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Purpose

This paper is a critique of stakeholder theory, a critique that builds towards outlining how if sustainable development is a desired aim then stakeholder theory is a tool that may not be adequate and may require consignment to the archives. Consigning something to the archives is a similar argument to that which Freeman (1984) used to introduce stakeholder theory 27 years ago in 1984. At that time he outlined how ‘we manage based on our understandings of the past, rather than the future’ (Freeman 1984, p. 1) and as such a new tool (the stakeholder concept) is required to help managers engage in ‘a new way of thinking about strategic management – that is, how a corporation can and should set and implement strategic direction’ (ibid., p. vi).

To make the case that there is a requirement to move past the stakeholder concept the paper proceeds through four parts before summarising and briefly discussing possible alternatives. The first part is a review of stakeholder theory to help set context, it discusses how the theory has developed and been discussed across academic literature. The second part critiques stakeholder theory drawing upon the prompts piqued by the pictorial representation of it. The third part draws upon the pictorial representation but focuses on the challenges of putting managers in the central role of arbitrators. These second and third parts essentially highlight the illusion of equity that is offered in the pictorial representation of stakeholder theory and how this illusion has behind it inequity. The fourth part discusses arguments that have been offered for and against including the natural environment as a stakeholder, prior to the concept of sustainable development being introduced and the difficulty of the stakeholder concept within a desire to pursue sustainable development being cemented. The paper then closes by discussing a potential alternative concept from which to begin a new understanding before summarising and closing.

Prior to continuing the reader should note the history of this paper. The original version of this paper was presented by the author at the Centre for Social and Environmental Accounting Research Conference at the University of St Andrews in the United Kingdom in 2006. That paper was developed to explore a hypothesis of whether including the natural environment as a stakeholder was viable as a method of improving a firm’s environmental performance. It contained the four key parts of this current paper as outlined above. Following that presentation little was done with the paper until 2009 when it was reviewed again. At that time a literature search revealed that many of the arguments made within the original 2006 version of this paper regarding the difficulties of the pictorial representation of stakeholder theory had now also been made and published in an academic journal by Fassin (2008, 2009), albeit Fassin (2008, 2009) does not take a sustainable development focus. In 2011, I shared the paper’s key arguments with the Asia Pacific Centre for
Sustainable Enterprise and given its sustainability focus this working paper was produced. This version of this paper is an update to the original 2006 version, the key updates being an enhancement of the history of stakeholder theory and the sustainable development discussion.

1. Context – Stakeholder theory: A review

This review of stakeholder theory is not exhaustive and given the extent of the literature that discusses stakeholder theory this would be an almost impossible task. However this review does bring forward key discussants and as such it is contended that it captures key issues that have been discussed with reference to the theory. The review begins by introducing stakeholder theory, its history and some definitions of a stakeholder and elaborations thereof. From there it outlines three embellishments to the theory that have been offered in order to make it more thorough and rigorous. The review closes with a claim from what appears to be an almost exhausted Freeman (1994) that stakeholder theory is nothing more than a ‘genre of stories about how we could live’ (ibid., p. 413).

Stakeholder theory is built upon the normative that businesses should serve a variety of interests rather than just those of shareholders and in so doing businesses will achieve superior performance. Likewise if a business does not consider its stakeholders then its licence to operate could be revoked by society. In short stakeholder theory suggests that ‘there is a multiplicity of groups having a stake in the operation of the firm – all of whom merit consideration in managerial decision making’ (Phillips 1997, p. 52). Further stakeholder theory is an idea that is now part of everyday discourse, to quote Donaldson and Preston (1995) ‘[the] idea that corporations have stakeholders has now become commonplace in the management literature, both academic and professional’ (ibid., p. 65).

Freeman could be considered to be the modern day founder of the concept via his 1984 book Strategic Management: A Stakeholder Approach. However, the history of the concept dates back further than 1984. Freeman (1984) claims historical roots for the theory back to 1963 and research conducted by the Stanford Research Institute; he also alludes to the work of Adam Smith and thus tentatively makes a link to the 18th century. Alternatively Preston and Sapienza (1990) cite speeches and writings that reflect the concept, if not the term stakeholder, being considered as early as 1932 when General Electric identified four major stakeholders; shareholders, employees, customers and the general public. While alluding to pre-1984 history provides the theory with metaphorical weight, what is clear is that Freeman’s 1984 book is a common text to which all discussions of the theory refer and thus a common base for any discussion of stakeholder theory because as Clarkson (1995) states ‘Freeman’s landmark work provided a solid and lasting foundation for many continuing efforts to define and to build stakeholder models, frameworks and theories’ (ibid., p. 105).

In bringing forward stakeholder theory Freeman (1984) argues that ‘we manage based on our understandings of the past, rather than the future, and in response to the business environment of yesteryear, rather than today’ (ibid., p.1). Building upon this Freeman’s (1984) first chapter outlines that there is a requirement to change the way we think about business, away from old models of thinking towards a consideration of the organisation’s external environment. Thus he offers stakeholder theory, the point of

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3 There is little empirical support for the idea that managing stakeholders will lead to superior performance. The most prominent study from the literature review that supports this assertion is a study by Preston and Sapienza (1990). They conducted a study on major Fortune companies between 1982 and 1986. Their results, which they acknowledged as preliminary indicated that ‘average stakeholder performance indicators among major corporations are relatively favourable, and that stakeholder performance indicators within individual organizations are highly correlated. Moreover, most of these indicators of stakeholder performance are also associated with conventional measures of corporate profitability and growth’ (ibid., p.372)

4 Other earlier examples cited by Preston and Sapienza (1990) include how in 1947, Johnson and Johnson’s president listed the company’s stakeholders as customers, employees, managers and shareholders and in 1950 General R E Wood the then CEO of Sears listed the ‘four parties to any business’ as being ‘customers, employees, community and stockholders’ (ibid., p.362)
which is to ‘force organisational managers to be more responsive to the external environment’ (Freeman 1984, p. 216). Consequently Freeman (1984) argues that ‘the stakeholder concept provides a new way of thinking about strategic management – that is, how a corporation can and should set and implement direction’ (ibid., p. vi). In this regard, Freeman (1984) is clear that stakeholder theory is a new approach to the strategic management of an organisation that will help to slough off the old; or as he states, it is an approach that can ‘help managers view the world as it is today [emphasis in original text], not as it was 30 years ago’ (ibid., p. v, vi).

Freeman (1984) defines a stakeholder as follows: ‘A stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organisation's objectives’ (1984, p. 46). This definition has been described as a broad definition of a stakeholder as it ‘leaves the notion of stake and the field of possible stakeholders unambiguously open to include virtually anyone’ (Mitchell et al., 1997, p. 856). A typical criticism of a broad definition is that ‘expansive views of relevant stakeholders tend easily to become so broad as to be meaningless and so complex as to be useless’ (Orts and Strudler 2002, p. 218). Freeman (1984) was aware of this potential criticism in his 1984 work where he outlined that stakeholder theory ‘must be able to capture a broad range of groups and individuals’ (ibid., p. 52) but also when the concept is put ‘to practical tests we must be willing to ignore certain groups who will have little or no impact on the corporation at this point in time’ (ibid., p. 52, 53). Consequently Freeman (1984) is clear that although broad, the concept is narrowed in practical application. Further that narrowing is based upon impact and the immediacy of that impact on the firm, not the firm's impacts on others. In this way Freeman introduces not only notions of power but also temporality into his theory placing it within the bounds of now as opposed to the future.

Although Freeman (1984) recognised the broadness of his stakeholder definition and offered a counter to it via practical application, more specific (narrow) definitions of a stakeholder have been offered. For example Clarkson (1995) defines stakeholders as ‘persons or groups that have, or claim, ownership, rights or interests in a corporation and its activities, past, present or future’ (ibid., p. 106). Clarkson (1995) went further with his definition of stakeholders and sub-divided stakeholders into primary and secondary categories. Where a ‘primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern’ (ibid., p. 105) whereas ‘secondary stakeholder groups are defined as those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival’ (ibid., p. 106).

Clarkson (1995) is not alone in his development of a new definition of a stakeholder and different classes of stakeholders, Mitchell et al., (1997) identified 27 definitions of a stakeholder through the literature. This multitude spurred them to propose a theory of stakeholder identification and salience based upon power, legitimacy and urgency attributes (Mitchell et al., 1997). Whereby if a stakeholder possessed one attribute they are a latent stakeholder, two and they are an expectant stakeholder and three and they are definitive stakeholders (ibid.).

Although the definition and classification of a stakeholder may be a point of debate, what is clear from Freeman’s (1984) original work is that stakeholder theory is orgocentric (Egri and Pinfield, 1999), it is concerned with the ongoing operation of the organisation, the organisation is the focus of concern. To quote, the stakeholder approach is about ‘how a corporation can and should set and implement direction’ (Freeman 1984, p. vii). However there is a tension for the reader in stakeholder theory in that it opens up the field of enquiry and concern to include others and then closes it down. It opens by asking that all stakeholders be included, a democratic move as evidenced in the definition of a stakeholder, but then the theory outlines that only those that have impact matter and as such it closes down, an undemocratic move that takes a utilitarian view of stakeholders. The difficulties inherent in these moves in the theory have made it the subject of embellishment in order to make its application more egalitarian and less overtly shareholder focused. Three of these embellishments, one by Donaldson and Preston (1995) another by Phillips (1997) and the third by Freeman and Evan (1993) are now discussed.

Donaldson and Preston (1995) argue that stakeholder theory is a theory that incorporates three aspects, normative, instrumental and descriptive. They state that these ‘three aspects of stakeholder theory are nested within each other’ (Donaldson and Preston 1995, p. 74) with an inner core of normative, a mid layer

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of instrumental and an outer layer of descriptive. In describing each layer they outline that the descriptive layer is supported by, for example, ‘the Companies Act of Great Britain [that] mandates that company directors shall include the interests of employees in their decision making’ (ibid., p.76). To support the instrumental layer they cite the limited conclusions of Preston and Sapienza’s (1990) study (see, footnote 3). To support the normative core they argue that ‘stakeholder theory can be normatively based on the evolving theory of property’ (ibid., p. 83). In basing stakeholder theory on a theory of property Donaldson and Preston (1995) recognise that this is a ‘subtle irony... because the traditional view has been that a focus on property rights justifies the dominance of shareowners’ interests’ (ibid., p. 83). In support of their theory of property, they outline how economists adhere to a simple concept of ownership and outline how ‘we may speak of a person owning land...but what the land-owner in fact possesses is the right to carry out a circumscribed list of actions. The rights of a land-owner are not unlimited...a system in which the rights of individuals were unlimited would be one in which there were no rights to acquire’ (Donaldson and Preston 1995, p.83). Taking this as their cue they state that the ‘theoretical concept of private property does not ascribe unlimited rights to owners and hence does not support the popular claim that the responsibility of managers is to act solely as agents for shareowners’ (Donaldson and Preston 1995, p.84). Thus Donaldson and Preston (1995) contend that this theory of property allows the normative core of stakeholder theory to hold.\(^5\)

A second embellishment by Phillips (1997) argues that stakeholder theory should incorporate the principle of fairness that ‘whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, there exists obligations of fairness on the part of these persons or groups to co-operate in proportion to the benefits accepted’ (ibid., p. 51). Upon the basis of this Phillips (1987) argues that stakeholder theory should incorporate a justificatory framework and that ‘reconceptualization of many business interactions from that of cutthroat competition...to that of a cooperative scheme’ (ibid., p.64) can occur.

A third embellishment is offered by Freeman and Evan (1993) who outline that the notion of stakeholder theory is built around two principles, the principle of corporate rights and the principle of corporate effects.\(^6\) They argue that to be consistent with these principles that the theory must be consistent with Kantian philosophy and respect for the person(s) as ends in themselves as opposed to as a means to an end. As a consequence, they argue that the principles of corporate rights and effects can be crystallised with two further principles that act as ‘guiding ideals for the immortal corporation as it endures through generations of particular mortal stakeholders’ (Freeman and Evan 1993, p.79). These two further principles by Freeman and Evan (ibid.) are as follows:

1. The corporation should be managed for the benefit of its stakeholders, its customers, suppliers, owners, employees and local communities. The rights of these groups must be ensured, and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare.

2. Management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act in the interests of stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group.

What all three embellishments have in common is their desire to effectively dilute the narrowing and overarching focus on the corporation as the primary locus of concern that is evident in Freeman’s (1984) original offering regarding the theory and in turn open the theory up and make it fairer and more democratic.

\(^5\) The convergent typology proposed by Donaldson and Preston (1995) has been criticized by both; Trevino and Weaver (1999) and Freeman (1999). Trevino and Weaver (1999) argue that ongoing research on stakeholder theory will prove more useful if breadth is recognised and researched and that something will be lost if you try to collapse the theory. While Freeman (1999) argues that stakeholder theory is instrumental, thus he is retreating back to the core purpose of the theory as a tool to better facilitate strategic management, and thus any research would be better off if ‘we do not try to fit together narratives that are better understood when they are left alone’ (ibid., p. 236)

\(^6\) ‘Principle of Corporate Rights. The corporation and its managers may not violate the legitimate rights of others to determine their own future.’ ‘Principle of Corporate Effects. The corporation and its managers are responsible for the effects of their actions on others.’ Freeman and Evan (1993:79)
To illustrate Donaldson and Preston (1995) intend theory users to understand that ownership rights are not unlimited they are circumscribed, thus acting in the interest of owners is not a singular metric that allows all other concerns to be swept away. Phillips (1997) aims to communicate that stakeholder theory can be a theory of co-operation and thus the democracy of identifying stakeholders can be continued into how stakeholders are dealt with, they are co-operated with rather than used to ensure the continued operation of the firm. Lastly Freeman and Evan (1993) outline a requirement for a multiplicity of concerns; the firm should be managed not just for shareholders but all, any stakeholder whose welfare is impacted should be involved in decisions (thus impact upon the firm is not a key concern, there is reciprocity regarding the firm’s impact on a stakeholder). Furthermore in managing stakeholders there is a requirement to ensure the continued operation of the abstraction that is a firm in order that stakeholders’ long-term stakes are safeguarded.

While these embellishments are not without their difficulties, particularly with regard to sustainable development as will be explored in a later section of this paper, they do demonstrate a move away from the original stakeholder theory offered by Freeman (1984) and its narrow focus on the firm alone. In this regard they can be viewed as an attempt to enhance the democratisation of the theory. Whereby stakeholders are not discarded if they have no impact on the operation of the firm at a point in time, rather they are of concern over the long-term, the firm’s impact on the stakeholder matters not just vice versa and the firm is not involved in a competition for survival rather continued operation is based upon co-operation with stakeholders.

Nevertheless while these embellishments could be simplistically described as attempting to make stakeholder theory less narrowly focused, it is also evident that these moves are away from the original contention within stakeholder theory. In this regard they demonstrate how the theory has been adapted and developed. However, Freeman (1994) offers perhaps the best summary of stakeholder theory when he argues that stakeholder theory is not a theory but a ‘genre of stories about how we could live’ (ibid., p. 413) and it is a way to ‘blend together the central concepts of business with those of ethics’ (ibid., p. 409). This release of stakeholder theory from being a ‘theory’ thus enabling it to be bent and moulded by whoever, while perhaps pragmatic, does not release it from other issues that arise in its application, in particular the inequities that are hidden behind pictorial representation, as will now be discussed.

2. Critiques piqued by pictorial representation

While adaptations to stakeholder theory have been offered it could be that these adaptations to make the theory less narrowly focused on the firm have been offered because of the illusion of equity that is portrayed by pictorial representation an illusion that masks inequities. The power of pictorial representation in communicating a theory or concept was not lost on Freeman (1984) who argued that ‘one possible approach to [the] conceptual problem of dealing with the external environment of the firm is to redraw our picture of the firm’ (ibid., p. 24). In this regard, there is additional succour to that oft-cited saying that ‘a picture is worth a thousand words’. However, this equal exchange of words for pictures is challengeable; Davidson (1979) argues that ‘a picture is not worth a thousand words, or any other number, words are the wrong currency to exchange for a picture’ (ibid., p. 45). His argument being that ‘linguistic and visual symbol systems differ not only in kind, but also in their metaphoric expressions’ (Feinstein 1982, p. 50). This difference is clear when considering pictorial representation of stakeholder theory relative to written discussion of it (as offered in the previous section). As can be seen below in Figure, pictorial representation immediately provides the viewer with an image of equity; equal sized ovals, double headed arrows, equidistance between shapes. However this balanced and even representation is challengeable when one moves past the picture to consider

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7 Thus the firm is reified.

8 Wacker (1998) discusses that a theory should consist of four components (1) definitions of terms or variables, (2) a domain where the theory applies, (3) a set of relationships of variables and (4) specific predictions of factual claims. To define a theory Wacker (1998) cites Sutherland (1976) that ‘theory is an ordered set of assertions about a generic behaviour assumed to hold through a significantly broad range of specific instances’ (ibid., p. 364). A dictionary definition of theory defines the term as; ‘a mental scheme of something to be done, or of a way of doing something, a systematic statement of rules or principles to be followed’ (Oxford, 2003: 3236)
application. Thus the picture conveys equality, the theory discussion indicates a focus on the firm, and the application as will be discussed indicates anything but equality and a questionable notion of who constitutes the ‘firm’. The inequities masked by pictorial representation that will be discussed include (1) multiple roles, (2) the lack of homogeneity in the groupings, (3) inequities in dialogue, (4) inequities in dependency, (5) the equal size of the shapes, (6) the space in between the shapes and (7) the shapes themselves and the boundaries they denote.⁹

Figure 1 Stakeholder view of firm¹⁰

In applying stakeholder theory one of the first tasks for the stakeholder is to identify and group themselves according to their type of stake. While this grouping is useful for the firm it is a grouping that can be compromised. Pictorial representation indicates that groups of stakeholders can be neatly divided. However, this fails to recognise that any one individual can have multiple stakes with a focal firm. They can be a customer, member of a local community, manager and employee to name just a few. These multiple stakes result in an individual having to consider which particular stakeholder are they, which role is most important and which role can have the most impact upon the firm. Thus the individual can wear many hats; however many hats leaves the individual with a difficulty of resolving their multiplicity based on expected outcomes. Does one shout as customer or temper concern because of employee status? While it could be argued that stakeholder theory as an organisational construct need not say anything about the difficulties and compromises an individual may have to make in order to decide which stakeholder they are (Preston and Sapienza, 1990). The difficulty is that the stakeholder does not know if their resolution of which role to take will be affective and ensure the most meaningful dialogue with the firm. Thus any semblance of equity between the abstract firm and the stakeholder is immediately compromised, a counter to the pictorial depiction. In short the individual picks a role based on expected outcomes and how they think the firm might react. While the firm has not yet made any compromises and can listen to arguments from compromised stakeholders before deciding what to do. Thus the firm chooses a course of action that is informed (knowingly or unknowingly) by stakeholders’ compromises regarding which role those same stakeholders

⁹ As mentioned at the start of this paper some of the inequities hidden by pictorial representation have also been made by Fassin (2008). Fassin (2008) uses the pictorial representation of stakeholder theory to prompt discussion of heterogeneity within groups, multiple inclusion, variability in dependence, variability in salience and existence of a central place. These topics as offered by Fassin (2008) map to my own areas of discussion regarding the inequities prompted by pictorial representation as follows; (Fassin, 2008) heterogeneity within groups = lack of homogeneity within groups (Barter, 2006), (Fassin, 2008) multiple inclusion = multiple roles (Barter, 2006), (Fassin, 2008) variability in dependence = equity in dependency/dialogue/power (Barter, 2006), (Fassin, 2008) existence of a central place = managers at the centre (Barter, 2006). Fassin (2008) does not discuss the equal size of the ovals nor the space in-between the shapes on the pictorial representation.

¹⁰ This representation of stakeholder theory is adapted from Freeman’s (1984) original book. However it is similar to any representation of stakeholder theory within any management textbook.
think might be affective. Building upon the multiple roles and artificial demarcations perhaps the simplest aspect of the pictorial representation that can be challenged is the separate grouping of managers and employees. A dictionary definition defines an employee as ‘a person who works for an employer’ (Oxford 2003, p. 817) while a manager is ‘a person with a primarily executive or supervisory function within an organisation’ (ibid., p. 1687). In this regard managers are a subset of employees and thus do not necessarily denote a separate grouping. Further in an age where many have manager in their work title any distinction becomes more and more meaningless. Unfortunately the literature offers little to no guidance on how to define the distinction between these groups.  

While an individual may have a difficulty and be compromised in choosing which stakeholder grouping they wish to be part of, a second difficulty of pictorial representation is the depiction of stakeholder groups as simple homogeneous groupings. However this depiction fails to recognise that not all members within a stakeholder group are equal, let alone all groups being equal; there are intra- and inter-stakeholder group inequities. For example intra group, there may well be a multitude of voices raising a plethora of issues. Further these issues may have conflicting goals and perhaps be more disparate than those inter stakeholder groups (Preston and Sapienza, 1990). By way of example; when considering customers, businesses typically segment their customer bases and will typically work to the axiom that 80% of the revenue/profits come from 20% of the customers (commonly known as the Pareto principle). Thus the firm will operate to the perfectly logical maxim that the ongoing operation of the firm is best served by listening to the 20%. Consequently even though the 80% may have a legitimate claim they are always going to struggle to have an issue addressed. This argument regarding customers extends to suppliers whereby some suppliers will be considered more important than others. Likewise it extends to owners and or shareholders, where size of share holding is a key determinant of whether the issue gets heard. Thus what is of concern to the shareholder who owns a significant stake and speaks with a single voice but of no concern to the multitude of small shareholders is more likely to be heard and acted on. While an underlying arbitrator of the disparities in a group in the examples above is monetary, other compromises occur because of different arbitration mediums such as hierarchies and job role. For example managers and employees are not homogeneous groupings. Hierarchies typically exist within firms thus providing some managers/employees with greater influence than others. Further even if hierarchies are of minimal concern, employees do not interact with all external stakeholders on an equal basis, interaction is role dependent. Some individuals deal with suppliers to the exclusion of customers and variations thereof for all the stakeholder groups. Consequently there is a concentration of particular stakeholder interactions with one set of individuals over others and thus a potential bias. For example is it beyond the realms of possibility that salesmen only add support and or raise those customer issues serve their agenda?  

Turning to the local community stakeholder group, even if money, job role and hierarchies are not an arbitrator within this group, there are still issues of the social network to which individuals belong. For example an issue faced by a member of a local community is that they do not operate in a vacuum, hence they will more than likely know somebody who works at a focal firm or is a customer of it. As a consequence, it is very unlikely that the member of the local community will pursue their stake at all costs without considering the impact of their actions on their own social network and thus potentially temper their own vociferousness in pursuing a claim.  

While a lack of homogeneity in a group is a difficulty, another area of difficulty hidden by the pictorial representation’s use of double headed arrows of equal width is the inequality in dialogue between groups and the firm. This is plainly misleading for the most self-evident reasons that are there to be seen within the pictorial representation itself. For example managers and employees are working with/for the firm every working day. They write policies, procedures, rules and regulations and as such their dialogue with the abstract firm is much more involved denoting that within the confines of pictorial representation the double headed arrows between those groups and the firm should be thicker than others. The equity in dialogue

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11 A straw poll of undergraduate students, I have conducted in lectures, typically reveals distinctions such as ‘managers think and employees do.’ When pressed on whether this means that employees cannot think, students typically do not continue to engage in any debate as they see the difficulty and fallacy of creating a separation.
implied by the equal length and width of the arrows can also depict equity in dependency, a fourth area of inequity that is masked within the pictorial representation. It is a relatively simple argument to indicate that not all stakeholders are equally dependent upon the abstract that is the firm. Employees and managers self evidently have a greater level of dependence than the customer who could switch to alternative offerings. For example, the employee may have a firm specific skill which makes their ability to move firms extremely difficult. Thus in some respects there is an inherent paradox in stakeholder theory, in that a stakeholder can be most vociferous with the firm, if they can afford to walk away and not be a stakeholder at all: ‘stakeholders have most power when their own survival is not really affected by the success of the organisation’ (Maignan et al. 2005, p. 968).

Equity in dialogue and dependence is carried forward into the equal size of the ovals, to depict the groups. From the pictorial representation it can be seen that managers employ an oval of the same size as customers, local community, etc. Yet as the previous discussion has indicated by whatever metric (financial, job focus or purchasing power, to name a few) the relative impacts of the groups is not equal and thus an equity in their size via pictorial representation is misleading, as it enhances the illusion that all stakeholders are of equal import with an equal voice and/or dependence.

A sixth area of illusion with regard to pictorial representation is the space between the line shapes – the white space. The implication is that all of significance fits within a stakeholder group and there is nothing of concern from a stakeholder perspective between the groups, in short the white space does not matter. For the white space to not matter, the corollary needs to hold that all stakeholders have been identified and/or can clearly articulate their case. This in turn relies on the ability of those individuals that represent the firm to have an ability to recognise all stakes. This is clearly a difficult and nigh on impossible task and fails to account for the cognitive limits of those arbitrating for the firm. For example those at the centre may not recognise a stakeholder because the stakeholder is unable to discuss an issue within a form the manager can understand, yet a failure in communication does not make a stake any less valid.

A seventh and final illusion that is brought forward by the simplification of reality that is the pictorial representation is the notion of boundaries, in so much as the groups and the firm are demarked by solid lines. However groups and the firm are permeable and their boundaries shifting, for example at any point in time a stakeholder can be at the beginning, middle or end of their relationship with the firm. Further where does the boundary of the firm occur, at the front gates? The door to the office or factory? At the top of the chimney stack? Likewise where does the local community begin and end, the county, the state, the country, the continent? What these rhetorical questions indicate is that the groups and the firm are not self contained hermetically sealed units, they are open to interchange with all that is around them. However perhaps more simplistically than this, while the static denoted by pictorial representation may allow conceptual and thus epistemological simplification this simplification is relative to the continuous flow of experience. Thus the representation of boundaries promotes a form of drift that perpetuates a disconnect between epistemology and ontology (Thompson, 2011).

Having outlined seven different ways in which the pictorial representation of stakeholder theory can potentially mislead, it is clear that the picture is not able to be a literal exchange for a thousand words. Further the pictorial representation of the theory promotes an illusion of equity behind which application and examples reveal multiple inequities. In this regard there is no exchange of words for pictures, rather the picture releases a new narrative, but that narrative is misleading.

3. No firm, just managers at the centre

As indicated previously perhaps the biggest illusion prompted both by the pictorial representation but also within the linguistic discussions of stakeholder theory is that the firm is reified and considered a unit of survival. This reification is a form of synecdoche where what is lost is that the firm is not a separate entity arbitrating at the centre of the stakeholders; rather the firm is actually some managers and/or employees
arbitrating. In light of this situation, Hill and Jones (1992) suggested that because managers are at the centre, the theory might be better described as stakeholder-agency theory. No matter how termed, that ‘managers are stakeholders themselves, as well as architects of balance among the interests of others’ (Preston and Sapienza 1990, p. 363) brings forward an obvious compromise regarding any claims to equity. A more accurate pictorial representation of stakeholder theory given this situation is offered in Figure 2. With managers operating at the centre of the stakeholder model it is immediately apparent that the firm only perceives those stakeholders that managers’ perceive. Thus if a stakeholder is not important to a manager because of the particular paradigm of that manager, the stakeholder either does or does not matter. Thus an environmentally orientated manager may give weighting and salience to stakeholders pressing climate change issues and develop the case for this group to have relevance within the firm. While a manager focused on issues of profit may only press those issues that are of immediate impact upon revenue and cost lines. In this regard because managers are at the centre and insiders they ‘are in a position to filter or distort the information that they release’ (Hill and Jones 1992, p. 140). While it could be argued that Mitchell et al., (1997) offered a theory to enable the side stepping of the skewed perspective of one manager, their theory is one based on relevance to the firm and thus it lacks objective measures and is open to the compromise of one person’s perspective. Thus if managers’ perceive a stakeholder to have a powerful, legitimate and urgent issue, then the stakeholder does and if it is perceived that the stakeholder doesn’t, it doesn’t. The bias of managers’ perceptions is perhaps best illustrated by Preston and Sapienza (1990) who in citing the results of a 1984 survey by Prosner and Schmidt outline that ‘when 889 executive managers were asked to rate the importance of 16 different stakeholders in management decision making, the overall results showed ‘myself’ was second only to ‘customers’” (ibid., p. 365).

Figure 2 Managers at the centre

A second issue of managers actually being arbitrators is the consequences of their behaviour. As the quote above identifies, managers consider themselves as second only to customers in importance regarding stake. The consequence of this is that their behaviour is likely to further their own interests. While the literature has not demonstrated any clear empirical evidence to demonstrate that managers act in their self interest when managing stakes. It is a fair assumption that managers operate in a manner where they are cognisant of

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For the purposes of the following discussion and simplicity the points will be discussed with managers as the subject. However, every point is equally applicable to employees.

Andersson and Bateman (2000), Barter and Bebbington (2010), Egri and Herman (2000) and Halme (1996) highlight that there is a link between organisational paradigm and its behaviour, where those with environmental paradigms pursue environmental outcomes.

Preston and Sapienza (1990:365) discuss an article from Fortune magazine of January 2nd 1989 where the following inferences were made. ‘Experience in recent leveraged buyouts suggests that top managers...have often converted their positions of effective control over corporate decision making back into ownership itself. According to press reports, the RJR–Nabisco board suspected just such motivations when it rejected an initial management buyout proposal in favour of putting the corporation into open play; these suspicions were confirmed when ultimate bids were approximately 50 percent higher than management’s initial offer.’ On the other hand their
what they can and can’t get away with. While this may perhaps not be a problem for the theory, in that managers and employees are the firm and the theory is firm centric. There is an agency problem regarding whether the managers arbitrating act in their particular interests, the interests of all of the firm’s employees, or the interests of a wider pool of firm participants (owners, managers, employees).

A third issue of managers arbitrating are their qualifications. In short there is a question of whether those arbitrating have the skills to make the decisions, particularly if the decision involves ethical dimensions. To explain ‘managers may be trained in the management of processes of production, marketing, finance, accounting and human resources [and they may]... understand the meaning of responsibility in the context of these functional disciplines’ (Clarkson 1995, p. 98). The concern arises as to what ethical basis a decision is involving a stakeholder made. A simple answer might be the firm's own code of ethics. However, managers as human beings always have some discretion and ‘they are personally responsible for exercising it and cannot avoid responsibility through reference to rules, policies or procedures’ (Wood 1991, p. 699). Hence, the question still arises as to whether they have either the qualifications and or character to make decisions that have ethical implications. Outside of whether the manager(s) have the qualifications, those that make it to the top of organisations are likely to have made it there based on their ability to ensure performance, primarily economic, within their functional area. As opposed to their ability and skills in making difficult ethical judgements that involve multi-party non-functionally discrete groupings. Thus notwithstanding the work of Boddy (2011) that indicates that those that make it to the top of organisations maybe more likely to demonstrate psychopathic tendencies, there is an obvious difficulty of ensuring individuals with appropriate ethical frameworks are arbitrating.

A fourth issue of managers operating at the centre is the reframing of an issue into a form that allows it to be managed, a form of refraction that may dilute the potency of the issue, a difficulty for both the stakeholder but also potentially the firm. For example, although axiomatic, managers manage and as such when an issue arises it is likely that the issue will be rephrased in traditional terms so that it can be handled in the usual fashion (Ackerman, 1973) and/or with the usual toolkit. While this reframing may serve processes and managers' abilities, it creates an obvious difficulty in that the potency of an issue may be lost. While the refraction that occurs in the communication between any two parties is perhaps unavoidable, that it occurs points towards another difficulty inherent to stakeholder theory.

In sum, the four areas above highlight the key issues that arise from the reality that there is no abstract firm and in actuality some managers and employees are at the centre of the stakeholder model as well as being stakeholder themselves. These issues further compound the shortcomings of stakeholder theory identified in the previous section. However, while there may be shortcomings to the theory, given the weight of literature regarding the theory and how the term(s) have entered the lexicon it is unlikely that an alternative will be formulated soon. The theory is undoubtedly firm centric in its approach and intention. It reifies the firm. However this focus on the firm puts the theory in a position of difficulty with regard to incorporating the natural environment as a stakeholder and or the pursuit of sustainable development. This is because via the application of the theory while many stakeholder groups and voices may be considered the sustainability of the firm is all the theory is designed to help ensure, a long way short of the sustainability of the environment or humanity as is incorporated in the concept of sustainable development.

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study on Fortune companies concluded that ‘managers typically do not sacrifice major stakeholder objectives in pursuit of conventional growth and profit goals; in fact, these two types of performance indicators appear to be closely linked’ (ibid, p.373). However, this indication that managers might not act in their self interest needs to be viewed within the prism, that as Preston and Sapienza (1990:365) when citing a Posner and Schmidt study of 1984 outline managers rated themselves second only to customers as the most important stakeholders (one could potentially substitute the word ‘major’ for important). It could be argued that it is easy for managers not to sacrifice ‘major’ stakeholder concerns for profit and growth, when their view of major stakeholders are themselves and customers; and compromising customers compromises the source of all monetary wealth for the organisation including their own.

15 Carroll (1987) outlines how every decision a manager makes is not without morals, all decisions have a morality.
4. Including the Natural Environment and Sustainable Development

As discussed earlier a central premise behind stakeholder theory is that ‘there is a multiplicity of groups having a stake in the operation of the firm – all of whom merit consideration in managerial decision making’ (Phillips 1997, p.52). While the theory is unashamedly anthropocentric as via its use we humans can still consider ourselves to be ‘the centre of the universe when it comes to stakeholder theory’ (Buchholz 2004, p. 130). There has been discussion that including the natural environment as a stakeholder (ie a separate group) will allow organisations to consider and thus alleviate environmental issues (for example; Bazin and Ballet, 2004; Buchholz, 2004; Starik, 1995). The essence of the arguments are the inescapable that humans and nature are co-constituted on a single, materially closed system – the earth. Thus Buchholz’s (2004) argument centres around statements such as ‘nature cannot be dehumanised nor can humans be denaturalised’ (ibid., p. 131). While Starik’s (1995) centres around the argument that given the co-dependency between humans and the environment there is a need for a new paradigm, ecocentrism, and that this should provide the political and ethical underpinning for stakeholder theory to be applied. This requirement for a new paradigm is embraced by Bazin and Ballet (2004) who argue that a new paradigm, bioontocentrism, form the ethical and political framework to underpin stakeholder theory. In short the arguments for the inclusion of the natural environment as a stakeholder within the existing conceptualisation of the theory are also making a call for a new paradigm to inform the users of the theory. A paradigm that is not anthropocentric (humans first) but rather earth (ecocentrism) or life (bioontocentrism) first with humans as an integral and entwined part. In this regard, the arguments for including the natural environment are to a degree also challenging the meta-narrative behind the theory and the primacy of organisations as a focus as opposed to the planet or life. Consequently, the calls for inclusion are not actually making a call for a change to the theory as opposed to a call for a change to us and our paradigms.

While there are arguments for including the natural environment as a stakeholder, there are also arguments against as offered by for example Orts and Strudler (2002) and Phillips and Reichart (2000). They argue that having the natural environment as a discrete and identifiable stakeholder is problematic with the key thrust of Orts and Strudler’s (2002) argument being that broadening stakeholder theory to include non-economic risk bearing stakeholders such as the natural environment results in a ‘maddening variety of who (and what may count) as a legitimate stakeholder’ hence the theory becomes unworkable (ibid., p.227). While Phillips and Reichart (2000) in arguing for a fairness based approach to stakeholder theory outline that in using fairness as a basis the difficulty is that the principle of fairness cannot be applied to non-humans and thus the natural environment cannot be a stakeholder. Thus the natural environment cannot be a separate, mute stakeholder, rather it only matters if incorporated into the concerns of legitimate human stakeholders and a change in principles, to fairness based principles, will allow humans to fully account for the natural environment.

16 Natural environments have been defined as areas of no human intrusion and or dichotomously to built environments (Mausner, 1996). A difficulty with defining them relative to a built environment can be that this type of definition perpetuates a human nature dichotomy. Mausner’s (1996) exploratory study identified four categories of natural environment (1) totally natural environments where there is no visible evidence of human presence, (2) civilized natural environments for example a forest with hiking trails, (3) quasi natural environments for example a landscaped park and (4) semi-natural environments where human’s take precedence but there is an opportunity to experience nature, an example being an urban park. These four natural environments are countered by non-natural environments such as those areas clearly affected by man such as mining environments or a dense city zone. Within the context of this paper, natural environment is used relatively amorphously but would most closely pertain to totally natural and civilised natural environments as per Mausner’s (1996) typology.

17 Orts and Strudler (2002) argument is that stakeholder theory is a heuristic for thinking about businesses as ‘involving the economic interests of other groups beyond those of shareholders or equity owners’ (ibid., p.215). Hence, economic interest/risk is a key identifier for a stakeholder.

18 They derive this from a Rawlsian principle of fair play: ‘whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of cooperation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the cooperative scheme in proportion to the benefits accepts’ (Phillips, 1997:186).
In sum, the arguments for and against the inclusion of the natural environment in stakeholder theory are oscillating around the same concern that the ethical and political framework of humans needs to move to a new paradigm that is less anthropocentric. From there, arguments for indicate that having the natural environment as a separate stakeholder is not an issue, while arguments against outline that with the embrace of a more environmental paradigm there is no need to separate out the natural environment as a stakeholder.

Behind the arguments for and against the inclusion of the natural environment as a stakeholder is a question of epistemology and whether humans and nature are viewed as separate realms or as mutually defining and hence entwined and non-separate. If humans and the natural environment are viewed as mutually defining and entwined, then the entwinement renders both terms (humans, environment) void as discrete separable entities a difficulty for stakeholder theory. Entwinement is locked within the definition and aim of sustainable development as will now be explored.

4.1 Considering Sustainable Development

Sustainable development can be defined as ‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’ (The World Commission on Environment and Development: The Brundtland Commission 1987, p. 8). While critiques can be levelled at this definition (for example see Banerjee, 2003) it is generally accepted that sustainable development is an idea of general usefulness that is normative in its conception (for example see; Blewitt 2008; Brych et al., 2007; Gladwin et al., 1995). However a difficulty with the concept of sustainable development is that it perhaps challenges human ideas of our standing relative to the earth. Through the lens of metaphor, a difficulty with accepting sustainable development is that it at the least challenges and at the extreme inverts the ‘The Great Chain’ (Lakoff and Turner 1987, p. 167) metaphor that arguably goes to the root of our modern understandings of our place on the planet. Whereby there are humans and everything else and humans are a special, distinct and separate Cartesian category that is at the top of an apex (Romaine, 1996). In this regard the Great Chain metaphor implies dominance by humans, whereas the sustainable development debate and the wider ecology movement manipulate and at the extreme invert this dominance and outline ‘the dependence of all forms of living beings on the physical environment and our dependence on the food chain and on the existence of biological diversity’ (Lakoff and Turner 1987, p. 212). This manipulation of the Great Chain metaphor brings forward another metaphor regarding how we consider the earth and our place relative to it. Rather than the earth being an object that we dominate we are now moved to view the earth as a life support system or in other terminology a spaceship (for example see; Audebrand, 2010; Romaine, 1996). In so doing where we were once dominators we are now moved towards stewardship and thus our elevated position of domination and the special status we allow ourselves with that elevated and hierarchical conception as per the Great Chain metaphor, is humbled.

In viewing the earth as a life support system and taking on the role of stewards what is reinforced is our entwinement with all that surrounds us rather than separateness and as such our conventional notions of boundaries are dissolved. Consequently we are manoeuvred into taking on an imperative of responsibility (for example see; Blewitt, 2008; Dunlap and Van Liere, 2008; Egri and Pinfield, 1999; Gladwin et al., 1995; Jonas, 1984). As if we don’t take on this responsibility and we consider ourselves as separate and the only factor of consideration, we are likely to undermine ourselves given the entwinement and interconnectedness of all the constituents of the earth. This recognition of entwinement and responsibility moves us towards an expanded notion of self interest that is beyond narrow anthropocentric concerns where only humans and their economic interests matter (Gladwin et al, 1995; Hoffman and Sandelands, 2005). Further it re-patterns our understandings away from linearity and human dominated hierarchies towards understandings of us being

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This debate has parallels to the modernism, post modernism debate: for example see; Cummings (2005).

Lakoff and Turner (1987) outline that there are two forms of the Great Chain metaphor, basic and extended. The basic metaphor concerns the relationship between humans and animals as utilised in this paper, whereas the extended concerns humans’ relationship to god and the universe and society.

An extreme could be portrayed by ecocentric paradigms which view the earth as subject and humans as mere objects (Hoffman and Sandelands, 2005; Gladwin et al., 1995).
stewards who are entwined in a system that we are both part of but also responsible for. Thus with the embrace of sustainable development what also occurs if fully accepted is an alteration of epistemology to reflect that there is no human nature divide and that humans and nature co-constitute each other (an attempt to capture this graphically is offered in Figure 3).

**Figure 3** Entwinement and co-dependency

Thus in accepting sustainable development it can be argued that stakeholder theory with its firm-centric focus (in effect a focus on a particular set of people) over others faces difficulties. Particularly as it is a theory that is not for the whole of humanity, rather from its inception it has been a theory designed to help the firm and thus managers consider the external separate environment and the opportunities and threats therein, in order that the firm can prosper.

With reference to Figure 3 it can be seen that the lines are dashed. This is a deliberate ploy to reinforce a lack of separation and a promotion of notions of intermingling and entwinement. An epistemology built from this view can indicate that ‘organizations [will come to] resemble estuaries. [Where] the organization... mix[s] with the environment, other organizations, and society. [As such] a person may not be able to distinguish when he or she is inside or outside of an organization or not, and it may not be easy to tell when an individual is working for the organization, acting as a stakeholder, or engaged in institutional activities’ (King 1995, p. 979, 980). Consequently within this epistemology ‘everyone is a stakeholder of everyone else, [and thus] how useful is the term stakeholder itself?’ (Phillips 1997, p. 53). The short answer is that the term and theory are no longer useful, rather new theories and understandings are required. In sum in the same way that Freeman (1984) argued in 1984 that his new stakeholder approach needed to be embraced and replace

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22 The use of the term non-humans is an attempt to include the plurality of all constituents of the planet be they termed living or non-living. Humans are only offered as a separate category for descriptive ease, in some regards to facilitate understanding for the reader. It is not intended that the diagram denotes any hierarchy. Pictorial representation of the relationship between groupings on the earth have been explored by, for example, Lozano (2008).

23 Recently, Waddock (2011) has argued that Gaia (the earth as a form of life) should be made the centre of focus stakeholder theory. The argument being that with Gaia as the locus of concern and its continuation being the critical factor, if stakeholders ensure the continuation of Gaia they will in effect ensure their own continuation. In this regard, Waddock (2011) is similar to previous authors (for example, Bazin and Ballet, 2004) in that she is asking for a new paradigm and in turn ethical and political framework to inform human decision making. This argument in effect reduces humans to subjects of Gaia and in so doing essentially reverses the human dominance of the environment associated with modernism (Hoffman and Sandelands, 2005). While this may be a desired response for some, humans as subjects of a new master, the promotion of Gaia as a central concern is not consistent with sustainable development. Whereby sustainable development is a human story of entwinement with the environment and thus it asks us to promote the whole of humanity but also through the entwinement recognise that there are no separate categories.

24 The organisation as the locus of concern that must continue to operate is a commonly held assumption. However work by Barter and Bebbington (2010) identified that organisations that pursue sustainability, only view continued operation of the organisation within a context of a sustainable society, thus continuance is not a paramount concern. Based upon this research, theories that promote an overarching organisational focus are of little use for organisations that pursue sustainability, rather new theories are required.
theories formed 30 years prior. This author would argue that if sustainable development is to be realised, stakeholder theory, a theory from 27 years ago, needs to be replaced and the new developed.

5. Summary and Alternatives

This review of stakeholder theory began by outlining that stakeholder theory was introduced in 1984 by Freeman in order to enable managers to take a more external view when conducting strategic management. Further Freeman (1984) in bringing forward stakeholder theory also made an argument that it is a tool that will ‘help managers view the world as it is today [emphasis in original text], not as it was 30 years ago’ (ibid., p. v, vi). After introducing stakeholder theory, various attempts to adjust the theory in order to make it more even and less overtly firm centric were discussed. Following this the simple reality promoted by the pictorial representation of the theory was critiqued. A critique that highlighted the theory in pictorial representation promotes an illusion of equity that actually masks inequity. The discussion then moved to highlight the difficulty of any equity being achieved with the theory given that managers as well as being a stakeholder group are actually at the centre of the theory arbitrating. A situation that carries with it difficulties in that managers typically act in their self-interest and do not have the qualifications to make difficult ethical decisions. After outlining these difficulties regarding stakeholder theory the arguments for and against the inclusion of the natural environment as a stakeholder were discussed. This drew out how the essential logic for including the natural environment is the embrace of a new paradigm by humans, a less anthropocentric and more environmentally orientated paradigm. Building upon this the concept of sustainable development was introduced and with that the notion of how sustainable development is a narrative for the whole of humanity that does not see humans and the environment as separate was brought forward. This bringing forward of sustainable development resulted in discussing how the concept implies a new epistemology and thus a new theory is required if sustainable development is to be pursued as stakeholder theory is no longer fit for purpose; an argument that mirrors that made by Freeman when introducing stakeholder theory in 1984.

However, while a new theory may be required, in the absence of one the continued validity of stakeholder theory undoubtedly rests upon the notion that a ‘stakeholder is an obvious literary device meant to call into question the emphasis on stockholders’ (Freeman 1999, p. 234). Further, as Donaldson and Preston (1995) argue if we did not have stakeholder theory then what? – ‘the plain truth is that the most prominent alternative to stakeholder theory (ie the management servicing shareowners theory) is morally untenable’ (ibid., p. 88). While these arguments have validity, they are arguments for now until more appropriate alternatives are derived. Alternatives have been offered, for example; Gray et al., (1997) brought forward the polyvocal citizenship perspective. While Fassin (2008, 2009) aims to identify enhancements and alterations to the stakeholder theory by using new graphical representations that develop the work of Post et al., (2002) and present three concentric rings (resource base, industry structure and social political arena) around the corporation. However these alternatives suffer with the fate of maintaining an organisational focus and thus meet an inherent difficulty in the pursuit of sustainable development and the whole of humanity, as opposed to organisational, narrative that is inherent in that concept. Nevertheless, the term stakeholder has entered the lexicon and it has an inertia that means it is a concept that is going to continue to be used. As a consequence it would appear that a simple work around for stakeholder theory, in the absence of something new within a new epistemology, would be to make stakeholder management a function of all stakeholders rather than just managers and/or employees and putting paradigm arguments to one side, perhaps creating the empty chair at the table for the mute stakeholder that is the natural environment may be appropriate, as a seat at the table is at least an acknowledgement of inclusion.
References


Citation: Sutherland (1976) (Note this is as per the reference in the Wacker article)

