

# Stakeholder theory in organisational management



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Questions for discussion:

- Is it unethical for a city employee to make recommendations based on his or her experience?

There is a danger that this may be interpreted as bribery-inability to provide evidence of quid pro quo payments still leaves the question open and therefore there is no transparency-additionally, the experience of the individual may only be from an advisory and not consumer position-what qualifies the employee to make the recommendation? This could influence the consumer decision and is therefore inappropriate and unethical and possibly illegal.

- Would Gary's actions have been acceptable if he had not engaged in a quid pro quo?

It still brings the employees motives into question as outlined above-there is no transparency as to why Gary is making the recommendations and additionally, what qualifies Gary to make the recommendation? It is therefore still unacceptable.

- What action should Wendy take with Gary? With other department employees?

In the absence of written documentation outlining the issue, Wendy would have to make the decision as to whether he should have been aware that his actions are unethical and possible illegal and act accordingly. That Gary actively solicited the firms, it is reasonable to assume he was aware that his actions were illicit and therefore despite specific written rules, it would be

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reasonable to subject Gary to a disciplinary hearing as per the departments' policies and procedures.

- Is there anything the city manager might do to prohibit this type of behaviour?

Update the Standard Operational Procedures and rules of business and ensure sign-off within the training and competency assessments of relevant personnel to ensure that they are aware of the rules and implications of failing to follow them. Ensure that the employees are aware that all document changes regarding policy have to be acknowledged to remove plausible deniability. Finally, it would be prudent to audit activities of all staff responsible for imparting this information to consumers, in order to ascertain if this is a single case or endemic among the culture of the office.

#### What do you think?

Stark (1997) outlines the issue quite well stating that contracting or procurement are prime examples where ethical codes are paramount. Public sector processes Government processes are lengthy in that they have to encourage transparency and impartiality. If efficiency was the sole rationale for judging, then it could become subjective and easy for the employee to act inappropriately. If however the key is impartiality, then it is easier to monitor and control as patterns of contract awarding would be evident.

#### Stakeholder theory

Stakeholder theory is a theory of organisational management in business ethics concerning ethics morals and values, coined by R Edward Freeman. A stakeholder approach identifies the stakeholders in the organisation and <https://assignbuster.com/stakeholder-theory-in-organisational-management/>

describes methods by which management can address all issues from the stakeholders. Traditionally, the shareholders are important and the company's primary goal is to put their needs first (shareholder theory). Stakeholder theory reworks this by including employees, customer's suppliers competition, governmental bodies, unions etc. into the mix and stating that the company should be run not only for the benefit of shareholders but of stakeholders too. The nature of what is a stakeholder is debatable with many reclassifications. The stakeholder theory incorporates both recourse and market based view. This is used to define the relevant stakeholders to each company and the conditions in which each group should be treated.

According to Key (1999), the traditional model to describe companies is the economic model which employs both contract and agency theory to describe and predict the behaviour of the company. Stakeholder theory extends the relationship to encompass the company and its external environment have produced a stream of literature in the area of corporate social responsibility. According to Gomez (2006), Freeman described a stakeholder as any group or individual who can affect or is affected by the achievement of an organization's objectives.

Kaler (2003) describes three different aspects to stakeholder theory; the descriptive aspect which serves to describe the nature and operation of organisations, the instrumental aspect which describes the instigation of stakeholder theory within the organisation, and the normative aspect which provides definition of function and the ethical code that should be adopted concerning operations.

Studies have shown that companies that embrace stakeholder theory, are more successful than their shareholder counterparts. Hack (2011) described protests in 2000 where activists pointed out that the Coca Cola company provided AIDS prevention, protection, testing and treatment of its employees in Africa, this was not extended to employees of its bottling affiliates. The Coca Cola Company encompassing stakeholder theory, visualised the effect on the supply chain if the affiliates employees were affected and rescinded the decision. Ultimately, Coca-Cola supplied AIDS services for the affiliates employees across Africa with each stakeholder group contributing to the payment.

There are criticisms of the theory-Key (1999) stated that Stakeholder theory provided no adequate explanation of the firm's behaviour within its environment. This was mirrored by Gomez (2006) who stated that there is a lack of clarity regarding stakeholder theory, as it does not sufficiently explain the intricacy of the relationships between a company and individuals, groups and other organizations from the same environment.

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