

STAKEHOLDER THEORY

Throughout this century, as firms worldwide evolve to account for the dynamic environment in which they operate, CSR will occupy an increasingly central component of the strategic planning process.¹ The ideal vehicle for the integration of CSR and strategy (**strategic CSR**) is a multi-stakeholder perspective that enables firms to respond to the varied interests of all the individuals and groups that have a stake in the firm's pursuit of profit. It is this broad range of interests that underpins the idea that CSR relates to all aspects of day-to-day operations. CSR is not a peripheral exercise—it is central to everything the firm does. Adopting a stakeholder perspective allows the firm to predict and respond to the ever-changing demands of its stakeholders, who together constitute the firm's operating environment.

While stakeholder theory constitutes an effective way to understand the complex series of relationships that make up the for-profit firm, two questions are fundamental to understanding what stakeholder theory means for managers in practice: *Who is a stakeholder?* and, when interests conflict, *Which stakeholders should be prioritized?*

STAKEHOLDER DEFINITION

While different definitions of what constitutes a stakeholder have different emphases, they largely agree in terms of sentiment. Here are three foundational examples:

DEFINITIONS OF A STAKEHOLDER

Stakeholders in an organization are the individuals and groups who are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence.

Eric Rhenman (1964)²

A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives.

R. Edward Freeman (1984)³

The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.

Post, Preston, and Sachs (2002)⁴

Among these three definitions, contemporary stakeholder theory is most often credited to the work of Ed Freeman.⁵ While Freeman's inspirational ideas led directly to the prominence enjoyed by stakeholder theory in the field of management today, the notion that the manager has responsibilities to a broad range of constituents has its foundations in the middle of the 20th century. In 1945, for example, Frank Pierce, a director of the Standard Oil Company, argued that a firm's managers have a duty "to act as a balance wheel in relation to three groups of interests—the interests of owners, of employees, and of the public, all of whom have a *stake* in the output of industry" (emphasis added).⁶ And in 1951, Frank Abrams, the CEO of the Standard Oil Company, stated:

Business firms are man-made instruments of society. They can be made to achieve their greatest social usefulness . . . when management succeeds in finding a harmonious balance among the claims of the various interested groups: the stockholders, employees, customers, and the public at large.⁷

Similarly, in 1953, Howard Bowen discussed the idea of the "participation of workers, consumers, and possibly of other groups in business decisions."⁸ And as noted previously, in 1964, Eric Rhenman defined the *stakeholders* in an organization as "the individuals and groups who are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence."⁹

Although the idea of the stakeholder has therefore been around for a while, Freeman's contribution has been pivotal for two main reasons: First, he rendered the concept pragmatic in meaning and action for managers, and second, he promoted the concept within the academic community in general and the field of management in particular. As a result, a *stakeholder* is today widely understood to be a group or individual with a self-defined interest in the activities of the firm.¹⁰ In line with this, a core component of the intellectual argument driving **strategic CSR** is that it is in a firm's best interests to meet the needs and expectations of as broad an array of its stakeholders as possible.¹¹

A New Definition

Although a general understanding of *Who is a stakeholder?* is now well established in the academic field of management, the idea that "anyone who wants to be" should be

considered a stakeholder is less than helpful from a manager's perspective. In other words, while Freeman's definition is still the "most widely adopted of all definitions within high quality management journals,"¹² it is sufficiently broad to encompass anyone who self-appoints themselves to the role. While expedient, this flexibility is unlikely to reflect a firm's priorities and, more importantly, offers little guidance to managers who are trying to determine how to allocate their attention and the firm's scarce resources.

In this sense, asking the manager to focus on "everyone" as a potential stakeholder runs the risk of decision-making paralysis. The result, as Freeman himself recognizes, is "the notion of stakeholder risks becoming a meaningless designation."¹³ In essence, if everyone is a stakeholder, then no one is a stakeholder. In an attempt to move past this impasse, I propose a narrower definition.

In short, a stakeholder is any group or individual who has a *stake* (similar to Freeman), but also who has the *capacity* and *intent* to act to promote their interests (more specific than Freeman). This definition does exclude non-acting entities (such as the environment or young children) as official *stakeholders*, but it does not exclude them from the firm's concerns. It merely focuses the manager's attention on the actors who have the *agency* to affect the firm's operations (in essence, the firm's meaningful stakeholders) and who will act on the behalf of those who are unable to defend their own interests.¹⁴ As such, while this means that the environment itself is *not* a stakeholder, for example, any actor who seeks to represent the environment (e.g., Greenpeace) is included.

Stakeholder

An individual or organization that is affected by the firm (either voluntarily or involuntarily) and possesses the capacity and intent to affect the firm.

THE ENVIRONMENT AS A STAKEHOLDER

It is interesting to debate whether the natural environment, as a non-independent actor, should be included as an identifiable stakeholder of the firm. Many argue it should¹⁵ and that, in fact, the environment has rights that should be protected by law,¹⁶ and extend this argument to include animals¹⁷ and birds.¹⁸ In contrast, others argue that it should not be included because the environment itself does not speak or feel or act; rather, the degradation of the environment affects other stakeholder groups (e.g., NGOs or the government), who then advocate on its behalf.¹⁹

An argument for including the environment as one of the firm's societal stakeholders is to reinforce the importance of sustainability within the CSR debate, while recognizing that the environment requires actors to speak and act on its behalf in order to be protected. In Figure 3.1, however, the environment is excluded due to its lack of agency. Because the environment is unable to speak for itself, the manager's priority (in relation to sustainability issues) should be to attend to those stakeholders who speak most vigorously (and knowledgeably) on the environment's behalf.

It is not that other animals or young children are not intelligent or do not have *interests*; clearly, they do. What is important for a model focused on helping managers make decisions, however, is that those actors are able to understand and calculate their own interests, and then can advocate to advance those interests. When that occurs, the

actor becomes a *stakeholder* (from the manager's perspective). When that is absent, there are proxy stakeholders on whom the manager should focus.

The imperfect nature of this proxy relationship helps explain why problems such as pollution and the abuse of children's rights persist. Without the ability to advocate directly in their own defense, such groups are more susceptible to abuse. To put it bluntly, one reason why the environment has been polluted for so long is that it is unable to state what it wants. It has no *self-interest* as such. Similarly, young children, who undoubtedly do have rights and interests but are less able to articulate them, are forced to rely on others to interpret and act on those interests.²⁰

For any group in society to be disenfranchised (whether it is children, the environment, or "the poorest of the poor")²¹ is for that group to lack representation. While usually employed in discussions related to democracy, the same principle holds for general societal engagement. Society fails these groups if no advocate steps forward to represent them, and we are all worse off as a result. In such cases, therefore, the agents for these interests (e.g., parents, Greenpeace, the government, the media) have an elevated role in ensuring that the groups are represented and that their concerns (where known or knowable) are addressed. It is these agents who have the ability to influence the firm who should be considered *stakeholders*.

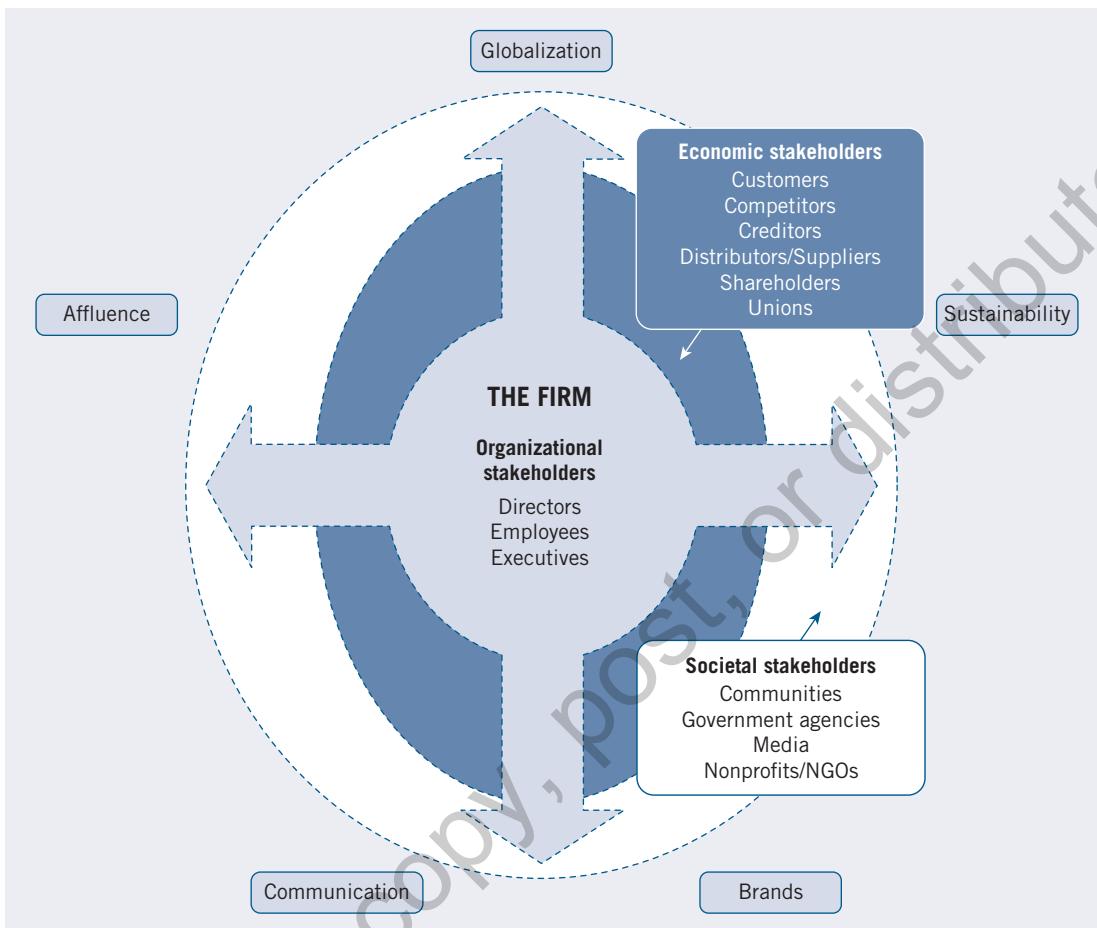
With this general definition in place, the firm needs to sort these groups. To do so and begin to understand the interests of its core stakeholders, the firm may find it helpful to divide its constituents into three categories: *organizational* stakeholders (internal to the firm) and *economic* and *societal* stakeholders (external to the firm). Together, these three kinds of stakeholders form a metaphorical concentric set of circles, with the firm and its organizational stakeholders at the center of a larger circle that signifies the firm's economic stakeholders. Both of these circles sit within the largest circle, which represents society and the firm's societal stakeholders. This model is presented in Figure 3.1.

As indicated in Figure 3.1, a firm's stakeholders can be divided into three categories: First, stakeholders exist within the organization (*organizational* stakeholders). Examples include employees, managers, and directors. Taken together, these internal stakeholders constitute the organization as a whole—they are most directly involved in producing the products and services the firm offers and, therefore, should be its primary concern.

Second are stakeholders that have an economic relationship with the firm (*economic* stakeholders), examples of which include consumers, shareholders,²² and competitors. Because the motivations of these stakeholders are primarily economic, they interact with the firm at the interface of the organization and its larger social environment. These groups, therefore, not only affect the financial/economic welfare of the firm, but also create bonds of accountability between the firm and its operating context.

Third are the stakeholders that constitute the broader business and social environment in which the firm operates (*societal* stakeholders). Examples of such stakeholders include the media, government agencies and regulators, and local communities. These societal stakeholders are essential for the firm in terms of providing the legitimacy necessary for it to survive over the medium to long term. Without the general consensus that it is *valued* by its broader society, no organization can expect to survive indefinitely.

Figure 3.1 Concentric Circles of Stakeholders



Finally, the three categories of stakeholders all sit within the larger business context that is shaped by the five driving forces of CSR (affluence, sustainability, globalization, communication, and brands), which frame this model of concentric circles. A central argument of **strategic CSR** is that the emergence of these forces in recent years has changed the rules of the game for firms, causing a shift in control over the flow of information from firms to their stakeholders (see Chapter 2).

Within this overall classification, all possible actors fit primarily into one of the three stakeholder groups, although almost all stakeholders exist simultaneously as multiple types²³ with network ties among each of them, as well as with the firm.²⁴ A firm's employees, for example, are primarily organizational stakeholders; they are also likely

occasional customers of the firm, as well as members of the society in which it operates. The NGO that campaigns against the firm, however, is only a societal stakeholder, as it would be hypocritical for the organization or its members to work for the firm or have an economic relationship with it, given that they are protesting against some aspect of its business model. Similarly, a firm's customers are, first and foremost, economic stakeholders; they are not organizational stakeholders, but they are part of the society in which the firm operates. They are also one of the primary means by which the firm delivers its product and interacts with its society. Without the economic interface, an organization loses its mechanism of accountability and, therefore, its legitimacy over the long term. This is true whether the organization is a business, government, or nonprofit.

It is important to understand the symbiotic relationship a firm has with its stakeholders. The firm cannot act alone. It is not a sentient actor but a bundle of contracts (formal and informal) that reflect the aggregated interests of all its stakeholders. If we agree that employees are stakeholders, as well as executives, directors, shareholders, consumers, the government, suppliers, distributors, and so on, then we understand that the firm does not exist independently of these groups. If you take away all stakeholders (the executives, directors, and employees, in particular), there is nobody left to act—the firm's substance is derived from those who constitute it. This substance comes from the actions initiated by the stakeholders pursuing their interests (sometimes competing, sometimes complementary) that intersect in the firm's day-to-day operations. This is why stakeholder theory is central to any CSR perspective (really, to any view of the firm). It is also why it is essential for managers to be able to navigate among these interests. To make decisions that can sustain the firm, managers need to be able to prioritize among the many different groups who have a stake in the outcomes of those decisions.

STAKEHOLDER PRIORITIZATION

An effective stakeholder model must do more than merely identify a firm's stakeholders. Equally important, if the model is to be of practical use, is the ability to prioritize among these stakeholders. In other words, in addition to answering the question *Who is a stakeholder?*, another challenge for managers in implementing stakeholder theory arises when faced with the question *When interests conflict, which stakeholders should be prioritized?* Stakeholder theory can be of true value to the firm's managers only when it accounts fully for the dynamic environment in which business is conducted. To this end, stakeholder theory has not been very useful in providing a road map to navigate among the interests of the firm's stakeholders, especially when they conflict. There is a reason for this—it often complicates decisions, considerably:

A single goal, such as maximum profit, is simple and reasonably concrete. But when several goals are introduced and businessmen must sometimes choose from among them (e.g., greater immediate profit vs. greater company security, or good labor relations vs. low-cost production, or higher dividends vs. higher wages), then confusion and divided counsel are sometimes inevitable.²⁵

In short, while identifying stakeholders is easy, prioritizing among stakeholder interests is extremely difficult, and stakeholder theory has been largely silent on this essential issue. Partly this is because the process is idiosyncratic (different firms have different stakeholders with different issues), but mostly it is because the interests are so compelling and so often conflict. What is required, therefore, is a framework that provides guidance to managers on how and when to prioritize.

For managers to make these determinations, it is essential for firms to define their operating environment in terms of issues that evolve and stakeholders that compete. Accounting for this dynamic context within the firm's strategic framework helps managers decide how to prioritize among stakeholders, depending on the issue at hand. This is essential because stakeholders have claims on activities that range across all aspects of operations. For stakeholder theory to account for this level of complexity and become more than an interesting intellectual exercise, therefore, it must tease apart what John Mackey (the cofounder and CEO of Whole Foods Market)²⁶ describes as the incessant claims stakeholders place on his company:

Customers want lower prices and higher quality; employees want higher wages and better benefits and better working conditions; suppliers want to give fewer discounts and want you to pick up more of their products; communities want more donations; governments want higher taxes; investors want higher dividends and higher stock prices—every one of the stakeholders wants more, they always want more.²⁷

In other words, being able to prioritize among stakeholder groups is important because their interests conflict so often. As Mackey continues, each stakeholder group “will define the purpose of the business in terms of its own needs and desires, and each perspective is valid and legitimate.”²⁸ Each stakeholder understandably has a relatively narrow perspective on the firm's operations that revolves around the individual's or group's specific interests. This creates opportunities for those firms willing to form lasting relationships with their stakeholders, based on trust.²⁹ Similarly, it creates potential threats for those firms that are unwilling to form such ties or accommodate such interests:

Some industries . . . have long had to contend with well-organized pressure groups. . . . Many of the world's major pharmaceutical companies have been pushed to sell low-cost drugs to developing countries. Gap and Nike had been attacked for exploiting child labour in the Indian sub-continent. Coca-Cola, Kraft and other food and beverage companies have been accused of contributing to child obesity in the developed world. . . . Companies that do not acknowledge such claims run risks of reputational damage.³⁰

The firms most likely to succeed in today's rapidly evolving global environment will be those best able to adapt to their environment by balancing the conflicting

interests of multiple stakeholders. While this is true of firms, it is doubly true for managers. It can even be argued that the fundamental “job of management is to maintain an equitable and working balance among the claims of the various . . . interest groups” that are directly affected by the firm’s operations.³¹ Increasingly, managers who understand the firm as a series of ties with its various stakeholders will be better able to identify and take advantage of potential opportunities (while mitigating or avoiding potential threats) than those managers who see the firm more narrowly. As Ed Freeman puts it:

The stakeholder approach sets forth a new conceptualization of business, in which business is understood as a set of relationships and management’s job is to help shape these relationships. Business is about how customers, suppliers, employees, financiers, communities, and managers interact to create value, and there is no single formula for balancing or prioritizing stakeholders. Creating that balance is part of what management is all about, and it will be different for different companies at different times.³²

Having said this, just because an individual or organization merits inclusion in a firm’s list of relevant stakeholders does not compel the firm (either legally or logically) to comply with every demand that stakeholders make. This would be counterproductive, as the manager would spend all her time chasing different demands and negotiating among stakeholders with diametrically opposed requests. Integrating a stakeholder perspective into a strategic framework allows firms to respond to stakeholder demands in ways that optimize both economic and social value, but a central component of this process is the ability to prioritize among stakeholders—both in absolute terms and on an issue-by-issue basis, and in a way that is consistent with the firm’s strategic interests.

Organizational, Economic, and Societal Stakeholders

The concentric circles of organizational, economic, and societal stakeholders presented in Figure 3.1 provide a rough guide to prioritization. By identifying the firm’s key stakeholders *within* each of the three categories, executives can prioritize the needs and interests of certain groups over others. In addition, it is important to note that *among* categories, stakeholders generally decrease in importance to the firm the further they are removed from core operations. Implicit in Figure 3.1, therefore, is the idea that organizational stakeholders are the most important constituents because they are, in essence, synonymous with the firm. These stakeholders are followed in importance by economic stakeholders, who provide the firm with its economic capital. Finally, societal stakeholders deliver the firm with the social capital that is central to its legitimacy and long-term validity, but is less immediately related to day-to-day operations.³³

In seeking to prioritize the firm's stakeholders, however, managers need to keep two points in mind: First, no organization can afford to ignore consistently the interests of a powerful stakeholder, even if the group to which the stakeholder belongs is lower in the firm's relative hierarchy of stakeholders or is relatively removed from the firm's day-to-day operations. A good example of this is the government, which is a societal stakeholder in the model and therefore, in theory, less important to the firm than its organizational or economic stakeholders. It would be unwise, however, for a firm to ignore the government repeatedly in relation to an issue that enjoys broad societal support. Given that the government has the power to constrain industries dramatically via legislation, it is only rational that firms should adhere to the government's basic needs and requests.³⁴ This logic applies on an ongoing basis; it applies even more so when a specific issue spikes the attention of politicians who feel pressured by their constituents to act.

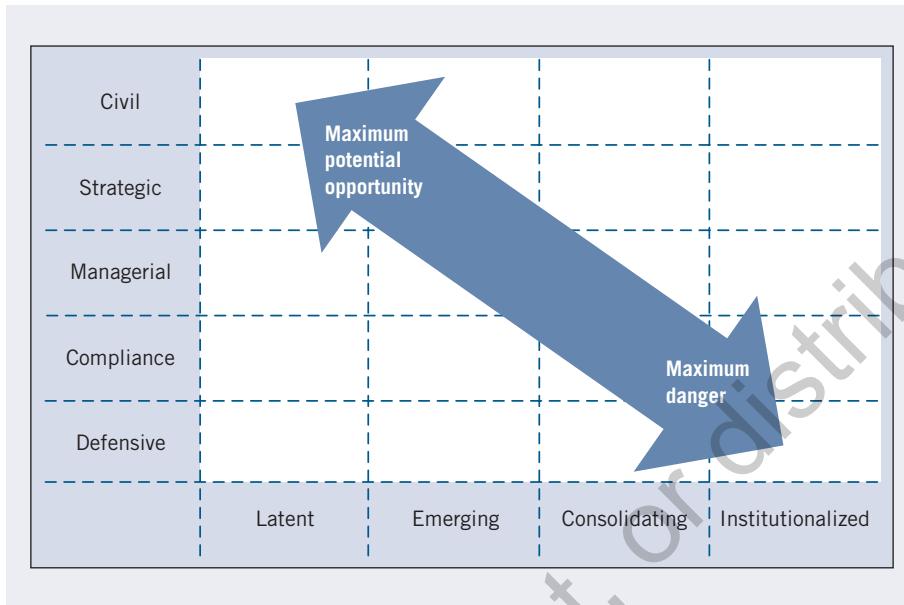
Second, it is vital to remember that the relative importance of stakeholders will inevitably differ from firm to firm, from issue to issue, and from time to time. And depending on these factors, the shift in ordering can be dramatic. As such, addressing the fluctuating needs of stakeholders and meeting those needs whenever possible (ideally proactively, but also reactively) is essential for survival. To do this, executives need to have a framework they can use to prioritize stakeholder interests for a given issue and incorporate this assessment when formulating a strategic response.

Evolving Issues

Simon Zadek, founder and CEO of AccountAbility,³⁵ has developed a useful tool firms can use to evaluate which issues pose the greatest potential opportunity and threat.³⁶ First, Zadek identified the five stages of learning firms go through when “developing a sense of corporate responsibility”:³⁷ *defensive* (to deny responsibility), *compliance* (to do the minimum required), *managerial* (to begin integrating CSR into practices), *strategic* (to embed CSR within the strategy-planning process), and *civil* (to promote CSR practices industry-wide). Zadek combines these five stages of learning with four stages of intensity “to measure the maturity of societal issues and the public's expectations around the issues”:³⁸ *latent* (awareness among activists only), *emerging* (awareness seeps into the political and media communities), *consolidating* (broader awareness is established), and *institutionalized* (tangible reaction from powerful stakeholders). The range of possible interactions of these five stages of learning and four stages of intensity is presented in Figure 3.2.

The maximum danger, Zadek argues, is for a company that is in defensive mode when facing an institutionalized issue, as it will be resisting an issue that has sufficient public support to pose a threat to its business. A firm that continues to deny publicly the existence of climate change, for example, falls into this category. In contrast, those firms that are promoting the industry-wide adoption of standard practices in relation to a newly emerging issue stand to gain the maximum *potential* opportunity. A firm that introduces a standardized process to measure a product's carbon footprint and report this information on labels in the retail industry, for example, falls into this category.

Figure 3.2 Analyzing Issues



Source: Zadek, "The Path to Corporate Responsibility," *Harvard Business Review*, December 2004, p. 129.

Such a company stands to gain the maximum economic and social value for its effort. It is important to note, however, that being an early adopter of a controversial idea or practice that has yet to become widely accepted is only a *potential* opportunity. Due to its controversial nature, early action is also risky. In particular, if the idea never institutionalizes, the firm is exposing itself to the danger of being out of touch with its stakeholders.

Prioritizing among Issues and Stakeholders

While it is essential for firms to understand that issues vary along metrics such as their intensity and level of widespread acceptance, a limitation of Zadek's model is that it focuses on the firm's interaction with a particular issue, without including its interactions with its wide range of stakeholders. In reality, a firm cannot understand its environment without considering the interests of its stakeholders, for whom certain issues are more or less important. The models presented in Figure 3.3a and 3.3b, combined, address this complexity. They do so by focusing on the three factors that define the firm–environment relationship in any given context: the firm, the issue(s), and the stakeholder(s).

Figure 3.3a Prioritizing among Issues

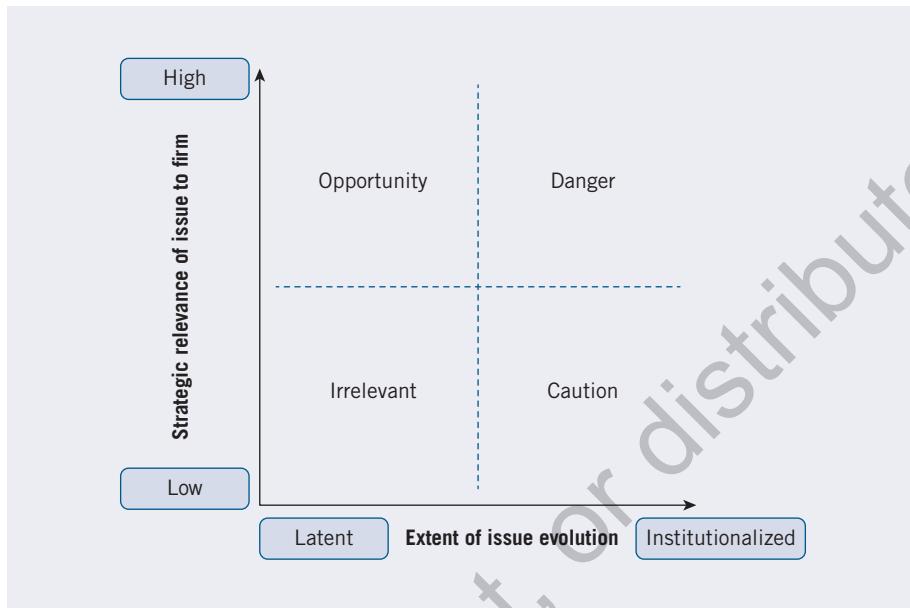
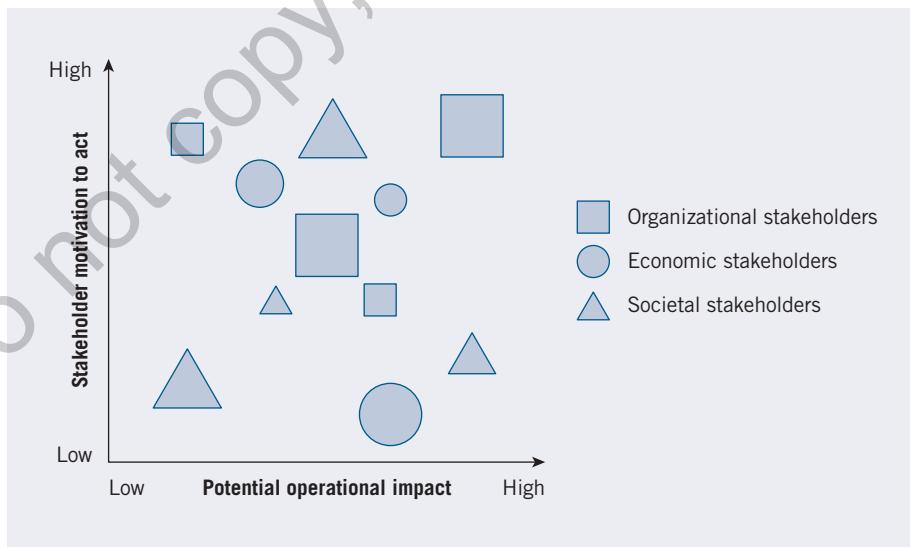


Figure 3.3b Prioritizing among Stakeholders



The Firm

The strategy of a for-profit firm should determine the industries in which it operates and the products it produces. In addition, the firm should have performance targets it deems both attainable and desirable (e.g., percentage of market share or total sales). Together, the strategy and performance targets determine the firm's operational priorities, which managers can use to gauge the relevance of any issue that arises.

The Issue

The key factor that arises with any issue is the extent to which it has become established. As Zadek notes, the maximum risk arises when a firm is defensive in relation to an institutionalized issue because it is resisting a potential threat about which everyone agrees. In contrast, those firms that promote the industry-wide adoption of standardized practices in relation to an issue that is emerging (but not yet formalized in law) stand to gain the optimal rewards for their efforts.

Even better, firms willing to take a bold stand on a contentious issue differentiate themselves in the eyes of those stakeholders for whom the issue is important.

The Stakeholder

Once a manager has established that an issue is both important and relevant, the next step is to identify those stakeholders who are most affected. It is these stakeholders who will likely demand action from the firm in response to the issue. But different issues will resonate with different stakeholders at different times. Rather than launch a prosocial campaign after the fact designed to dilute media attention and mitigate stakeholder action (such as a customer boycott), effective prioritization allows firms to intervene to avoid some problems and solve others, before confrontation occurs. The goal should be to “quantify how big an issue it is and how rapidly it's spreading and how influential the people hollering are.”³⁹ The firm can then formulate a proactive response.

Once the three factors (firm, issue, and stakeholder) have been considered independently, it is necessary for the manager to combine them to determine the appropriate response. This is achieved by considering the three factors in terms of the four axes in Figures 3.3a and 3.3b. The goal is to build a multistep process by which managers can account for variance in (1) the strategic interests of the firm (across issues), (2) the evolution of each issue, (3) the motivation of the stakeholder to act, and (4) the potential operational impact of any such action. The resulting analytical tools enable managers to decide how best to prioritize stakeholder concerns and when to act. The key question in Figure 3.3a is *Where does an issue sit within the 2 × 2 matrix?*, while the key question in Figure 3.3b is *Where does each stakeholder sit (from the firm's perspective, relative to all the other stakeholders) for the issue at hand?*

Strategic relevance captures how important an issue is to the firm—in other words, how proximal it is to the firm's core competency or source of competitive advantage (the y-axis of Figure 3.3a). *Issue evolution* captures the extent to which the issue has become

institutionalized—in other words, the extent to which it has become accepted business practice (the *x*-axis of Figure 3.3a). The combination of these two axes creates four potential quadrants—*opportunity* (high strategic relevance and latent issue), *danger* (high strategic relevance and institutionalized issue), *irrelevant* (low strategic relevance and latent issue), and *caution* (low strategic relevance and institutionalized issue). Action is required whenever the strategic relevance to the firm is high; the extent of evolution determines whether the issue presents the firm with an opportunity or potential danger.

Once the manager has decided the strategic relevance of the issue and the extent of its evolution throughout society (Figure 3.3a), it is then essential to decide how stakeholder demands on the firm should be prioritized (Figure 3.3b). Here, *stakeholder motivation* captures how important the issue is to each stakeholder—in other words, how likely that group is to act (the *y*-axis of Figure 3.3b). *Operational impact* captures the extent to which a particular stakeholder group can affect firm operations—in other words, the stakeholder's ability to damage reputation, diminish earnings, or demotivate employees (the *x*-axis of Figure 3.3b). The three different shapes represent the three broad stakeholder groups of Figure 3.1 (square = organizational; circle = economic; triangle = societal), while the different sizes of each shape represent the strategic relevance to the firm in terms of different factions or interests within stakeholder groups. The media collectively is a stakeholder group, for example, but that does not mean that *The New York Times* and *The Wall Street Journal* have the same interests (or even interests similar to those of TV stations, radio stations, or online outlets). Within the broad set of stakeholder groups, therefore, different subgroups will be of different importance to the firm, depending on the issue at hand. The size of each shape reflects this additional layer of prioritization. When there is variance *across* stakeholder groups (e.g., employees differ from customers), each group's position can be plotted; when there is variance *within* stakeholder groups (e.g., employees are divided about an issue), stakeholder groups can be subdivided by size according to their relative positions and plotted.

The extent to which a firm should respond with substantive action to stakeholder demands for change on a specific issue is determined at the intersection of these two axes. Ultimately, when the motivation of an important stakeholder is high, and the potential impact to operations of any possible action is also high (i.e., a large shape in the upper right-hand corner of Figure 3.3b), the firm is compelled to act, and act quickly, in order to protect its self-interest (either to avoid a threat or to take advantage of an opportunity).⁴⁰

A Model of Stakeholder Management

The combination of these three factors (the firm, the issue, and the stakeholder) determines the extent to which any particular stakeholder is central to the firm's interests for a particular issue and, therefore, which stakeholder demands the firm should prioritize in response. Implementing this framework suggests a five-step, process-oriented model that empowers managers to analyze and respond to the firm's dynamic operating environment on an ongoing basis:

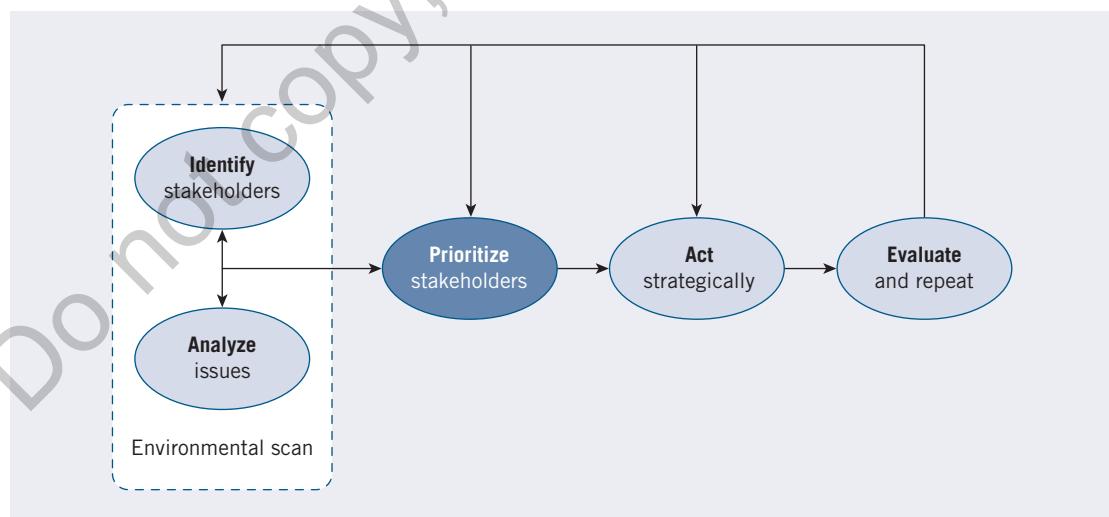
THE FIVE STEPS OF STAKEHOLDER MANAGEMENT

1. *Identify* and engage the set of stakeholders relevant to the firm (Figure 3.1).
2. *Analyze* the nature of the issue to see how it relates to the firm's operations and what stage the issue is at in its evolution (Figure 3.2 and Figure 3.3a).
3. *Prioritize* among competing stakeholder interests and demands in relation to the issue at hand (Figure 3.3b).
4. *Act* as quickly as is prudent, seeking to satisfy as many stakeholders as possible, in order of priority (while avoiding excessive harm to any one stakeholder).
5. *Evaluate* the effect of the action to optimize the outcomes for the firm and its stakeholders. When necessary, repeat the process (Figure 3.4).

Utilizing these five steps optimizes the practical value of a stakeholder perspective for the firm. The resulting managerial stakeholder model is presented in Figure 3.4.⁴¹

The primary value of this model is that it allows the firm to analyze the interests of its broad set of stakeholders issue by issue (i.e., a single issue and multiple stakeholders), but it can also be adapted to analyze how any one stakeholder's interests vary across issues (i.e., a single stakeholder and multiple issues). For example, while the issue of

Figure 3.4 The Five Steps of Stakeholder Management



Exxon's stance on climate change is one that a large number of its stakeholders will feel is relevant to them, it is particularly relevant to Greenpeace. Having said this, Greenpeace has a number of issues that it thinks are important, one of which is Exxon's stance on climate change. While Exxon can use Figure 3.4 to analyze the issue of climate change in relation to all of its stakeholders, it can also use it to analyze Greenpeace in terms of the many issues that are important to the NGO and that affect its relationship with Exxon.

To be effective, this framework must be embedded within a culture of outreach to stakeholders that allows firms to understand their evolving concerns and assess the level of importance of each issue to each stakeholder on an ongoing basis. However, it is important to note that although this model is intended to map stakeholder interests and motivations in order to aid managers in prioritizing among stakeholders (when interests conflict), it is just that—an aid to decision making. It does not replace the need to think creatively and sensitively when seeking to meet the needs of the firm's broad range of stakeholders. In other words, it aids decision making; it is not a substitute for decision making. In reality, the firm should strive to create value for most of its stakeholders, most of the time. Occasionally, this will require attending to the needs of a neglected stakeholder group, even though it may not feature prominently in Figure 3.3b.

In addition, it is important to emphasize that this model is both proactive and reactive—it constitutes a tool that firms can use either to anticipate or to respond to stakeholder concerns in relation to both opportunities and threats. As such, it allows managers both to add value by identifying potential opportunities and to avoid harm to operations by identifying potential threats.

In essence, this model of stakeholder prioritization allows the manager to take stakeholder theory (a relatively abstract concept) and apply it to the decisions the manager makes on a day-to-day basis. Increasingly, a manager's job will be dominated by the difficult task of managing the complex and often competing interests of the firm's wide range of stakeholders. In order to do this, it is essential not only to identify these constituent groups but also to determine which among them are of primary strategic importance to the firm.

Strategic CSR Debate

MOTION: The natural environment is a stakeholder of the firm.

QUESTIONS FOR DISCUSSION AND REVIEW

1. What is your definition of a *stakeholder*? Can an individual or a group self-appoint itself as a stakeholder, or does the firm need to recognize it as a stakeholder in order for it to qualify as such?
2. With the advent of artificial intelligence (AI) and computer learning, if a computer is able to gain consciousness, does that make it a potential stakeholder of a firm?
3. What are the three main factors that should be used to prioritize among competing stakeholders? What dimensions do you think should be used? Why?
4. Of the five steps of stakeholder management, which step, if missed, is likely to have the most adverse effect on the firm's ability to build effective stakeholder ties?
5. Using a real-life firm, list its stakeholders and use the model presented in Figure 3.4 to prioritize their importance (from the firm's perspective).

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