

The Corporation and Its Stakeholders



- Understanding the relationship between business and society, and the ways in which they are part of an interactive system
- Understanding the purpose of the modern corporation
- Knowing what is a stakeholder and who a corporation's market and nonmarket and internal and external stakeholders are
- Conducting a stakeholder analysis, and understanding the basis of stakeholder interests and power

Some definitions

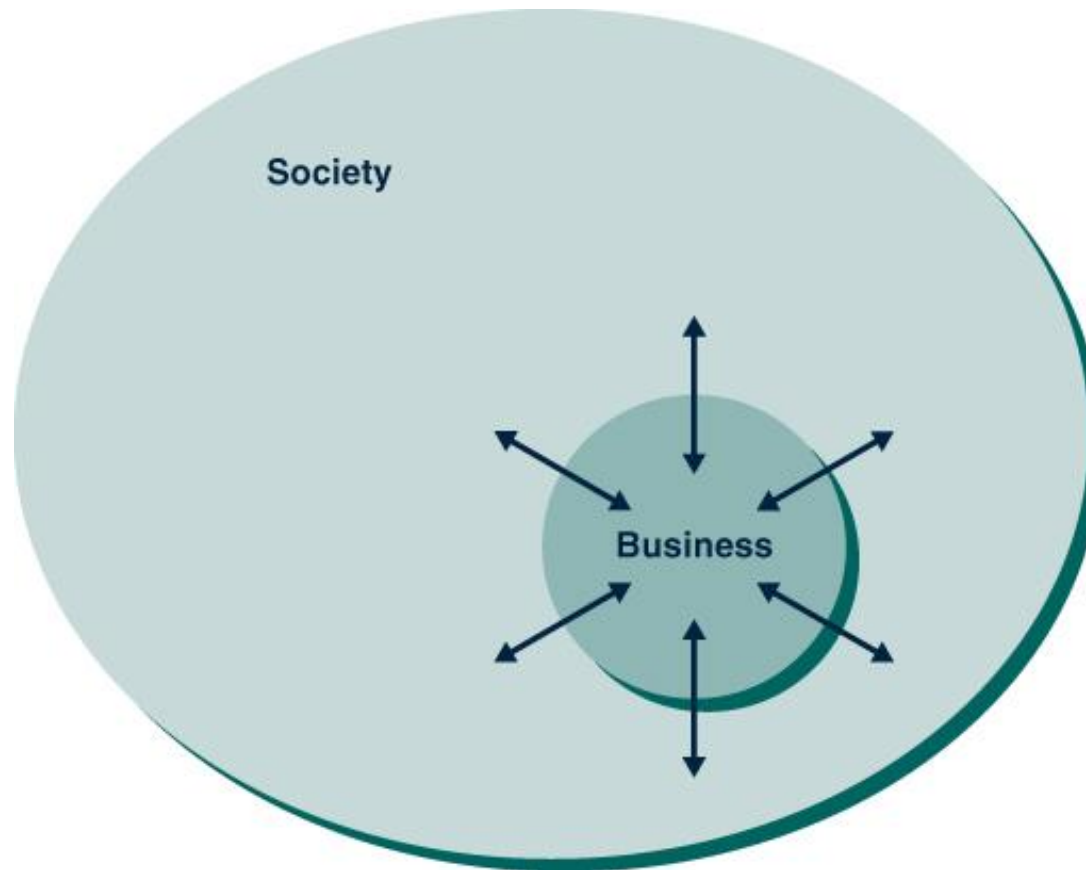
- Business: Any organization that is engaged in making a product or providing a service for a profit
- Society: Human beings and the social structures they collectively create
- Business and society are highly interdependent

The Business and Society Relationship



- We borrow “General Systems Theory (GST)” from biology to explain this relationship; first introduced in 1940s
 - Theory posits that organisms cannot be understood in isolation, even though they have clear boundaries; they can only be understood in relationship to their surroundings
- Adapted to management theory means that business firms are embedded in a broader social environment with which they constantly interact
 - Business and society together form an interactive social system (shown graphically in the following slide)

Business and Society: An Interactive System



- What is the purpose of the modern corporation?
- To whom, or what, should the firm be responsible?

Two contrasting views...

Ownership Theory of the Firm (or property or finance theory)



- The firm is seen as the property of its owners (shareholders / stockholders)
- Argues the owners' interests are paramount and take precedence over the interests of others
- The purpose of the firm is to maximize its long-term market value, that is, to make the most money it can for shareholders

Stakeholder Theory of the Firm

- Argues the corporation serves a broader purpose, to create value for society
- Must make profit for owners to survive, however, creates other kinds of value too
- Corporations have multiple obligations, all “stakeholder” groups must be taken into account

The Stakeholder Concept



A stakeholder refers to

persons or groups that affect, or are affected by, an organization's decisions, policies, and operations

- Term stakeholder is NOT the same as stockholder /shareholder
- Words sound similar BUT are not the same
- Stockholders / Shareholder are one of several kinds of stakeholders

The Stakeholders of Business

	Market Stakeholders	Nonmarket Stakeholders
Internal Stakeholders	Employees Managers	
External Stakeholders	Stockholders Customers Creditors Suppliers Wholesalers and Retailers	Governments Communities Nongovernmental Organizations Business Support Groups Media Competitors

Different Kinds of Stakeholders

- Stakeholder groups can be divided into two categories:
 - Market stakeholders
 - Nonmarket stakeholders

Market Stakeholders



- Market stakeholders are those that engage in economic transactions with the company as it carries out its primary purpose of providing society with goods and services

Nonmarket Stakeholders



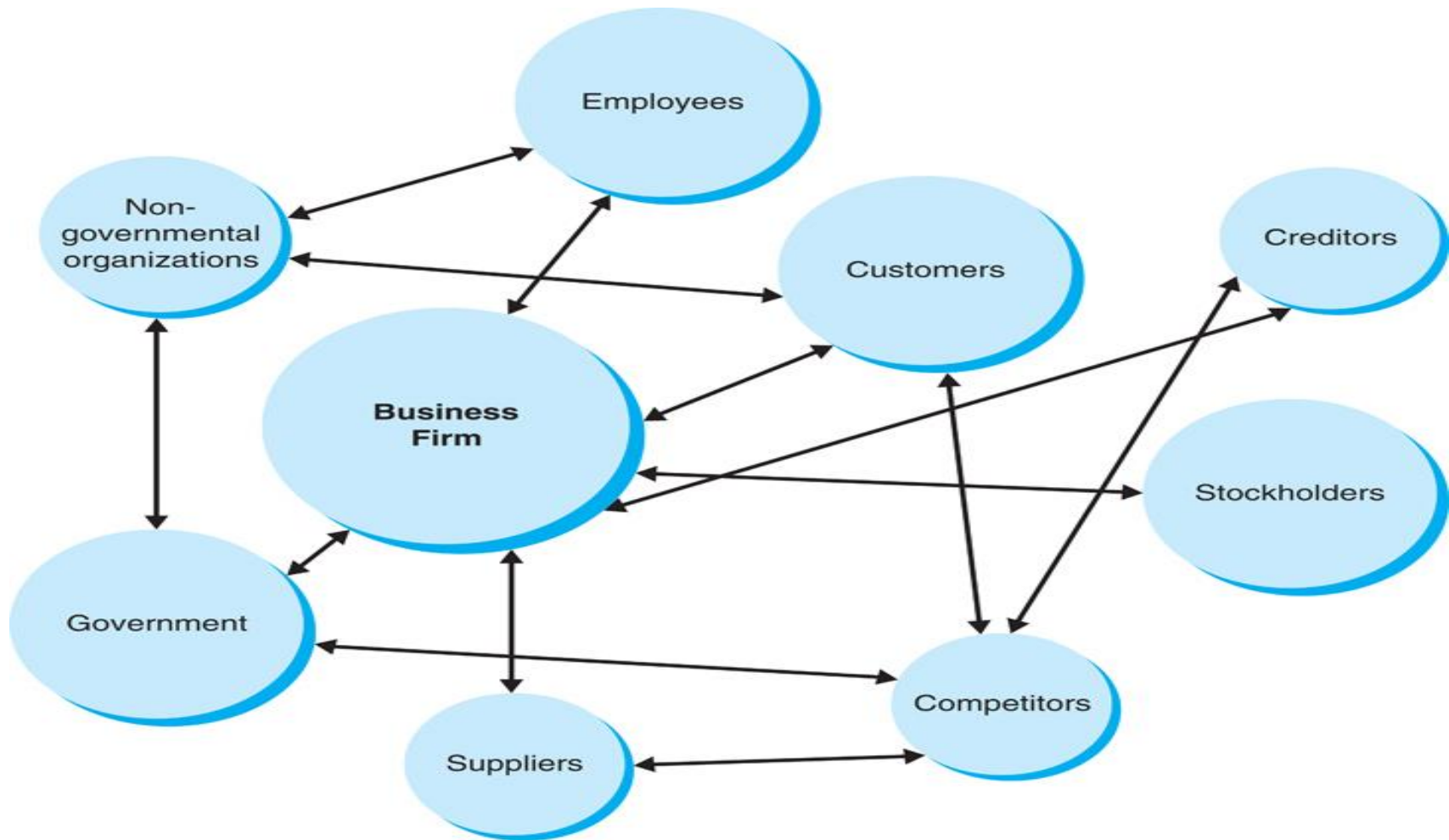
- Nonmarket stakeholders are people or groups who—although they do not engage in direct economic exchange with the firm—are affected by or can affect its actions

Further Distinction



- Internal stakeholders are those, such as employees and managers, who are employed by the firm
 - They are “inside” the firm, in the sense that they contribute their effort and skill, usually at a company worksite
- External stakeholders are those who—although they may have important transactions with the firm—are not directly employed by it

A Firm and Its Stakeholders



Stakeholder Analysis



- It is part of every manager's job
- Process whereby identify relevant stakeholders and analyze their interest and power
- Asks 4 questions:
 - Who are the relevant stakeholders?
 - What are the interests of each stakeholder?
 - What is the power of each stakeholder?
 - How are coalitions likely to form?

Stakeholder Analysis – Question 1

Who are the Relevant Stakeholders?



- Answer this question by drawing market and nonmarket stakeholder maps
- Recognize that not all of groups are relevant to every situation
 - Examples:
 - Some businesses sell directly to the public and will not have retailers
 - A certain stakeholder may not be relevant to a particular decision/action

Stakeholder Analysis – Question 2

What are the interests of each stakeholder?



- Analyzing stakeholder interests includes addressing:
 - What are the groups' concerns?
 - What does the group want/expect from their relationship with the firm?
- Examples:
 - Stockholders have an ownership interest, they expect to receive dividends and capital appreciation
 - Customers are interested in gaining fair value and quality in goods and services they purchase
 - Public interest groups advance broad social interests

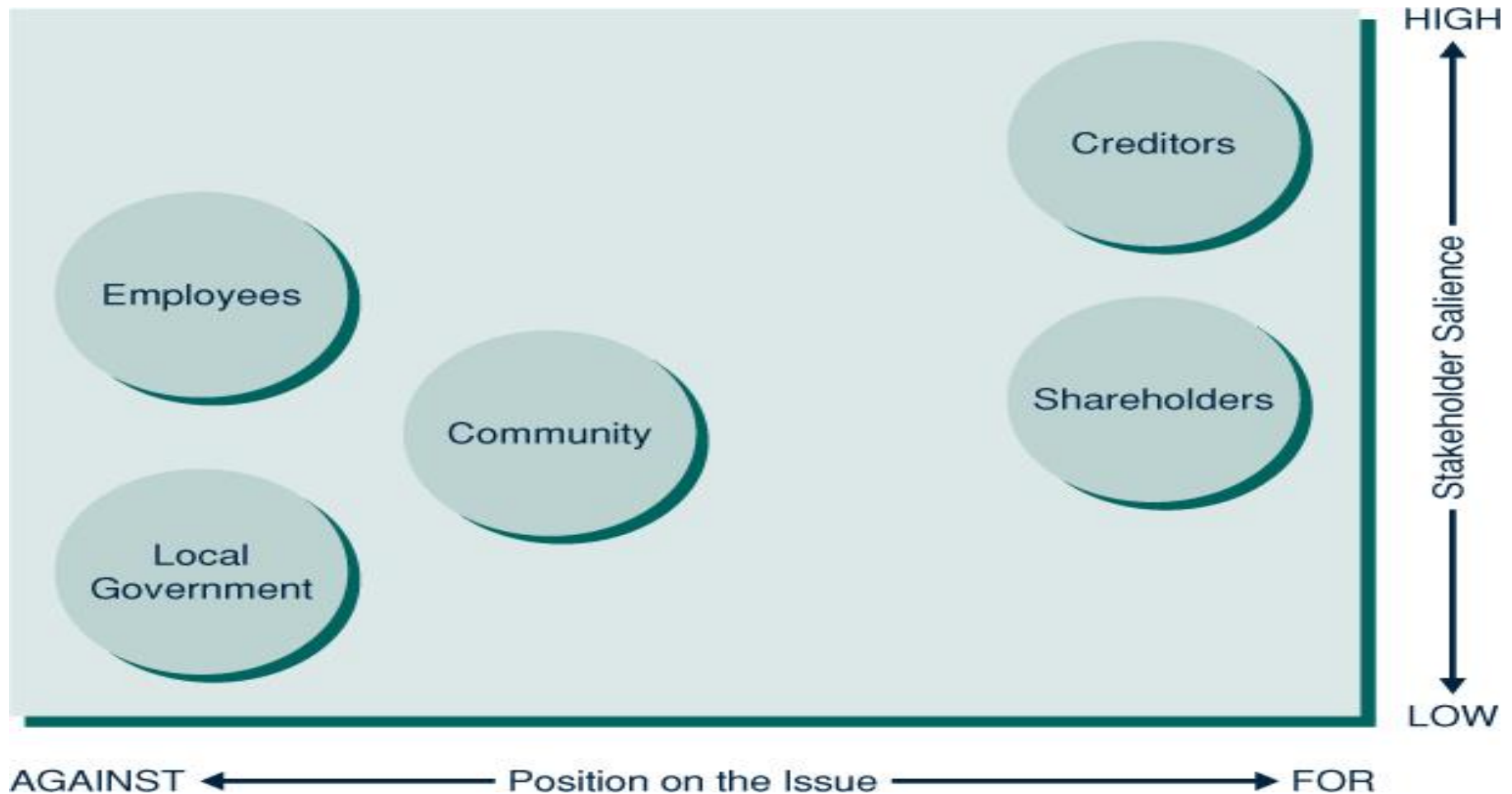
Stakeholder Analysis – Question 3

What is the power of each stakeholder?



- Stakeholder power is the ability of a group to use resources to make an event happen or to secure a desired outcome
- There are 5 types of stakeholder power:
 - Voting power
 - Economic power
 - Political power
 - Legal power
 - Informational power

Stakeholder Map



Thank you



Core topics:

- **Ownership theory vs stakeholders theory**
- **Stakeholder matrix**
- **Stakeholder analysis and map**