The Stakeholder Theory

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1. Introduction

In our work we want to explain the principle ideas of the stakeholder theory. The fact that the stakeholder concept has achieved widespread popularity among academics, media and managers we think that it is an important task to bring some system into all those confusing approaches around to the stakeholder concept. At the beginning we will comment on the basic idea of the stakeholder theory. We will also try to give a clear definition of what the concept is all about. Freeman who has contributed a lot to this approach will be the main guide line in our work. We will also give a brief overview of the history of the stakeholder concept and how it developed and why it became so popular lately. After that we will explain in a bit more detail the importance for organization attention to stakeholders. Further on we want to show how the stakeholder concept has been realized by companies. At the end of the paper we want to show the application and the limits of the stakeholder theory.
In general the goal of our work is to give a better understanding of the stakeholder concept and make readers sensitive about how the stakeholder concept could change management practice.

2. Basic idea of the Stakeholder Theory and Definition

The traditional definition of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984). The general idea of the Stakeholder concept is a redefinition of the organization. In general the concept is about what the organization should be and how it should be conceptualized. Friedman (2006) states 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. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group.

The definition of a stakeholder, the purpose and the character of the organization and the role of managers are very unclear and contested in literature and has changed over the years. Even the "father of the stakeholder concept" changed his definition over the time. In one of his latest definitions Freeman (2004) defines stakeholders as "those groups who are vital to the survival and success of the corporation". In one of his latest publications Freeman (2004) adds a new principle, which reflects a new trend in stakeholder theory. In this principle in his opinion the consideration of the perspective of the stakeholders themselves and their activities is also very important to be taken into the management of companies. He states "The principle of stakeholder recourse. Stakeholders may bring an action against the directors for failure to perform the required duty of care" (Freeman 2004).

All the mentioned thoughts and principles of the stakeholder concept are known as normative stakeholder theory in literature. Normative Stakeholder theory contains theories of how managers or stakeholders should act and should view the purpose of organization, based on some ethical principle (Friedman 2006). Another approach to the stakeholder concept is the so called descriptive stakeholder theory. This theory is concerned with how managers and stakeholders actually behave and how they view their actions and roles. The instrumental stakeholder theory deals with how managers should act if they want to flavor and work for their own interests. In some literature the own interest is conceived as the interests of the organization, which is usually to maximize profit or to maximize shareholder value. This means if managers treat stakeholders in line with the stakeholder concept the organization will be more successful in the long run. Donaldson and Preston (1995) have made this three-way categorization of approaches to the stakeholder concept kind of famous.

2.1. The stakeholder concept – popular and trendy

In the past view years the concept of stakeholders has boomed a lot and academics wrote a lot about the topic. But also non-governmental organizations (NGOs), regulators, media, business and policymakers are thinking about the concept and are trying to implement it in some way or the other. Most contributions are particularly about the normative principle. They promote the vision of the company and the role of managers whose objective is mainly to maximize shareholder value in order to be sustainable. However, this perspective seems to be giving way to that business has more and broader responsibilities. Those are best defined in terms of the stakeholder approach. Another reason why this topic is very popular and contested among theorists is that there is quit an amount of contesting literature around which is tried to be replaced and up dated. Along with the popularity has come a profusion of different overlapping approaches to the stakeholder concept. This has led to a confusing situation in this sector. In order to deal with this conceptual con fusion a number of classification schemes have been developed. The most famous literature contribution which makes the distinction between normative and strategic or analytical stakeholder theory was done by Donaldson and Preston in 1995. We will discuss this concept of stakeholders in more detail later on in our paper.

2.2. Different definitions of Stakeholder

As a consequence of the booming of the stakeholder concept and the literature written about the topic a lot of different definitions of stakeholder developed. The use of the stakeholder approach in big variety of context brings some criticism to the concept with it. Friedman (2006) mentions:

> That group of writers comes to coalesce around particular social constructions of reality, leading to writers referring to stakeholders without being aware of relevant theoretical issues that have been raised in other literatures.

Roberts and Mahoney (2004) have examined 125 accounting studies that used the stakeholder language and found that nearly 65 percent “use the term stakeholder without reference to any version of stakeholder theory”. The important thing is that writers use the same label to refer to a lot different concepts. This of course can have great consequences on ethical, policy, and strategic conclusions.

2.3. *What is a Stakeholder?*

In the book of Freeman (1984) the earliest definition is often credited to an internal memo report of the Stanford Research Institute (SRI) in 1963. They define them as “those groups without whose support the organization would cease to exist”. Freeman (2004) has continued to use this definition in a modified form: “those groups who are vital to the survival and success of the organization”. This definition is entirely organization orientated so the academic circles prefer the definition of Freeman (1984) where he defines stakeholders as “any group or individual who can affect or is affected by the achievement of the organization objectives”. About twenty of the 75 definitions share this definition. Friedman (2006) states that this definition is more balanced and much broader than the definition of the SRI. The phrase “can affect or is affected by” seems to include individuals of outside the firm and groups may consider themselves to be stakeholders of an organization, without the firm considering them to be such.

A more detailed distinction and analysis of the different definitions would go far beyond the extent of this paper.

2.4. *Who are Stakeholders?*

A very common way of differentiating the different kinds of stakeholders is to consider groups of people who have classifiable relationships with the organization. Friedman (2006) means that there is a clear relationship between definitions of what stakeholders and identification of who are the stakeholders. The main groups of stakeholders are:

- Customers
- Employees
- Local communities
- Suppliers and distributors
- Shareholders

In addition other groups and individuals are considered to be stakeholders in the literature of Friedman (2006):

- The media
- The public in general
- Business partners
- Future generations
- Past generations (founders of organizations)
- Academics
- Competitors
- NGOs or activists – considered individually, stakeholder representatives
- Stakeholder representatives such as trade unions or trade associations of suppliers or distributors
- Financiers other than stockholders (dept holders, bondholders, creditors)
- Competitors
- Government, regulators, policymakers

Managers are treated differently in the literature. Some regard them as stakeholders others embody them in the organization's actions and responsibilities. A very interesting view of managers came from Aoki (1984), who saw managers as referees between investors and employees.

Of course all categories of stakeholder groups could be defined more finely. For example media could be split up into radio, television and print media, or employees as blue-collar and white collar workers, or in terms for which department they work. An advantage of finer categories of stakeholders is that by doing so more homogeneous grouping of people is more likely. The negative fact about this would be the greater chance of overlap of interests and actions.

2.5. History of the Stakeholder Theory

In the mid-1980 a stakeholder approach to strategy came up. One focal point in this movement was the publication of Richard Edward Freeman. He is generally credited with popularizing the stakeholder concept. The title of the work is – Strategic Management and only the subtitle is A Stakeholder Approach and came out in 1984.

Doing this he indicated that his view of the stakeholder concept was done from the perspective of the company. He built on the process work of Ian Mitroff, Richard Mason and James Emshoff. Actually the use of the word stakeholder came from the pioneering work done at Stanford Research Institute (SRI) in the 1960s. They further were heavily influenced by several concepts that were developed in the planning department of the Lockheed Company and these ideas were developed from the researching done by Igor Ansoff and Robert Steward. Ansoff was around 1960s working for the SRI in association with Lockheed (Friedman 2006). It is also clear that business leaders were thinking and expressing the stakeholder concept long before the early 1960s. Dodd (1932) states that already GEC was identifying four main groups which whom they had to deal with. Those four groups were defined as shareholders, employees, customers, and the general public. Further, Preston and Sapieca (1990) mentioned that Johnson & Johnson identified customers, employees, managers, and the general public in 1947. The company Sears named „four parties to any business in the order of their importance"as "customers, employees, community and stockholders"in the year 1950. Schilling (2000) that the start of thinking about the stakeholder concept was the work of Follet in 1918. Friedman (2006) considers

"Here a concern about the corporation, which emerged along with the origins of the corporation as a legal entity which he, calls the soulless corporation".

This shows a moral or normative vacuum that has favored ideas of how this could or should be dealt with. In order so fill this vacuum the stakeholder concept has come up to handle this demand. By distinguishing in this work between pre- and post-Freeman (1984) it should be easier to understand why the stakeholders approach has become so popular during the last twenty years. Generally important to know is that from the start on the stakeholder approach grew out of management practice.

3. Contribution of Freeman to the stakeholder literature

3.1. Freeman Strategic Management

An argument for the more frequently used stakeholder concept in the early 1980s could be the changes among workers, students, consumer groups and environmentalists in the late 1960s. One possibility of arguing about the development of this field is to see the planning process as becoming increasingly sensitive to the business environment and the need for good information about it. Friedman (2006) has the opinion that at the time where the SRI came up with their memo they called for information systems to scan and track stakeholder responses to changes in corporate strategy as part of this environment. The SRI has developed "measures of satisfaction" for the stakeholder groups who they have found. Freeman (1984) noted that planners did not want to attempt to influence specific stakeholder behavior rather they wanted only to forecast the future environment in order to adapt it with the capabilities of the company. In the 1960s the environment was very stable, relatively static and kind of predictable. Freeman (1984) stated that prior to his work, the strategic planning literature did hardly consider stakeholders, and when, only very undefined, as generic groups, and only legitimate or friendly stakeholders. The groups like competitors or other rivals were left out. The literature of that time just developed simplistic approaches for considering the environment the stakeholders were ignored. Porter (1980) for example was one theorist who dealt with the environment and split it up into his SWOT analyses (strength, weakness, opportunities and threats).

Friedman (2006) mentions an interesting exception. Ansoff who was a key contributor to the strategy literature from the 1960s to the 1970s and was part of the Lockheed-Stanford connection that produced the initial stakeholder definition. He defines objectives as "decision rules which enable management to guide and measure the firm's performance towards its purpose" and responsibilities as "obligations which the firm undertakes to discharge "and not "part of the firm's internal guidance and control mechanism" (Ansoff1965). Another interesting contribution he made is that the distinction of constraints which he defined as "decision rules which exclude certain options from the corporations freedom action" such as certain rules or regulations enacted by the government.

3.2. Freeman's essential book: A stakeholder approach

The main idea behind the book of Freeman's book titled Strategic Management, A Stakeholder Approach, was to try to build a framework that was responsive to the concerns of managers who were being confronted with unprecedented levels of environmental turbulence and change. He argued (Freeman 1984):

"Gone are the good old days of worrying only about taking products and services to market, and gone is the usefulness of management theories which concentrate on efficiency and effectiveness within this product-market framework".

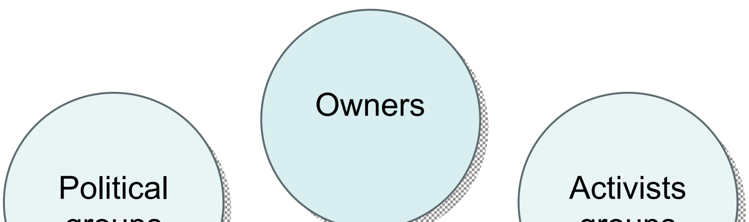
Traditional strategy frameworks were not helping managers anymore to develop new strategic directions and also did not help creating new opportunities. Freeman (1984) said that current theories are inconsistent with both the quantity and kinds of change that are occurring in the business environment of the 1980's. Turbulence organizations are facing the need for new management and a new conceptual framework was. And his approach was a response to this challenge. In Freeman's (1984) opinion it was not enough to solve the calls for increased productivity using the methods from Japan or Europe. He believes that "business-labor-government cooperation" is only part of the solution. Both internal and external change has meant that the model of the organization as a mere resource-converter is no longer "valid" and suitable. Internal change includes owners, customers, employees and suppliers. External change for Freeman (1984) includes:

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 n the murky area labeled "environment" and affects our ability to cope with internal changes.

Some examples for external change would have be the expansion of government activities, the increase in foreign competition, the 1960s environmentalist movement associated with the publication of Rachel Carson's The Silent spring (1962) and the formation of the Environmental Protection Acts., the growth of groups concerned with special interests such as gun control or abortion, and also the media became more important in business. All those changes favored the need of a new model of the organization. Freeman (1984) made his view of the firm with the common hub-and-spoke picture (see Figure 1). Managers are not mentioned because they work within the firm and so they are assumed to be within the hub. Important to know is that Freeman notes that the illustration of his diagram is very oversimplified and as already mentioned the groups shown can be broken down into more specific categories (see Section 2.4.).

Freeman chose the word Stakeholder on the basis of the traditional term - stockholder which takes only a look at the economic point of view. Where the stakeholders are defined as "any group of individual who is affected by or can affect the achievement of an organization's objectives" (Freeman 1984).

Figure 1 : Stakeholder map of a MNC / *Source: Freeman (1984)*



The purpose of stakeholder management was to create methods to manage the different groups and relationships that resulted in a strategic fashion. Further Freeman (1984) thinks that the idea of stakeholders, or stakeholder management, or a stakeholder approach to strategic management, suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business. The main task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups in a way that guarantees the long-term success of the firm. A stakeholder approach is very much concerned about active management of the business environment, relationships and the promotion of shared interests in order to develop business strategies. But due to the fact that a lot of different stakeholder concepts are around in literature in order to get a better overview the next chapter will go in more detail in the contribution to the literature done by Donaldson and Preston (1995) who distinguish between normative and strategic or analytical stakeholder theory.

4. Normative, instrumental, and descriptive stakeholder theory

4.1. Introduction

Freeman's work "Strategic Management: A stakeholder Approach" (1984) offers a managerial and practical scope and does not really constitute a theory. But it has constituted a base for the development of the stakeholder theory, witch have been widely developed since the 1980's. Stakeholder concept gave rise to heterogenic theoretical developments witch have been summarized in Donaldson and Preston Article "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications" (1995). They suggested that the stockholder theory literature can be seen as three branches:

- **Descriptive**: The aim is to understand how managers deal with Stakeholders and how they represent their interests. The corporation is viewed as a constellation of interests, some time competitive and some time cooperative. The analytic theory will show how the MNC can deal with these divergent interests of stakeholders.

- **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**: Identification of moral or philosophical guidelines linked to the activities or the management of corporations.

Donaldson and Preston argue that if these three approaches are combined without acknowledgement it would result to confusion.
First we will study the normative approaches of the stakeholder theory witch are considered by many as the core of the theory, then we will study the Instrumental and descriptive theory (analytic), and we will finally try to find common concepts of the stakeholder theories.

4.2. Normative theory

4.2.1. Objective

The objective of the normative theory is to answer the following questions, “what are the responsibilities of the company in respect of stakeholders?” and “why companies should take care of other interests than shareholders interests?”. The normative theory is linked to moral, values and philosophic purposed. For Donaldson and Preston (1995) the normative theory is the core of the stakeholder theory. For them stakeholders have a legitimate interest in MNC's and their interests have intrinsic value. But Freeman think that the idea of Donaldson and Preston suppose a separation between economics and ethics spheres. For Freeman every organization theory incorporates a moral dimension, even if it is most of the time implicit.

For many authors relationships between the firm and stakeholders are based on moral commitments. Not only to optimize profit managing stakeholders relationships in an optimal way. The relations between firms and its stakeholder can be valuable for the company as a reflection of it values and principles. Each company should define fundamental moral principles, and use these principles as a basis for decision making.

4.2.2. The action of a company should be 'ethic'

One pillar of the normative stakeholder theory is that the company decisions affect stakeholder outcomes and has to be ethic. In this kind of situation, when the action of an agent affects an other agent, the company has to build ethics principles. Decisions made without any consideration of their impact are usually thought to be unethical. Donaldson and Preston (1995) state that the stakeholder interests has an intrinsic worth not indirectly linked to the company interests. A firm should not ignore claims of stakeholders simply because honoring them does not serve its strategic interests. The firm should build principles or "rules of the game" on how the company should operate building contracts with stakeholders.

4.2.3. Freeman's normative theory

Evan and Freeman (1990) tried to build a normative theory based on this definition of stakeholders: "Those groups who are vital to the survival and success of the corporation". It means customers, employees, suppliers, communities, shareholders and managers. Evan and Freeman call for a redefinition of the purposes of the firm to act as a vehicle for coordinating stakeholders interests. They propose two principles:

- *Principle of corporate legitimacy.* The company should be managed for the benefit of its stakeholders. Stakeholders must participate in decisions that substantially affect their welfare.
- *The stakeholder fiduciary principle.* Managers must act in the interests of the stakeholders as their agent in the interests of the corporation to ensure the survival of the firm.

Managers have the same duties than other employees but they also have a duty of safeguarding the welfare of the firm. For making stakeholder management practicable Evan and Freeman propose a stakeholder board of directors comprising representatives of the five stakeholder groups, plus a director witch would be elected unanimously by the others and be vested with the duty of caring for all stakeholders.

One year later in 'doctrine of fair contracts" Freeman develops how contracts can be made between the corporation and stakeholders. In the model stakeholder representatives are assumed to be rationally self interested and to understand the implications of different corporate designs for success or failure. In this condition parties should choose the six following rules ('Doctrine of fair contracts' Freeman 1994):

- *The principle of entry and exit:* The contract has to define process that clarify entry, exit and renegotiation conditions for stakeholders to decide when an agreement can be fulfilled
- *The principle of governance:* Procedures for changing the rules of the game must be agreed by unanimous consent. This would lead to stakeholder governing board.
- *The principle of externalities*: If contract between A and B involve C, C has to be invited as a party of the contract.
- *The principle of contracting costs*: Each parties must share in the cost of contracting
- *The agency principle*: Any party must serve the interests of all stakeholders

- *The principle of limited immortality*: The corporation should be managed as if it can continue to serve the interests of stakeholders through time.

These principles represent an ideal to guide actual stakeholders in devising a corporate constitution or charter. It permits to build strategy on ethics asking "what do a company stand for?" in conjunction with it strategy decisions.

4.3. Analytic theory

4.3.1. Introduction

Has we have seen in the introduction the analytic part of the stakeholder theory is composed of what Donaldson and Preston called the instrumental and the descriptive approach. The objective is to understand how managers deal with stakeholders, how they represent their interests and the impact of the stakeholder approach in the achievement of various corporate goals.

We are going to consider an organization centric view of the stakeholder theory witch mean that the firm is considered to be the nexus of the interests of each stakeholder. This is the vision of Freeman and his model has seen contributions of Savage (1991), Clarkson (1995), Jones (1995), and Mitchell, Agle, and Wood (1997).

The analytic theory is necessary to answer the question: how to organize into hierarchy stakeholders influence? Each author has a different point of view and we are going to see each model, theory or contribution. Even if their theories converge in order to find a unique stakeholder theory, there are still differences and the authors have not found a consensus yet.

4.3.2. Strategic management: Freeman (1984) and Savage et Al. (1991)

Freeman gave two definitions of a stakeholder:

- “Group of people who can affect or can be affected by the achievement of the organization’s objectives” (1984)
- “Those groups who are vital to the survival of the organization” (2004)

Belong to him, in order to enhance an organization’s stakeholder management it is necessary to begin by defining who the stakeholders of the corporation are. If we apply his definition, it means: “who are those groups who can affect or can be affected by the achievement of the organization’s purpose”? This mean mapping the stakeholders, providing detailed list of the specific groups and companies related to each category of stakeholders, and a corresponding list of interests. For Freeman the corporation occupies a central position and has direct connections to all Stakeholders (see Figure 1 pg.11).

Freeman suggests that each MNC should distinguish important stakeholders and negligible stakeholders. For him the MNC has to limit the number of stakeholders and to not take care of inoffensive stakeholders. To facilitate important stakeholder mapping Freeman suggests the following question:

- Who are our current and potential stakeholders?
- What are their interests/rights?
- How does each stakeholder affect us?
- How do we affect each stakeholder
- What assumption does our current strategy make about each important stakeholder?
- What are the “environmental variables” that affect us and our stakeholder?
- How do we measure each of these variables and their impact?
- How do we keep score with our stakeholders?

In order to find the optimal strategy for each group of stakeholder Freeman suggests analyzing the stakeholder behavior and possible coalitions between stakeholders groups.

The stakeholder behavior can be delineated investigating in the past actions of such kind of groups. It is necessary to analyze the actual behavior of stakeholders, their cooperative potential and competitive threats.

Coalition may develop if different groups of stakeholder have common interests or common issues linked to the activity of the MNC. They can then form a more powerful group witch has to be taken into account. For Freeman manager should scan the environment for instance of similar actions, interests, beliefs, or objectives between stakeholders groups. The formation of a coalition can change stakeholder strategy and positions on issues.

These two analysis lead to a more realistic map of company's stakeholders. It also allows the manager to construct a logical explanation to explain why specific stakeholders act in a particular way. The company has to determine the long terms objectives of each groups and consider the stakeholders as rational.

This map of stakeholders allows finding the optimal strategy for each group. Freeman is going to consider two variables to determine the optimal strategy: the relative power of stakeholders and their potential to cooperate or threaten corporate strategy. Savage et Al. (1991) gave guidance on the measurement of these variables. The power of threat is determined by resource dependence, the stakeholder's ability to form coalitions, and relevance of the threat to particular issue. The potential to cooperate is determined by the stakeholder's capacity to expand its dependence with the organization: the greater is the dependence, the greater is the willingness to cooperate. As a result Savage et Al. distinguish four types if stakeholders:

- ***Supportive:* high cooperative potential and low competitive threat.** Considered as the ideal type and it includes the board of trustees, managers, employees, parent companies, suppliers, service providers and non-profit organizations.

- ***Marginal:*** **low cooperative potential and competitive threat.** Includes consumers' interest groups, professional association for employees and shareholders.
- ***Non-supportive:*** **low cooperative potential and high competitive threat.** Includes competitors, unions, media and government.
- ***Mixed Blessing:*** **high cooperative potential and competitive threat.** Includes client and organizations with complimentary products and services.

Freeman distinguishes four main strategies depending of the type of stakeholders:

- ***Offensive strategy:*** Should be adopted when a group is **supportive.** It includes trying to change stakeholder objectives or perceptions, to adopt the stakeholder position or to link the program to others that the stakeholder views more favorably.
- ***Defensive strategy:*** Should be adopted when a group is **Non supportive.** The objective is to prevent competitive threat on the part of these stakeholders. It means reinforcing current beliefs about the firm, maintaining existing programs or letting the stakeholder drive the integration process.
- ***Swing strategy:*** **Should** be adopted when a group is **Mixed blessing.** The firm has to take decisions such as changing the rules, the decision forum, the transaction process…
- ***Hold strategies**:* Should be adopted when a group is **marginal.** The company should hold its current position and continue current strategic program.

Has we can see Freeman but also Savage et al. do a separation of stakeholders regarding the cooperative potential and the competitive threat.

Clarkson (1995) introduce a distinction between primary stakeholders and secondary stakeholders. Primary stakeholders as those “without whose continuing participation, the corporation cannot survive as a going concern,” suggesting that these relationships are characterized by mutual interdependence. Secondary stakeholders are not vital for the MNC. Primary stakeholders are the partners of the firm whereas secondary stakeholders have voluntary relationships with the firm.

4.3.3. Stakeholder identification: Mitchell, Agle and Wood (1997)

The major contribution for relationships between managers and stakeholders and the way to categorize them comes from Mitchell, Agle, and Wood (1997). They tried to find a model to explain logically why managers should consider certain classes of entities as stakeholders and how prioritize stakeholder relationships. They put forward three objective criterions in order to organize into hierarchy stakeholders of a company: the stakeholders power to influence the firm, the legitimacy of the stakeholders relationship with the firm and the urgency of the stakeholders claim of the firm. These three criterions can be combined and it lead to seven stakeholders types (see figure 2). There are three types of power:

- Coercive power: based on physical resources of force, violence, or restrain
- Utilitarian power: based on financial or material resources
- Normative power: based on symbolic resources such as being able to command attention of the media

But it is not the only way to classify a stakeholder as a high priority. Legitimacy is required to provide authority. They use the Suchman’s definition of legitimacy: “a general perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. “

Urgency is based on time sensitivity, the degree to witch managerial delay in attending to the claim is unacceptable fro the stakeholder, or critically.

Stakeholder Type

Latent:
1. Dormant
2. Discretionary
3. Demanding

Expectant:
4. Dominant
5. Dangerous
6. Dependant

Highly salient:
7. Definitive

Figure 2: Model of stakeholder salience
I Source: Mitchell, Agle, and Wood (1997)

All attributes can be gain as well as lost. A stakeholder is a low priority if only one attribute is recognizes, he became a moderate priority if two attributes are held and a high priority if the three attributes are perceived.

Possession of an attribute is subjective. Sometime a stakeholder may not be conscious of possessing an attribute, but at the end it is the manager who decides witch stakeholder has this or another characteristic. So manager could incorrectly perceive the field, and should ask the questions Freeman uses for mapping stakeholders. Furthermore this possession is also dynamic. For example for Nike, NGOs were only legitimate at the beginning, but became urgency with the media support and then powerful with the boycott appeal.

4.3.4. Friedman and Miles (2002)

Friedman and Miles (2002) use two criterions to define firms stakeholder relationships. Their typology of organization-stakeholder relations is based on two distinctions:

- Compatible or incompatible in terms of sets of ideas and material interests

- Necessary or contingent. Necessary relationships are internal to a social structure or to a set of logically connected ideas. Contingent relations are not integrally connected.

As a result four relationships between MNC and stakeholders are distinguished. For each of them they encourage certain strategic actions.

	Necessary	Contingent
Compatible	**Type A** Defensive *Shareholders* *Top management* *Partners*	**Type B** Opportunism *The general public* *Companies connected through* *Common trade association*
Incompatible	**Type D** Compromise *Trade unions* *Low-level employees* *Government* *Customers* *Creditors* *Some NGOs*	**Type E** Competition/elimination *Criminal* *Members of the public* *Some NGOs*

Type A: *Necessary compatible* relationships when all parties have something to win this connection. It is so logic to protect this relationship as a strategy.

Type B: *contingent compatible* institutional arrangements. The two parties have the same interest but there is no direct relationship between parties. An opportunistic strategy is the logical strategy.

Type C: *contingent incompatible* institutional arrangements. The two parties have separate, opposite and unconnected set of idea or interests. It becomes a problem when one of two parties insists on its position. The strategy corresponds of defending its own interest by seeking to eliminate or by discrediting oppositional views.

Type D: *Necessary incompatible* relations occur when material interests are necessarily related to each other, but their operations will lead to the relationship itself being threatened. The situational logic is concession and compromise.

As we can see stakeholder theories, normative and analytic, are widely different between times and authors.

5. The stakeholders: from theory to practice.

5.1. The Corporate Social Responsibility theory

The way businesses involve the shareholders, employees, customers, suppliers, governments, non-governmental organizations, international organizations, and other stakeholders is usually a key feature of the Corporate Social Responsibility (CSR) concept.

According to the Commission Green Paper (2001), the CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Amongst other things, this definition helps to emphasize that:

- An important aspect of CSR is how enterprises interact with their internal and external stakeholders (employees, customers, neighbors, non-governmental organizations, public authorities, etc.);

- CSR covers social and environmental issues, in spite of the English term corporate social responsibility;
- CSR is not or should not be separate from business strategy and operations: it is about integrating social and environmental concerns into business strategy and operations;
- CSR is a voluntary concept.

The social responsibility is presented as the consideration of the expectations of the stakeholders and the fact, for the company, of “answering" to the consequences of its decisions to these stakeholders. At the pragmatic level, this approach is often summarized by the concept of “triple bottom line “(John Elkington) that is the consideration in the management of economic, environmental and social objectives.

Companies are dependent on stakeholders to obtain the necessary resources for their survival and for their development. The legitimacy of the company to use these resources depends on the correspondence of its behavior to rules and values recognized by the society; it will obtain a “license to operate” on the condition of not being considered as a predator of the natural and social environment. It is about a utilitarian legitimacy.

The employees, when they have the choice, will prefer to work in a socially responsible company. The consumers tell, in inquiries, to prefer goods produced in the respect for the fundamental rights of the work. Besides the financial performances, the investors integrate, in their choices of portfolios, the risk of loss of " reputation capital ", which can also be translated by a loss of financial capital.

Substantial or symbolic, the strategies of correspondence answer different constraints:

- The constraints imposed by the law and matched by penalties; we define the exercise of the social responsibility as to go beyond the only respect for the legal obligations. The motivation of certain companies to set up devices of social responsibility is often connected to the anticipation of a hardening of the legislation, especially in the environmental domain.

- The professional environment generally promulgates the normative constraints; their adoption can be made on a voluntary base which values the commitment of the company.
- The mimetic constraints are going to lead certain companies to imitate the others, for example the " best practices " of some pro-actives leaders, and this, especially if the environment is uncertain and ambiguous.

5.2. The three main current of the CSR

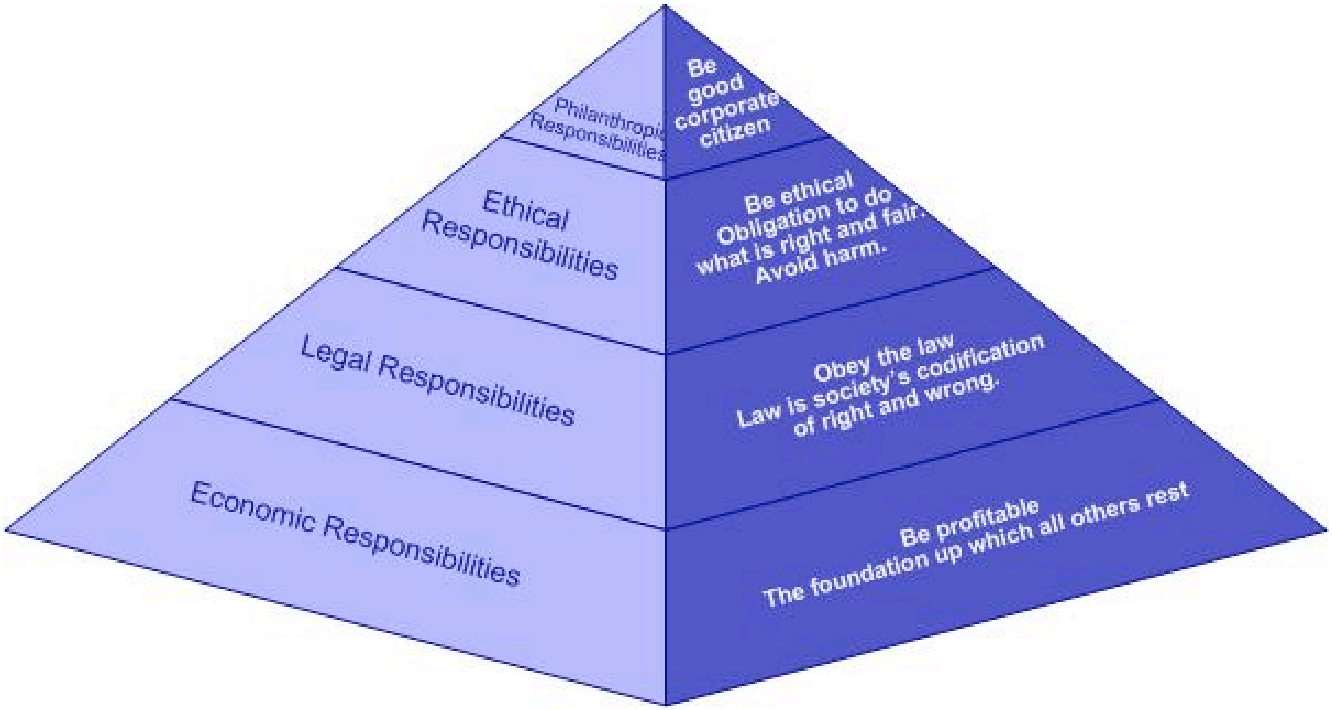
Within the literature in management, the contemporary debate on the responsibility of companies took its origin in an article of Bowen[1] supporting that companies should revisit their strategies by integrating the social and environmental dimensions to answer the various pressures of the society. Among the large number of articles dedicated to the social responsibility of companies, notably in the United States, it is possible to distinguish three currents: the ethical moralist current "Business Ethics", the "Business and Society" current and the "Social Issue Management".

The theories of the "Business Ethics" current assert the existence of a moral responsibility of companies towards the society and future generations and postulate that the company has, by nature, a statue of moral agent, able to distinguish the good and the evil, thus having the moral duty to act in a social responsible way. In spite of its gaps, this approach generated an important movement around " the ethics of the business" and a speech which often confuses " the good and the useful ", ant that is why we can find a multiplication of “ethical” charters, of “ethical” investments which are only taking advantage of the “ethics” in economic purposes.

The "Business and Society" current consider that there is no waterproof partition between the company and the society: Both are in interrelation and form themselves mutually by means of their constant interactions. The company maintains, with the society, relations which are not exclusively trade and it results from it a shape of social contract authorizing a social control by the society and the possibility to “punish” a company "disobedient”. So, the authors of this current assert that the contracts of cooperation, which establish the confidence between the firm and its stakeholders, get a competitive advantage to the company.

The "Social Issue Management" current proposes tools to the administrators to improve the performance of their companies, by taking into account the expectations expressed by various actors of the society; it restores the complexity of the management by widening the field of the actors and by taking away the horizon of the decisions; the expectations of the stakeholders are integrated into the strategic methods.

In fact, these currents are not set and even cross together. They share the idea that what is good for the company is also good for the society. Archie B. Carroll, one of the authors the most known for the “Business and Society “current, elaborated a model which makes reference in the Anglo-Saxon world and which presents a four level pyramid.



Carroll's CSR Pyramid

Each of these levels depends on those which precedes it, the satisfaction of both first one (Economic and legal responsibilities) is requested by the society, that of the third one (ethical responsibility) is expected, that of the fourth one (philanthropic responsibility) is wished. These levels, crossed with the various groups of stakeholders, can serve as reference to define the various categories of social and environmental performance that have to be estimated (D.J. Wood, 1991).

5.3. The different CSR strategies

The integration of the stakeholders' expectations in the strategies can take several forms:

- Actions of patronage or sponsoring, creation of foundations: in that case, there is a separation of the social and environmental actions and the economical actions; they are used as communications strategies. However in some cases, the implication of the employees in these actions modifies the economic functioning of the organization.

- Actions integrated into the strategy, which try to implement the social and environmental dimension in the economic decisions: investments, conception of products or process of production. This method, often linked to the quality method, has for objective to decrease the risks and to improve the economic medium-term performances.

In order to put into practice, to develop and to evaluate the actions of social responsibility, the stakeholders (and the company itself) have means, which are the “piloting devices”. Among them we can quote the external reporting and the internal devices of performances measures.

But, the media reports certain examples of paradoxes. A "paradox" occurs when on a side, a company begins in an action of CSR, pledges for example concerning the durable development while other side, accusing and detailed revelations about its practices emergent at the great day. Certain ONG as Christian Aid clearly denounced abuses on behalf of certain great multinationals in certain parts of the world.

For example in the United States, McDonald illustrates a CSR with double face. Emblematic company, which always wished to affirm its economic and social (even environmental) engagements, this company was criticized for non-ethical practices of businesses. At the time of the treatment of the McLibel case by British justice, this one confirmed certain complaints for ill treatment of the workers, abusive publicity and cruel treatment of the animals. February 15, 2005, the European Court of the Humans Right sliced in favor of Helen Steel and Dave Morris, (two ecologists militants) in their fight with McDonald' S in the McLibel case. The lawyer of the duet declared: " the European Court of the Humans right considered that violations of the humans right had been made in their opposition - that there had been a procedural inequity in the business and that the adopted procedures were not equitable"

In the same way, a European company as Shell largely took part as a pro-active pioneer of the CSR but while missing however in 2004 to report to its shareholders a reliable evaluation of its oil stocks which melted its book value.

The engagement of the company in CSR obliges it to be more transparent in the social contract than it with the other actors. It creates its own Damocles sword; other authors mentioned a "mortal risk" by the mediatization of its actions (J-Y Trochon, 2003). Failing to honor this engagement, the company takes a media risk of reputation even of confidence by a "boomerang" effect. This risk will come in the event of abuse early or late to remember with force to the good memory of all those which would wish to handle the other stakeholders and the shareholders initially. The risk result in a legal sanction, or even, in a faster and frightening stock exchange sanction and destroy in fine the dearly and patiently acquired reputation (media sanction). Enron and Parmalat are two emblematic examples, which show in the only sector of the corporate governance, on the two sides of the Atlantic, the fatal outcome of attempts of manipulation.

5.4. The Limits of the theory and its application

Milton Friedman wrote "The Social Responsibility of Business is to Increase Profits". Friedman explains that corporations do not exist in physical reality, that only people can have responsibilities, and that businesses have no responsibilities as such. He maintains that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game. To earn profit is the purpose of the corporation that should engage in open and free competition without deception or fraud (Edward W. Younkins, 2006). In this view, it seems that the question of a Corporate Social Responsibility has no sense.

Furthermore, The Freeman stakeholder definition seems to be too large and therefore its implementation is impossible. Indeed the managers have time-limited resources and have to select the stakeholders which are going to hold attention. The factors that explain this choice are the power, the legitimacy and the urgency (as seen in section 4.3.3):

- The power is held by groups of actors who have the capacity to influence the current or future decisions of the firm (cf. Jeffrey Pfeffer, Gerald Salancik, 1978).

- The legitimacy of a group corresponds to its recognition by the society by virtue of a contract, of a moral right or of a supported risk because of the activity of the company. Certain groups are legitimate but have no power (minority shareholders, the local residents of a polluting site not organized in defense association).

- The urgency characterizes the stakeholders that are asking for an immediate attention. This urgency is a function of the time sensibility and defines the delay of reaction of the manager acceptable or not by the stakeholders. It corresponds to a critic situation in general, notably in case of exposition at the risk.

The rationality of the leaders is necessarily limited by the urgency of the problems, by the pressures and by the information systems that they have. It seems therefore an illusion to envisage an exhaustive consideration of all the potential stakeholders. The influence of the stakeholders thus depends on the perception of the leaders and the hierarchy that they establish between the various expectations, notably when these are contradictory. They are thus going to choose and to “enact” the actors who will count for the definition of their strategy.

The stakeholders’ theory remains ambiguous concerning its foundations and presents certain number of limits. On one hand, it joins in a relational representation of the organization based on complete contracts, which suppose that the conflicts of interests can be solved by insuring a maximization of each group interests.

On the other hand, the stakeholders' theory builds a reduced representation of the social and environmental responsibility of the company. What about the “dumb” stakeholders (fauna, flora), about the third absentees (future generations, potential victims)? What about the values or interests of the too weak parties for being represented? Can we reduce the general interest to the sum of each group of stakeholder interests?

Companies are trading organizations and the leaders are in front of dilemmas that can only be solved according to their more or less long-term profitability objectives. The issues depend then strongly on the dynamics relations between the firm and its stakeholder, and of the level of the expectations and the pressures of the various actors. In the calculation of the advantages and the underlying costs in the "win-win" strategies, the anticipation of the behavior and the power of the stakeholders and the authorities of regulation is determining for the adoption of a socially responsible strategy. The actual consideration of social and environmental objectives in the strategies of companies depends largely on the representations which have the actors of the society of their direct or indirect power on companies.
The economic logic thus remains the main axis, structuring the decisions of companies. The expectations of the stakeholders, their pressures, are the constraints which are integrated into the strategic management according to the representation of the power of these stakeholders.

As argue Jean-Luc Migué, the practice of the social responsibility leads to a paradox: the social responsibility implies the replacement of a managerial decision to that of the shareholders owners. As everywhere where the rights of property are eased, for example in the public sector, the individual irresponsibility follows. The practice of the social responsibility can lead to an individual irresponsibility.

On the economic level, the generalization of this practice would lead to the end of the long-term economic growth and would make thus impossible the realization of the social ends looked for by the protagonists of the social responsibility. It is necessary in this subject to return to the essential education of the economic theory, to the market as a mechanism of penalties and rewards and in the role of the instigations on the behavior.

The theory and the history demonstrate that in its research for the maximum profit for its shareholders, the company realizes „the common good " in sub-product, and especially, that the ambition of " do-gooders " to divert it from its appropriate end that is the profit produces the exactly opposite effect that the one we suppose.

6. Conclusion

The Stakeholder Theory is a quite new theory in the way it introduces the concept of stakeholders in the strategic management of a Multinational Company. The purpose of the MNC is not anymore only to make profit for shareholders but also to defend an image and values respecting all stakeholders. There is of course a link between the wealth of Shareholders and the wealth of all Stakeholders because the MNC need a good reputation to sell its products and so to make profits. But it has still not been clearly proven by empirical studies.

The Stakeholder Theory is very popular in our times because people, and so on stakeholders, are worried about the sustainability of the actual economic system. With globalization, companies take more and more importance and are in many cases more powerful than states. In these conditions, their action can have a huge impact on the society in general, and people ask such companies to have “ethic” and values. With deregulation, and less power of state in favour of economy, companies should not only enjoy the rights of this deregulation but also duties. And that is what stakeholders (and in particular consumers) are asking for. Examples of Shell or Nike show that an irresponsible way of management, with low ethic or values, lead to a decreasing wealth of the first stakeholder of an MNC, its owner, shareholders.

One of the main problems of the stakeholder theory is: stakeholder theories! One of the major contribution in Stakeholder theory is Freeman book “Strategic Management: A Stakeholder Approach” (1984) and it is often seen as the fundament of the Stakeholder theory. Then many Economists or Sociologists have made their contribution but not always sharing Freeman concept of Stakeholders. As a signs of these divergences we have shown that there is more than 75 definitions of Stakeholders, witch is of course the key point of the theory. This is mainly due to the fact that Stakeholder Theory is not only an economic theory, having a huge part of philosophic or sociologic concepts.

But in spite of these discussions it seems possible to identify some propositions on witch every author agree: The firm has stakeholders witch have requests, every stakeholders do not have the same influence, MNC prosperity depends of the ability of the companies to manage strategic stakeholders and the principal function of managing stakeholder is to take into account and to arbitrate stakeholders requests even when there are contradictory.

In practice, contributions of these different theories at the governance level establish a new base to redefine the stakes of the company and its model of governance, analyzing them with regard to the expectations and to the interests of stakeholders. It is what led to us to analyze in our third part the concept of CSR.

In the sights of what we explained, it seems that the application of the CSR can only come true, in general in the social and environmental sides, under reserve that this application does not prevent from financial profits (as the CSR slogan says: " doing well by doing good "). However we can notice the attitude of companies trying to take into account, in an increasing way, this “new” approach of governance, and this, facing to more and more strong pressures coming from the different stakeholders. Furthermore, companies are more and more urged to position themselves in front of the emergence of the “sustainable development” concept, and making it, the CSR seems to be an effective instrument for the integration of this concept by companies in their strategic orientation.

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Stakeholder Theory is a widely understood concept in Business today. Stakeholder theory states that the purpose of a business is to create value for stakeholders not just shareholders. Business needs to consider customers, suppliers, employees, communities and shareholders. stakeholdermap.com. What is Stakeholder Theory. Criticisms of Stakeholder Theory. Why we need to take a Stakeholder Approach. The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization, such as those related to corporate social responsibility, market economy, and social contract theory. The stakeholder view of strategy integrates both a resource-based view and a market-based view, and adds a socio-political level.Â Examples of a company's internal and external stakeholders. Protesting students invoking stakeholder theory at Shimer College in 2010.