makes the group or individual a stakeholder. According to Ahlstedt and Jahnukainen (1971 as cited in Nasi, 1995), dependency is a constant in relationships between firms and stakeholders but it is usually one of reciprocity as parties depend on each other in one way or the other. Stakeholders have also been defined based on claims (Clarkson, 1995); a legitimate claim (Hill and Jones, 1992); real or potential stakes (Starik, 1994); stakes possessed similar to shares (Fassin, 2009); ability to influence or impact (Savage et al, 1991; Carroll, 1993; Brenner, 1995); legitimate interest (Donaldson and Preston, 1995); responsibility of firm (Alkhafaji, 1989; Langtry, 1994); relationship with the firm (Thompson et al, 1991; Wicks et al, 1994); interaction with the firm (Nasi, 1995); impact or effect made or felt (Freeman, 1984); risk borne or anticipated (Clarkson, 1994).

All the points highlighted above from the diverse definitions of authors over the years seem to be hinged on the fact that there is a relationship or interaction between the firm and its supposed stakeholders. Also, it is noteworthy to state that most authors have made the firm the focal point stakeholder discussions, but that is misplaced as the firm itself could also be referred to as a stakeholder of others. For instance, when a firm depends on another firm, an institution or government agency for its survival as a result of an exchange between them. Therefore, this paper proposes a new definition of stakeholders that can be applied from an industry point of view, thus;

> ***'A stakeholder is anyone or group that has an interest in the success or failure of an industry, because it can affect or be affected by the activities that take place therein. This could be either directly or indirectly.'***

There is no consensus with regards to who the stakeholders really are, but the categorisation is broader now than it was before Freeman's (1984) position that stakeholders are more than just shareholders or investors of the firm. Cummings & Patel (2009) agreed that there are loads of stakeholders that require the firm's attention, but were quick to point that the most important ones are the customers, employees, communities, shareholders, and suppliers. They based these stakeholders' importance in the scheme of things on their direct roles in the attainment of organisational goals and objectives; in different ways such as patronage of the firm (customers), manpower (employees), environment and resources (communities), finance and funding (shareholders) and raw materials (suppliers). It is the relationship between these stakeholders that this paper aims to explore, especially viewing it as a game.

Following from the definitions above of who can be called a stakeholder, it can be deduced that stakeholder relationships have to do with the different interactions and exchanges that take place amongst various stakeholders. Such interactions usually would involve more than one party at every point in time, because a stakeholder cannot have exchanges or interactions with itself. Stakeholder relationships have been presented in as diverse ways, with Freeman (1984) proposing that relationships between stakeholders are normally on a one-on-one (direct) basis. Hill and Jones (1992) agreed with Freeman (1984) but added that these relationships are a network that is made up of the firm and its numerous stakeholders, with contracts that are peculiar to each stakeholder. Rowley (1997) who criticised the presentation of these relationships as one-on-one and direct referred to such as dyadic ties, insisting that these relationships are actually multiple and interdependent in nature. In agreement, Williamson and Winter (1991) posited that these relationships can only be seen as a nexus of contracts that are multiple, dependent and linked between the stakeholders involved. This could also require alliance between stakeholders in their bid to make businesses take decisions that are favourable to their various and peculiar interests. In order to appreciate these peculiar relationships, Neville and Menguc (2006) referred to Oliver's (1991) definition of stakeholder multiplicity, which they defined as "the degree of multiple, conflicting, complimentary, or cooperative stakeholder claims made to an organization" (p.380). They further explained that stakeholder multiplicity is all about the firm undertaking an assessment of the various claims by its stakeholders and attending to them based on priority. This should be in line with the firm's strategic focus, fit with the claims of other stakeholders and a consideration of the effect of attending to such claims on everyone in the relationship. The consideration of the impact of attending to stakeholder claims on everyone involved is similar to Rousseau's (1762) discussion of the social contract where he talked of the good of all; this will be explored in a latter section of this paper. These relationships and who controls them are determined by the resources involved as well as who controls such resources, as Frooman (1999) insists that the balance of power always favours the stakeholder that holds critical resources required by the firm. He further stated that this could be in favour of the firm or the stakeholder resulting to a relationship of very high dependence by one party on the other; while pointing out that there could be a case of interdependence which means that no stakeholder really has absolute control over the resources and by implication the relationship.

Review of Relevant Literature

The debate on stakeholders and their issues has been undertaken over the years with the application of different theories, including old and new ones (Friedman, 1970; Freeman, 1984; Hill and Jones, 1992; Donaldson and Preston, 1995; Mitchell et al, 1997; Rowley, 1997; Frooman, 1999; Agle et al, 1999; Donaldson and Dunfee, 1999; Driscoll and Starik, 2004; Werhane, 2008) which has led to the birth of a stakeholder theory. However, being that this paper is focused on the application of Social Contract and Game theories, these two will be discussed in this section. The place of conceptual papers of this nature in the development of stakeholder theory cannot be over-emphasised (Donaldson and Preston, 1995).

Social Contract Theory

There has been intense debate by scholars as far back as the fifteenth century about the actual reality of a social contract and what constitutes such a contract. At the heart of this debate has been the relations that exist amongst humans as they deal with one another and how these dealings with each other are products of certain agreements entered into by the parties concerned. The theory has come under as much attack as it has attracted contributors, yet it is still very relevant in business discussions today, which attests to how beneficial it can be.

Binmore's (1994) definition presents the social contract as the attainment of relative evenness in the game of life as a result of consensus by the persons that make up society. This alludes to the social contract acting as a control over the actions of members of society, an idea agreed to by Kaufman et al. (2005) as they posited that the acceptance of such a contract by these members of society benefits everyone, both individually and as a group. Rogers, Ogbuehi and Kochunny (1995) insist that in getting the group working, it is important not to lose sight of how crucial it is for individual members to retain their basic rights. This point is underlined by a reference to the granting of a personality to a firm by society at incorporation, which indicates the latter's acceptance of the former as a part of society.

Hobbes (1651) was one of the earliest and key contributors to the social contract debate, where he stated in his account that humans started out in a state of nature where everyone was at war with everyone. Individuals worked to protect their personal interests or benefits in their interactions with others, leading to confrontations with each other. This led to his claim that in that state, life was short, poor, nasty and brutish; which activated the desire for civil society by individuals. As a result, social contracts (agreements) give birth to as well as maintain civil societies. He emphasised the place of individual consent in order for this to be achieved, noting that such must be done within reason (rationality). Civil society is further kept together by the supreme (Leviathan) who ensures that every member of society plays his or her role within the given conventions to make the contract work. Locke

(1690) in his account of the social contract agreed with most of Hobbes' (1651) propositions, such as his reference to a state of nature, the need for civil government, the contract or compact between individuals and the place of reason. However, he was quick to point out that the state of nature is not necessarily about a time in history (pre-modern times) as he states that parties could consent to contracts and yet still be in a state of nature. He further insisted that the social contract once agreed to by the members of society gives birth to a commonwealth that ensures the protection of individual interests. In addition to what Hobbes (1651) and Locke (1690) had earlier contributed to the discourse, Rousseau (1762) viewed the social contract as being in the interest of individual members of society as they have more force to preserve what they possess as individuals. He emphasised the importance of everyone who is a party to the agreement keeping to their own part, as that is the only way to make it work. The highlight of his contribution was the discussion of the wills, where he differentiated between the will of all and the general will. The former takes into consideration the interests of individual members of society, while the latter is only concerned with what benefits society as a whole.

There have been varying reactions to social contract theory, especially as presented by Hobbes (1651), Locke (1690) and Rousseau (1762) further leading to the development of the subject area. Sacconi (2006) agreed with the views of these three scholars, especially with regard to the entrusting of societal decisions to the government. This is done with hope and belief that their best interests will be protected at all times, even as decisions are made by government. Deinstag (1996) points out that what Locke (1690) referred to as the sovereign in his account of the social contract is meant to be a trustee and not an equal party to the compact. McCormick (1976) indicated that there was a difference between the three accounts with regards to how the people react to a betrayal of trust by government. He pointed out that Hobbes (1651) and Locke (1690) hinted at revolution, while Rousseau (1762) referred to resignation and withdrawal as the medium of protesting against such betrayal. It has also been posited that the social contract can be viewed in the same vein as the psychological contract, considering that it

has to do with an ongoing interaction between the different parties involved which is based on trust (Laslett, 1967; Thompson and Hart, 2006). This trust is applicable to all parties as the social contract is made up of both the responsibilities and benefits that are accruable to all actors who consent to being a part of civil society (Rawls, 1971). Hobbes (1651) was criticised by Adam Smith (cited in Khalil, 1998) for positing that the agreement entered into by earlier generations have a binding effect on latter generations. He claims that the latter generation can only be bound by such a contract so far as it does not exceed what they were bequeathed by their ancestors.

From the literature reviewed above it can be seen that there are some main aspects of the social contract that constitute what we could refer to as its pillars, such as the will, interests, consent, rationality (reason), agreement, government (civil society), fairness, and revolution (withdrawal). Rousseau (1762) discussed ***the will*** as what each individual holds as inalienable, thereby making it necessary that even when they become a part of civil society it is not entirely lost. The will can also be referred to as interest, which is mostly what parties aim to protect as they relate with other actors in the relationship. Every effort is put into making sure that one’s interest or will is kept intact, which usually results in conflict between different actors and sometimes even death. The most controversial of all these aspects has been ***consent***, even as scholars (Hobbes, 1651; Locke, 1690; Rousseau, 1762; Binmore, 1998) have agreed that it is very crucial for the formation of civil society as each member has to give it in order for the birthing of government to become a reality. Locke (1690) indicated that while it is important to have every individual's consent that will not always be the case, so once there is a general consensus from the majority then it is sufficient to have the social contract in place. Buchanan (1975, cited in Bester and Warneryd, 2006) insisted that while it is important to have the people's consent, there must be a concrete attempt to ensure that their interests are protected by the contract. In reaction to the propositions about consent, McCormick (1976) referred to an emphasis on the significance of consent as forgetting one's childhood which was constituted by very little choice of what to do. Smith (1978, cited in Khalil, 2002) concurs that everyone is without choice with regards to where they can be given birth to, making consent to the social contract not as important as purported. Hume (1985) further emphasized the irrelevance of consent by pointing to historical records which he claims show that most governments are products of conflict or war between groups made up of individuals. Closely linked to consent is ***agreement*** which is the outcome of a combination of individual consent.

The agreement or compact that comes as a result of the consenting of individuals leads to the establishment of ***government or civil society***. The established government is laden with the responsibility of making sure that individuals' interests are protected and disagreements settled to avoid the break out of war. This is called different names by scholars, Sovereign (Hobbes, 1651), Government (Locke, 1690) and Sovereign Assembly (Rousseau, 1762); but with the same description of duties by these scholars. ***Rationality*** is deemed to be very important as it keeps all parties within check as they relate with each other (Hobbes, 1651; Locke, 1690), with McCormick (1976) and Gifford (2002) insisting that it actually rules people's judgement about whom to trust or not. Bester and Warneryd (2006) agreed that it is the human part used to decide what actions to take based on the options available to each individual. Contractors might not have every bit of information required to make the best decision, but they possess the ability to rationally make moral decisions (Donaldson and Dunfee, 2002). However, there is the possibility that such moral decisions may not be made as not everyone is reasonable (Thompson and Hart, 2006). Another device that balances out interests and the actions of individuals is ***fairness*** (Binmore, 2001), but in order for it to be effective there needs to be a certain level of withholding of information from the parties as that is the only way they will make fair decisions (Cordes and Schubert, 2007). This has been called the veil of uncertainty (Buchanan & Tullock, 1965) or veil of ignorance (Rawls, 1971), as it means that parties to the agreement make decisions they deem to be in everyone's best interest without really knowing what the likely outcome could be. Binmore (2007) disagrees with the proposition that information should be withheld from contractors, as that would be limiting their rational capabilities in protecting what he calls their enlightened self-interest. The parties to the social contract are deemed to have a right to protest against betrayal of trust by those they have entrusted their decision-making powers to. Hobbes (1651) and Locke (1690) are of the view that this can be done by the people when they resort to a ***revolution***, while Rousseau (1762) alludes that the best way that it can be done is by the people withdrawing its support for the defaulting party.

Game Theory

The theory which originated from mathematics has been seen as being everywhere (Davis, 1997) as a result of its far reaching application in subject areas with little or no connection with mathematics. Morgenstern (1983, cited in Davis, 1997) attributes its use in these diverse areas to a function of its applicability to the complex and dynamic nature of human activities. The ubiquitous nature of this theory is given further credence by the realisation that human interaction and activity is everywhere, but it depends so much on human rationality as players to its detriment (Binmore, 2007). There is a general agreement amongst scholars (Binmore, 1994; Osborne, 1995; Davis, 1997; Binmore, 1998; Binmore et al, 1998; Camerer, 2003; McCain, 2010) that John von Neumann and Oskar Morgenstern deserve credit for the establishment and development of the theory. In their book, The Theory of games and Economic Behaviour (1944) they had pioneered the application of mathematics to strategic games. Even since the theory has been applied to nearly all areas of human involvement, especially economic, political and biological discussions (Matthews, 1994; Osborne, 1995). The theory aids an understanding of relationships and interactions between different actors or players, such as firms, institutions, governments and individuals (Camerer, 2003).

A game could be referred to as being in a position where choices have to be made by an individual or group, the outcome of which could have an impact on others or their choices and decisions (Cave, 1987). Davis (1997) adds that in such a situation, the decision by the players to choose either collaboration or competition is dependent on what they perceive to be the outcomes of the various options available to them. Sela and Vleugels (1997) summarised a game as being characterised by consenting players who have possible options of actions to take and what the results of such actions could be. They further stated that while it might be expected that all games will be peaceful, that is not always the case as games can sometimes become confrontational and conflictual. This is reflected in the day to day interactions of humans, as they possess the ability to make decisions and take actions that they expect to be to their benefit.

There have been some characteristics identified by authors as being pre-requisites for there to be a game in place, such as players, choices or strategies, outcomes (Cave, 1987); a set of players, a set of actions and preferences (Osborne, 1995); guiding rules and information (Camerer, 2003). A group or individual cannot claim to be a player if such lacks the possession of preferences and subjective beliefs, which are an indication of what kind of information the player has about the game (Binmore, 1994). Such a player could either be a firm or an individual (Osborne, 1995) that can make strategic decisions that are aimed at a beneficial outcome or payoff. This is important as the kind of outcomes or payoffs that a player gets come as a result of the kinds of decisions earlier made by such a player (Binmore, 1994) while interacting with other players by way of playing the game. Aside from these, rationality has been viewed as being very important as it controls the actions and decisions of players of a game (Osborne, 1995; Binmore et al, 1998; Binmore, 2007; McCain, 2010). Binmore (2007) hints that it is the single reason why players decide to get into conflict or cooperation positions when playing a game.

There have been a number of games discussed by authors which have been further categorised into different groups, with Osborne (1995) grouping them into strategic or extensive games and coalitional games. He explained that strategic or extensive games have an emphasis on the actions of players which could be either one-off decisions or repetitive ones. In extensive games, players are able to make decisions, see the outcomes and review their next decisions, while players in strategic games cannot do such as they are expected to make decisions simultaneously. On the other hand, he described coalitional games as those that are focused on the outcomes of the different decisions made by players as they interact with others. Other categorisations have been made as games with two or more players and those where players either cooperate or compete (Davis, 1997); cooperative and non-cooperative games (Binmore, 1998); zero-sum or non-zero-sum games (Binmore, 2007); games of perfect information and imperfect information (Mccain, 2010). The above categorisations are similar to each other as there is a higher likelihood of players under the non-zero-sum games to cooperate with each other as a result of the perfect information they have which influences their decisions. These games give some room for compromise, so that players may not gain or win everything yet they can win partly. Examples of such games could be negotiations between countries, business bargain situations, prisoners' dilemma games and elections. Elections are added here considering the fact that they can be inconclusive like was witnessed in the 2010 UK General Elections where there was a hung parliament, giving room for a coalition government (BBC, 2010). In the same vein, it is very unlikely that players in zero-sum games will cooperate with other players since they have little or no information which puts them in a competitive position with others. In other words, the lack or limitation of information leaves the players with just one option of either winning or losing thereby making such games very competitive in nature. Examples of these games are matching pennies, ultimatum game, prisoners' dilemma game, marriage proposals, and elections (in this instance these would be referring to when they are concluded first time).

There are different games that have been discussed by authors over the years, but only a few of such games are explained briefly below to give an insight into their nature, because of similarities that most of them share. ***The Prisoners' Dilemma*** has generally contributed immensely to the high level of awareness of the theory, since it immediately comes to mind once the theory is mentioned. The game is an account of two suspected criminals held in separate cells, with the authorities holding enough evidence to get each one of them convicted of a minor crime but require more information or evidence in order to convict either of them of a major crime. The possibility of getting the required evidence depends on acquiring a confession from either of them, making such a person a prosecution witness or informer used against the other. To get the needed evidence via confession, the prosecutor approaches both of them separately with deals that would sway them to confess to the crime, thereby making it possible for there to be a major conviction. In the event that one of them confesses, that one will be set free and used as a witness against the other who then is likely to face the maximum sentence of the crime committed (let such sentence be assumed to be ten years). On the other hand, if they both react by confessing to the crime they get lesser sentences (assumed to be about six years each); while in a situation where they both refuse to confess, then they both get an even lesser sentence (assumed to be one year each). This game underlines self-interest in relationships and interactions between humans, especially when they have little or no information with regards to what the decisions of others could likely be. This makes every player to go for the best decision in such player's interest, without much concern about what happens to the other party or player; even though such a decision must be carefully taken since the player is oblivious of the other's decision. McCain (2010) hinted that this game has been criticised for being too popular, despite being a two-person game. The author of this paper disagrees with the view generally held by scholars that the game is a two-person game, especially considering the role of the prosecutor who presents the deals to the suspected persons. Such an important actor or player cannot be neglected since the decision of both suspects can be influenced by how the deal is presented to them. There are other games similar to this, such as Joint Project, common Property and Duopoly; these are mostly in terms of the payoffs available to players for cooperation.

The Stag Hunt is a situation presented by Jean-Jacques Rousseau (as cited in Skyrms and Irvine, 2001) where a group of hunters are on a hunting expedition with their joint target being a stag. There is a high level of focus on the joint target required of all hunters, as that is the only way they can achieve their aim of catching a stag. However, there is a chance that each one of them could decide to focus on a personal target of catching a hare. The pursuit of the hunter's personal aim of catching a hare is likely to jeopardise the group aim of catching a stag since synergy is highly required to achieve the group aim. As a result, each hunter weighs their chances of getting a piece of the stag which depends on the group jointly remaining focused with that of getting a whole hare to him or herself which depends on the hunter as a person. The decision made is dependent on factors such as how much preference the individual has for a stag or a hare, how much the hunter trusts others to maintain focus and how much time they have at their disposal. These and other factors can influence what kind of decision the hunter makes at the end of the day and this mostly applies to games involving more than two players.

The Ultimatum Game is another supposed two-person game that is worth taking a look at, with the two players being a Proposer and a Responder. The former makes an offer to the latter, who has the option to either take the offer or refuse it; making it nearly impossible to have bargains. An acceptance of the offer by the Responder means there is an exchange, while a refusal implies that the status quo remains. It is argued by Gale et al. (1995) that certain times a Responder will be willing to turn down an offer deemed to be insignificant even if it means settling for nothing. Skyrms

(1996) claims that such a refusal of the offer by the Responder is aimed at being a punishment for the Proposer of an offer seen to be unfair. This game seems to be tilting the balance of power in favour of the Proposer and in this light is not a very popular game in our day to day activities; because there are always concessions to make in our interactions and relationships with each other (Gale et al., 1995). However, it is noteworthy to point that such an imbalance in power can only happen when there is just one proposer because if there are at least two proposers then there is the possibility that the proposers will try to get something out of the exchange which tilts the balance of power in favour of the Responder. This game from the surface of it seems to be mainly a two-person game, but a closer assessment brings to the fore the impact that the introduction of a third person could have on the whole dynamic of the game. This is based on the fact that the kind of decisions to be made by either the Proposer or the Responder can be influenced by another player who acts as either a second Proposer or a second Responder. Some other games similar to this are Marriage Proposals and Dictator game, because they are all take-it or leave-it games.

The theory has attracted different reactions with Osborne (1995) arguing that the theory’s flexibility is a strength as it makes it acceptable and applicable in a variety of situations, firms and geographical locations. It is also deemed to be prescriptive enough for anyone or group to adapt it to their specific situational needs and demands (Camerer, 2003). There are also criticisms against it as one would expect of a theory that has developed so rapidly since its conception, one of such being its lack of empirical evidence to back up most of the propositions put forward (Camerer, 2003). It has also been deemed to be too mathematical hindering its spread outside of economics.

Justifications for use of both theories

This paper is one of the few literature (Schmidt-Trenz, 1989; Binmore, 1994; Skyrms, 1996; Cordes & Schubert, 2007; Sacconi, 2006) available at the moment that have undertaken an application of both social contract and game theories to a study. From the above works, some justifications for the combination of these theories in studying stakeholder relationships can be seen below.

Firstly, there is the emphasis by Binmore (1994) that the social contract is what keeps consenting parties in line when they are playing the game of life. As a result they make decisions bearing in mind what the likely outcomes of such decisions could be. Since they are interested in protecting their self-interest as individuals, they opt for decisions and actions that will lead to win-win situations for everyone involved. Secondly, in line with the above it can be argued that a proper understanding of any relationship (including that of stakeholders) can be achieved by viewing such as both a game and a contract. It is irrelevant if such a contract is real (actual and expressed) or implied (psychological), the important thing is the perception of the parties involved.

Thirdly, every contract is embedded with a range of rights and obligations, which could be claimed by all parties concerned, though at varying degrees and according to interests and commitments. Fourthly, there are possible outcomes or payoffs anticipated by the different players in every game they play. Such outcomes could result in one of the following: one actor being worse off while another is better off; all actors being worse off or better off; one actor remains at the status quo while others have a change in their situation. Binmore (1994) insists that an outcome sometimes leads to conflicts so it becomes necessary that these interests be balanced by the social contract as it can control human behaviour in society.

Fifthly, there are five topics that can be found in the discussion of both theories, such as interest, rationality, actions, decisions and fairness. These are vital to the applicability of these theories to social issues and situations, like the one being studied by this research. Interest refers to the specific benefits or outcomes which the particular actor seeks to protect while interacting with others, while rationality is that natural biological endowment enjoyed by humans that is expected to enhance their ability to think right. Fairness is very close to rationality being that it is one way of knowing if an individual or group is rational in dealing with others, since the latter will result to the former. Decisions are also a product of an individual's reasoning, which is why good or bad decisions are a function of the kind of reasoning undertaken; this further leads to an execution of such decisions which is called actions. Actions become so crucial since they are the physical manifestation of every other attribute discussed here, as the rest are more of implicit or intangible.

Furthermore, Hobbes (1651) gave another justification for the use of both theories when he discussed lots as being either arbitrary or natural. The first is about the parties giving their consent, while the second refers to a situation where the first possessor of the things for which lot is being cast keeps it. From this we can see consent (social contract) in the arbitrary sense of lots, and outcome or payoff (games) in the natural sense of lots.

Application of both theories to Stakeholder Relationships

In this section, the paper attempts to propose different types of stakeholder relationships based on certain aspects of social contract theory as well as different games deemed to be relevant. Hence, it is posited that all the relationships between various stakeholders could be categorised into three main groups known as Cooperative, Conflictual and Non-cooperative or Nonchalant relationships.

Cooperative relationships: These relationships are those ones that exist between stakeholders who are very collaborative, as a result of their understanding that more can be achieved when there is synergy than in an acrimonious environment. These stakeholders have a direct relationship with each other as a result of an agreement to which they have all consented to abide, which could be either perceived or real. These relationships are characterised by high levels of trust, fairness and a free flow of information between the stakeholders as they are keen on ensuring that their decisions are made in the interests of all. This is reflective of what Rousseau (1762) referred to as the general will, which encompasses the interests of all parties involved in the relationship. They all contribute their quota to making the relationship work to the benefit of all, bringing about a win-win situation in line with Donaldson and Dunfee's (2002, p.1854) views that not doing so 'reflects moral blindness' on the part of the defaulter. This implies that they have applied reason to considering the options available to them as posited by Bester and Warneryd (2006) and decided that cooperation with others is their best option. These characteristics are also evident in the Stag Hunt game where the hunters weigh up their options and decide to settle for the group aim trusting that others will do same. Examples of likely scenarios for these kinds of relationships are between companies and communities that have entered into certain levels of agreements, such as Global Memorandum of Associations (GMOUs). Also in this group are companies and governments when they jointly undertake certain developmental projects as a part of some kind of Public-Private Partnerships (PPP), which could be initiated by any of the parties.

Conflictual relationships: In relationships of this nature there is the tendency for stakeholders to always be in conflict with each other, as a result of each one aiming to win at the detriment of the others in the relationship. They might have contracts between them which have not been honoured in the past making parties become disgruntled in relating with others. The level of mistrust is higher, while exchange of information between the stakeholders is non-existent as there is a constant attempt to ensure that one does not lose as that implies that the other stakeholder must have won. Locke's (1690) presentation of a state of war where everyone is at war with everyone is similar to this, as well as the Ultimatum and Matching Pennies games. Examples of these kinds of relationships can be found between companies who are competitors; communities and companies whose relationships have broken down; governments and companies when it comes to certain regulations.

Non-cooperative or Nonchalant relationships: These kinds of relationships are neither directly cooperative nor conflictual, which could be attributed to the non-existence of social contracts between the stakeholders involved in these relationships. There is no direct relationship between these stakeholders which makes them to withhold information from one another, further creating an environment of less concern for each other's needs and interests. Another characteristic of these relationships is a lack of trusts between the different stakeholders, as they always suspect other stakeholders to be working against them and would never make decisions bearing their interests in mind. There is a high level of self-interest exhibited in such relationships as can be seen in Hobbes' (1651) and Locke's (1690) state of nature where everyone went out for what they wanted and cared less about others in society. This is also reflected in the Prisoners' Dilemma game where each suspect is keen on getting the best deal at the detriment of the other. There is a limit to how much stakeholders can express their disapproval of each other's actions and behaviour, since they lack a direct relationship with one another and so do not have any exchange of information. These could be witnessed between two communities that are keen on keeping a company in their various environments, Non-Governmental Organisations (NGOs) and companies.

In spite of the differences between the different kinds of relationships and their characteristics, it is noteworthy to point that there could be a change of a relationship from good to bad and vice versa. For instance, companies and NGOs who were in a nonchalant relationship can decide to be cooperative by undertaking a partnership that would be of benefit to all stakeholders. In the same vein, companies that were cooperative in their relationships can decide to become competitive as a result of a change in strategy or leadership. This means that none of the above relationships is a static point that a stakeholder gets to in its interaction with others and it remains so, rather these relationships are dynamic in nature and can change over time.

Conclusion

In concluding this paper, it is noteworthy to point out that fairness reflects some level of fair play which can only be relatively guaranteed by the other features of both the social contract and a game as earlier discussed. Such fair play or level playing ground can only be achieved by getting all stakeholders involved in deciding what constitutes the rules of stakeholders' relationships or games. Bearing this in mind, it can be seen as presented in this paper that both social contract and games theories can be applied to stakeholder relationships.

This paper has two contributions made to knowledge, with the first relating to the argument that the prisoners' dilemma game is not a two-person game as has been generally presented by previous authors. This position derives from recognition that the attorney that is involved in negotiations with the two suspects is also a player in the game which makes it a game of more than two players. The second contribution indicates that while the ultimatum game can be seen as a two-person game, its dynamics could be changed by the introduction of an additional player, either as a proposer or a responder.

On the basis of these, it is recommended that more research should be undertaken empirically applying both theories to stakeholder related issues and topics thereby giving the subject area more credibility and grounding.

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