STAKEHOLDER MANAGEMENT

Lee Matthews and Claire Ingram

Corporate Social Responsibility (CSR) is concerned with the responsibilities businesses have. Stakeholder management is a complementary approach that helps business understand which groups they have responsibilities towards as well as the nature of these responsibilities (Freeman, 1984). This entry starts by considering what we understand by the term ‘stakeholder’ before discussing stakeholder theory as an approach to business ethics. Here, alongside the ethical cores of stakeholder theory, we also consider the instrumental reasons for engaging with (or managing) stakeholders. We close the entry with a critique of stakeholder theory and proffer some final reflections for stakeholder management.

Who is a Stakeholder?

The first known mention of the term ‘stakeholder’ appeared in an internal memo of the Stanford Research Institute (SRI) in 1963. The term quickly gained in popularity and the stakeholder concept has since become ubiquitous. In its broadest articulation, a stakeholder is now frequently defined as ‘any group or individual who can affect or is affected by the achievement of an organization's objectives’ (Freeman, 1984: p.46).

Stakeholder philosophy has a longer history, however. An example of this can be seen in the articulation of Johnson and Johnson’s (2023) ‘Credo’ in 1943, which explicitly states their responsibilities towards ‘patients, doctors and nurses, to mothers and fathers’, ‘employees’, ‘communities’, and ‘stockholders’ (their ‘final responsibility’). See box below for the full text:

Johnson and Johnson 'Credo' (1943 until present)

'We believe our first responsibility is to the patients, doctors and nurses, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to provide value, reduce our costs and maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our business partners must have an opportunity to make a fair profit.

'We are responsible to our employees who work with us throughout the world. We must provide an inclusive work environment where each person must be considered as an individual. We must respect their diversity and dignity and recognize their merit. They must have a sense of security, fulfillment and purpose in their jobs. Compensation must be fair and adequate and working conditions clean, orderly and safe. We must support the health and well-being of our employees and help them fulfill their family and other personal responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide highly capable leaders and their actions must be just and ethical.

'We are responsible to the communities in which we live and work and to the world community as well. We must help people be healthier by supporting better access and care in more places around the world. We must be good citizens — support good works and charities, better health and education, and bear our fair share of taxes. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

‘Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed, investments made for the future and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return’.

The first stakeholder map was configured by Rhenman (1964, cited by Strand and Freeman, 2015). A stakeholder map based on the English translation (Rhenman 1968, cited by Strand and Freeman, 2015) is presented in Figure 1:

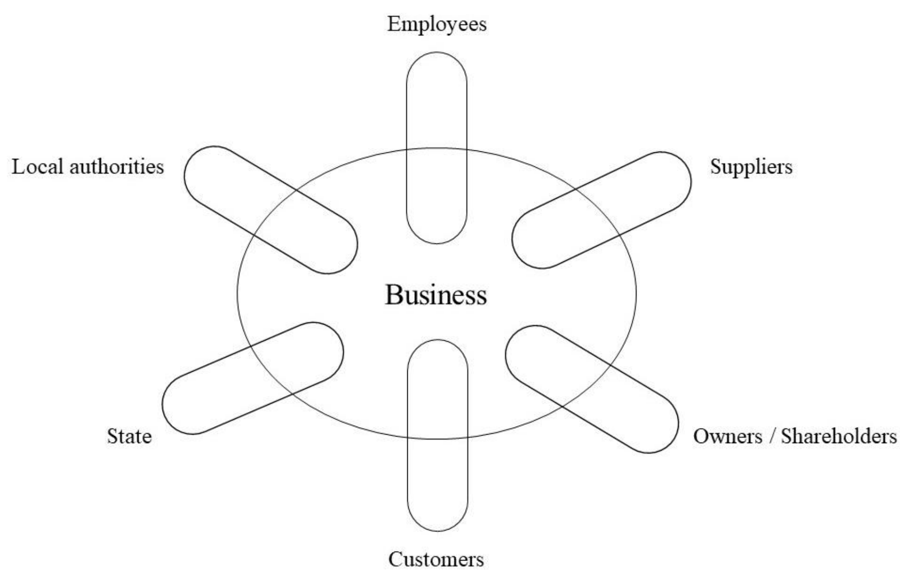

Figure 1 Stakeholder map based on Rhenman (1968, cited by Strand and Freeman, 2015)

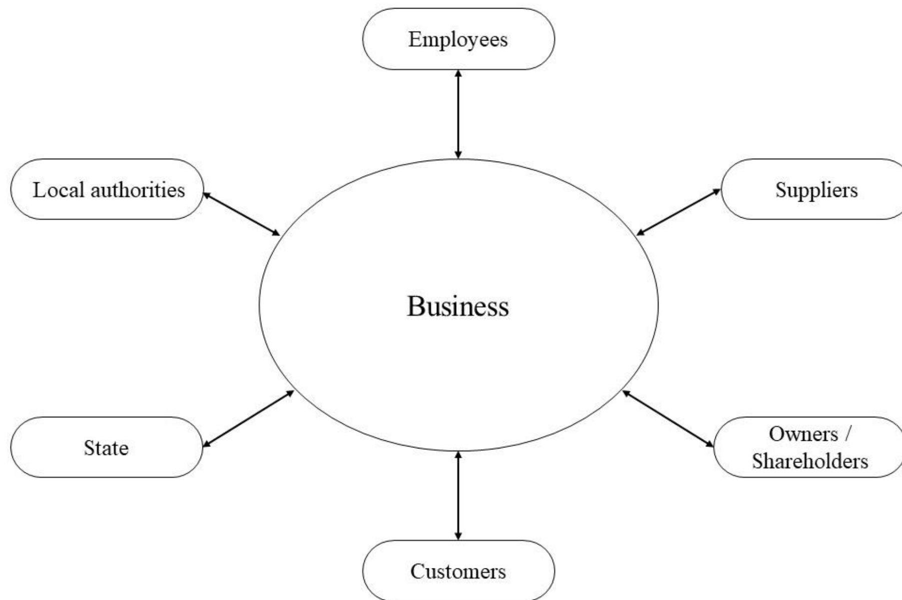

Figure 2 Typical stakeholder map with arrows representing stakeholder relationships

While it has since become customary to present the relationships between a business and its stakeholders by using arrows (see Figure 2 for an example), this atomistic approach suggests that a business somehow exists independently of the stakeholders it has a relationship with. It has thus been suggested that it would indeed be better to view the business as at least partly '*constituted by the network of relationships which it is involved in'* (Wicks et al., 1994, p. 483), i.e., the business does not have an existence independent of its stakeholder relationships. As such, a key advantage of the first Rhenman (1968, cited by Strand and Freeman, 2015) map is that it better illustrates the constitutive nature of stakeholder relationships given that each stakeholder group overlaps with the business at the centre of the network.

Stakeholder Theory as a theory of Business Ethics

The ‘seminal’ question posed by stakeholder theory is ‘For whose benefit ought the firm be managed?’ (Phillips, Freeman and Wicks, 2003: p.489). Stakeholder theory emerged in response to ‘shareholder primacy’, which states that businesses should be managed for the benefit of shareholders, who should be prioritized in management decision making. This is based on the erroneous belief that shareholders are ‘owners’ of the corporation and that managers have a fiduciary responsibility towards them. Legally, this is not the case and managers have to act in the ‘best interests’ of the business (Modern Corporation Project, 2016). From a stakeholder perspective, the best interest of the business will more likely be best served by respecting their responsibilities to a broad range of stakeholders, rather than focussing on the interests of one group, whether that is shareholders, customers or employees (Business Roundtable, 2019). All of these stakeholders are essential to the success of a business and have interests and rights that managers need to respect in their decision making (Freeman et al., 2010).

Although the stakeholder concept was included in Ansoff’s (1965) classic ‘Corporate strategy’ - and was increasingly referred to throughout the 1970s - it only became recognised as a ‘theory’ of business ethics in 1984 with the publication of R. Edward Freeman’s ‘Strategic management: A stakeholder approach’. Since then, stakeholder theory has become one of the most influential concepts in the theory and practice of both business ethics (see entry on ‘Business and Society’ and ‘Business Ethics’) and CSR (see entry on ‘Corporate Social Responsibility’).

As a theory of business ethics, stakeholder theory is a response to the ‘separation thesis’, the belief that business decisions can be separated from ethical decisions (Freeman, 1994). The

success of stakeholder theory will ultimately depend on its ability to inform management practice so that all business decisions are also understood as simultaneously being ethical decisions. This requires managers to consider the impacts of decisions on relevant stakeholders and consider which stakeholders will benefit from their decisions.

It has been suggested that for stakeholder theory to resolve the separation thesis, managers need to adopt a ‘names-and-faces’ approach to stakeholder management. That is, managers need to know the names and faces of individual stakeholders rather than generically mapping (collective) stakeholder groups. It is argued that abstract classifications such as ‘employees’, ‘customers’ and ‘suppliers’ are insufficient bases to form meaningful stakeholder relations. When managers look beyond the abstract stakeholder classifications to focus on the individual, they will often observe a phenomenon known as ‘stakeholder migration’, whereby stakeholders belong to more than one stakeholder group. For example, an employee may simultaneously be a shareholder and/or customer of the corporation they work for. Further, McVea and Freeman (2005) suggest that as organizational structures become flatter and less hierarchical, the boundaries between managers and employees may become more blurred. By adopting a faces-and-names approach, managers can better understand the affects their business has on stakeholders as well as how their business is affected by their stakeholders. While an objection is that it is - by default - overly complex and resource intensive to know the names and faces of all stakeholders, this approach is not ultimately intended as a *goal* of the business but an *attitude* to be adopted by managers who want to better synthesise strategy and ethics within their stakeholder management processes.

Types of Stakeholder Theory

Donaldson and Preston (1995) extract three conceptually distinct yet mutually supportive aspects of stakeholder theory - normative, instrumental, and descriptive. The three aspects are

presented as ‘nested’ (p.74), with normative stakeholder theory situated at the inner core of three concentric circles. The premise of this positioning is that business *should* take into account stakeholder interests on the following normative grounds: (i) a stakeholder has legitimate interests in a business (regardless of reciprocity), and (ii) a stakeholder holds intrinsic value to a business, irrespective of whether (or not) they further the ends of other stakeholder groups. The normative aspect of stakeholder theory thus provides ‘moral or philosophical guidelines’ (p.71) for business in their interaction(s) with stakeholders; e.g. a firm should not discriminate through unequal pay based on non-work-related characteristics (such as gender), given that all employees have a legitimate interest in fair compensation and an intrinsic right to due duty of care from their employer.

Donaldson and Preston (1995) position the instrumental aspect of stakeholder theory in the middle of the three concentric circles. This aspect contends that, all things being equal, accounting for stakeholder interests will likely *benefit* business through improved financial and/or non-financial performance. For instance, extending the previous example, an equal-opportunities employer paying above the living wage will likely observe higher levels of morale, satisfaction and productivity amongst its employees coupled with a subsequent decline in staff-turnover and recruitment costs.

Lastly, in the outer circle, Donaldson and Preston present the descriptive aspect of stakeholder theory which describes and explains the nature, behaviour and characteristics of a business - i.e. what the firm actually *does*, in practice, and why. For instance, it might be that due to poor organisational culture and a crowded labour market, a business awards its employees minimum wage while providing few opportunities for professional training and skill development.

The Ethical Core(s) of Stakeholder Theory

According to Freeman (1994), there are multiple stakeholder theories with different 'normative cores' (Freeman, 1994: p.414). Originally, Freeman (1994) envisaged that the normative core of stakeholder theory would be derived from Kant's categorical imperative, viewing responsibilities towards stakeholders in terms of an ethics of duty. But since then, it has been recognised that there is a need for ethical pluralism within the theory and practice of stakeholder management to reflect 'the pluralism in which we are so obviously enmeshed' (Freeman, 1994: p.415). Stakeholder theory is thus not a theory of business ethics in the conventional sense of the word but a 'genre of stories about how we could live' (Freeman, 1994: p.414). It is beyond the scope of this entry to present all of these stories, but we will consider two stories based on two contrasting normative cores: 'fairness' and 'ethic of care'.

Fairness. The ethical principle that constitutes the core of stakeholder fairness is that 'each receives consideration based upon contribution to the organization' (Phillips, 2003: p.34). According to Phillips (1997: p. 57), stakeholder obligations of fairness are due when:

> 'persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding'.

Drawing on the contrasting examples of 'suppliers' and 'competitors', suppliers are due stakeholder-based obligations of fairness but competitors are not (Phillips, 2003). In Phillips' (2003) terminology, suppliers would be considered 'normative stakeholders' given that they are engaged in a mutually beneficial scheme of cooperation with the business; i.e. suppliers are cooperating to produce their goods and services and they should thus receive consideration that is commensurate with their contribution to the business. In contrast, no such obligations are due to competitors as they are not engaged in a scheme of cooperation

with the business; i.e. they are trying to win consumers from the business for their own products and services. In his original 1997 article on stakeholder fairness, Phillips originally thought this meant that competitors should not be viewed as stakeholders but, as competitors can affect and be affected by the business, they should still receive managerial attention even if they are not due obligations of fairness.

Ethic of care. The above fairness approach emphasises the importance of justice in stakeholder management. A feminist approach based on an ethic of care builds on this concern for justice but argues that, in terms of conceptualizing stakeholder fairness, 'care should be the foundation, with justice as the superstructure' (Burton and Dunn, 1996: p.137). Within a feminist ethic of care, managers need to care for their stakeholders and from this caring orientation, fairness will result. The caring manager is less concerned with abstract questions about right and wrong and more concerned with being a 'good person' (*Ibid.*) (see entry on 'Business Ethics').

The relationship with stakeholders is crucial for a feminist ethic of care and, once again, the abstractions of traditional theory are eschewed in favour of an emphasis upon concreteness. Stakeholder management should not be determined by using abstract generalized categories, such as 'suppliers' and 'competitors', rather the emphasis should be upon the quality of the relationship with specific suppliers and specific competitors. The focus from a feminist perspective is therefore 'the type of effect your decision has on that particular supplier, not 'suppliers' in general' (Burton and Dunn, 1996: p.141). The view of relationships is also quite distinct from traditional approaches to stakeholder management. From a feminist stakeholder perspective, organizations do not *have* relationships with their stakeholders, instead organizations are partly *constituted* by the relationships they have with their stakeholders.

Nonetheless, it is acknowledged that an organization cannot realistically care for all stakeholders. In practice, managers have to limit their caring to ‘those for whom [they] can reasonably care while at the same time caring for [themselves]’ (Burton and Dunn, 1996). So how do managers know for whom they should care? Burton and Dunn (1996: p.144) suggest the following principle: ‘Care enough for the least advantaged stakeholders that they not be harmed; insofar as they are not harmed, privilege those stakeholders with whom you have a close relationship’. This rule also provides a solution to the complexity of the ‘names-and-faces’ approach to stakeholder management (see above).

So, returning to the example of suppliers and competitors, the concern would be for specific suppliers and specific competitors that the organization has a relationship with. First, there would be a concern to avoid harm. With suppliers this may mean avoiding exploitation and with competitors this may be an attempt to avoid overly aggressive zero-sum competition. Second, the closeness of the relationship would determine the level of care given to that stakeholder. For example, a business that collaborates with a specific supplier and/or competitor may want to privilege these relationships over those with other suppliers (where there is a more arm’s length relationship) and competitors (where the relationship is purely competitive). An advantage of this approach is that, by default, it nods to the way in which organizations do often have close relationships with their stakeholders. For example, this is seen through the World Cocoa Foundation (2023), a collaborative industry initiative in which chocolate manufacturers (competitors) not only work with one another but together with their suppliers to improve the sustainability of the chocolate industry.

Instrumental Approaches to Stakeholder Engagement

While the preceding section considers the (normative) ways in which business should manage their stakeholders (fairness, ethic of care), it is important to note other robust approaches

which adopt a more instrumental view to stakeholder engagement. A prominent example is Mitchell et al.'s (1997) theory of Stakeholder Identification and Salience, which provides a typology to assist business in establishing 'who and what *really* counts' (emphasis added) in accordance with three stakeholder attributes. First, 'power', the coercive, utilitarian, and normative means through which a stakeholder can respectively employ physical resources, material or financial resources, and/or symbolic resources in order to exert pressure on, or change the behaviour of, a business (Etzioni, 1964, in Mitchell et al.,1997). Second, 'legitimacy', the 'socially accepted and expected structures or behaviours' (Mitchell et al. 1997: p.866) that the stakeholder (and/or their claim) possesses, and third, 'urgency', the criticality and time-sensitivity of the(ir) claim.

The premise of Mitchell et al.'s theory is that, once stakeholders have been identified, managers can classify stakeholders into different positions within a Venn diagram - or indeed external to the Venn diagram (*non-stakeholder*) - to determine perceived salience. More specifically, the higher the number of attributes, the larger the presumed saliency and thereby the greater attention required from business management. Latent stakeholders each hold one attribute - i.e. classified as either *dormant* (power), *discretionary* (legitimacy), or *demanding* (urgency) - and for this reason purportedly require the least attention from a business. Expectant stakeholders each hold two attributes - i.e. *dominant* (power-legitimacy), *dependent* (legitimacy-urgency), *dangerous* (urgency-power) - resulting in moderate saliency and attention, while *definitive* stakeholders possess all three attributes and thereby necessitate the full attention of the firm. It is important to note at this point that Mitchell et al. acknowledge that stakeholder saliency (and thereby the possession of attributes) is variable, and as such can fluctuate over time and context; socially constructed - not least by the managers utilising the framework; and dependent on mutual consciousness of attribute

possession, in that - for example - a powerful stakeholder who is unaware of their power may not exert it.

Final Reflections on Stakeholder Theory

Orts and Strudler (2009) contend that the merits of stakeholder theory are twofold; it considers the scope of a business' social responsibility beyond profit-maximisation and lends to the fair and efficient management of different stakeholder groups. That said, Orts and Strudler (2009) refute the *extent* to which stakeholder theory can be an 'approach to business ethics' on the grounds that it 'is not a very good, reliable, or even cogent philosophical approach for dealing with many of the most difficult ethical problems in business' (p.605). They proffer three main critiques to justify their view. First, they argue that the definition of 'stakeholder', and the subsequent identification of stakeholders, is problematic based on narrow conceptualisations (consistent with an expanded theory of the firm) and broad conceptualisations (all encompassing) of 'who counts'. Second, and related to this, they posit that the theory suffers from the issue of vagueness and overbreadth due to a looseness in semantics. While the theory facilitates stakeholder mapping, beyond this it fails to provide guidance or direction as to how managers should go on to meet and appease the interests of stakeholders, not least due to the ambiguity surrounding what constitutes such terms. Third, they question not only how managers should balance the interests of stakeholder groups but the feasibility (and desirability) of doing so. It stands to reason that some stakeholder interests may be in conflict with those of others, that there may be variation in interests within the same stakeholder group, and that some interests (or stakes) may take precedence over others at given points in time.

These are all valid criticisms of stakeholder theory although it is worth remembering that stakeholder theory does not aim to offer a single truth but is instead a 'genre of stories about

how we could live' (Freeman, 1994: p.414). Stakeholder management is a pragmatic approach that helps managers to manage more responsibly, with stakeholder theory providing more of an ethical attitude rather than a step-by-step guide. This pragmatic approach is expressed perfectly in the quotation from Freeman (1994) below:

> *'For the pragmatist, the question is less, 'what is true,' than, 'how should we live,' or better still, 'how does this narrative allow us to live,' or 'what does this way of talking allow us to do.' So, for instance, on pragmatist's grounds the stakeholder idea is part of a narrative about how we do and could live, how we could experiment with different institutional arrangements, and how we do and could organize a sphere of our lives built mostly around something we have come to call 'work.''*

To return to the original articulation of the stakeholder management concept, R. Edward Freeman's 'Strategic management: A stakeholder approach', we can see that stakeholder theory was never intended as a theory of truth but instead referred to 'the necessity for an organization to manage the relationships with its specific stakeholder groups in an *action-oriented way*' (p.53, italics added by authors). Stakeholder theory helps managers respond to this necessity yet for the pragmatist, the specific response will be decided not by applying a theoretical framework but through experimentation (Wicks and Freeman, 1998). From a pragmatic perspective, the issues identified by Orts and Strudler (2009) are not an impediment to stakeholder management but a call for managerial experimentation.

Stakeholder theory has provided many approaches to stakeholder management that managers can experiment with. In this entry we have considered a number of normative approaches: the names-and-faces approach, a fairness approach and an ethic of care approach. We have also presented an instrumental approach to stakeholder management, in the form of Mitchell et al.'s (1997) 'Stakeholder Identification and Salience' framework. All of these approaches

will be potentially useful to the manager seeking to better synthesize strategy and ethics but none offer a blueprint for managing stakeholders. Instead, managers need to experiment with these approaches as they work to better know their stakeholders.

References:

Ansoff, H.I., 1965. *Corporate strategy: An analytic approach to business policy for growth and expansion*. London; Penguin.

Burton, B.K. and Dunn, C.P., 1996. Feminist ethics as moral grounding for stakeholder theory. *Business Ethics Quarterly*, 133-147.

Business Roundtable, 2019. Business Roundtable redefines the purpose of a corporation to promote an 'economy that serves all Americans' [Online]. Available at: https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans (Accessed: 10 January 2023).

Donaldson, T. & Preston, L. E., 1995. The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications. *Academy of Management Review,* 20(1): 65-91.

Freeman, R.E., 1984. Strategic Management: A Stakeholder Approach. London: Pitman Books.

Freeman, R.E., 1994. The politics of stakeholder theory: Some future directions. Business Ethics Quarterly, 4, 409–422.

Freeman, R.E., Harrison, J.S., Wicks, A.C., Parmar, B.L. and De Colle, S., 2010. *Stakeholder theory: The state of the art.* Cambridge: Cambridge University Press.

Johnson and Johnson, 2023. Our credo [Online]. Available at: https://www.jnj.com/credo/ (Accessed: 10 January 2023).

McVea, J.F. and Freeman, R.E., 2005. A names-and-faces approach to stakeholder management: How focusing on stakeholders as individuals can bring ethics and entrepreneurial strategy together. *Journal of Management Inquiry*, *14*(1), 57-69.

Mitchell, R. K., Agle, B. R., & Wood, D. J., 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review, 22(4): 853-886.

Modern Corporation Project, 2016. The modern corporation statement on company law [Online]. Available at: https://www.law.ox.ac.uk/business-law-blog/blog/2016/11/modern-corporation-statement-company-law (Accessed: 10 January 2023).

Orts, E. W. & Strudler, A., 2009. Putting a Stake in Stakeholder Theory. *Journal of Business Ethics,* 88(4): 605-615.

Phillips, R.A., 1997. Stakeholder theory and a principle of fairness. *Business Ethics Quarterly*, *7*(1), 51-66.

Phillips, R., 2003. Stakeholder legitimacy. *Business Ethics Quarterly*, *13*(1), 25-41.

Strand, R. and Freeman, R.E., 2015. Scandinavian cooperative advantage: The theory and practice of stakeholder engagement in Scandinavia. *Journal of business ethics*, *127*(1), 65-85.

Wicks, A.C. and Freeman, R.E., 1998. Organization studies and the new pragmatism: Positivism, anti-positivism, and the search for ethics. *Organization Science*, *9*(2), 123-140.

Wicks, A.C., Gilbert, D.R., Jr., and Freeman, R.E., 1994. A Feminist Reinterpretation of The Stakeholder Concept. *Business Ethics Quarterly, 4:* 475-497.

World Cocoa Foundation, 2023. Vision and mission [Online]. Available at: https://www.worldcocoafoundation.org/about-wcf/vision-mission/ (Accessed: 10 January 2023).