

Stakeholder Theory

- o The stakeholder theory is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others.
- Implications of the Theory for Managers Stakeholder theory explores the view that organizations should focus on a broader set of goals than simply improving shareholder wealth.
- o The main idea in stakeholder theory is that organizations should focus on meeting a broader set of interests than just amassing shareholder wealth.
- o Stakeholder theory has been continually fine-tuned and expanded, in such areas as differentiating between primary and secondary stakeholders (Clarkson, 1995), focusing on restricted (narrow) versus unrestricted (broad) stakeholder strategies (Greenwood, 2001), balancing diverse stakeholder orientations (Buono & Nichols, 1985), and assessing corporate performance from the perspective of different stakeholders (Donaldson & Preston, 1995).
- According to stakeholder theory, involving stakeholders in corporate decisions is considered an ethical requirement and a strategic resource, both of which help provide organizational competitive advantages (Cennamo, Berrone, & Gomez-Mejia, 2009; Plaza-Ubeda, de Burgos-Jimenez, & Carmona-Moreno, 2010).
- The assumption is that organizations that practice stakeholder management, assuming all other variables are held constant, will be relatively successful in terms of profitability, stability, growth, and so on.
- o Content: Ethical reasons for considering stakeholders
- o Stakeholders have legitimate interests in the firm
- The normative perspective examines why firms should give consideration to their stakeholders.
- Categories of Stakeholders
- Categories of Stakeholders (Sirgy, 2002)
- Content: Internal: Employees, executives, board of directors External: Shareholders, suppliers, local community Distal: Rival firms, government agencies, labor unions
- Sirgy (2002) developed a list of three categories of stakeholders: internal, external, and distal.
- Perspectives of Stakeholder Theory
- Title: Perspectives of Stakeholder Theory (Donaldson & Preston, 1995)
- Content: Descriptive: Organizations have stakeholders Instrumental: Stakeholder management leads to success Normative: Ethical obligation to stakeholders
- Stakeholder theory can be categorized from three points of view: descriptive, instrumental, and normative (Donaldson & Preston, 1995).
- Definition of Stakeholders
- Content: Individuals or groups affected by organizational actions (Freeman, 1984)
- Major, legitimate stakeholders vs. distant stakeholder
- stakeholders are individuals or groups who can affect, or are affected by, the actions and results of an organization (Freeman, 1984).
- Kaler (2003) developed a typology of stakeholder theories and concluded that there are only two permissible types:
 - o (1) theories in which firms have perfect responsibilities toward both shareholders and nonshareholders and
 - (2) theories in which firms have perfect responsibilities toward shareholders, but imperfect ones toward nonshareholders.
- Stakeholder Theory
- o Content:
 - o Traditional view vs. Stakeholder Theory
 - o Focus on broader interests beyond shareholders
 - o The traditional view of organizations is that they primarily care about improving the wealth of their shareholders, those who own shares in the company.
 - Distal stakeholders include rival firms, consumer and advocacy groups, government agencies, voters, and labor unions.
 - Research has shown that a significant number of firms practice stakeholder management, which involves balancing the needs of organizations with the needs of stakeholders (for example, Clarkson, 1991).
- Perspectives of Stakeholder Theory 2.
- Content:
 - o Link between stakeholder strategies and organizational performance
 - o Success measured by profitability, stability, growth
 - The instrumental perspective is that firms that consider their

stakeholders' interests will be more successful than those that do not. Some researchers have contended that both financial and social performance should be stressed, but others have focused purely on the importance of primarily meeting the needs of all relevant stakeholders, even if that is at the expense of profits. According to the normative perspective, stakeholders are individuals or groups who have legitimate interests in substantive aspects of the firm (Donaldson & Preston, 1995). Criticisms and Critiques of the Theory Stakeholder theory continues to gain in popularity among both managers and academics (Agle et al., 2008). Content: Organizations balance needs of shareholders and stakeholders Examples of stakeholder management practices The descriptive perspective simply states that organizations have stakeholders. Favoring one party over another simply due to power differentials is a violation of justice and fairness principles (Harrison, Bosse, & Phillips, 2010). Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization. For the most part, stakeholder theory has excluded the interests of stakeholders whose interests are far from the firm's operations or corporate objectives (Hillman & Keim, 2001; Walsh, 2005). Freeman (1984) was careful to note that any theory that refocuses decision-making power in such a way was open to abuse by nonshareholders, because power is being redirected from the wealthy shareholders to the usually less wealthy stakeholders. The other two perspectives have been largely neglected by researchers (Egels-Zanden & Sandberg, 2010). Critics also have argued that a glaring shortcoming of the theory is the problem of identifying stakeholders (Freeman, 2004). Managers may be unable to attend to all stakeholder needs, so they often narrow the field of stakeholders on the basis of such attributes as power, legitimacy, and urgency. Critics of the theory have condemned the notion that corporate profits must be sacrificed in order to meet various stakeholder needs. Another area of continuing criticism concerns identification of salient stakeholders. 1..2.3.5.6.7.8.9. 10. 11. 12.