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The Use of the Stakeholder Approach in Strategic Enterprise Management

A study text for the subject Management 2

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CONTENTS

INTRODUCTION

The stakeholder approach has been gaining in popularity over the past twenty years. Although it began to emerge in the 1960s, it was from the mid-1990s that it increasingly started to attract attention. In 1999 an entire edition of the *Academy of Management Journal* was devoted to it. The development of this approach can be attributed to wider socio-economic changes affecting the business environment, and the acceleration of these changes may be responsible for the growing interest in this issue. In any case, this approach proves itself to be useful in many respects, and the intensive interest paid to it presents new opportunities for its use. For example, many hypotheses assuming the dependence of corporate performance on the application of the stakeholder approach have been tested and validated, an extensive discussion is underway on the ethical dimension of business, and ways of identifying stakeholders have been proposed and validated.

The stakeholder approach views the company as the site of conflict between the interests of all the stakeholders. If we accept the broad definition of a stakeholder, i.e. that stakeholders are those who "can affect the achievement of an organization's objectives or who are affected by the achievement of an organization's objectives"[1], then it is impossible to conceive of a subject relevant to strategic decision-making that would not be included. Of course, in practical usage it is not feasible to proceed from this concept; nevertheless, we can use it as the basis for our method of identifying relevant stakeholders (which is one of the intermediate objectives and procedural steps of this work). Capturing all the essential aspects of a company's existence has a direct impact on the company – it minimalizes the risk of a threat to the enterprise's existence due to a lack of knowledge.

The analysis of a company's relationships with stakeholders is beneficial in itself, independent of the advantages outlined in the previous point. This is not only about determining whether these relationships exist or can come into existence, but also about analysing the relationships themselves. In them there is an exchange of values. The company provides value to the stakeholder, who in return provides value to the company in a different form. In doing so, each of them subjectively evaluates the value received as higher than the value given up; otherwise the exchange of these values would not take place. Therefore, if a company knows not only its own appraisal of the value sacrificed (or received) but also the appraisal of the other party, it can make use of this, either for its own benefit or for that of both parties (here an analogy suggests itself with 3rd degree price discrimination, which is based on distinguishing individual demand curves, which means, for example, that a carrier offers a base price and a different price for students and pensioners or at weekends). Here we have touched upon transactions, which differ from relationships in that they can be ad hoc. In contrast, relationships are based on repetition, which contributes to these positive effects: a) greater confidence in relationships (and with it lower transaction costs, b) a greater degree of cooperation in relationships (game theory demonstrates on a practical and theoretical level that during repeated interactions the most advantageous strategy is to cooperate). Furthermore, we must mention S. Turnbull's[2] assertion that the more relationships a company has, the greater the number of information channels it has at its disposal, and thus the more feedback it will receive.

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[1] FREEMAN, R. E., REED, D. L., 1983, p. 91.
[2] TURNBULL, S., 1997.

1 STAKEHOLDER THEORY

1.1 ORIGIN AND DEVELOPMENT

Although Frederick Sturdivant[3] declared that "*the precise origins of stakeholder theory are impossible to determine*", literature is available which documents the existence of the principles of stakeholder thinking before this approach was actually articulated in the form in which we know it today. Stakeholder theory develops a "stakeholder view" of a company or other organization. One of the ways it does this is by building a model which depicts individual stakeholders and their relationships. Much of the benefit of this theory for management lies in the assertion that the interest of each stakeholder has a certain value but should not be allowed to dominate the interests of the others[4]. A statement of this kind obviously requires further explanation; however, we will come back to this later. For the time being we can use it to search for the roots of this theory.

The 1960s is often regarded as the period when it came into being. In 1963 there was the first documented use of the word "stakeholder" in the sense in which it will be used in this work. In an internal memorandum of the Stanford Research Institute the word stakeholder referred to "*those groups without whose support the organization would cease to exist*"[5].

Nevertheless, the principles of actual stakeholder thinking (see above) can be traced back even earlier. One example we can mention is Mary Parker Follett, who in her work from 1918[6] expressed the conviction that a network of groups should take over responsibility for investigating and implementing solutions to social problems from governing institutions. In her next publication from 1924[7] the core of her approach to management was formed by a defence of the "*self-governing principle (which) facilitated the growth of individuals and of the groups to which they belonged; by directly interacting with one another to achieve their common goals*…"[8].

What is it that makes Mary Parker Follett's ideas so interesting? If we take a look at the context of the times, it should become clear. In 1911 Frederick Winslow Taylor published the monograph *Principles and Methods of Scientific Management*. For him the worker was literally a cog in a machine, which was the company. His method of implementation was "enforced standardization" or "enforced adoption". The recommendation of another important author in the field of managerial literature at that time, Henri Fayol, was in a similar vein. In his work from 1917, *Administration industrielle et générale,* he identified five functions of management. These were: planning, organizing, commanding, coordinating and controlling – i.e. nothing like motivating or leading, which would have taken the human aspect into account.

Of course, it is necessary to view the prevailing conditions in a more complex way. The development of companies was resulting in ever larger corporations, and the work of the

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[3] STURDIVANT, F., 1979, p. 54.
[4] CLARKSON, M. B. E., 1995, DONALDSON, T., PRESTON, L. E., 1995.
[5] FREEMAN, R. E., REED, D. L., 1983, p. 89.
[6] FOLLETT, M. P., 1918.
[7] FOLLETT, M. P., 1924.
[8] HORNE, J. F. *Mary Parker Follett: Visionary Genius Finds Her Own Time.* [on-line].

typical labourer deserved the epithet “dehumanized”. In order to understand these trends, it is necessary to examine their basis, which was[9]:

- an increase in the volume of capital required for business,
- an increase in the capital-to-labour ratio,
- changes in the structure of the market,
- changes in the typical nature of work.

The entire set of changes was essentially kick-started by the separation of consumption from production. In a society which we can term pre-industrial, the characteristic attribute was self-sufficiency. The greater part of an individual’s output was also consumed by that individual, as a result of which the market was almost non-existent. The typical pattern was skill-intensive, small-scale production using simple tools which were owned by the craftsman. Over time, however, there was an ever greater separation of consumption from production. The background to this was evidently increasing cooperation between individuals, enabling more and more division of labour. Barter, which had previously been a marginal phenomenon, became an important element of economic activity. One of the effects of these changes was growing specialization. This, together with procedural innovations, gave rise to manufactories, where there was a sharp increase in productivity.

At that time the market showed some signs of perfect competition, especially with regard to the position of individual producers. The work itself was already ceasing to be complex, but a high level of skill was still required. Capital intensity increased and the ownership of production resources passed into the hands of the owners of manufactories, who began to play a new role which consisted of administration and management.

This development was further accelerated by the technological revolution which included the construction of the steam engine (1698), its development for industrial use (1712) and modification for many other uses (1765). The complicated and expensive machines multiplied productivity, but also capital intensity. There was therefore a concentration of capital (but also, for example, a geographical concentration on sources of raw materials), which necessitated another in a series of changes in the form of ownership. Individuals were no longer able to provide the optimal capital-to-labour ratio and had to join forces with business organizations. The structure of the market changed from monopolistic competition to an oligopolistic market. With the improvement of machinery, work became less and less skill-intensive, and yet it still retained a certain degree of creativity, which may have made it at least a little motivating. This, however, was to change.

At the turn of the 19th and 20th centuries, the development of enterprises was affected by two important events. The first was the Sherman Antitrust Act of 1890, which was intended to prevent price fixing by the largest firms in the oligopolistic markets of the time. However, its effect was somewhat counterproductive. When the companies were unable to come to agreements among themselves, they began to merge into even larger units. Typically, each sector then contained two or three leading companies which were many times larger than their nearest competitors. Once again, this highlighted the need for joint ownership, which was realized in the form of joint-stock companies (with ownership finally being separated

[9] CAMERON, R., 1996.

from management). One important thing is that from the beginning of the development we have described there was a growing need for trained management which a number of small shareholders was not capable of providing companies with. In this situation a second important event then occurred, which was Taylor's aforementioned scientific management. Taylor fully elaborated the principles of division of labour and specialization already proposed, for example, by Adam Smith in The Wealth of Nations (1776). In this way he atomized labour into the simplest possible operations which workers had to perform without the least inventiveness. Any kind of decision-making work, whether it concerned planning or coordination, was left to specialists.

Consequences

In the early 20th century the situation was thus as follows:

1. Companies were larger than ever before, which necessitated highly professional management.
2. Ownership was increasingly broken up and detached from management, with little need for participation in the actual management and individual shareholders having little power to enforce this management (in 1932 Berle and Means[10] drew attention to the information asymmetry between company management and owners and provoked a discussion about modern corporate governance).
3. These two things gave rise to the "managerial revolution".
4. All this took place in a society with an excess of demand over supply, where the problem was not selling but producing.
5. Markets tended to be oligopolistic.
6. Work became "dehumanized" and demotivating, with high employee turnover, absenteeism and illness being the norm.

It is logical that in these circumstances the management of corporations focused primarily on the production side of business economics. And although we have stated that the position of owners was very weak, managers still tried to maximize the value derived from the company's activities for *their* benefit, due to the operation of an "exit" strategy.

The relationship towards employees, for example, can be illustrated by strikes, to which the approach, to use the terminology of Carroll[11] (see below), was defensive or even reactive. In Ford factories, Henry Ford did just enough to reduce turnover, which hampered productivity. In companies where Taylor's work principles were introduced, there were frequent strikes, with the one at Watertown Arsenal even coming before an investigative committee of the US Congress.

In spite of this, companies did not have a problem with manpower, because – especially in the larger cities where the big companies were – there was an excess of labour supply over demand for labour. That is why the view offered by Mary Parker Follett with her ideas about

[10] BERLE, A., MEANS, G., 1932, cited in HUČKA, M. et al., 2007.
[11] CARROLL, A. B., 1979.

negotiation and employee participation stood out. It is also the reason why she, along with the following authors, is cited in this context in works on this subject[12] [13] [14].

Those cited also include the aforementioned Berle and Means (1932), who, among other issues, examined whether corporations should be dealt with as major social institutions. In 1938 Chester Barnard[15] went on to argue that the purpose of a business's existence is to serve society and the task of a manager is to instil this sense of moral purpose in the employees. In the 1930s Wendel Wilkie "helped to educate businessmen in the new sense of social responsibility"[16]. Carroll[17] also mentions works which followed on chronologically and in terms of subject manner: J. M. Clark: *Social Control of Business* (1939), T. Kreps: *Measurement of the Social Performance of Business* (1940).

Development in this period is also commented on by Morrell Heald[18]. He points out that from the early days of the creation of companies, corporate social responsibility was limited by the courts[19], which viewed it as detrimental to the rights of owners (an argument later used by opponents of corporate social responsibility), and eventually also by the introduction of income tax (1909) – donations were not deductible items, so in a sense tax replaced these donations. Of course, neither applied to donors who were also owners, such as Carnegie, Rockefeller or Pullman. According to Heald, these changes were partly the result of the First World War, which brought high rates of taxation on excess profits, and this, on the other hand, did provide an incentive for making donations. The relatively high amounts donated continued into the 1920s, when it opened up a debate on the general principles of social responsibility and business ethics. It was at that time that two branches of opinion on corporate social responsibility arose, with the first asserting that "*the best contribution to social welfare was an efficient business with satisfied employees*"[20] and the second attempting to establish formal ethical principles.

In the 1930s this development was affected by the Great Depression, which resulted in a new law on income tax (1935) allowing companies to donate up to 5 per cent of income. At the same time, the Supreme Court relaxed the strict interpretation of the institution of trusteeship[21]. However, at the time when there was the greatest need for these donations there were also the fewest donors. Despite all efforts, between the years 1929 and 1939 the volume of donations by the ten biggest donors grew by only 13.5%. Morell Heald states that "No voluntary group seriously tried to take over social security,"[22] and provides the following statistic: in spite of the growth in donations, in the period from 1938 to 1960 total donations

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[12] FREEMAN, R. E., REED, D. L., 1983, p. 89.
[13] POST, J. E., PRESTON, L. E., SACHS, S., 2002a, p. 4.
[14] CARROLL, A. B., 1999, p. 269.
[15] BARNARD, CH., 1938.
[16] CHEIT, E. F., 1964. Cheit cites the historian William Leuchtenburg, cited in CARROLL, A. B., 1979, p. 497.
[17] CARROLL, A. B, 1999, p. 269.
[18] HEALD, M., 1970.
[19] By the institute known as "trusteeship", which is essentially the administration of property, i.e. custodianship or stewardship.
[20] COCHRAN, T. C., 1971, p. 126.
[21] COCHRAN, T. C., 1971, p. 127.
[22] COCHRAN, T. C., 1971, p. 127.

exceeded 1% of revenue only in the years 1952, 1953 and 1958 – 1960, with the highest point being in 1953 (1.24%), when high income-tax rates were in force because of the Korean War.[23]

From the years which followed Bowen[24] cites a study by the magazine Fortune, which asked businessmen and managers questions about social responsibility in 1946. According to M. Heald,[25] in 1951 the editors of Fortune magazine described the business environment at the turn of the century thus: "*American capitalism seemed to be what Marx predicted it would be and what all the muckrakers[26] said it was – the inhuman offspring of greed and irresponsibility. (…) It seemed to provide overwhelming proof of the theory that private ownership could honor no obligation except the obligation to pile up profits"*.

It should also be noted that in the period following the First World War the subject of social responsibility started to become a marketing tool. This was an era of mass production, which required ever expanding markets. That was the reason for the interest in advertising and public relations. At the same time, companies were not under organized pressure from publicists dealing with social issues (the aforementioned muckrakers), and so they gave the term social responsibility a content adapted to suit their needs. Edward Filene, for example, argued[27] that a company's greatest service to society is to produce as much as possible ("*the liberation of the masses … the inevitable goal of mass production…"*).

Even more importantly for us, Heald asserts that despite the "sudden discovery" of scientific management (240 works were published on this subject between 1900 and 1910), the concept of management as a mediating tool between employees, owners and customers was also introduced before the First World War.

In 1913, for example, the management of the company Bell declared: "*We feel our obligation to the general public as strongly as to our investing public, or to our own personal interests*"[28]. Then in 1928 Rockefeller Jr declared that there were four parties in industry: owners, management, employees and the community[29] (in the sense of society), and he was willing to involve them in the management of the company in some form at least. Similarly, J. Gary[30] viewed the company as an institution in which each of the "parties" involved had its own share (in a comment from 1957 the word "stake" is used) and interest. In his opinion, management has a special position, because it has the job of balancing the requirements of these parties. Furthermore, during the Great Depression, General Electric identified four main interest groups: "shareholders, employees, customers and the general public"[31]. In

[23] HEALD, M., 1970.
[24] BOWEN, H. R., 1953, p. 44.
[25] HEALD, M, 1957, p. 376.
[26] Muckraker – a term for an investigative journalist or publicist frequently dealing with social issues.
[27] FILENE, E. A., 1922, pp. 223 – 228, cited in HEALD, M. 1957, p. 382.
[28] HEALD, M., 1957, p. 378.
[29] ROCKEFELLER, J. D., 1917, pp. 11 – 21, cited in HEALD, M., 1957, p. 380.
[30] GARY, H. E., 1921, cited in HEALD, M., 1957, p. 381.
[31] CLARKSON, M. B. E., 1995, p. 105.

1947 the chief executive of Johnson & Johnson listed the company's four "strictly business" interest groups as "customers, employees, managers and shareholders"[32].

As far as further development is concerned, Carroll[33,34] identifies the publishing of Howard Bowen's book *Social Responsibilities of the Businessman* from 1953 as a landmark in the development, the starting point of the modern era of literature on corporate social responsibility. In both of the cited publications Carroll indicates that this demarcation is generally accepted.

Unfortunately, the same cannot be said of stakeholder theory itself. As was already mentioned, it was not until 1963 that the word stakeholder was first used in the sense which is important for us. As we have seen, this does not mean a complete absence of what is now called stakeholder thinking. Before that date the entities now known as stakeholders were mostly referred to using the terms "parties" or "constituents", but also "actors" and "players".

From the pre-1963 period Dill[35] (1958), for example, is cited as a forerunner of stakeholder analysis. Even earlier, in 1950, Robert E. Wood, then chief executive of Sears, declared: *"All I can say is that if the other three parties named above [customers, employees, community] are properly taken care of, the stockholder will benefit in the long pull"*[36].

1.2 THE ARTICULATION OF STAKEHOLDER THEORY

After 1963 the situation changed. In 1965 Igor Ansoff[37] acknowledged the existence of stakeholder theory in his book *Corporate Strategy*, despite the fact that no book referring to stakeholder theory from the preceding period was mentioned. However, at this point Ansoff rejected stakeholder theory in favour of a view dividing the company's objectives into economic and social ones, with the latter being only a "*secondary modifying and constraining influence*" on the former[38]. According to Ansoff, this was also the opinion of the authors F. Abrams (*Management Responsibilities in a Complex World, 1954*) and R. M. Cyert and J. G. March (*A Behavioral Theory of the Firm, 1963*).

In the same article[39] Edward Freeman went on to describe the development of the theory in the 60s and early 70s as slow. Apart from the ongoing work at the Stanford Research Institute, hardly anyone was working on developing the stakeholder approach. A notable exception was Eric Rhenman from Sweden with his work *Industrial Democracy and Industrial Management* (1968)[40]. In the same year Raymond Baumhart also carried out a survey among senior management, which found that 80% of them regarded it as unethical conduct to focus solely on the interests of the owners and not those of the employees or customers.

[32] CLARKSON, M. B. E., 1995, p. 105.
[33] CARROLL, A. B., 1979, p. 497.
[34] CARROLL, A. B., 1999, p. 269.
[35] DILL, W. R., 1958.
[36] DONALDSON, T., PRESTON, L. E., 1995, p. 77.
[37] ANSOFF, I., 1965.
[38] FREEMAN, R. E., REED, D. L., 1983, p. 89.
[39] FREEMAN, R. E., REED, D. L., 1983.
[40] FREEMAN, R. E., REED, D. L., 1983, p. 89.

What lay behind this development? From the text by Yvon Pesquex and Salma Damak-Ayadi[41] it is evident that communities were growing in strength during this period: e.g. in 1967 they criticized Eastman Kodak at its AGM because of racial tension and high unemployment among black people in Cleveland and the surrounding area. Then in 1970 a consumer association complained about the safety of General Motors' vehicles and at the same time took an interest in the manufacturer's social practices. Both cases, as well as others, received a great deal of media attention.

During this time the public also became more sensitive to issues concerning the environment, air and water pollution, deforestation and toxic waste[42]. Civil rights and the anti-war mood also became recurring themes[43].

In an article from 1978 Smith and Carroll[44] point out that the aforementioned facts were becoming part of a manager's job, in contrast to the preceding period. To illustrate this better they make a comparison with the environment managers were operating in 40 years earlier and come to the conclusion that certain aspects of this environment either were not problematic at all or were not regarded as problems which should be addressed by managers. They explicitly mention the environment, the energy industry, consumerism, safety at work, misleading advertising, employment discrimination and product safety. They state that the objective of business has changed (unfortunately they do not specify how, but the text suggests that it is from simple maximizing of profit to objectives emphasizing the long-term survival of the company).

It was probably due to these changes in the business environment that interest in the stakeholder approach persisted, even though there is not much reflection of this in the publication activities of the time. One work which is often cited is Russell Ackoff's *Redesigning the Future* from 1974, in which he used Ansoff's earlier work as a starting point and, together with his colleagues, "rediscovered" stakeholder analysis. At the same time, he argued that "many social problems can be solved by the redesign of fundamental institutions with the support and interaction of stakeholders in the system"[45].

Ansoff's work was followed up by William Dill (1975), who also attempted to raise the profile of the stakeholder approach. Freeman quotes his reasoning: *"For a long time, we have assumed that the views and the initiative of stakeholders could be dealt with as externalities to the strategic planning and management process: as data to help management shape decisions, or as legal and social constraints to limit them. We have been reluctant, though, to admit the idea that some of these outside stakeholders might seek and earn active roles with management to make decisions. The move today is from ´stakeholder influence towards stakeholder participation´."*[46]. In Freeman's view, Dill's contribution lies in the fact that until that time individual interest groups had been perceived as having common interests, or in the case of opposing interests merely in the sense of employees – management. The fact

[41] PESQUEUX, Y., DAMAK-AYADI, S., 2005, p. 7.
[42] PESQUEUX, Y., DAMAK-AYADI, S., 2005, p. 7.
[43] STURDIVANT, F., 1979, p. 53.
[44] SMITH, H. R., CARROLL, A. B., 1978, p. 671.
[45] FREEMAN, R. E., REED, D. L., 1983, p. 88.
[46] DILL, W. R., 1975, cited in FREEMAN, R. E., REED, D. L., 1983, p. 90.

that Dill extended the circle of stakeholders to include external entities made the stakeholder approach applicable to strategic management.

In the first half of the 1970s a project focused on CSR was also carried out at Harvard Business School. However, the researchers did not focus on *Corporate Social Responsibility* (CSR), but on *Corporate Social Responsiveness* (CSR2), i.e. on the question: "*How can the corporation respond proactively to the increased pressure for positive social change?"*[47]. In this way they were able to link analysis concerning CSR with traditional strategic management.

At the same time, however, work in this field continued at the Stanford Research Institute and from 1977 also at the Wharton Applied Research Center (WARC; part of the Wharton School of the University of Pennsylvania). At WARC it concerned applied projects, which resulted in an article by Edward Freeman and David Reed[48] and later also Freeman's monograph *Strategic Management: A Stakeholder Approach*[49]. Although Freeman, as the title of the book suggests, envisaged its application mainly in strategic management, he was surprised to find that specialists in business ethics and corporate social management also began to take an interest in it. This moment, which is often regarded as the beginning of stakeholder theory, launched a wave of interest in stakeholding. In view of the volume of publishing activities in this field in the years which followed, in the next part of the text we will limit ourselves to the most important contributions for the individual themes examined.

1.3 THE STAKEHOLDER VIEW

The objective of stakeholder theory is therefore to identify a company's stakeholders, to model their relationship with the company and to help organize these relationships, either because "that's the way it should be" (ethical reasons) or "it's more advantageous that way" (economic reasons). However, it cannot be said that there is a consensus on these issues.

From the above it follows that stakeholder theory essentially exists in order to state who the stakeholders are and how the company can or should treat them. For this reason the subsequent text has been divided into chapters which will explore these two themes separately. The third theme will then be stakeholder importance and its determinants in the theory.

1.3.1 Who is a Stakeholder?

The answer to this question is not nearly as simple as it might at first appear. First of all, we will explain why the term stakeholder is used here and whether there are any better alternatives. To begin with, we accept the earliest definition of stakeholder as "*those groups without whose support the organization would cease to exist"*[50] and we also make use of the extension of its meaning in 1983: "[stakeholders] *can affect the achievement of an*

[47] FREEMAN, R. E., REED, D. L., 1983, p. 90.
[48] FREEMAN, R. E., REED, D. L., 1983.
[49] FREEMAN, R. E., 1984.
[50] FREEMAN, R. E., REED, D. L., 1983, p. 89.

organization's objectives or are affected by the achievement of an organization's objectives"[51].

Stakeholder is an English word made up of two nouns – "stake" and "holder". Their relevant meanings are share, wager or deposit, and possessor or owner. The Cambridge dictionary[52] goes on to distinguish two main meanings of the word stakeholder according to the meaning of the root **stake**:

1. For the meaning from the root **stake = wager** the following meaning is given:

- *a person who is in charge of the prize money given by people betting on the result of a game or competition and who gives it to the winner* (first recorded in 1708).

2. For the meaning from the root **stake = share**, two meanings of the word stakeholder are given:

- *a person or group of people who own a share in a business*
- *a person such as an employee, customer, or citizen who is involved with an organization, society, etc. and therefore has responsibilities towards it and an interest in its success.*

These meanings also illustrate the two main uses of the word. The traditional one is the first of the two shown, i.e. the stakeholder as a person who holds wagers in a game/competition. This concept is well developed in Anglo-Saxon law. We should bear in mind that until 1963 this was the only meaning of the word stakeholder. The second usage has a specific meaning in management, and consequently in economics as a whole, and is therefore the meaning which we will be concerned with. It is worth remarking that the word stakeholder was used with this meaning at the SRI in order to draw attention to the fact that stakeholders had very similar attributes to "stockholders" but at the same time were very different in other respects.

We can now move on to define who a stakeholder is. We will begin with an overview of definitions from 1983 to 1995 provided by Mitchell et al., supplemented with definitions from the preceding years and definitions which will be used in the subsequent summary of criteria used to identify stakeholders.

Table 1: Stakeholder Definitions from 1963 to 1995

Authors, year	Definitions (Stakeholders are...)

[51] FREEMAN, R. E., REED, D. L., 1983, p. 91.

[52] *Cambridge Advanced Learner's Dictionary*. [on-line] Other English dictionaries have similar definitions.

	Authors, year	Definitions (Stakeholders are...)
[1]	Stanford Research Institute 1963	those groups without whose support the organization would cease to exist
[2]	Rhenmnan 1964	are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence
[3]	Thompson 1967	anything influencing or influenced by the firm
[4]	Ahlstedt & Jahnukainen 1971	driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending (cited in Näsi, 1995)
[5]	Einshoff & Freeman 1978	any group where collective behaviour can directly affect the organisation's future, but which is not under the organization's direct control
[6]	Ackoff 1981	anyone inside or outside the organization who are directly or primarily affected by the actions of a corporation.
[7]	Freeman & Reed 1983	Broad: can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objective. Narrow: on which the organization is dependent for its continued survival.
[8]	Freeman 1984	can affect or is affected by the achievement of the organization's objectives
[9]	Freeman & Gilbert 1987	can affect or is affected by a business
[10]	Cornel & Shapiro 1987	"claimants" who have "contracts"
[11]	Evan & Freeman 1988	have a stake in or claim on the firm benefit from or are harmed by, and whose rights are violated or respected by, corporate actions
[12]	Bowie 1988	without whose support the organization would cease to exist
[13]	Alkhafaji 1989	groups to whom the corporation is responsible
[14]	Caroll 1989	asserts to have one or more of these kinds of stakes – ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property
[15]	Freeman & Evan 1990	contract holders
[16]	Thompson et al. 1991	in relationship with an organization

	Authors, year	Definitions (Stakeholders are...)
[17]	Savage et al. 1991	have an interest in the actions of an organization and … the ability to influence it
[18]	Hill & Jones 1992	constituents who have a legitimate claim on the firm … established through the existence of an exchange relationship [who supply] the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)
[19]	Brenner 1993	having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts, and moral responsibilities
[20]	Caroll 1993	asserts to have one or more of the kinds of stakes in business – may be affected or affect
[21]	Freeman 1994	participants in “the human process of joint value creation”
[22]	Wicks et al. 1994	interact with and give meaning and definition to the corporation
[23]	Langtry 1994	the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
[24]	Starik 1994	can and are making their actual stakes known – are or might be influenced by, or potentially are influencers of, some organization
[25]	Clarkson 1994	bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm [or] are placed at risk as a result of a firm’s activities
[26]	Clarkson 1995	have, or claim, ownership, rights, or interests in a corporation and its activities
[27]	Näsi 1995	interact with the firm and thus make its operation possible
[28]	Brenner 1995	are or which could impact or be impacted by the firm/organization
[29]	Donaldson & Preston 1995	persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity

Source: MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997, p. 858; DONALDSON, T., PRESTON, L. E., 1995, p. 86; FREEMAN, R. E., REED, D. L., 1983, p. 89.

As can be seen, rather than the authors agreeing on one generally recognised definition, the number of definitions has increased over time. They can be divided into two strands – one broad and one narrow. The broad one recognises that practically anyone can influence an organization’s activity or be influenced by that organization’s activity. However, this ideal concept is not suitable for practical usage. If we want to use the stakeholder model in strategic management, then we have to take into consideration that there are limits to the time and other resources which managers can allocate to stakeholder-related work. This is why the model which illustrates these relationships also has to be limited. Therefore, more and more definitions are formed which are described as narrow and which use various criteria to restrict the set of entities that might be termed stakeholders.

A clear summary of these criteria is once again provided by Mitchell et al.[53] We present it here supplemented though in an abbreviated form. For each criterion a number is given for the definition corresponding to the definition from the previous table.

1. Existing relationship
    - a relationship exists between the organization and the entity [3], [6], [16], [19], [21], [22]
    - the entity recognizes the existence of his share in the organization [24]
2. Existing power: the entity is dominant
    - the organization is dependent on the entity [1], [5], [7], [12], [27]
    - the entity has power over the organization [8], [9], [17], [20], [24], [28]
3. Existing power: the organization is dominant
    - the entity is dependent on the organization [23]
    - the organization has power over the stakeholder [7], [8], [9], [20], [24], [28]
4. Existing mutual dependence
    - the entity and organization are mutually dependent [2], [4]
5. Legal basis of the relationship
    - the entity and organization have a contractual relationship [10], [14], [15], [18]
    - the entity has a legal claim over the organization [11], [13], [14], [18], [23], [26]
    - the entity is risking something [25]
    - the entity has a moral claim over the organization [11], [14], [23], [26], [29]
6. Entity interest in the organization without legal basis
    - the entity is interested in the organization's activities [14], [17], [20], [26]

It is clear that many definitions combine more than one criterion. It is not unusual to have combinations of three or more criteria in one definition. At the same time, the use of different criteria or sets of them leads to different sets of entities that can be termed stakeholders. The authors usually agree on these groups of stakeholders:

1. Owners
2. Employees
3. Customers (this classification includes the end consumer as well as the direct customer)

The following groups are also generally accepted:

4. Suppliers
5. Creditors

Usually accepted, though sometimes a subject of debate:

6. The state

The following can be considered to be more controversial:

[53] MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997, pp. 860 – 862.

7. Local communities
8. Interest groups
9. The media
10. Competitors

It is worth noting that the first five groups basically fulfil all of the aforementioned criteria. We will examine the individual stakeholder groups more closely later on, when we look at the factors which determine their importance.

Other groups of stakeholders can be found in the literature, usually in relation to a particular application of the stakeholder approach. One extreme example even cites the coastal environment as a stakeholder – it also fulfils a number of the above-mentioned criteria.

One conclusion can be drawn from the above: there is not, nor does it appear that there could be, a single definition of the stakeholder which would simultaneously fulfil the conditions of:

1. being general, i.e. relevant in every application (= broad),
2. being operationalizable, i.e. usable in practice (= narrow).

In strategic analysis the most useful approach would appear to be to use a broad definition, e.g. *"stakeholders are those who can affect the achievement of an organization's objectives or who are affected by the achievement of an organization's objective"* and then go on to define the set of entities that we will work with as stakeholders using the appropriate attributes which they have to satisfy.

1.3.2 Stakeholder Attributes

Savage et al.[54] suggest two attributes:

1. Interest, claim
2. Ability to influence the company

Project management also often uses:

1. Stakeholder's level of influence
2. Stakeholder's anticipated reaction (positive, neutral, negative)

Or also:

1. The strength of the impact on the stakeholder (from weak to strong)
2. The power of the stakeholder

A more elaborate three-dimensional approach is:

1. Stakeholder strength
2. Stakeholder interest
3. Stakeholder attitude

[54] SAVAGE, G. T., NIX, T. H., WHITEHEAD, C. J., BLAIR, J. D., 1991, pp. 61 – 75.

Strategic management textbooks also use:

1. Power (strength)
2. Attitude (interest)

Mitchell et al.[55] suggest three attributes:

1. Power
2. Legitimacy
3. Urgency

The use of the appropriate attributes not only enables the division of entities into those which are and those which are not stakeholders (stakeholders and non-stakeholders) of a specific organization, but also their further breakdown into, for example, latent, potential, definitive etc, as will be shown in the sub-chapter on stakeholder classification. We will now take a closer look at the three attributes model from Mitchell et al.

[55] MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997.

Mitchell et al.'s Three Attributes Model

Mitchell et al. set up their model as an answer to two basic questions in stakeholder analysis: "*Who are the stakeholders of a firm?"* and *"To whom do managers pay attention?"*, which represent the stage of identifying stakeholders and assessing their importance. Both of them should be dealt with by the proposed system of three attributes, these being power, legitimacy and urgency. According to these authors, the broad definition of a stakeholder cannot be applied in practice. A problem, therefore, arises when we wish to narrow down our circle of stakeholders. The criteria shown above can be used for this. From this summary of the criteria it is evident that the most frequently used are the power of at least one of the entities in the relationship and the legitimacy of the claim of one of the entities. On this basis the stakeholders can be divided into two groups, the "influencers" (they have the power to influence) and the "claimants" (they have a legitimate claim on the organization). However, according to Mitchell et al. this is not sufficient, and they define a third category – urgency.

- Power

Power is the "*ability of those who possess power to bring about the outcomes they desire"*[56]. This can arise in three basic ways: coercive power based on physical sources of power, violence or restriction: utilitarian power based on material or financial sources; normative power based on symbolic sources such as prestige, honour, love and acceptance.

- Legitimacy

Legitimacy is "*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."*[57]. Although legitimacy is often associated with power, it is not the same thing. One example is minority shareholders whose claims may be legitimate but need not be listened to by management as they do not have the power to enforce them, or terrorists whose demands may not be legitimate but who are capable of having their demands met despite the resistance of the other party. It is necessary to bear in mind that legitimacy can come from moral as well as legal norms. Here the fact that the attributes are assessed by top managers in a subjective way during their everyday work takes on extra importance (more details below).

- Urgency

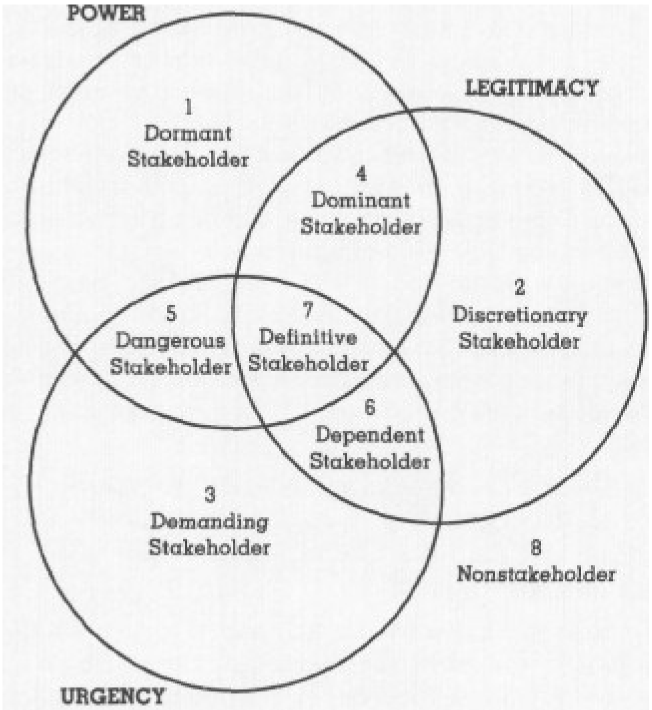
According to Mitchell et al., urgency is *"calling for immediate attention"* or *"pressing"*[58]. It exists only if two conditions are met: 1. the claim is time dependent and 2. the claim is important or critical to the stakeholder. Therefore, the degree of urgency is determined by the degree of dependence on time, i.e. the extent to which a delay in meeting the claim is unacceptable to the stakeholder and the degree of criticality, i.e. the extent to which the claim is critical for the stakeholder. The attribute of urgency is Mitchell et al.'s greatest contribution to the identification of shareholders. Of the thirty definitions provided above,

[56] SALANCIK, G. R., PFEFFER, J., 1974, p. 456, cited in MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997, p. 865.
[57] SUCHMAN, M. C., 1995, p. 574.
[58] MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997, p. 867.

urgency can be found in only one of them, where it is still interpreted in very vague terms (definition no. 24). No other authors apart from Mitchell et al. include urgency in their lists of stakeholder attributes.

Based on the possession of these three attributes, stakeholders can be divided into nine types, and these can be assigned to three classes. The following illustrates the various types of stakeholders.

Fig. 1: Typology of Stakeholders according to Mitchell et al.



Source: MITCHELL, R. K., AGLE, B. R., WOOD, D. J., 1997, p. 874.

- Latent Stakeholders

The first type of stakeholders are latent stakeholders. They are numbered 1, 2 and 3 in the diagram above. Only one attribute is ascribed to them, and for this reason they are likely to come to the attention of managers only after the claims of the other stakeholders have been satisfied. To use Mitchell et al.'s terminology, what we have here is dormant shareholders who assert themselves using only power, discretionary stakeholders whose relationship is only legitimate and nothing more, and demanding stakeholders whose claims are urgent but who do not have a legitimate basis and have no power.

- Expectant Stakeholders

This second type of stakeholder has accumulated two attributes. Depending on which they are, these may be dominant stakeholders, i.e. those who have power and whose claim is legitimate, dependent stakeholders, whose claim is legitimate and urgent but who lack power, or dangerous stakeholders, whose claims are not legitimate but are urgent and who have power. With all of these groups we can expect a more proactive approach towards the company than is the case with dormant stakeholders. Two of these groups have urgent claims, and although those of the third group are not urgent, they are legitimate, and this group has power and can, therefore, demand that their claims be met whenever they want.

For these reasons it can be assumed that the claims of these groups will receive much higher priority than those of latent stakeholders.

- Definitive Stakeholders

The third and final type of stakeholders are definitive stakeholders. This is a single group composed of stakeholders to whom all three attributes can be ascribed. Their claims will have the highest priority for the company. Given that the possession of any of the attributes is subject to change, any stakeholder from the category of expectant stakeholder can enter the category of definitive stakeholder in a relatively short period of time.

This model was tested by the slightly altered team of Agle et al.[59], using a sample of 80 companies which completed questionnaires sent to them and for which all the other necessary data was available. The key point was to determine the level of the individual attributes and their importance. The procedure for the attributes is described in the Analysis of Attributes section of the chapter Stakeholder Analysis. Using the same seven-point Likert scale (from strongly disagree to strongly agree) chief executives also rated the importance of groups of stakeholders (Freeman's original generic groups were used: owners, employees, the government, communities) by answering these questions:

1. this stakeholder group was very important for your organization [it had high priority for your management team],
2. this group received a large amount of time and attention from your management team,
3. satisfying the claims of this group was important for your management team.[60]

The research confirmed the hypothesis that the importance of stakeholders as perceived by the chief executives depends on the defined stakeholder attributes. The following table shows the strength of the partial relationships between attributes and importance, and cumulative attributes and importance.

Table 2: Strength of Dependence of Importance on Attributes

	Owners	Employees	Customers	Government	Communities
Power	0.16	0.25**	0.34***	0.30***	0.23**
Legitimacy	0.18*	0.30***	0.46***	0.07	0.47***
Urgency	0.40***	0.06	0.11	0.34***	0.17*
Cumulative attributes	0.69***	0.38***	0.65***	0.41***	0.56***

Source: AGLE, B.R., MITCHELL, K. R., SONNENFELD, J. A., 1999. p. 519

Agle et al. also tested the hypothesis that the perception of the importance of individual stakeholder groups and corporate social performance is dependent on the values of the chief executives. This was partly confirmed for the importance of the groups of employees and customers[61] and for social performance in relation to communities, but not for the others. Agle et al. concluded this section by stating that this influence needs to be investigated further.

[59] AGLE, B. R., MITCHELL, K. R., SONNENFENLD, J. A., 1999.
[60] AGLE, B. R., MITCHELL, K. R., SONNENFENLD, J. A., 1999. p. 525.
[61] AGLE, B. R., MITCHELL, K. R., SONNENFENLD, J. A., 1999. p. 518.

1.3.3 Classification of Stakeholders

Groups of stakeholders have certain shared traits, which can be used for further categorization. Here we will present the categories used.

Voluntary versus Involuntary Stakeholder

As Clarkson[62] observes, not all stakeholders enter into a relationship with a company voluntarily. One example is the residents of the centre of Ústí nad Labem, who live near a chemical plant. It cannot be denied that they are stakeholders in this chemical plant:

- their immediate environment is at risk,
- they have power over the company (through city representatives),
- they have the moral right to demand safety guarantees, etc.

Despite this, their "share" in the company is not voluntary.

Actual versus Potential Stakeholder

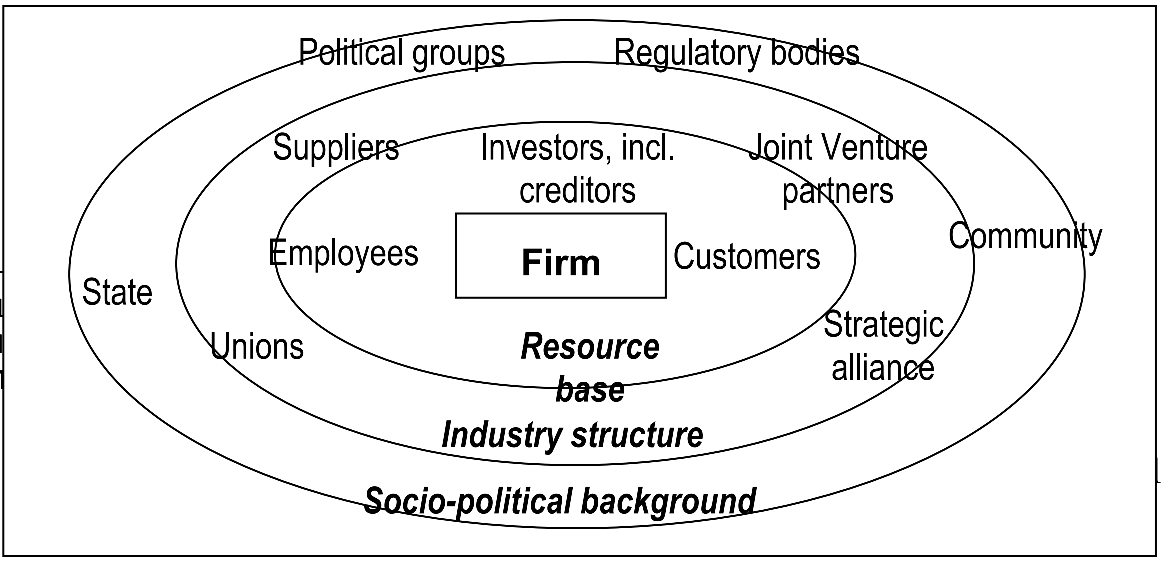
An actual stakeholder is an entity that fulfils the conditions set for stakeholders at a given point in time. A potential one is an entity that might fulfil them in the future, usually when there is a triggering event.

It is debatable whether potential stakeholders should be regarded as stakeholders. Ring[63] emphatically rejects this, whilst Mitchell et al.[64] say that it is necessary (as a consequence of their theory about the three stakeholder attributes). According to Clarkson's concept of involuntary stakeholder (see above), a potential stakeholder is also a stakeholder. This also follows from Starik's definition [23]. From the perspective of strategic management we are also inclined to accept the idea that a potential stakeholder has to be taken into consideration. After all, the attributes which determine the importance of individual stakeholders or groups of them are of a dynamic nature, and a potential stakeholder can very quickly become an actual one.

Classification by "Proximity" to Company

1. Resource base – these stakeholders are directly linked to the company through their activities or capital
2. Industry structure – stakeholders forming the industry background to the company
3. Socio-political background – the wider surroundings of the company forming its legal, moral and social framework

Fig. 2: Stakeholder Classification by Proximity to Company



[62] Cl
[63] RI
[64] M

Source: BLAŽEK, L., ČADA, R., GOLEC, R., KUBÁTOVÁ, E., ŠIŠKA, L., 2004, p. 10.

Classification of Primary and Secondary Stakeholders according to Clarkson[65]

- primary stakeholders – entities without whose support the organization would cease to exist in the long term. Clarkson considers primary stakeholders to be owners, creditors, employees, customers, suppliers, the government, and communities.
- secondary stakeholders – in this conception, these entities influence the organization or are influenced by it, but there are no transactions between them and the organization and they are not essential for the survival of the organization. According to Clarkson these include the media and special interest groups.

Classification of Primary and Secondary Stakeholders according to Näsi[66]

- primary stakeholders – those who have an official, preferably contractual relationship with the company. In *The Play Approach to Stakeholder Management*[67] Pajunen and Nasi list primary stakeholders as owners, employees, managers and creditors.
- secondary stakeholders – the other entities surrounding the company (the government, communities...). Nasi admits that this classification can be different for different companies.

Classification of Environmental and Procedural Stakeholders according to Atkinson et al.[68]

- Environmental stakeholders define the environment in which a company operates. They are customers, owners and the community close to the company.
- Procedural stakeholders are the suppliers and employees who operate within this environment.

Further Classifications

Blair and Whitehead[69] divide stakeholders into those who have the potential for cooperation and those with the potential to threaten, Goodpaster[70] into those who are trustworthy and those who are not. This is not an exhaustive list of possible stakeholder classifications, but it does summarize the most important views on this issue.

[65] CLARKSON, M. B. E., 1995, p. 106.
[66] NASI, J., 1995.
[67] PAJUNEN, K., NASI, J., 2004, p. 4.
[68] ATKINSON, A. A., WATERHOUSE, J. H., WELLS, R. B., 1997, pp. 25 – 37.
[69] BLAIR, D. L., WHITEHEAD, C. J., 1988, pp. 153-166.
[70] GOODPASTER, K. E., 1994, pp. 423 – 429.

1.3.4 Stakeholder Segmentation

Until now we have presented the classification of stakeholders in generic groups (owners, employees, etc.), or in different categories according to different criteria (e.g. primary versus secondary). Such classifications are often useful, but in some cases they can be inadequate or directly misleading. Wolfe and Putler have even stated that the division into generic groups "*impedes understanding*"[71] (of the needs and claims) of these groups.

In accordance with Wolfe and Putler, our stakeholder analysis divides stakeholders into narrower groups than generic ones. The reasoning is based on the following hypotheses:

1. The basic steps in stakeholder analysis are (1) identifying stakeholder groups, (2) determining the interests of stakeholders, (3) evaluating their power (proposed by Wood [72]) or importance (proposed by Mitchell et al.[73]).
2. A company's stakeholder is an entity that has an "interest" in the company.[74]
3. Generic groups[75] are expected to have similar interests, which justifies the use of distinctions at the level of generic groups not on the basis of these interests, but on the basis of the roles which the stakeholders "play" in the company (owners, employees…).[76]

Wolfe and Putler observed that condition no. 3 need not always apply. They give the example of a minority shareholder who owns shares not for profit but in order to have the opportunity to attend the general meeting. They thus formed the view that role-based groups can be intrinsically quite a) heterogeneous and b) there may be groups which are homogenous in their interests across the generic stakeholder groups.

They found justification for this in the different types of interests. They divided interests into two categories: "*self-interest*" and "*symbolic predispositions*". Whilst profit predominates as a motive determining the behaviour of the first group, for the second group there are other values stemming from fundamental assumptions acquired during childhood and adolescence. Wolfe and Putler give these examples: "*a sense of patriotism, political affiliation, racial prejudices*".[77] Their own research, as well as references to other research, showed that "self-interest" only predominates over "symbolic predispositions" under very specific conditions:

1. "the consequence for a particular individual is considerable, or
2. the costs and benefits of alternative variants are clear and relatively certain, or
3. there is fear of negative consequences at play, or

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[71] WOLFE, R. A., PUTLER, D. S., 2002, p. 65.
[72] WOOD, D. J., 1994.
[73] MITCHELL, K. R., AGLE, B. R., WOOD, D. J., 1997.
[74] FREEMAN, R. E., 1984, p. 60.
[75] We should recall that this term was introduced by Freeman to describe groups such as owners, employees, customers and communities (the list was later expanded).
[76] WOLFE, R. A., PUTLER, D. S., 2002, p. 64.
[77] WOLFE, R. A., PUTLER, D. S., 2002, p. 68.

4. the responsibility for the problem can be attached to external factors (the government, society as a whole, etc.)."[78]

Therefore, the conclusion of this study is that the roles which stakeholders occupy in a company are unreliable, and that it is necessary to assess the interests of each of them before assigning the stakeholders to groups – in other words, to segment them. In the proposal section of our work we will respect both the fact that stakeholders' interests largely derive from the roles which they occupy and that the segments created on the basis of these interests may cross over these roles.

1.4 JUSTIFYING THE STAKEHOLDER APPROACH

In short, the stakeholder approach is a way of viewing an organization as the site of conflict between the relationships and interests of the organization's stakeholders, with the assumption that the organization has to maximize the benefits for all of the stakeholders, and that maximizing the benefits for all of the stakeholders will also maximize its performance.[79] For example, Post, Preston and Sachs argue that the stakeholder "view" of an organization is a "*basis for analyzing and managing the numerous and diverse relationships that arise within this setting*".[80]

As we have already mentioned, Freeman's definition of the stakeholder approach states that it is "*about groups and individuals who can affect an organization and about managers´ actions taken in response to these groups and individuals"*.[81] In any case, in the literature we can find many statements justifying the stakeholder approach, for example:

"Conscientious stakeholder management can enhance organizational wealth".[82]

"*Failure to identify dangerous stakeholders would result in missed opportunities for mitigating the dangers and in lower levels of preparedness, where no accommodation is possible*."[83]

According to Turnbull[84], co-operation between stakeholders in a company's informational and management structure is a strength and a competitive advantage. This is why the application of the stakeholder approach is not inconsistent with long-term benefit for the owners, but rather leads to greater efficiency within the organization, which benefits all groups of stakeholders. In his view, the explanation for this is that the more relationships a company has, the greater the number of information channels it has at its disposal, and therefore the more feedback it receives.

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[78] WOLFE, R. A., PUTLER, D. S., 2002, p. 68.
[79] Here we encounter a normative and instrumental approach.
[80] POST, J. E., PRESTON, L. E., SACHS, S., 2002a, p. 3.
[81] FREEMAN, R. E., 1984.
[82] PRESTON, L. E., DONALDSON, T., 1999.
[83] MITCHELL, R. K, AGLE, B. R., WOOD, D. J., 1997, p. 878.
[84] TURNBULL, S., 1997.

1.4.1 Stakeholder and Shareholder Approaches

The shareholder approach stresses the responsibility that managers have towards the company's owners. This responsibility is placed above all others.[85] When pursuing this approach, the objective of managers is therefore to maximize the company's profit in such a way as to maximize the benefits for the owners. The word shareholder (sometimes also stockholder) can refer to a person owning shares. However, the shareholder approach looks at company owners in general, irrespective of the form of ownership.

The shareholder approach is sometimes placed in direct opposition to the stakeholder approach in the sense of maximizing the value for the owners versus maximizing the value for all stakeholders. Nevertheless, the shareholder approach can also be understood as a "subset" or special interpretation of the stakeholder approach.[86]

1.4.2 Forms of Stakeholder Approach

The application of the stakeholder approach is not necessarily unambiguous in practice. The two most common forms are the model of strategic stakeholder management and the model of intrinsic stakeholder commitment.[87] In the first of these, the character and scope of the managers' interest in individual stakeholders is determined solely by the potential of the specific interest (concrete action) to improve the company's financial performance. In the second model there is the assumption that businesses feel a certain internal commitment towards their stakeholders, this commitment helps to shape their strategy and this is reflected in the financial performance of the company.

Berman et al.[88] further divide the first of these models into two forms: direct and moderated. In the direct effects model they assume that the strategies and relationships with regard to stakeholders have a direct and separate effect on the firm's financial performance. In the moderated model they assume that the direct relationship between corporate strategy and the firm's financial performance is affected by the relationships with stakeholders.

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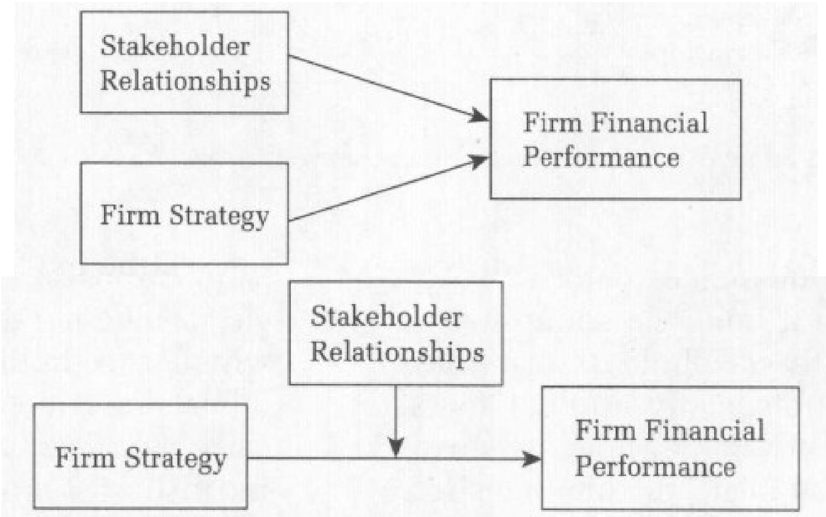
[85] M Friedman, for example, takes this attitude towards the stakeholder approach and the whole concept of CSR.
[86] Cf. e.g. JONES, T. M., WICKS, A. C., FREEMAN, R. E., 2002, p. 26.
[87] BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 488.
[88] BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, pp. 491 – 492.

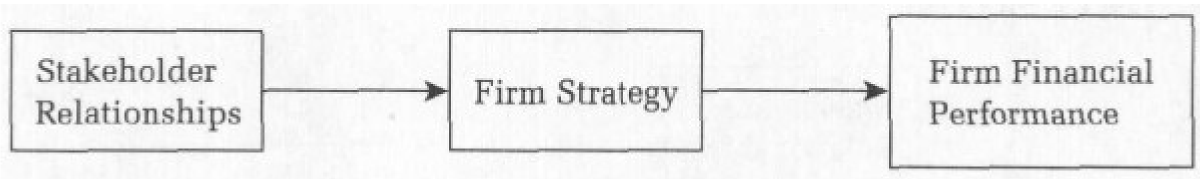
Fig. 3: Models of Strategic Stakeholder Management



Source: BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 493.

A model of intrinsic stakeholder commitment is given below. Here it is assumed that the relationships with stakeholders are reflected in the corporate strategy, which is then reflected in financial performance.

Fig. 4: Model of Intrinsic Stakeholder Commitment



Source: BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 494.

Berman et al. tested the validity of these models using empirical data. Both models of strategic stakeholder management were verified, but the model of intrinsic stakeholder commitment was not. In the sample that was studied (more on this in the chapter International Research in the Field of Stakeholder Theory) the relationships with the stakeholders did not influence strategy.[89]

1.4.3 Criticism of the Stakeholder Approach

Probably the most famous critic of the stakeholder approach, or to be more precise the concept of corporate social responsibility, was Milton Friedman. His article *"The Social Responsibility of Business is to Increase its Profits"*[90] in the New York Times from 1970 is often cited as evidence of this. Friedman provided detailed arguments on various levels to defend his views:

1. If a company's resources are allocated to corporate social responsibility projects without the knowledge of the company's owners, that amounts to stealing from the owners.
2. Even if the owners agree to the allocation of funds to CSR activities, it is debatable whether one company is capable of being as effective as the government – i.e. at this

[89] BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 502.
[90] FRIEDMAN, M., 1970.

moment the company is taking over the role of the government, but in Friedman's view it is highly improbable that it would have the same (e.g. informational or organizational) competence as the government.

The result is that the company imposes upon itself an additional form of tax, which is spent inefficiently. However, we should note here that Friedman was criticizing corporate social responsibility in the sense of interaction with groups which would be considered communities in our stakeholder model, and only interaction which would be thought of as out of the ordinary. Friedman believed that it was necessary for the company to observe all legislative and moral (ethical) norms in its relationships with all of its stakeholders. The only areas of controversy are certain specific activities which he believes go beyond these norms.

Therefore, his criticism is only aimed at part of the stakeholder approach. However, even this can be defended. Firstly, these days CSR tools are often used for marketing purposes. We can leave aside the issue of whether this is really still social responsibility, as the answer lies beyond the scope of this work. Suffice it to say that this form of CSR activity is entirely in accordance with Friedman's requirements, because by fulfilling the interests of the various stakeholders the owners' interests are also fulfilled. Two current examples can be given:

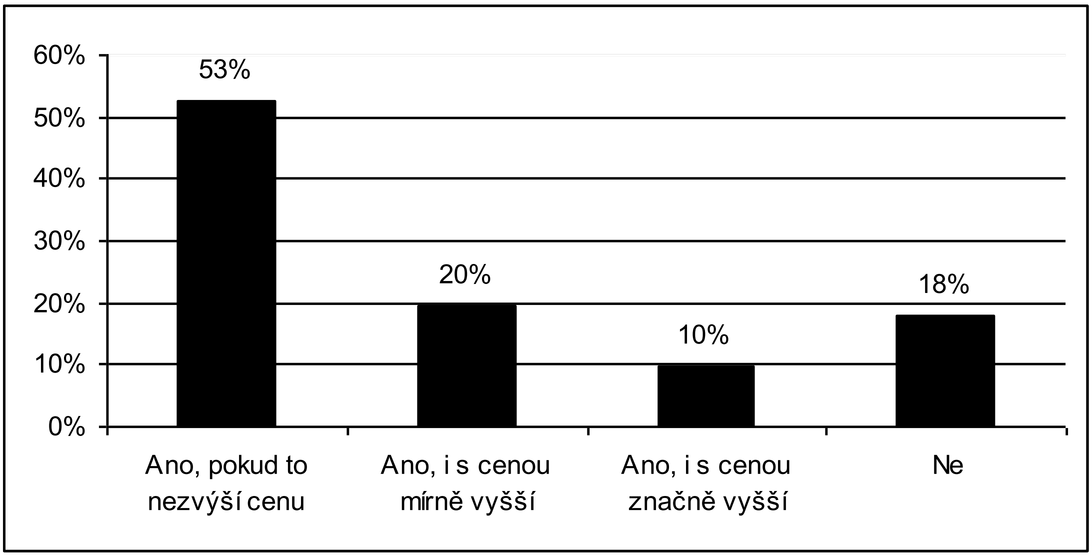
The French rope producers Beal promise that for every rope purchased, they will plant a tree in Madagascar. At the same time, they have started to transport rope in reusable packaging, whereas they previously made use of disposable PVC packaging. They also state that for their printed catalogues they only use paper made from trees from forests which are maintained in accordance with EMAS norms.[91]

The American rope producers Sterling Rope have begun to offer a "scrap-rope deal", where customers receive a 25% discount on new rope when they send back their old rope. The old rope is then recycled for further use as PA granules.[92]

In both examples there is an attempt to offer the buyer extra value. Traditionally, the value of a rope would lie in its resistance to wear, the number of falls after which the rope must be discarded, or weight. Today, however, these parameters are very similar in all rope, which is why these manufacturers decided to offer other values. There are countless other similar examples which could be found in practically all areas of business.

[91] BEALPLANET.COM *Beal's Contribution To The Environment.* [on-line]
[92] ROCKJOY.CZ *Recyklace lan.* [on-line]

Fig. 5: "Green Thinking" Survey at www.lezec.cz



N.B: The survey was carried out at the start of 2009, 1,509 people participated, and repeat voting was prevented by the requirement of a unique IP address.

Source: LEZEC.CZ *"Green Thinking" Survey*, [on-line]

Having dealt with Friedman's first objection, let us briefly examine the second – efficiency. Much time has passed since Friedman published his article in 1970, and the business environment has changed significantly. Due to continuing globalization and consolidation, these days it is normal to have multinational corporations with a turnover greater than the government budget, if not the gross domestic product, of many countries. As is pointed out by Hertzová[93], these corporations not only have many opportunities to avoid any inconvenient legislative requirements (transferring production from the USA to developing nations) but can also modify legislation to suit their own needs (investment incentives in many countries). In this kind of situation, governments are no longer necessarily the most efficient means of allocating resources for specific purposes, or even a reliable regulator of business ethics.

Naturally, other academics have developed Friedman's ideas. According to research by Stanley Vance[94] from 1975, companies displaying strong social sentiments recorded greater declines in share prices compared to the market average. In 1985 Aupperle et al.[95] elaborated on the hypothesis that increased CSR activities drained financial and other resources, putting the company at a disadvantage compared with companies which were less socially active.

Preston and O'Bannon[96] formulated a hypothesis of managerial opportunism. Their assumption was that at a time of strong financial performance, managers seek to maximize their own compensation by reducing expenditure on social responsibility, thereby increasing disposable profit and with it their remuneration. Conversely, in periods of weaker financial performance, managers will increase expenditure on social responsibility, which does not

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[93] HERTZOVÁ, N., 2003.
[94] VANCE, S., 1975, pp. 18 – 24.
[95] AUPPERLE, K., CARROLL, A., HATFIELD, D., 1985.
[96] PRESTON, L. E., O'BANNON, D. P., 1997, p. 423.

threaten their own compensation, and may indeed use this expenditure as justification for poorer financial performance. Preston and O'Bannon based this hypothesis on older research showing that managers can pursue their own private goals to the detriment of the owners and other stakeholders[97], or that they view their own interests as the most important, or as the second most important after the interests of the customers.[98]

Here we should point out that the previous two hypotheses concerning managerial opportunism and the draining of financial and other resources were tested by Preston and O'Bannon themselves in 1997, and were not verified on data from 1982 to 1992 inclusive.[99] There will be more on this research in the following section.

Therefore, we can conclude that the merits of the stakeholder approach have been proven both theoretically and empirically. In theory there is no longer criticism of the stakeholder approach per se, only specific aspects of it – for example, the criticism of Donaldson and Preston's[100] classification of stakeholder approaches by Kaler[101] or Freeman[102].

1.4.4 International Research in the Field of Stakeholder Theory

As well as theoretical justifications of the stakeholder approach (see above), many studies have been devoted to the empirical verification of these statements. In this section we will briefly analyse the results of the most interesting studies from our perspective on this issue.

1.4.4.1 The Relationship between Stakeholder Management and a Firm's Performance – Berman et al., 1999

Berman et al. set themselves the task of verifying the validity of the aforementioned models of strategic stakeholder management and intrinsic stakeholder commitment. They used a sample of companies from the top one hundred on the *Fortune 500* list (for 1996), for which complete financial data for the years 1991 – 1996 was available. In total they selected 81 companies from various industries. Financial performance as a dependent variable was measured using ROA (operating profit to total assets). The stakeholder approach as an independent variable was expressed through the companies' attitudes towards five defined "stakeholder groups". These were: relationships with employees, diversity, local communities, the natural environment and product quality and safety.

The KLD database tracks the companies from the Standard and Poor's 500 indexes and the Domini Social Index (150 companies). A large amount of data is available for these companies, for example on educational activities, recycling programmes, sponsorship, lawsuits, etc (see below for more information). These individual items are then evaluated on a five-point Linkert scale, where -2 means negative activity and +2 positive activity. Berman et al. selected the data relating to the individual stakeholder groups chosen by them on the

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[97] WEIDENBAUM, M., VOGT, S., 1987; WILIAMSON, O. E., 1967; WILLIAMSON, O. E., 1985, cited in PRESTON, L. E., O'BANNON, D. P., 1997, p. 423.
[98] POSNER, B., SCHMIDT, W., 1992; ALKHAFAJI, A., 1989, cited in PRESTON, L. E., O'BENNON, D. P., 1997, p. 423.
[99] PRESTON, L. E., O'BANNON, D. P., 1997, p. 426.
[100] DONALDSON, T., PRESTON, L. E., 1995.
[101] KALER, J., 2003, p. 71.
[102] FREEMAN, R. E., 1999, p. 233.

basis of research into the literature. Here we will use the “diversity” group as an example, providing some information about it at the same time:

1. Areas of concern: the payment of fines as the result of controversial actions, no directors or senior management from traditionally under-represented groups.
2. Areas of strength: career advancement for women and people of different races, the participation of women, people of different races and/or mentally or physically disabled people on the board of directors, addressing employees’ family problems related to their job, employing mentally or physically disabled people and progressive policies towards homosexual employees. [103]

When using the traditional conception of generic stakeholder groups, the diversity group would fall within the communities group, as would the natural environment group. In terms of its content the product quality and safety group corresponds with the group normally termed employees. More information about the composition of the other groups used by Berman et al. can be found in an appendix to their report.[104]

It is interesting to see how the influence of the industrial sector was controlled, as the companies under research came from different industries. The sectoral influences were covered by three variables: dynamism, size and concentration in the sector. The first two variables were measured by the gross product of the industry, and the final one by the ratio of the sales of the four largest companies in the sector to total industry sales.

Results

This research confirmed the direct effect of the variables classified as employees and product quality and safety on a company’s financial performance. No such influence was observed for the other three variables, despite the fact that it had been suggested by previous research.[105] Berman et al. offer the explanation that the variables for communities and diversity, which are mainly important from a normative perspective, on their own do not have a direct effect on financial performance. The effect of the natural environment variable could have been limited by the fact that the companies under research were from many industries in which the importance of the environment and the way of protecting it might take different forms and have different impacts on financial performance. Another limiting factor could have been the location of the companies, which was not checked.

While a direct effect was only discovered for two variables, with the moderated model of strategic stakeholder management all five variables affected the relationship between strategy and financial performance. This indicates that the dependency relationship between relationships with stakeholders and financial performance is much more complex and cannot be reduced to the level of the relationship between one specific stakeholder and financial performance.

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[103] BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 505.
[104] BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 505.
[105] ROBINSON, G., DECHANT, K., 1997; WADDOCK, S. A., GRAVES, S., 1997, cited in BERMAN, S., WICKS, A., KOTHA, S., JONES, T., 1999, p. 501.

Unlike the models for strategic stakeholder management, the model for intrinsic stakeholder commitment was not verified by this research. Therefore, it was not the case that the companies' relationships with stakeholders influenced the creation of strategy for normative reasons. Here Berman et al. suggest including managers' values and motivations in the model in further research.

For our purposes the important conclusion is that the dependence of financial performance on relationships with specific stakeholders was demonstrated, and more importantly, that this dependence cannot be fully explained when these relationships are isolated, but that it is necessary to examine them as being interrelated. It was also shown that the specific industry has an important effect.

1.4.4.2 The Relationship between CSP and CFP – Preston and O'Bannon, 1999

This is an interesting study in that it examines not only the existence of dependence between corporate financial (CFP) and social (CSP) performance, and its direction, but also causality. On their own, statistical tools can only determine the direction of dependence, i.e. whether greater social performance is associated with stronger or weaker financial performance. However, they cannot reveal whether, for example, social performance causes financial performance, or whether the opposite is true. Therefore, this problem has to be addressed in the design phase of the research project.

The sample consisted of 67 companies for whom all the necessary data was acquired for the period 1982 – 1992 inclusive. In relation to social performance this tracked the companies' relationship towards the following stakeholder groups: communities, employees and customers. The data for the evaluation of these relationships was acquired from Fortune magazine's database, which since 1982 has been monitoring the reputations of several thousand top managers and analysts from the largest companies across many industries. ROA, ROE and ROI were used to evaluate financial performance.

Results

In addition to determining causality, Preston and O'Bannon also focused on determining the direction of dependence. Of the 270 correlations counted, only one was not negative, i.e. only one result did not confirm the possibility of a dependency direction whereby higher social performance is associated with weaker financial performance (or lower social performance with stronger financial performance). In the interest of clarity, Preston and O'Bannon only presented ROA calculations (see below).

With regard to causality, the highest correlations were achieved when the financial performance (here specifically ROA) of the year n was compared with the social performance of the year n+1. Here the dependency strength reached 0.6410 (when expressing social performance through the quality of the relationship with employees), and the result thus shows that it is true that the stronger the financial performance, the higher the social performance (the hypothesis of available funds). This was also confirmed by the fact that from the results of 30 triples (dependence of the ROA level on the quality of relationships with individual groups in particular years) in 16 of these triples the strongest dependence was relationship quality on ROA. In the remaining 14 triples, the strongest dependence was ROA and social performance in the same year, from which it is not possible to say which variable is dependent on which. This interaction achieved a strength of 0.6019 (again the connection between the quality of relationships with employees and ROA). Not one triple had ROA on social performance as the strongest dependence. The strongest result achieved by this type of dependence was 0.5172 (again the connection between the quality of the relationships with employees and ROA), which is a full one-fifth worse than the result for reverse causality.

Table 3: Causality Research Results – Highest Values Achieved

Causality	Dependency strength (in brackets year n)		
	communities	employees	customers
Quality of relationship with a group dependent on ROA	0.4990 (1990)	0.6410 (1990)	0.5831 (1990)
Synergistic action	0.4715 (1983)	0.6019 (1989)	0.5513 (1989)
ROA depends on quality of relationship with group	0.4064 (1992)	0.5172 (1992)	0.4792 (1989)

Source: PRESTON, L. E., O'BENNON, D. P., 1997, p. 426. Modified by the author.

At this point it is appropriate to make a few remarks related to values determined by Preston and O'Bannon, even though the authors themselves did not refer to them. The table below shows that the strongest dependences were almost always exhibited by relationships with employees on financial performance (apart from 1989). The same applies to both remaining causalities, which is also verified by the average strength of dependence (see "Average" line). In second place, again for all three causalities, were customers, with communities in third place. It follows that:

a) if a company is doing well, employees profit the most from this, followed by customers and finally communities.
b) if a company wants to improve its financial performance, the best course is to build better relationships with employees, only then with customers and, again in last place, communities.

We can, therefore, deduce that in terms of financial performance the most important thing for a company is its employees – whether they are aware of this or not.

Table 4: Causality Research Results – Values Measured

Year	Communities			Employees			Customers		
	Simul.	**ROA I**	**ROA D**	**Simul.**	**ROA I**	**ROA D**	**Simul.**	**ROA I**	**ROA D**
1982	0.4270	n/a	n/a	0.5251	n/a	n/a	0.3687	n/a	n/a
1983	0.4715	0.4952	0.4038	0.5420	0.5442	0.4406	0.3132	0.3391	0.2543
1984	0.2621	0.3978	0.3623	0.5276	0.5904	0.4734	0.2999	0.3350	0.2560
1985	0.3303	0.2640	0.2397	0.5371	0.5667	0.4080	0.4156	0.3182	0.3321
1986	0.4583	0.3778	0.2870	0.5509	0.5601	0.4658	0.4576	0.4401	0.3587
1987	0.3956	0.4473	0.3700	0.5690	0.5487	0.5049	0.4373	0.4311	0.3890
1988	0.3375	0.3807	0.2106	0.4486	0.5410	0.3424	0.4613	0.3810	0.3972
1989	0.4418	0.4430	0.3769	0.6019	0.4113	0.4289	0.5513	0.4042	0.4792
1990	0.3611	0.4990	0.3239	0.5035	0.6410	0.4510	0.4728	0.5831	0.4381
1991	0.3147	0.3813	0.3036	0.3915	0.5221	0.3667	0.3473	0.4878	0.3369
1992	0.2808	0.3599	0.4064	0.4258	0.4220	0.5172	0.3382	0.3653	0.4482

Average	**0.3710**	**0.4046**	**0.3284**	**0.5112**	**0.5348**	**0.4399**	**0.4057**	**0.4085**	**0.3690**
Max. value	0.4715	0.4990	0.4064	0.6019	0.6410	0.5172	0.5513	0.5831	0.4792
Min. value	0.2621	0.2640	0.2106	0.3915	0.4113	0.3424	0.2999	0.3182	0.2543
Correlati on	-0.3990	-0.0077	0.0390	-0.5396	-0.4334	-0.0380	0.2986	0.5588	0.7692

Source: PRESTON, L. E., O'BENNON, D. P., 1997, p. 426. Modified by the author.

Simul. – simultaneous effect of CSP and CFP
ROA I – ROA is an independent variable
ROA D – ROA is a dependent variable
Max./Min. value – maximum or minimum value for the given type of dependence
Correlation – dependence of the development of correlation coefficients on development in the years 1982 – 1992

Equally interesting, however, are the trends. The growth trend of the dependence of financial performance on relationships with customers is very strong (a correlation with time at the strength of 0.7692). Significantly weaker is the growth of the dependence of the quality of relationships with customers on the ROA level (0.558), although from the perspective of the other trends, even this is very strong. The last significantly positive trend again concerns relationships with customers and ROA – the simultaneous effect (0.2986). The other trends are negative, meaning that there is a decrease in the strength of the relationship between social and financial performance in all causalities for both of the remaining groups. This weakening is conspicuous with the simultaneous effect of social and financial performance (communities: -0.3990, employees: -0.5396), but also with the dependence of relationships with employees on the ROA level (-0.4334). There is one small exception amongst these negative trends: communities, ROA dependence on relationships with communities (0.039).

The following can be concluded: the importance of customers is growing, particularly their importance as a determinant of financial performance. On the other hand, the importance of employees is decreasing, particularly for the model where available resources are allocated to employees (ROA is independent of the importance of employees). It is impossible to make a reliable decision about the trend of the importance of communities, but it would appear that the synergetic effect of social and financial performance is decreasing.

The authors of the study point to the fact that their method for measuring social performance shows a strong correlation from one year to the next. Their explanation is that reputation, which is the basis of the evaluation, is subject to a "halo effect", which means that if the initial evaluation of the company is positive, then its further actions are more likely to be evaluated as positive (and vice versa). Therefore, the individual observations are not mutually independent, which is a prerequisite for the methods which were used to assess the CSP – CFP correlations.

1.4.4.3 Meta-Analysis – Allouche, Laroche, 2005

Some very interesting research was carried out by these French authors – they selected 82 studies which examined the relationship between social and financial performance, and then by using meta-analytical methods (meta-regression analysis, meta-significance testing) they attempted to achieve these goals: 1. use statistical methods to consolidate the results of previous research on the relationship between CSP and CFP, 2. assess the conflicting claims concerning the influence of CSP on CFP, 3. examine the influence of third variables such as risk, size and industry, 4. assess the effect of the approaches used to measure CSP and CFP, 5. examine the sensitivity of empirical results to the context and timing of the research and 6. examine the influence of the journal in which the study was published[106].

[106] ALLOUCHE, J., LAROCHE, P., 2005, p. 19.

Table 5: List of Empirical Studies

Study	Authors	Country	N	Average t-statistic	No. of correlations	Average correlation
1	Bragdon & Marlin (1972)a	USA	12	1.86	15	0.488*
2	Fogler & Nutt (1975)a	USA	9	-0.39	1	-0.153
3	Reimann (1975)a	USA	19	3.20	1	0.570***
4	Heinze (1976)a	USA	28	0.27	5	0.050
5	Sturdivant & Ginter (1977)a	USA	20	3.78	2	0.652***
6	Alexander & Buchholtz (1978)a	USA	44	0.91	1	0.063
7	Bowman (1978)a	USA	46	1.56	1	0.227
8	Ingram (1978)a	USA	120	0.25	1	0.023
9	Spicer(1978)a	USA	18	2.32	4	0.508***
10	Abbott & Monsen (1979)a	USA	6	0.08	1	0.038
11	Anderson & Frankle (1980)a	USA	14	1.31	1	0.250
12	Chen & Metcalf (1980)a	USA	18	0.16	4	0.062
13	Levy & Shatto (1980)a	USA	55	4.42	3	0.518***
14	Maddox & Siegfried (1980)	USA	2262	53.22	1	0.746***
15	Kedia & Kuntz (1981)a	USA	30	0.07	5	0.006
16	Freedman & Jaggi (1982)a	USA	109	-0.25	6	-0.025
17	Frey, Keim & Meiners (1982)	USA	36	6.80	1	0.752***
18	Cochran & Wood (1984)a	USA	39	1.94	6	0.503*
19	Aupperle, Carroll & Hatfield (1985)a	USA	228	0.70	8	0.051
20	Newgren, Rasher, LaRoe Zsabo (1985)a	USA	50	5.10	1	0.330***
21	Cowen, Ferreri & Parker (1987)a	USA	95	-0.37	1	-0.041
22	Spencer & Taylor (1987)a	USA	120	3.06	20	0.263***
23	Wokutch & Spencer (1987)a	USA	74	2.00	2	0.232**
24	Lerner & Fryxell (I988)	USA	105	0.28	9	0.030
25	McGuire, Sundgren & Schneeweis (1988)a	USA	131	1.64	5	0.131
26	Aupperle & Pham (1989)	USA	184	0.98	9	0.077

Study	Authors	Country	N	Average t-statistic	No. of correlations	Average correlation
27	Belkaoui & Karpik (1989)	USA	23	1.49	4	-0.086
28	Hansen & Wernerfelt (1989)a	USA	60	2.33	1	0.600***
29	Lashgari & Gant (1989)	USA	475	2.79	1	0.127***
30	O'Neill, Saunders & McCarthy (1989)a	USA	157	-0.09	4	-0.017
31	Cottrill (1990)	USA	180	2.18	1	0.162**
32	Fombrun & Shanley (1990)a	USA	154	1.79	7	0.149
33	McGuire, Schneeweis & Branch (1990)	USA	131	-0.17	5	-0.013
34	McGuire, Schneeweiss & Branch (1990)	USA	131	1.89	5	0.143
35	Preston & Sapienza (1990)	USA	108	1.21	2	0.115
36	Patten (1991)	USA	128	0.26	4	0.023
37	Riahi-Belkaoui (1991)a	USA	139	4.12	3	0.335***
38	Jaggi & Freedman (1992)	USA	13	0.65	5	0.184
39	Roberts (1992)a	USA	80	1.66	1	0.203*
40	Herremans, Akhataporn & Mclnnes (1993)a	USA	38	1.70	12	0.220*
41	Blackburn, Doran & Shrader (1994)a	USA	88	-0.16	9	-0.020
42	Brown & Perry (1994)a	USA	234	4.59	4	0.287***
43	Cormier, Magnan & Morard (1994)	Canada	56	1.74	1	0.244*
44	Dooley & Lerner (1994)a	USA	86	1.13	4	0.123
45	Graves & Waddock (1994)a	USA	430	1.90	2	0.090*
46	Simerly (1994)a	USA	110	2.50	14	0.231***
47	Brown & Perry (1995)a	USA	232	3.32	20	0.241***
48	Simerly (1995)a	USA	84	2.49	1	0.265***
49	Hart & Ahuja (1996)	USA	127	1.40	12	0.126
50	Nehrt (1996)	USA	44	1.94	1	0.316*
51	Pava & Krausz (1996)a	USA	106	0.46	8	0.044
52	Galaskiewicz (1997)	USA	140	3.19	1	0.270***
53	Preston & O'Bannon (1997)	USA	67	3.05	2	0.355***
54	Preston & O'Bannon (1997)	USA	67	3.59	2	0.407***
55	Russo & Fouts (1997)a	USA	486	2.43	6	0.130***

Study	Authors	Country	N	Average t-statistic	No. of correlations	Average correlation
56	Waddock & Graves (1997)a	USA	469	2.52	6	0.117***
57	Turban & Greening (1997)a	USA	160	1.20	6	0.095
58	Adams & Hardwick (1998)	UK	100	2.38	1	0.237***
59	Balabanis, Phillips & Lyall (1998)	UK	56	0.17	12	0.023
60	Balabanis, Phillips & Lyall (1998)	UK	58	0.68	18	0.094
61	Brown (1998)	USA	173	2.31	1	0.174***
62	Judge & Douglas (1998)	USA	170	2.00	1	0.150**
63	Stanwick & Stanwick (1998a)	USA	121	5.87	6	0.482***
64	Stanwick & Stanwick (1998b)	USA	100	0.91	1	0.096
65	Verschoor (1998)	USA	376	2.71	1	0.139***
66	Berman, Wicks, Kotha & Jones (1999)	USA	486	1.56	4	0.071
67	Graves & Waddock (1999)	USA	658	1.30	7	0.051
68	Johnson & Greening (1999)	USA	252	1.65	3	0.112*
69	Maignan, Ferrell & Hult (1999)	USA	210	3.01	2	0.186***
70	Ogden & Watson (1999)	UK	60	2.63	2	0.330***
71	Carter, Kale & Grimm (2000)	USA	437	1.96	1	0.094**
72	Christmann (2000)	USA	88	0.32	3	0.043
73	Dowell, Hart & Yeung (2000)	USA	338	2.70	1	0.148***
74	Karagozoglu & Lindell (2000)	USA	83	3.90	1	0.404***
75	McWilliams & Siegel (2000)	USA	524	-0.03	3	-0.002
76	Graves & Waddock (2000)	USA	36	3.56	4	0.520***
77	Hillman & Keim (2001)	USA	308	0.65	11	0.038
78	Moore (2001)	UK	8	0.70	2	0.271
79	Ruf, Muralidhar, Brown, Janney & Paul (2001)	USA	488	1.48	12	0.022
80	Simpson & Koher (2002)	USA	385	2.14	1	0.111**
81	Moore & Robson (2002)	UK	8	1.98	2	0.747**

Study	Authors	Country	N	Average t-statistic	No. of correlations	Average correlation
82	Seifert, Morris & Bartkus (2003)	USA	68	0.30	5	0.040

Source: ALLOUCHE, J., LAROCHE, P., 2005, p. 22. Modified by the author.

* statistically significant at the level of 10%
** statistically significant at the level of 5%
*** statistically significant at the level of 1%

The impressive 82 studies which were analysed dated from 1972 to 2003 inclusive, and came from the USA, Canada and Great Britain. All of them were based on empirical data (the size of the sample ranged from 6 to 2262 companies) and met other requirements, e.g. expressing the degree of relationship between CSP and CFP through partial correlation or in a similar way transferable to partial correlation. More than 50 studies were excluded from the analysis for failing to meet the requirements. A list of the studies is given in the table above.

Of the 82 studies, 75 were from the USA, a positive effect was found in 75, and in half of them a statistically significant positive effect was found. For their analysis the authors were able to make use of 373 partial correlations from a total of 57,409 observations. The following table shows the average partial correlations in the entire sample and in some of its subsets. These are weighted averages, where the weightings were the numbers of observations in each study. None of the average correlations took on negative values, not even with 95% confidence intervals (given in brackets). In all of the studies the relationship between CSP and CFP had a strength of 0.143, with the exclusion of ecological aspects from CSP the dependence was very slightly stronger (0.145), and it was significantly stronger in cases where philanthropy featured within CSP (0.277). However, it was weaker when ecological aspects featured within CSP (0.140) and in cases where the company's reputation was not included within CSP (0.120).

Table 6: Average Degree of Correlation in the Sample and Some Subsets

Relationship between	Sample size N	Average partial correlation	% variance explained	Heterogeneity
1. CSP and CFP (entire sample)	373	0.143 (0.135 to 0.151)	20.12	1,917***
2a. CSP and CFP without corporate environmental performance	289	0.145 (0.137 to 0.154)	15.28	1,823***
2b. CSP and CFP with corporate environmental performance	84	0.140 (0.118 to 0.162)	39.13	208***
3. CSP and CFP without CSP reputation	268	0.120 (0.110 to 0.129)	16.06	1,631***
4. CSP and CFP with philanthropic donation	77	0.277 (0.257 to 0.298)	7.81	832***

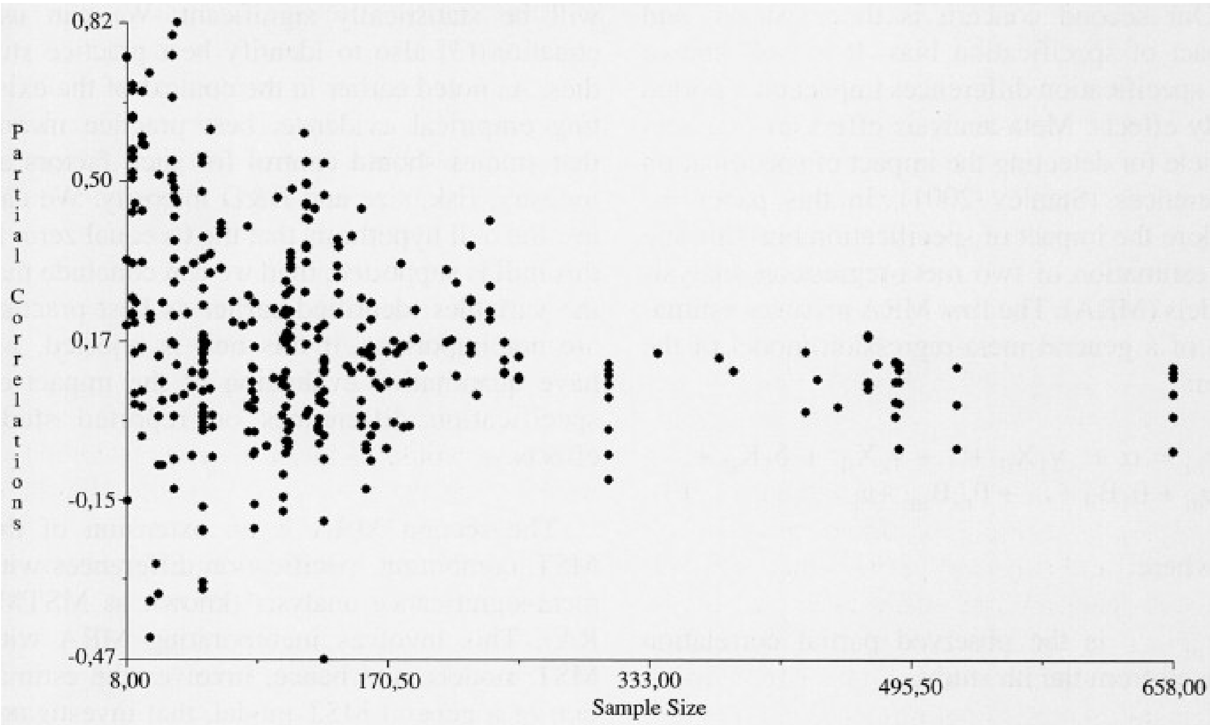
Source: ALLOUCHE, J., LAROCHE, P., 2005, p. 24
figures in brackets are 95% confidence levels

*** statistically significant at the level of 1% (χ^2)

It is also very interesting that much of the difference in the values between the individual studies can be attributed to measurement and sampling errors. For the entire sample it is 20.12%, the highest values being achieved by the subset including ecological aspects in CSP (39.13%) and the lowest by cases including philanthropy (7.81%). This means that although, for example, the strength of the relationship between CSP and CFP in the final subset is 0.277, more than 92% of the size of the differences between the partial correlations in this subset can be explained by other influences.

The following graph depicts the relationship between the size of the sample used and the degree of correlation measured. This reflects the law of large numbers, where larger samples more closely approximate the average value, whereas smaller samples have a larger variance.

Fig. 6: Degree of Partial Correlation between CSP and CFP and Sample Size



Source: ALLOUCHE, J., LAROCHE, P., 2005, p. 27.

In their own meta-regression model the authors tested the effect of 31 variables on the relationship of CSP and CFP. These included the study's country of origin, relationship causality, the time period from which the data originated, industry, company size, method of measuring CSP and CFP, etc. A complete list of the variables with a brief description can be found here.[107] Here we will outline how they operate[108]:

- studies carried out in the USA discovered a lower degree of correlation between CSP and CFP on average. Studies in Canada (1) and in Great Britain (6), apart from two,

[107] ALLOUCHE, J., LAROCHE, P., 2005, pp. 28 – 30.
[108] ALLOUCHE, J., LAROCHE, P., 2005, pp. 31 – 33.

found strongly above-average levels of correlation, the correlation being positive in each case,

- a lower degree of correlation was shown by studies measuring CSP using social disclosure and CSP audits, while there was a higher degree of correlation when CSP was measured using reputation,
- studies that employed linear regression or mean comparison tests found a stronger dependence between CSP and CFP than the others,
- when CFP was considered as a determinant of CSP the relationship was stronger, but because relationships where CSP was considered as a determinant of CFP were also positive, this can be said to be a kind of virtuous cycle. Preston and O'Bannon also arrived at the same conclusion – see the description of their research above,
- the size of the company, the industry, science and research, and risk, were not proven to have any effect,
- focusing on ecology and charity means a smaller CSP effect on CFP than with other forms of CSP,
- the method of measuring CFP influences the strength of the CSP – CFP relationship. The effect of using accounting-based methods is lower than the mean effect, although for certain measures (return on sales, ROA, ROE) it is higher.
- the results indicate that when other factors were excluded the CSP – CFP relationship was stronger in the 1960s and weaker in the 1980s. However, it must be pointed out that the older studies tended to use smaller samples of companies.

Apart from these findings, the authors stated that they regard standardizing the measurement of CSP and CFP and better theoretical explanations of empirical findings as a desirable developmental trend for the future.

1.5 THE STAKEHOLDER APPROACH, CSR AND CSP

In the section about the origin and development of stakeholder theory, the term social responsibility was mentioned several times. Indeed, corporate social responsibility (hereafter CSR) and the stakeholder approach developed from the same ideas – that a company should be more aware of the environment in which it operates. Whereas stakeholder theory was developed for strategic management and in order to help the company itself, the concept of CSR was intended to help the company environment. Our task is not to examine CSR, so we will just briefly give selected definitions:

1. CSR is when a company considers and responds to problems according to the narrow economic, technical or legal requirements of the company in order to achieve benefit for society and the traditional economic objectives of the company at the same time.[109]
2. Corporate social responsibility encompasses the economic, legal, ethical and voluntary expectations which society has of the company at a particular time.[110]

In its infancy the initial idea of CSR theorists was that the company should look after the good of the whole of society – i.e. they were not much concerned with specifying who the

[109] DAVIS, K., 1973, pp. 312 – 313.
[110] CARROLL, A. B., 1979, p. 500.

company should focus on. Later they narrowed down this “target area” to the surroundings of the company (so the company was no longer supposed to be responsible for the whole of society or perhaps even the whole human race) and from around the 1970s some of them began to examine the relationship between corporate social responsibility and corporate performance. The results were inconsistent, which with hindsight their successors blamed on an inconsistent approach, particularly to the evaluation of the level of corporate social responsibility.[111] [112] As we can see, definitions of CSR at that time tended to be imprecise (Davis) or difficult to put into practice (Carroll). This created a demand for a thoroughly elaborated system for evaluating corporate social responsibility, which was met by the concept of corporate social performance (hereafter CSP).

As mentioned by Wood[113], the definition of CSP is not entirely satisfactory. Once again we will not discuss the development of CSP or offer a deeper analysis here, so we will content ourselves with Wartick and Cochran’s definition, which described CSP as: “(a business organization’s) configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s societal relationships”.[114] According to Wood, this definition helps to solve many existing and until then persistent problems: the researcher should assess

- the degree to which principles of social responsibility motivate the company’s actions,
- the degree to which the firm is socially responsive,
- the existence and nature of policies and programmes designed to manage the firm’s societal relationships,
- the impact (outcomes) of activities, programmes and policies,

all of this interacting in such a way that it will be clear what is the result of what (e.g. which outcome is the result of which action or which policy).

This approach is much easier to put into practice for research; nevertheless, over time it became apparent that stakeholder theory can still help after all, especially with defining who efforts should be focused on within the framework of CSR. As previously mentioned, over time CSR brought about a shift from targeting society as a whole to the section of society surrounding the company in question. One of the conclusions of research by Clarkson[115] from 1983 – 1993 is that corporations are not governed by relationships towards society but towards their stakeholders. That is why the concept of the stakeholder as an entity affected by the actions of the company was so useful. It is also why, to Freeman’s [116] surprise, even before 1984 the stakeholder concept began to attract interest in the academic sphere, not only from professors of strategy but also of corporate social responsibility and business ethics.

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[111] WOOD, D. J., 1991, p. 691.
[112] ALLOUCHE, J., LAROCHE, P., 2005.
[113] WOOD, D. J., 1991, p. 691.
[114] WARTICK, S. L., COCHRAN, P. L., 1985.
[115] CLARKSON, M. B. E., 1995, p. 100.
[116] FREEMAN, R. E., 2004, p. 229.

A practical application of stakeholder theory can be found, for example, in the analysis of research into CSP – CFP, see the Stakeholders and CSP table below or the outcome of research by Clarkson, who proposes a list of typical "corporate and stakeholder issues", which he believes can be useful both to managers in setting up their CSR policy and to researchers in their efforts in the field of CSP.

One of the conclusions reached by Wood and Jones (from 1995) is that the relationship between CSP and CFP is still ambiguous, because we are still lacking a theory explaining how they are supposed to be related to one another, although *"we are moving closer to such a theory by considering the importance of stakeholders to CSP"*[117].

[117] WOOD, D. J., JONES, R. E., 1995, p. 261.

Table 7: Stakeholders and CSP

CSP Factor	Who sets expectations	Who experiences the effects	Who evaluates outcomes
Product safety	Customers – through demand	Customers and consumers – injuries and other harms	Customers Consumer protection advocates Market analysis Government
	Government – through regulation	Customers – as above Government – lobbying, Congressional oversight of regulation, etc. Insurance firms – through liability claims Stockholders – through effects on profitability and stock price	Government Public and electorate Courts Customers
Environmental pollution	Government – through regulation	Natural environment Employees & families Communities Future generations	Government Public and electorate Activist groups Scientists
	Customers – through demand	Natural environment Employees & families Communities Future generations	Government Activist groups Economists Financial analysts Stockholders
Charitable giving	Communities – through fund drives, moral suasion, etc.	Communities The least well-off The arts Educational organizations and their students	Communities The poor, sick and disadvantaged, and helping agencies Arts patrons and donors, arts organizations Schools, parents, boards of education, and government
	Government – through tax laws	Same as above, plus taxpayers	Same as above, plus tax bureaus and taxpayers
	Industry – through benchmarking	Same as above, plus competitors	Same as above, plus competitors and industry associations

Source: WOOD, D. J., JONES, R. E., 1995, p. 259.

Table 8: Typical Corporate and Stakeholder Issues

1	**Company**
1.1.	Company history
1.2.	Industry background
1.3.	Organization structure
1.4.	Economic performance
1.5.	Competitive environment
1.6.	Mission or purpose
1.7.	Corporate codes
1.8.	Stakeholder and social issues management systems
2	**Employees**
2.1.	General policy
2.2.	Benefits
2.3.	Compensation and rewards
2.4.	Training and development
2.5.	Career planning
2.6.	Employee assistance program
2.7.	Health promotion
2.8.	Absenteeism and turnover
2.9.	Leaves of absence
2.10.	Relationships with unions
2.11.	Dismissal and appeal
2.12.	Termination, layoff, and redundancy
2.13.	Retirement and termination counseling
2.14.	Employment equity and discrimination
2.15.	Women in management and on the board
2.16.	Day care and family accommodation
2.17.	Employee communication
2.18.	Occupational health and safety
2.19.	Part-time, temporary, or contract employees
2.20.	Other employee or human resource issues
3	**Shareholders**
3.1.	General policy
3.2.	Shareholder communications and complaints
3.3.	Shareholder advocacy
3.4.	Shareholder rights
3.5.	Other shareholder issues
4	**Customers**
4.1.	General policy
4.2.	Customer communications
4.3.	Product safety
4.4.	Customer complaints
4.5.	Special customer services
4.6.	Other customer issues
5	**Suppliers**
5.1.	General policy

5.2.	Relative power
5.3.	Other supplier issues
6	**Public Stakeholders**
6.1.	Public health, safety, and protection
6.2.	Conservation of energy and materials
6.3.	Environmental assessment of capital projects
6.4.	Other environmental issues
6.5.	Public policy involvement
6.6.	Community relations
6.7.	Social investment and donations

Source: CLARKSON, M. B. E., 1995, pp. 101 – 102.

1.6 THE STAKEHOLDER APPROACH AND STRATEGIC MANAGEMENT

The stakeholder approach has been linked with strategic management from the beginning. Back in 1975 William Dill[118] included external entities among stakeholders, thereby expanding the SRI's original list of stakeholders and making the stakeholder concept more applicable to strategic management. Moreover, Dill made a direct reference to strategic management in the title of his work, before him Ansoff dealt with the stakeholder approach in the book Corporate Strategy[119] from 1965, and in the 1980s Freeman[120] launched a wave of interest in the stakeholder approach with his monograph Strategic Management: A Stakeholder Approach.

The fact that the stakeholder approach still has a place in strategic management today is evident from almost every management textbook. Some of them present thoroughly elaborated methods of stakeholder analysis (see the following sub-chapter), while others restrict themselves to, for example, a breakdown of stakeholders and a statement of their typical interests. Two such examples are Strategic Management by Hitt, Ireland and Hoskisson[121] and Essentials of Management by Andrew DuBrin[122]. Others still view the stakeholder model more as a corporate social responsibility tool.[123]

Strategic management can be seen as the process of specifying an organization's objectives, developing principles and plans for achieving these objectives, and allocating resources to carry out these plans. It is the highest level of managerial activity, usually performed by the most senior managers, the chief executive of the organization or the owners. It thus takes precedence over decision-making at the level of tactical and operational management.

Keřkovský and Vykypěl give this definition of strategic management: "Strategic management realized by top management, or the owners of the firm, comprises activities aimed at maintaining long-term harmony between the mission of the firm, its long-term objectives and available resources, and also between the firm and the environment in which the firm

[118] DILL, W. R., 1975, p. 59.
[119] ANSOFF, I., 1965.
[120] FREEMAN, R. E., 1984.
[121] HITT, M. A., IRELAND, R. D., HOSKISSON, R. E., 2005, pp. 22 – 26.
[122] DUBRIN, A., 2009, pp. 90 – 95.
[123] GRIFFIN, R. W., 2002, pp. 111 – 113.

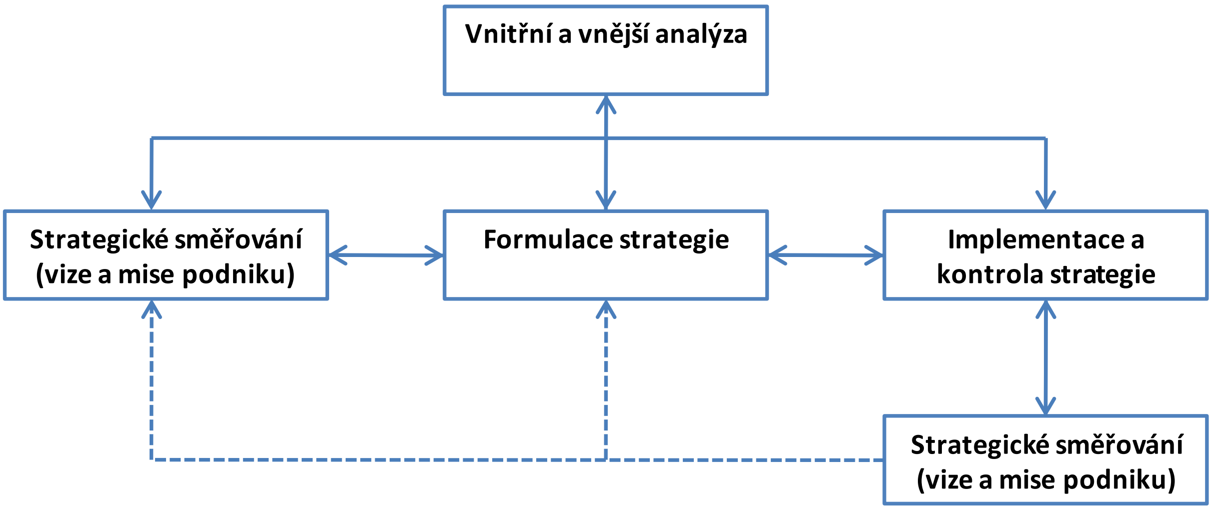
exists" [124]. H. Sedláčková and K. Buchta go on to say: Strategic management is a process in which top managers formulate and implement strategies directed towards achieving stated objectives, towards harmony between the internal resources of the company and the external environment, and towards ensuring the overall prosperity and success of the company.[125] Bartes remarks that the strategic objectives must be balanced against the available resources.[126]

Strategic management is by its nature a continually repeating set of activities. Individual authors designate these activities in different ways; however, they always consist of a cycle with approximately this content:

1. Strategic analysis, 2. Generating possible solutions, 3. Optimizing solutions and choosing a strategy, 4. Implementing the strategy, 5. Evaluation the implementation of the strategy.[127]

Harrison and St John[128] say that strategic management is the process by which an organization analyses its internal and external environment, learns from it, establishes strategic direction, creates strategies in order to achieve strategic objectives and carries out these strategies, all for the purpose of satisfying the organization's stakeholders. They see the sequence of individual steps as follows:

Fig. 7: Strategic Management Process according to Harrison and St John



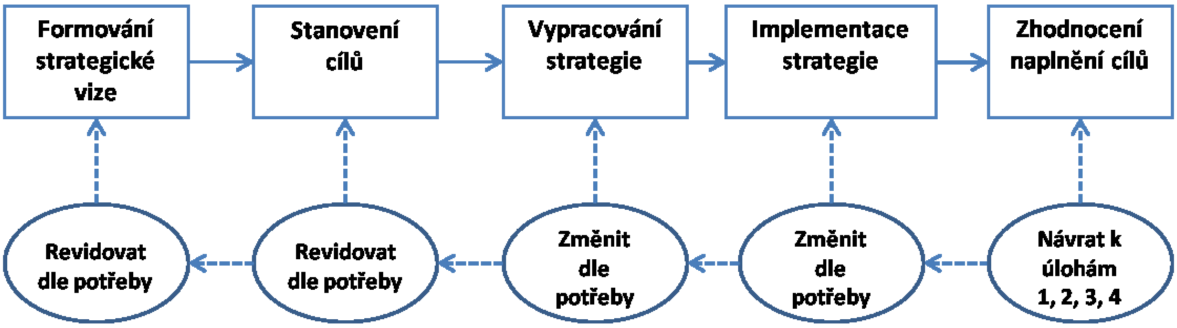
Source: HARRISON, J. S., ST JOHN, C. H., 2004, p. 4.

Thompson and Strickland[129] see strategic management as a whole composed of five components, or more precisely five interconnected managerial tasks: 1. forming a strategic vision, 2. setting objectives to fulfil the vision, 3. crafting a strategy to achieve them, 4. efficiently implementing the strategy, 5. evaluating the achievement of the objectives, or reformulating all of the previous steps on the basis of new information. The components and

[124] KEŘKOVSKÝ, M., VYKYPĚL, O., 2002, p. 4.
[125] SEDLÁČKOVÁ H., BUCHTA, K., 2006, p. 1.
[126] BARTES, F., 1997, p. 70.
[127] KEŘKOVSKÝ, M., VYKYPĚL, O., 2002, p. 7.
[128] HARRISON, J. S., ST JOHN, C. H., 2004, p. 4.
[129] THOMPSON, A. A., STRICKLAND, A. J., 1999, p. 3.

relationships (as is evident from the following diagram) are thus similar to those of other authors.

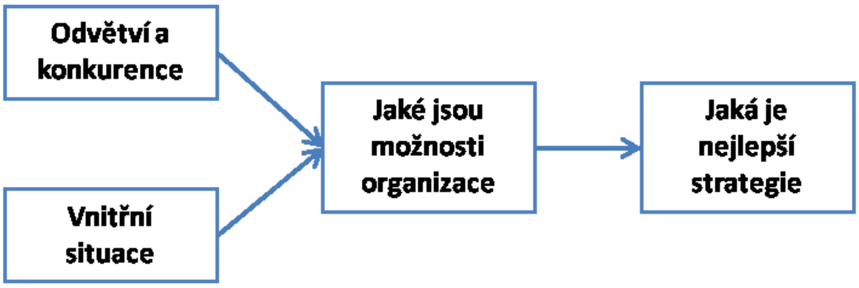
Fig. 8: Strategic Management Process according to Thompson and Strickland



Source: THOMPSON, A. A., STRICKLAND, A. J., 1999, p. 4.

The strategic analysis that interests us most is, in these authors' interpretation, the task "crafting a strategy":

Fig. 9: Position of Strategic Analysis according to Thompson and Strickland

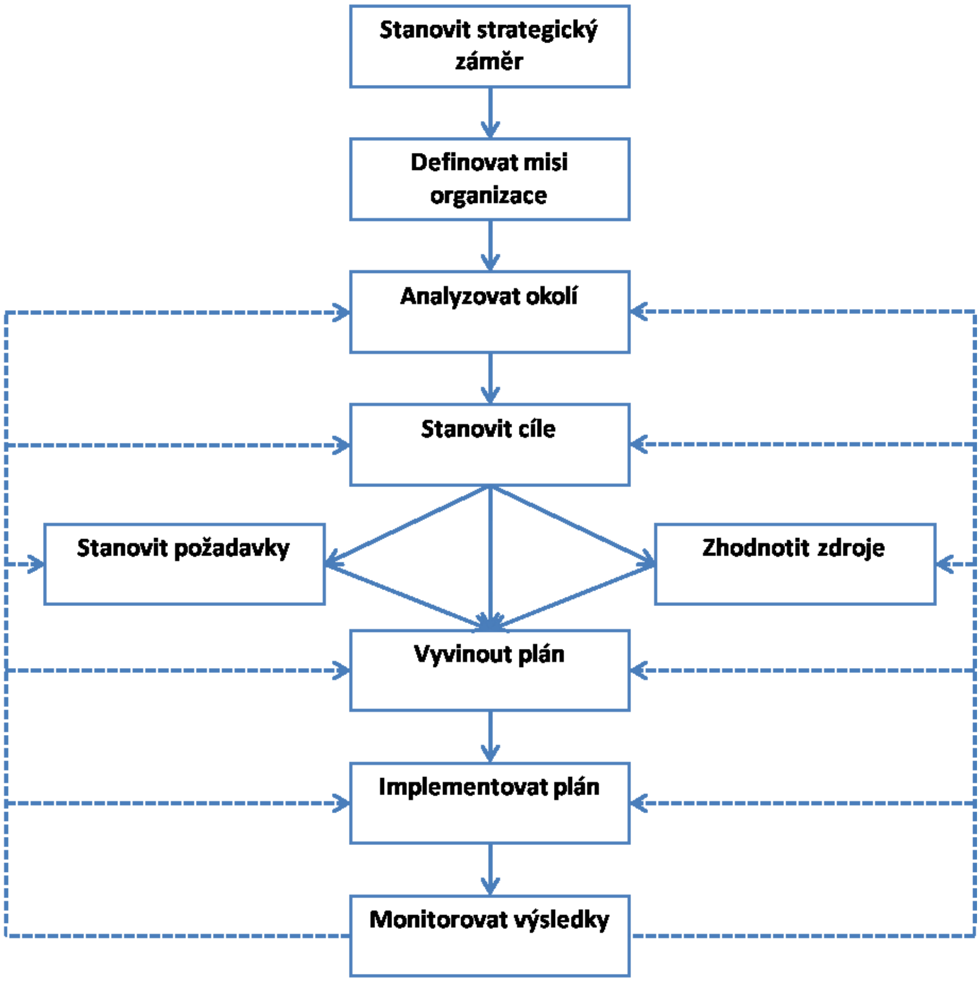


Source: THOMPSON, A. A., STRICKLAND, A. J., 1999, p. 69.

Hitt, Black and Porter[130] are more detailed in their definition of strategic management, but when we analyze their approach and compare it with that of other authors we come to the conclusion that it is essentially the same process with the same feedback. Although the authors name only four basic tasks of strategic management – 1. setting the direction and objectives, 2. formulating a strategy, 3. planning and carrying out the implementation of the strategy, and 4. monitoring the results and making necessary adjustments – they present a more detailed depiction of them:

130 HITT, M. A., BLACK, J. S., PORTER, L. W., 2005, p. 197.

Fig. 10: Strategic Management Process according to Hitt, Black and Porter



Source: HITT, M. A., BLACK, J. S., PORTER, L. W., 2005, p. 197.

In each case, therefore, strategic management must respond to three basic questions, which are:

1. Where are we?
2. Where do we want to get to?
3. How do we want to get there?

At the same time it is evident that there is no sense in answering the second and third questions until the first question has been answered. That is the task of strategic analysis. "The aim of strategic analysis is to identify, analyze and evaluate all the relevant factors which can be assumed to have an effect on the company's final choice of objectives and strategy".[131] The position of strategic analysis within strategic management is clear. Without appropriate analysis it is not possible to formulate a high-quality strategy. Many methods are used for strategic analysis; financially evaluating their results is difficult if not impossible, and evaluating the cost of carrying them out is not relevant in view of the potential consequences of bad decision-making during strategic management. This leaves the criterion of the method's complexity, i.e. to what degree the method is able to capture all aspects of

[131] SEDLÁČKOVÁ H., BUCHTA, K., 2006, p. 9.

the internal affairs of the company and its interaction with its surroundings, including all possible future influences. Stakeholder analysis is eminently suited to carrying out this task.

1.7 STAKEHOLDER ANALYSIS

Stakeholder analysis is thus a method of strategic analysis. There is no single accepted way of carrying out stakeholder analysis; in the literature the recommended approaches sometimes place stakeholder analysis among methods like the five forces model and sometimes reduce it to the analysis of the expectations of key stakeholders as a limit on strategy, and it can also be used as a synthetic tool in place of SWOT analysis or in combination with SWOT analysis. For that matter, the use of the stakeholder model in combination with another model is not unique, as we can demonstrate using the example of Žufan and Chládková, who combined the stakeholder model with the analysis of the "new 7S".[132]

Harrison and St John[133] state that "stakeholder analysis involves:

1. identifying and prioritizing key stakeholders,
2. assessing their needs,
3. collecting ideas from them,
4. and integrating this knowledge into strategic management processes."

According to the authors Gomez-Mejia and Balkin[134] there are four main points in strategic analysis: the identification of stakeholders and of ways in which the company is affected, the determination of how they were dealt with in the past, and the assessment of how they might affect the achievement of corporate goals.

Roberts and King[135] divide stakeholder analysis into six steps using six questions:

1. Who are the stakeholders?
2. How are the stakeholders affected by the organization?
3. What were the interests of the stakeholders in the past?
4. How did the stakeholders behave in the past and what coalitions did they form?
5. How effective was the interaction with these and other stakeholders?
6. What new strategies and operations are necessary for effective interaction with stakeholders?

1.7.1 Visualization Techniques

Stakeholder mapping, or constructing a map of stakeholders, is a means of making the acquired data more transparent for further use. The same can be done with, for example, the BCG matrix, a map of competing groups, graph of value creation chain, attractiveness matrix or skills matrix, and even SWOT analysis can be given a visual form.

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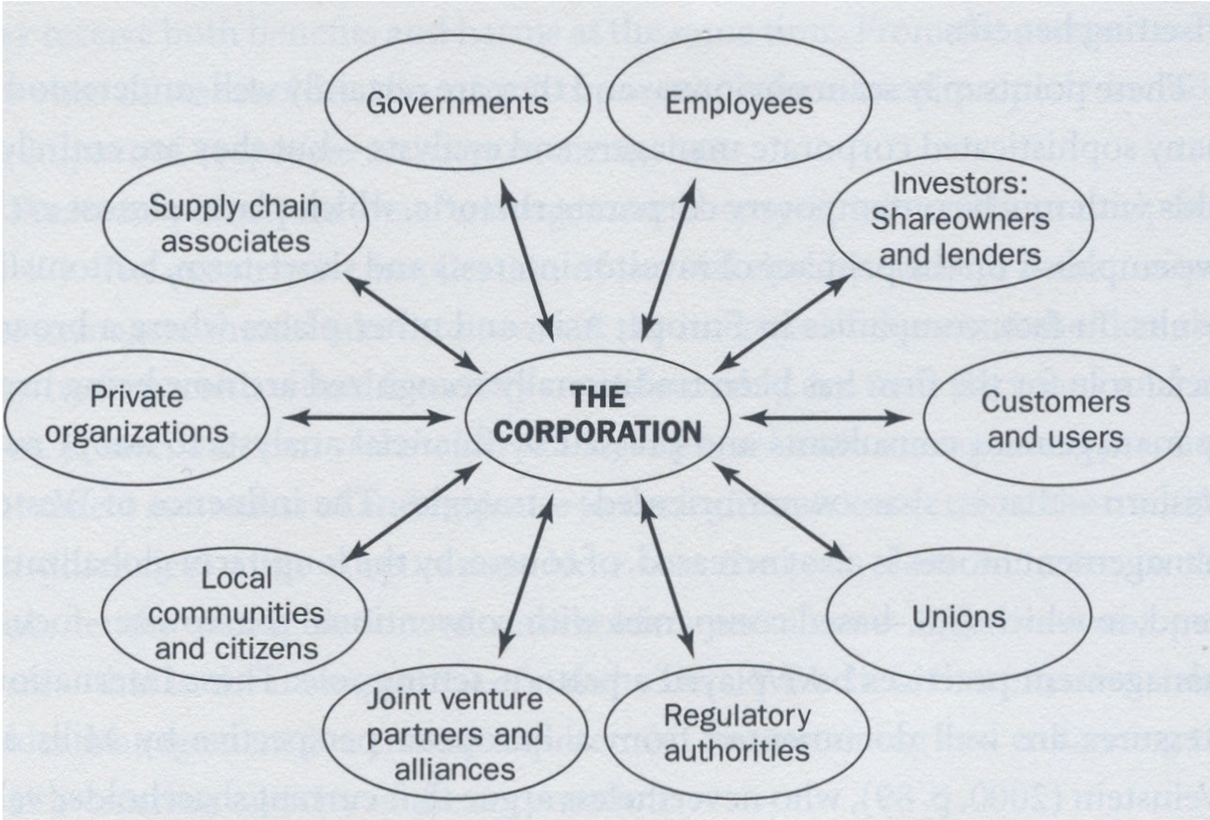
[132] ŽUFAN, P., CHLÁDKOVÁ, H., 2008.
[133] HARRISON, J. S., ST JOHN, C. H., 2004, p. 11.
[134] GOMEZ-MEJIA, L. R., BALKIN, D. B., 2002, p. 59.
[135] ROBERTS, N. C., KING, P. J., 1989, pp. 63 – 79.

Many methods are used to give a graphic depiction of stakeholders. On the one hand, there are descriptive graphs which capture the very existence of stakeholders, or generic groups of them, in a simple way. Examples of these are given in fig. 2 (Stakeholder Classification by Proximity to Company), fig. 11 (Position of Strategic Analysis), or the diagram below.

Fig. 11: The Corporation and its Stakeholders



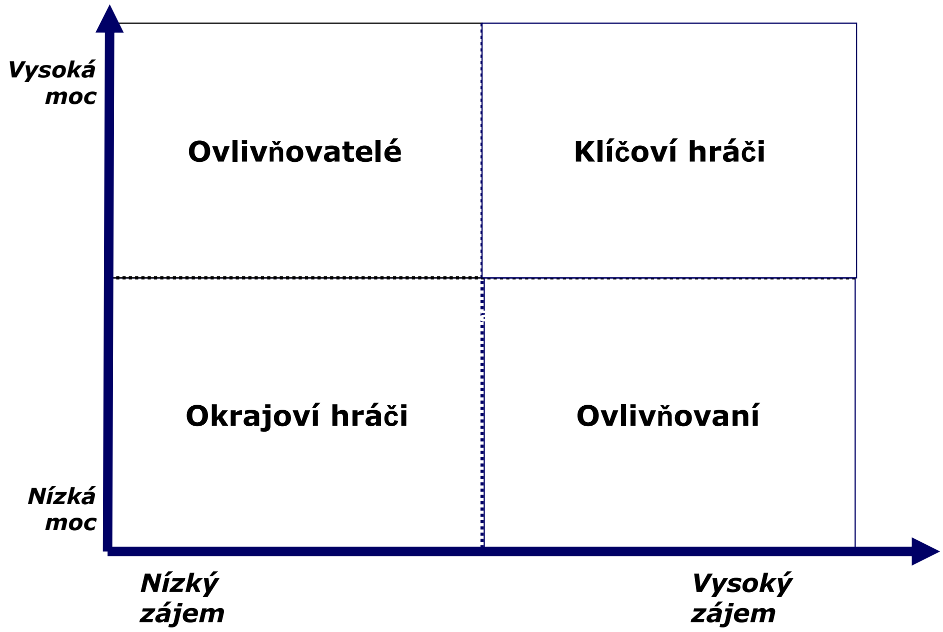
Source: POST, J. E., PRESTON, L. E., SACHS, S., 2002b, p. 22.

This depiction, however, does not fulfil any task other than capturing the stakeholders with whom the company has a relationship. It tells us nothing, or very little, about what type of relationship it is, how it came about, the attitudes of these stakeholders or their attributes. For these purposes the following methods can be found in the literature.

Interest/Influence Matrixes

These matrixes are relatively simple and frequently used. In a two-dimensional space, they usually measure the strength of a stakeholder or the influence of his actions on the organization on one axis, and the attitude or interest of the stakeholder with regard to the organization, its strategy or some more specific activity.

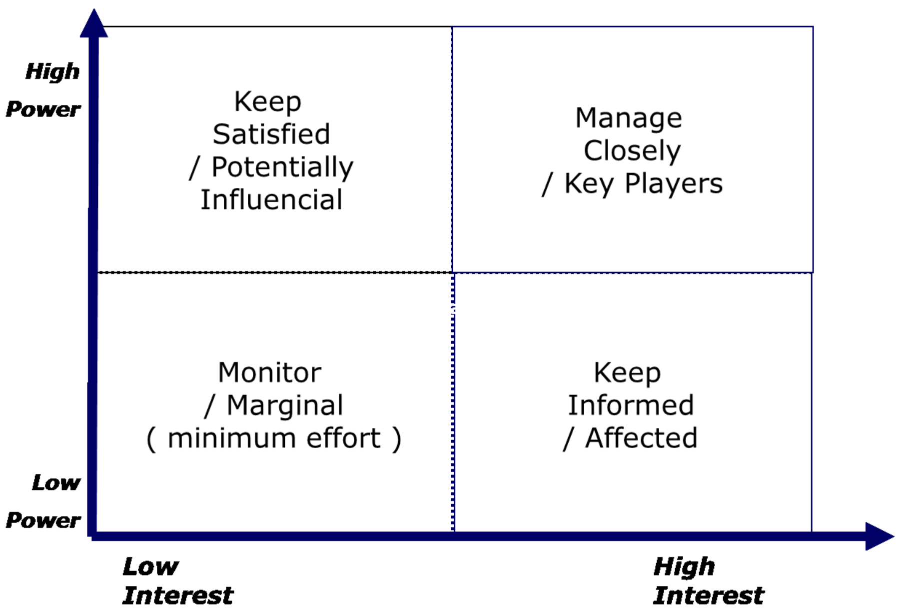
Fig. 12: Power/Interest Matrix



Source: JOHNSON, G., SCHOLES, K., WHITTINGTON, R., 1999, p. 156. Modified by the author.

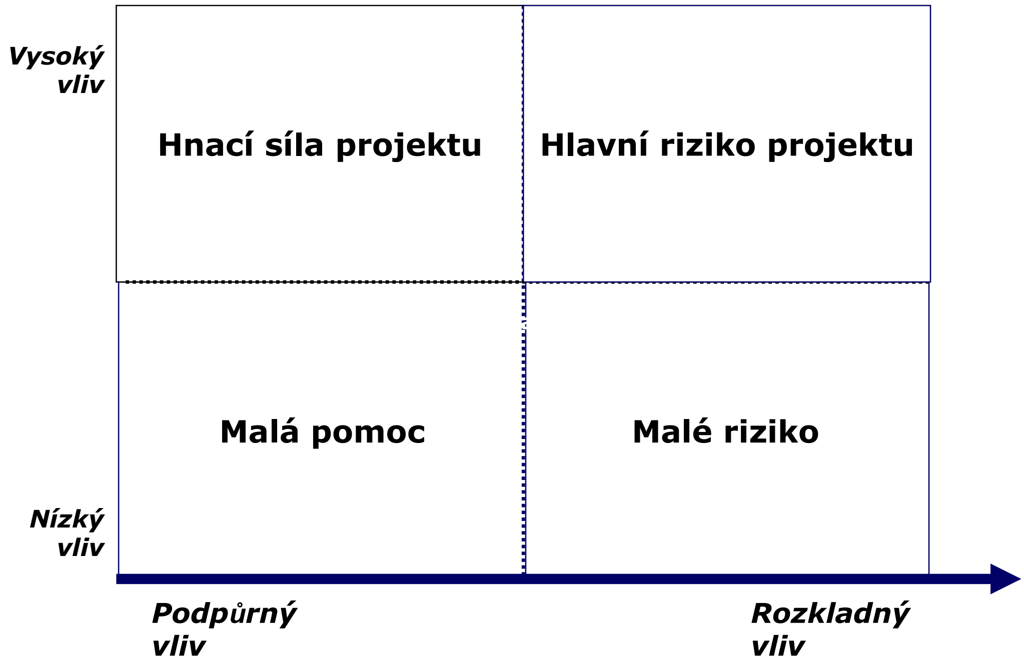
This matrix can be used as the basis for formulating a strategy or part of it. Suitable strategies are offered by the following diagram.

Fig. 13: Power/Interest Matrix – Suitable Strategies



Source: JOHNSON, G., SCHOLES, K., WHITTINGTON, R., 1999, p. 156. Modified by the author.

Fig. 14: Infuence/Attitude Matrix



Source: CHAMBERLAIN, C., STUTESMAN, Y., 2006. [online]. Modified by the author.

This matrix can be used to evaluate the attitudes of stakeholders towards the proposed strategy or parts of it.

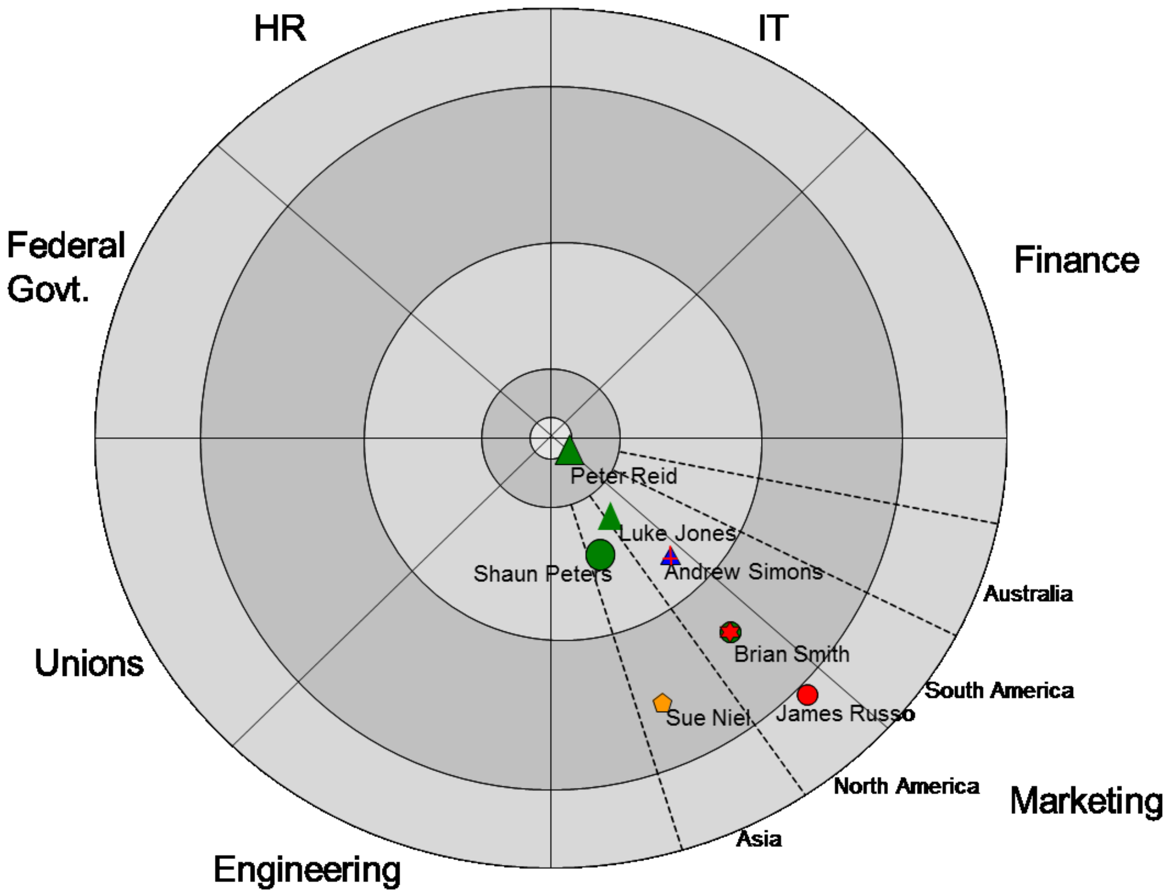
All of these matrixes suffer from one shortcoming: they only express two realities at the same time. However, we can consider enriching them using:

- the size of the area denoting a stakeholder (or group). This method is used, for example, by maps of competing groups. The size of the area is suitable for expressing the number of stakeholders in a group and the volume of cash flows towards this stakeholder or group or similar (quantitative) variables.
- the colour of the area denoting a stakeholder. The colours (or shading) of the areas are suitable for expressing qualitative attributes. Unlike the size of the area, a key must be provided to explain the meaning of the different colours. In a power/interest matrix the various colours could, for example, indicate the stakeholder's attitude towards the organization.
- the shape of the area denoting a stakeholder. The same applies to the shape of the area as the colour of the area. Once again it is suitable for qualitative attributes and requires the provision of a key. Its use for expressing the type of leadership is set out below.

Stakeholder Map – PM Nautics

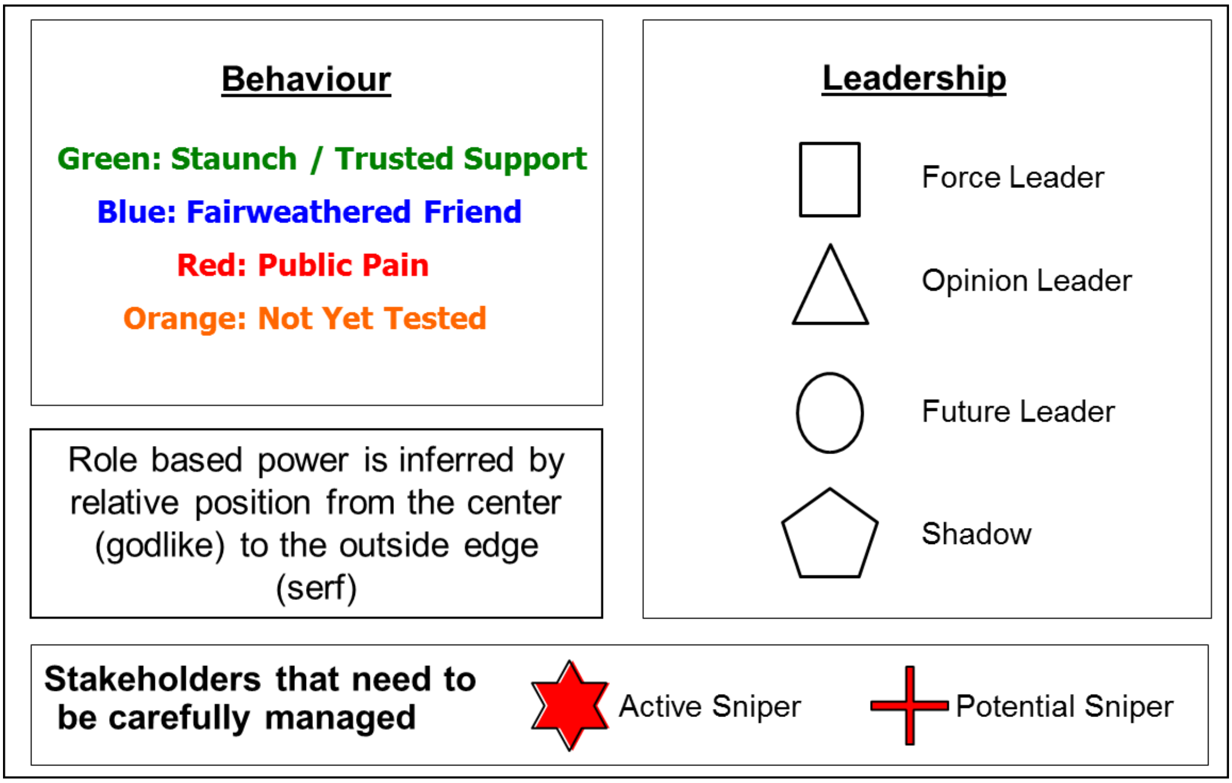
The stakeholder map for the company PM Nautics rejects the matrix layout and introduces a system of radial sectors, which can represent generic groups of stakeholder. These sectors record narrower segments of stakeholders or individual stakeholders. Their colour, shape and distance from the centre express various attributes.

Fig. 15: PM Nautics Stakeholder Map



Source: CHAMBERLAIN, C., STUTESMAN, Y. Stakeholder Management and Virtual Teams. [on-line].

Fig. 16: Key to the PM Nautics Stakeholder Map



Source: CHAMBERLAIN, C., STUTESMAN, Y. Stakeholder Management and Virtual Teams. [on-line]

The Stakeholder Circle

The authors Lynda Bourne and Derek Walker designed (or at least popularized) the methodology of the Stakeholder Circle^{TM}. This is an integrated procedure for stakeholder analysis, albeit adapted to suit the needs of project management. In comparison with strategic management it differs in terms of the dynamics of the development of stakeholder attributes. Whereas in strategic management the only known temporal regularities are manifested in a dependence on the length of the organization's existence[136], in project management there is a dependence on the duration of the project, or more precisely on the phase of the project; Bourne and Walker state that "*stakeholders may be unique to each part of the project from feasibility, through planning to execution*"[137]. Changes in the composition of stakeholders or in their attributes thus manifest themselves much more quickly in project management than in strategic management.

However, the method of depiction which the Stakeholder Circle^{TM} proposes can be used in strategic management too. An example of this can be found in the following diagram. It manages to simultaneously capture these facts:

- Urgency

[136] JAWAHAR, I. M., MCLAUGHLIN, G. L., 2001.
[137] BOURNE, L., WALKER, D. H. T., 2006, p. 20.

The concept of urgency as a factor of stakeholder importance is used by Bourne and Walker as well as Mitchell et al. in their model of three attributes determining the importance of stakeholders: it is based on the time-sensitivity of claims and their importance.

The degree of urgency is expressed by the length of the concentric border of the stakeholder. Of course, in some cases this kind of depiction makes it difficult to compare the urgency of two stakeholders situated on different sides of the circle and at different distances from the centre.

- Power

In this model power is defined as the ability to influence a project, ranging from the inability to bring about many changes to the ability to terminate the project.

Power is measured along the radial axis. The more of this axis the stakeholder takes up, the greater his power.

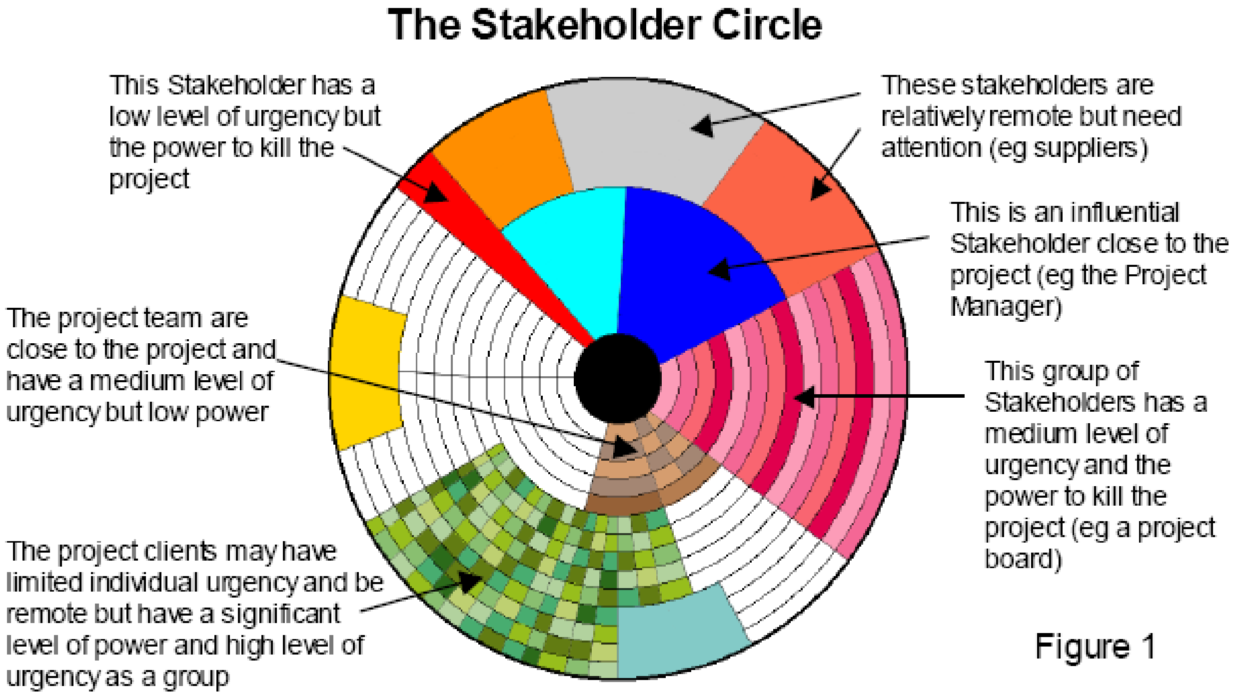
- Proximity

Proximity is described by Bourne and Walker as self-explanatory. It can range in value from direct involvement in the project (members of a project team mainly employed on the project) to “relatively distant from the project”.

Proximity is expressed by the distance from the centre. The closer the stakeholder is to the centre, the closer his position is towards the project. Unfortunately, in the case of objects with high power, it is more difficult to depict proximity to the project (see red sector).

The use of colours indicates membership of different groups of stakeholders. In this way it adds a new piece of information to the aforementioned three. For example, the different shades of green in our example show that the project in question has many clients, each of whom has relatively low power in himself and their claims are not urgent in relative terms. However, it shows quite clearly that if these clients unite, they can achieve both significant power and high urgency (these individuals are most likely to join forces if they share the same urgent claims.

Fig. 17: Stakeholder Circle



Source: BOURNE, L., WALKER, D. H. T., 2006, p. 10.

The model presented is thus a slight modification of the model by Mitchell et al. which we decided to accept. It retains two stakeholder attributes: power and urgency. The third, legitimacy, is replaced by the proximity of the stakeholder to the subject of analysis.

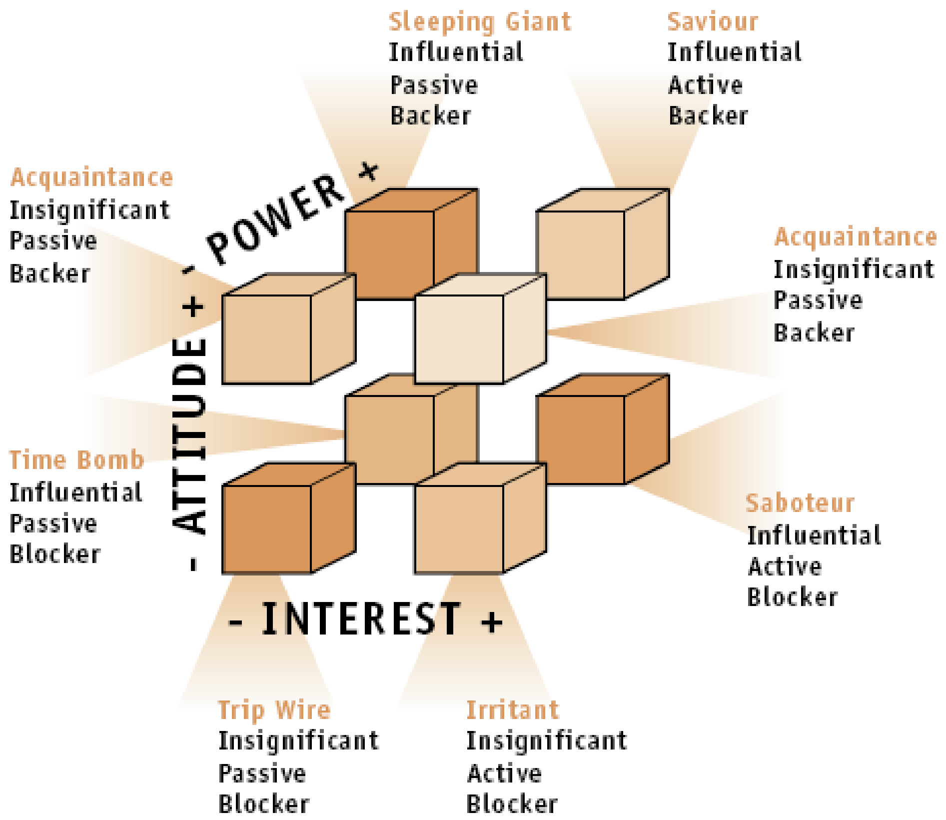
Lucidus Consulting Three-Dimensional Model

The authors Ruth Murray-Webster and Peter Simon[138] used three attributes to characterize stakeholders: power, attitude and interest. They consider their model suitable for managing any kind of change, i.e. more widely applicable than just within project management. They perceive the individual properties as follows:

Power – the ability to influence the project/organization, whether potential or actual.
Interest – the extent to which they will be active or passive in the project/organization.
Attitude – the extent to which they will support or resist the project /organization.

[138] MURRAY-WEBSTER, R., SIMON, P. *Make sense of stakeholder management with sensible stakeholder mapping*. [on-line] p. 2.

Fig. 18: Lucidus Consulting Three-Dimensional Model



Source: MURRAY-WEBSTER, R., SIMON, P. *Make sense of stakeholder management with sensible stakeholder mapping*. [on-line]

Using the example in the diagram above, eight stakeholders with extreme values for individual characteristics are depicted. Unfortunately, if we were to include more stakeholders or groups of stakeholders into this graph, it would very quickly become difficult to interpret and would thus cease to fulfil its function.

1.7.2 Relationships and Values

The terms relationships and values have already been used and will go on to be a central topic in the proposal section of the work (chapter 4). Relationship will be understood to mean the interaction between two partners, in this case between the company we are interested in and its stakeholder. The relationship can be implemented using two lateral positions, the market or the organization. It can be ad hoc, recurring or even long-term. Aspects of these characteristics of relationships are examined by various theories. For example, Kubátová[139] lists resource dependence theory, transaction cost theory, social network theory and the IMP Group's interaction model. Relationships can even be measured, or rather their value can be determined.

Value is defined in various ways in the literature. Flint et al.[140] as well as others[141,142] state that value represents the ratio between benefit (utility) and loss (sacrifice). At this point it

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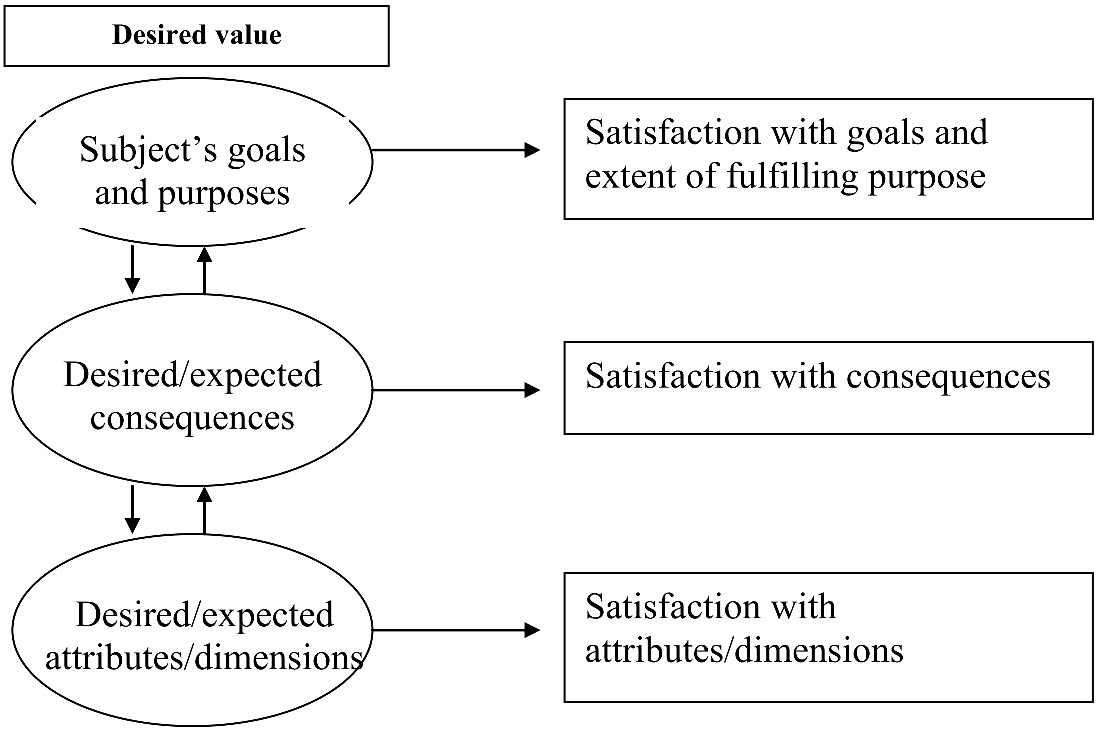
139 KUBÁTOVÁ, E., 2005, p. 225.

140 FLINT, D. J., WOODRUFF, R. B., GARDIAL, S. F., 1997. Cited in KLAPALOVÁ, A., ŠKAPA, R., 2008, p. 347.

should be noted that unlike utility, which is a term used in microeconomics, value is rather subjective, which manifests itself in various ways with different categories of stakeholders. On the basis of an analysis of many other definitions, Woodruff[143] defines value (for customers) thus: “Customer value is a customer-perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals”. Woodruff also postulated the following value hierarchy model.

Fig. 19: Value Hierarchy Model



Source: WOODRUFF, R. B., 1997, p. 142, modified by KLAPALOVÁ, A., ŠKAPA, R., 2008, p. 349.

Values for individual groups of stakeholders will be examined further in chapter 4. Here it only remains to mention the research into the relationships of small and medium-sized businesses in the region of South Moravia with stakeholders which was carried out by Kašparová and Klapalová, included in chapter 2.4.5.6 of this work.

1.8 SUMMARY

In this section we have examined stakeholder theory in its entirety – its origin, development and justification. In addition, we have fitted stakeholder analysis into the process of strategic management. In particular, we focused on some basic questions of stakeholder analysis –

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[141] BIONG, H., WATHNE, K., PARVATIYAR, A., 1997.
[142] VLČEK, R., 2002.
[143] WOODRUFF, E. B., 1997. p. 142.

the problem of identifying stakeholders, their important attributes and the resultant classification of stakeholders.

We examined the concepts of relationships and value quite briefly, only to such an extent that we will be able to use them in the fourth chapter to analyse the relationships between the company and its stakeholders and the resulting values.

1.9 MAP OF STAKEHOLDERS

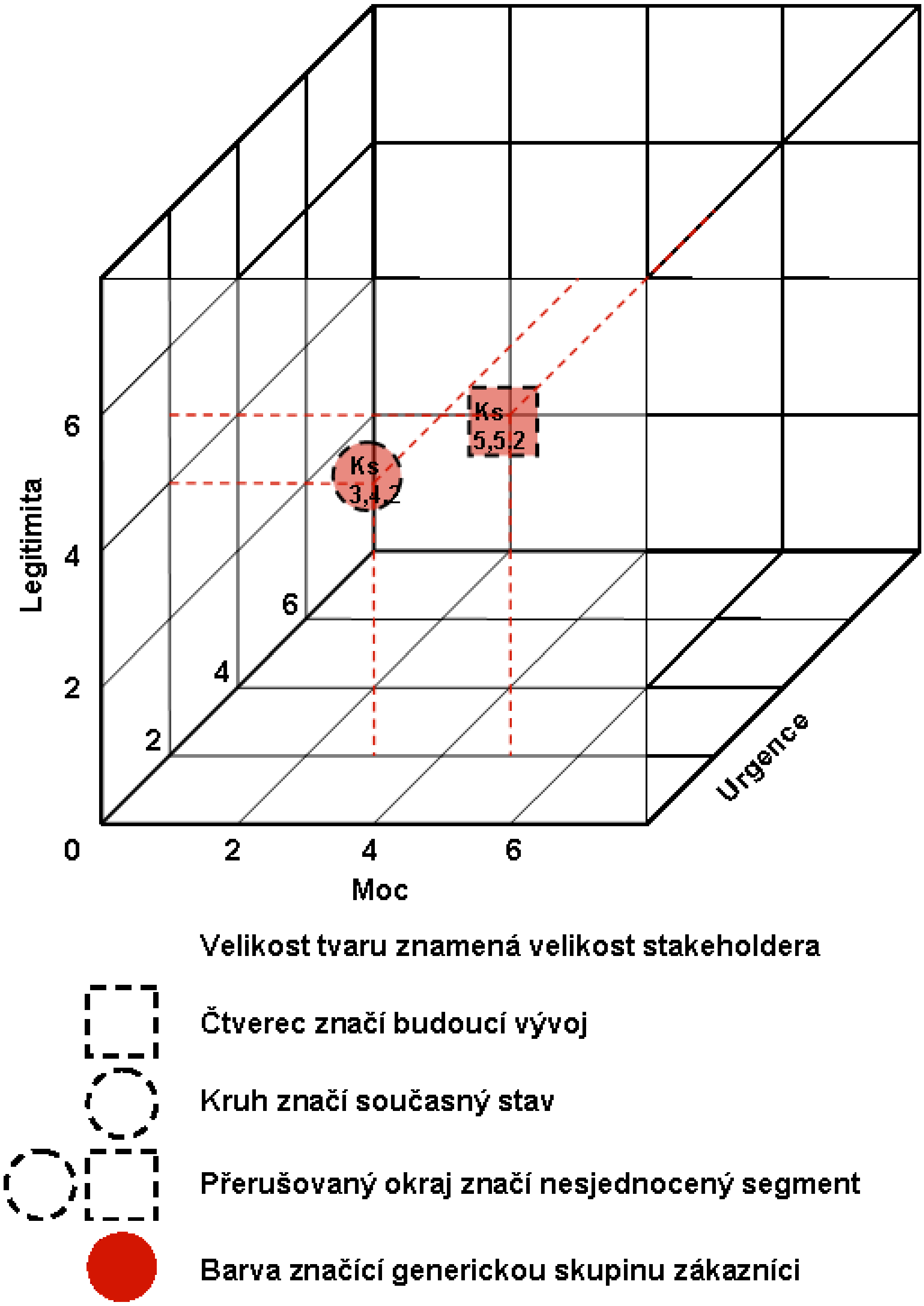
A Proposal for New Visualization Methods

The majority of the techniques employed restrict themselves to the use of two basic characteristics to describe stakeholders. This would appear to be inadequate as, on the one hand, different authors use different characteristics, and on the other, the validity of three attributes has been empirically verified (Mitchell et al.).

Of course, even two-dimensional methods of representation offer the incorporation of more than two attributes. We have already mentioned the possibility of using various colours, sizes and shapes for the objects representing stakeholders. Nevertheless, these attributes can only provide supplementary information to the basic two characteristics. Otherwise the graph would become difficult to interpret if two stakeholders were distinguished from each other by a third attribute.

It thus appears that a three-dimensional model similar to the Lucidus Consulting model would be suitable for our proposal to use three attributes as the basic determinants of stakeholder importance. Though clarity remains an issue, the proposed means of depiction should solve this problem.

Fig. 20: Proposed Three-Dimensional Model



Source: Author.

The individual points are coded as stakeholder or segment (end consumers in our case). For better orientation a three-digit vector then gives the values which the stakeholder achieved for the individual attributes. If only positive numbers are used for the evaluation (see the seven-point Likert scale of 1 – 7 used by Mitchell et al.), the resulting graph will be clearer. When looking from the individual sides, the distance of a point from the start of the graph gives clear information on where importance stems from.

We might also still consider the use of various shapes, colours and sizes to identify individual stakeholders. As with the Stakeholder Circle™ methodology, colours are useful for denoting membership of the same generic group of stakeholders. The size of the shape might indicate the volume of transactions between the organization and the stakeholder. The shapes might then be reserved for different time periods, which can number more than two. In our case the style of the shape's border was reserved for the homogeneity segment. Other symbols could also be considered, as in the approach of PM Nautics, which inserts, for example, crosses and stars into the shapes indicating stakeholders.

One more observation should be made about this particular image. Although it is a bitmap graphic, a vector graphic can be considered in practice, allowing the model to be rotated and making it much easier for the observer to grasp the sources of the stakeholder's importance. Naturally, in that case circles and squares would be replaced by three-dimensional equivalents.

It is useful to arrange the graphic data into a table. For this we would propose the method described below. First of all, the relevant stakeholder is identified. Then he is assigned to a broader set of stakeholders with whom he shares some attributes, and to a generic group. In the following six columns the values have been entered for the stakeholder's basic attributes including a prediction of their development in the near future. The other columns depict all the characteristics used by the approaches which were summarized above. Again, they can be supplemented with information concerning predicted development. In the final column there are exchange values with the stakeholder. These should be described in more detail, so the column should actually be wider.

The effects of activities (sub-goals, specific activities) on a stakeholder can, of course, be expressed in more detail than only as positive/negative/neutral. However, any scale that is used has to be explained. The same applies to stakeholder size, where several methods immediately suggest themselves – market share, the volume of transactions with the stakeholder in absolute terms, and the relative size of the stakeholder in comparison with the company in question (measured by turnover or total assets). For our example of the end-consumer group, we chose this group's share in the total sales of the company. Where possible, the indicator should be the same for all stakeholders, e.g. for suppliers it would be the share of supplies in the total costs, and for employees the share of staff costs in the total costs. Nevertheless, this form may not always be relevant for all stakeholders, e.g. for communities in the area surrounding the company. In a case like this, a group such as the South-Bohemian Mothers could be represented by the number of members or the number of events, which would at least allow for a comparison of this group within the generic group. However, the size attribute of a stakeholder should not duplicate the "power" attribute, as this would provide redundant information and could give a higher weighting to this attribute during analysis at the expense of the others.

Table 9: Summary of Information about Stakeholders

Stakeholder	**Group**	**Generic group**	**Power**	**- development**	**Legitimacy**	**- development**	**Urgency**	**- development**	**stakeholder size**	**- development**	**effects of activities**		**attitude towards the organization**	**- development**	**Interest**	**- development**	**Leadership**	**- development**	**Values**
end consumer	EC	C	3	+2	4	+1	2	0	0,3	+	P	0	K	0	K	0	0	0	list values
...																			

Groups: EC – end consumers
Generic groups C – customer generic group
Effects, attitude, interest P – positive, N – negative, 0 – none, not predicted

Source: Author.

None of the previous examples (chapter 2) of mapping include development over time, despite the fact that many authors (including Bourne, Walker and Mitchell et al.) point to the dynamics of relationships with stakeholders. It would, therefore, appear to be appropriate to incorporate the future position of stakeholders into the proposed model. It is possible to use various shapes, for example, one shape for the current state of all the stakeholders and another shape for potential states, and perhaps also other shapes for several years into the future or several years into the past. Such a graph could then be used to evaluate the predicted effects of the external environment and also to evaluate the impact of the organization's behaviour – e.g. its strategy or parts of it.

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LIST OF ABBREVATIONS

CFP – Corporate Financial Performance

CSP – Corporate Social Performance

CSR – Corporate Social Responsibility

CSR2 – Corporate Social Responsiveness

NP – nuclear power station

SRI – Stanford Research Institute

WARC – Wharton Applied Research Center

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