

Managerial stakeholder theory

[Business](#), [Management](#)



Managerial Stakeholder Theory To predict real-life phenomena we need theories. Similarly, stakeholder theory is a theory which is used to explain the phenomena of motivation for corporate social disclosures. This research work is based on the concept of stakeholder theory and its practical applications in predicting the phenomena of corporate social disclosures (van der Laan 2009). Further there will be explanation of Managerial stakeholder theory. The concept of stakeholder theory has got popularity among corporate world, managers, media and academics.

Concept of Stakeholder management theory is very much related to business ethics and it has dominated the literature of business ethics. In doing business values become a necessary part of the organization and stakeholder theory starts from this assumption. Stakeholder theory explains the behavior of managers towards their stakeholders and also tells us how the managers want to do the business. The theory also clears that what kind of relationship managers want with their stakeholders and what kind of relationship they should have (Aarhus School of Business 2004).

There will also be a brief history of stakeholder theory and its role in explaining the motivation for corporate social disclosures. There are two theories which are offered to describe the phenomena of motivation for the corporate social disclosures. First one is managerial stakeholder theory and another is legitimacy theory. Legitimacy theory is not our concern here as it says that corporate social disclosures are voluntary in nature and are part of process of legitimating (Crane & Ruebottom 2011).

An article " The role of theory in explaining motivation for corporate social disclosures: voluntary disclosures v/s solicited disclosure" from the journal "<https://assignbuster.com/managerial-stakeholder-theory/>

Australasian accounting business and finance journal” is considered to complete the assessment. The article is a good source of information for the topic stakeholder theory as it is currently written. This is a highly reliable article as it is taken from the journal which is a journal of university of Sydney.

The article covers all the information which is required to complete this assessment. It explains the concept of corporate social disclosures in detail and how it is motivated by the theories like stakeholder theory and legitimacy theory. Accuracy of the article is excellent as it is easily accessible and contacting information of the author is also provided. The author is a highly renowned author in Australia and also is a faculty of economics and business in the University of Sydney (Colorado college community 2012).

The phenomenon which is discussed in this work later is of motivation for corporate social disclosures. Corporate social disclosures are primarily voluntary in nature as it tells the stakeholders of an organization about the internal information of the organization. Stakeholders are the important part of the organization and they should have the information about the organization. But today corporate social disclosures are not voluntary every time as there are companies which keep their stakeholder away from the information which can affect them.

Stakeholders like NGO's, regulatory agencies, fund managers who are directly or indirectly associated with the organization are demanding the social information from the companies and thus increasing the social responsibilities of the companies (Crane & Ruebottom 2011). This is how the concept of solicited corporate social disclosure comes into existence. Due to <https://assignbuster.com/managerial-stakeholder-theory/>

this confusion around disclosure principles we have a big area of research. According to Freeman the definition of Stakeholder is “ any group or individual who can affect or is affected by the achievement of the organization. Shareholders also come under stakeholders group as they are the important part of the organization. Shareholders are also affected by the firm’s success or failure just like customers, suppliers, employees and local community. In general the idea of the stakeholder theory is about the conceptualization of the organization i. e. how an organization should be. Friedman has said that “ the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. A manager’s responsibility is to manage the corporation for the benefit of its stakeholder so that they can insure their rights and participation in decision making. Management of an organization is just like an agent for the stakeholders which ensures the survival of the firm (Fontaine, Haarman & Schmid 2006). The definition of stakeholder and its relationship with management; purpose of the organization and its behavior towards the stakeholders; role of the managers towards the stakeholders; these things have got changed over the time and are very confusing.

For example the father of stakeholder theory Freeman himself changed the definition of stakeholder. In one of his latest publication he defines stakeholder as “ those groups who are vital to the success and survival of the corporation. ” In his other latest publication he states that “ The principle of stakeholder recourse. Stakeholder may bring an action against the directors for failure to perform the required duty of care. ” In all we can say

that the concept of stakeholder theory needs to be studied thoroughly so that we can get a clear picture of the theory (Reed 1999).

There are two approaches to the stakeholder theory first one is called as normative approach and the second one is known as descriptive approach. The principles and ideas which are explained above come under normative approach of Stakeholder Theory. Normative approach of stakeholder theory explains the behavior of managers and stakeholders towards organization i. e. how the managers and stakeholders should act and what should be their view on the purpose of the organization.

It is all based on some ethical principles. The descriptive approach of the stakeholder theory deals with the actual behavior of the managers and stakeholders towards the organization. This theory is concerned with managers and stakeholders i. e. how they actually view their actions and roles. There is another approach to the Stakeholder theory which is known as Instrumental stakeholder theory which is concerned about how the managers and stakeholders should behave if they want to work on their own interest.

In some literature own interest is considered as the objective of the organization i. e. maximization of shareholders wealth and profit maximization of the organization. So in all we can say that generally there are three approaches to the managerial stakeholder theory first normative approach second descriptive approach and the third is Instrumental approach. As the concept of the Stakeholder theory has got popular among organizations resultantly different definitions of the stakeholder has been developed. The question arises what is a Stakeholder?

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Stanford Research Institute (SRI) defines the stakeholder as “ those groups without whose support organization would cease to exist. ” This definition is given in the book of Freeman. After this Freeman gave another definition of the Stakeholder that “ any group or individual who can affect or is affected by the achievement of the organization’s objectives. ” After this Freeman continued to use these definitions in a modified form “ those groups who are vital to the survival and the success of the organizations. So, we can say that there is no a particular definition of stakeholder which is accepted by the entire business community but yes, they use it according to their needs. Now when the definition of stakeholder is clear the other question comes in front of us and that is who the stakeholders are? We can classify the stakeholders in group of people who are associated with the organization. The main groups of stakeholders are: Customers, Employees, Local Communities, Suppliers and Distributers and Shareholders. This classification of stakeholders is done by Friedman.

He has also considered some other groups as stakeholders in addition, these groups are: The media, the public in general, business partners, future generations, past generations (founders of the organization), academics, competitors, NGO’s or activists, stakeholder representatives such as trade unions or trade associations of suppliers or distributors, financiers other than stockholders (debt holders, bond holders and creditors), government, regulators and policymakers. After the classification of the stakeholder there are some other sub classifications such as media will be categorized as Print media, Television, radio.

Similarly, other classifications are having their sub categories and definitions (Fontaine, Haarman & Schmid 2006). If we talk about the history of the stakeholder theory, it came into existence in the mid of 1980. The person who gave this theory to the world is Richard Edward Freeman. The credit of the popularization of stakeholder concept goes to Freeman. The title of his work is Strategic Management and only the subtitle is A Stakeholder Approach and came out in 1984. The concept of stakeholder of Freeman was done on the perspective of company.

He built on the process work of Ion Mitroff, Richard Mason, and James Emshoff. The word stakeholder came from research work in Stanford Research Institute (SRI) in 1960. After this the concept of stakeholder was heavily influenced by the planning department of the Lockheed Company and these ideas were developed from the researching done by Igor Ansoff and Robert Steward. Dodd said that GEC was already identifying four groups with whom they had to deal with. These four groups were: shareholders, employees, customers and general public.

After this in 1990's Johnson and Johnson added one more group to this category and this group was of managers. Further the concept of stakeholder theory got modified by Friedman and is still on the way of modification. Theories and frameworks which were traditional were not efficient enough to help managers to develop new strategic directions. Freeman says that the old theories were not consistent with the quality and kind of change which were taking place in the environment of 1980's. In Freeman's word it was not enough to solve the calls for increased productivity using the methods from Japan or Europe.

According to Freeman, “ The emergence of new groups, events and issues which cannot be readily understood within the framework of an existing model or theory... It makes us uncomfortable because it cannot be readily assimilated into the relatively more comfortable relationships with suppliers, owners, customers and employees... It originates and the murky area labeled environment and affects our ability cope with internal changes. ” Freeman made his view of the firm as a common hub and managers were not mentioned in this hub as they work within the firm so they will automatically be included in the hub (Crane & Ruebottom 2011).

The word Stakeholder was chosen by Freeman on the basis of the traditional word Stockholder. Stockholder is a word which takes only a look on the economic point of view but Stakeholder considers a group of people who can affect or can get affected by the achievement of the organization’s objective. Means stakeholder is a broader term and stockholder is a narrower term which can come under stakeholder. Now we will be discussing Normative, Descriptive and Instrumental theories of stakeholder separately.

The aim of normative approach of the stakeholder theory is to understand the moral or philosophical guidelines linked to the activities or the management of the corporations. In descriptive approach we consider the behavior of the managers towards the stakeholders, means how they deal with the stakeholders. On the other hand instrumental approach study the organizational consequences of taking into account stakeholders in management examining the connections between the practice of stakeholder management and the achievement of various corporate governance goals.

Normative theory is the core of the stakeholder theory. It answers the questions like what are the responsibilities of the companies in respect of the stakeholders. And why should companies take care of others interests than the shareholder's interests. Many authors accept that relationships between the firm and the stakeholders are based on the moral commitments and normative approach deals with the same. Freeman and Evan gave their normative theory based on the definition of stakeholder that " those groups who are vital to the survival and success of the corporation. These groups involve customers, employees, suppliers, communities, shareholders and managers. Evan and Freeman proposed two principles: Principle of corporate legitimacy and the stakeholder fiduciary principle. The first principle says that the company should be managed for the benefits of its stakeholders and also stakeholders must participate in decision making. The second principle states that management must act as an agent of the stakeholders for the welfare of the stakeholders and to insure the survival of the firm. After this there were other principles developed by Freeman in normative approach e. g.

The principle of entry and exit, the principle of governance, the principle of externalities, the principle of contracting costs, the agency principle and the principle of limited immortality (Fontaine, Haarman & Schmid 2006). Of course these principles are having their particular definitions. After normative approach if we discuss about analytical approach of the stakeholder theory then we must notice that it is the combination of instrumental and descriptive approach. This analytical approach was

proposed by Donaldson and Preston. The analytical theory answers the question: how to organize into the hierarchy stakeholder's influence.

Let us first discuss Freeman's theory. He gave two definitions of the stakeholders: " Group of people who can affect or can be affected by the achievement of the organization's objective. " " Those groups who are vital to the survival of the organization. " According to the Freeman it is necessary to understand who are those groups who can affect or can be affected by the achievement of the objectives of the firm? He said that each MNC should be clear about its stakeholder and for that he suggested following questions: Who are our current and potential stakeholders? What are their interests and rights?

How does each stakeholder affect us? How do we affect each stakeholder? How do we keep score with our stakeholder? And many more questions are there in the list. Now when we talk about stakeholder theory and its practical application on corporate social disclosure principles then the theory of solicited corporate social disclosure comes into its existence. According to Gray, " to place corporate social disclosures in a theoretical context, several broad, overlapping groups of theories concerning information flows between organizations and society have been used. " Theories which are social and political in nature and deal with the flow of information from companies to the stakeholders are considered more appropriate for the explanation of corporate social disclosures (CSD). Development of the stakeholder theory and legitimacy theory is based on the political economy perspective. Even the perspectives for both the theories are same but there are big differences among them. Stakeholder theory is recognized when an organization has to

deal with its stakeholders at micro - level and legitimacy theory is applied at a conceptual level (Fontaine, Haarman & Schmid 2006).

Donaldson & Preston stated that, " Stakeholder theory has been advanced and justified on the basis of its descriptive accuracy, instrumental power and normative validity. These three aspects of theory, although interrelated; are quite distinct. They involve different types of evidence and argument and have different implications. " This research work is based on the descriptive aspect of the stakeholder theory because this is the only aspect of stakeholder theory which is applicable to the real world.

Mitchell claims that stakeholder theory attempts to articulate a fundamental question in a systematic way: which groups are stakeholders deserving or requiring management attention, and which are not? " So, the descriptive approach of stakeholder theory clearly explains that who are the stakeholder accountable for the organization and in this way practical application of stakeholder theory is required to explain the phenomenon of motivation for corporate social disclosure.

Stakeholder analysis requires the identification of the stakeholders who are in the need of information from the organization or we can say that who are the stakeholders having some right to have the information (van der Laan 2009). Also it clears that why these stakeholders require the information and others don't. While deciding the appropriate group of stakeholders to provide the information and the essential information CSDs results in conflict between stakeholders. There are no sufficient research works available which can clarify the CSD's concept taking descriptive aspect of stakeholder theory into consideration.

Social disclosures are used strategically to manage relationships with stakeholders by influencing the level of external demands originating from many different constituencies. Robert applied the framework of Ullmann and found “ Stakeholder power, Strategic posture and economic performance are significantly related to the levels of CSDs and which is used by organizational managers as a proactive method of managing stakeholders and their organizational environment. ” Thus we can say that the descriptive approach of managerial stakeholder theory provides a framework in which we analyze the CSD in a centered way.

The only limitation of the theory is that it provides the information of organization to the stakeholders who are really in the need of it. References: Ruebottom, T & Crane, A 2011, Stakeholder theory and social identity: Rethinking stakeholder identification, J Bus Ethics, vol. 102, pp. 77-87. Laan, S 2009, The role of theory in explaining motivation for corporate social disclosure: voluntary disclosure vs ‘ solicited’ disclosure, Australasian accounting business and finance journal, vol. , no. 4. Reed, D 1999, Stakeholder management theory: a critical theory perspective, Accessed on 3 august 2012, <http://www.yorku.ca/dreed/pdf/Stakeholder-Mgmt-Critical-Theory.pdf> Fonatine, C, Haarman, A & Schmid, S 2006, The Stakeholder theory, Accessed on 3 August 2012, <http://www.yorku.ca/dreed/pdf/Stakeholder-Mgmt-Critical-Theory.pdf> Colorado community colleges 2012, five criteria for evaluating web pages, Viewed on 3 August 2012, http://www.ccconline.org/Library_Resources/Evaluating_Sources/Five_Criteria Heath, J & Norman, W 2004, Stakeholder theory, corporate governance and public management, <https://assignbuster.com/managerial-stakeholder-theory/>

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