Chapter 4

Stakeholder Theory

Throughout this century, as businesses worldwide evolve to account for the dynamic environment in which they operate, CSR will occupy an increasingly core component of the strategic planning process. As such, CSR finds a natural home within corporate strategy.[1] The ideal vehicle for the integration of CSR and strategy is a multi-stakeholder perspective that enables firms to respond to the varied interests of all the individuals and groups that have a stake in the firm's pursuit of profit. It is this broad range of interests that underpins the idea that CSR relates to all aspects of the firm's day-to-day operations. CSR is not a peripheral exercise—it is central to being a successful business. Adopting a stakeholder perspective allows the firm to predict and respond to the ever-changing demands of its stakeholders, who together constitute the environment in which the firm operates.

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

WHO IS A STAKEHOLDER?

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

Definitions of a Stakeholder

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

Eric Rhenman (1964)[2]

> A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives.
>
> *R. Edward Freeman (1984)*[3]
>
> The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.
>
> *Post, Preston, and Sachs (2002)*[4]

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

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

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

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

A New Stakeholder Definition

Although a general understanding of *Who is a stakeholder?* is now well established in the academic field of management, the idea that "anyone who wants to be" should be considered a stakeholder is less than helpful from a manager's perspective. In other words, while Freeman's definition of a stakeholder is still the "most widely adopted of all definitions within high quality management journals,"[11] it is sufficiently broad to encompass anyone who self-appoints themselves into the role. While expedient, this loose definition is unlikely to reflect a firm's priorities and, more importantly, offers little guidance to managers who are trying to determine how to allocate their attention and the firm's scarce resources.

In this sense, asking the manager to focus on "everyone," since everyone is a potential stakeholder, runs the risk of decision-making paralysis. The resulting danger, as Freeman himself recognizes, is that "the notion of stakeholder risks becoming a meaningless designation."[12] In essence, if everyone is a stakeholder, then no one is a stakeholder. In an attempt to move past this impasse, I propose a narrower definition:

Stakeholder

Any entity who is affected by the organization (either voluntarily or involuntarily) and possesses the capacity to affect the organization.

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

The Environment as a Stakeholder

It is interesting to debate whether the natural environment, as a non-independent actor, should be included as an identifiable stakeholder of the firm. Many argue that it should and that, in fact, the environment has rights that should be protected by law.[13]

Others argue that it should not be included because the environment itself does not speak or feel or act; rather, the degradation of the environment affects other stakeholder groups (e.g., NGOs or the government), who then advocate on its behalf.

> An argument for including the environment as one of the firm's societal stakeholders is to reinforce the importance of sustainability within the CSR debate, while recognizing that the environment requires actors to speak and act on its behalf in order to be protected.
>
> In Figure 4.1, however, the environment is excluded due to its lack of agency. Since the environment is unable to speak for itself, the manager's priority (in relation to sustainability issues) should be to attend to those stakeholders who speak most vigorously (and knowledgeably) on the environment's behalf.

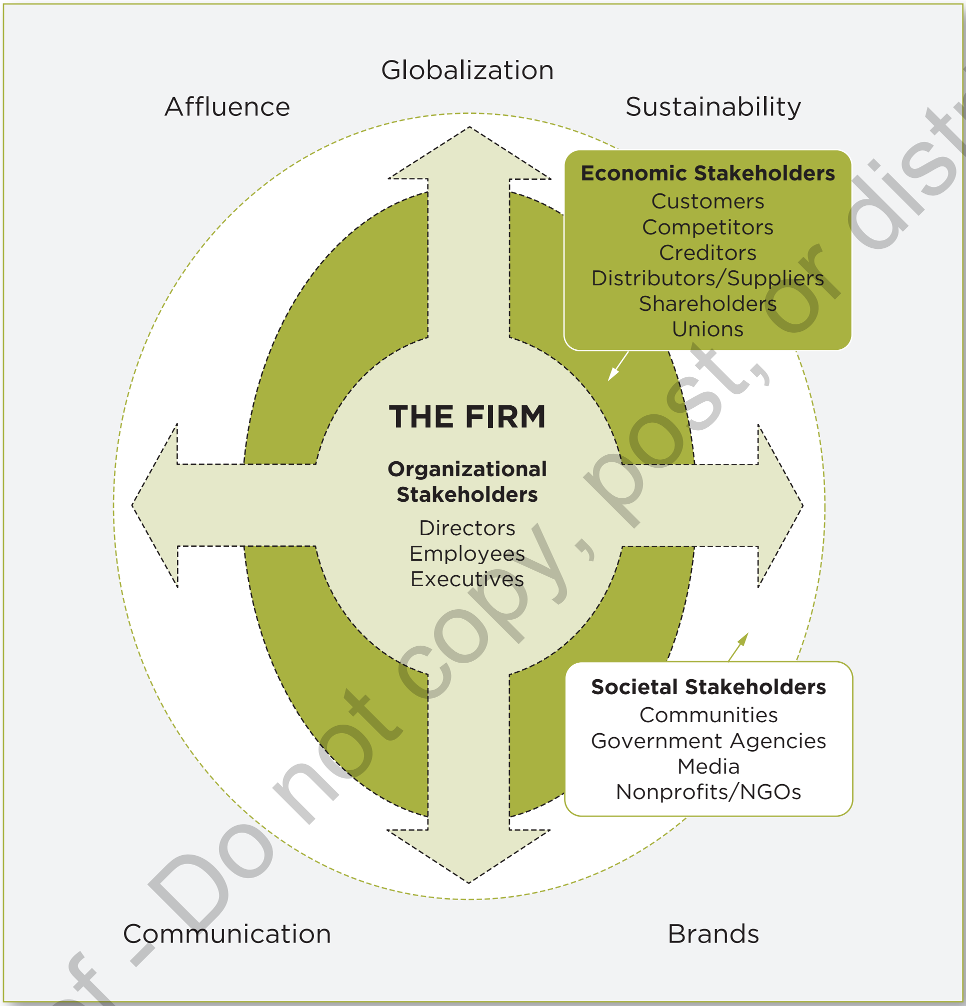
This imperfect proxy relationship helps explain why problems such as pollution and the abuse of children's rights persist. Without the ability to advocate directly in their defense, such groups are more susceptible to abuse. To put it bluntly, the reason the environment has been polluted for so long is that the environment is unable to state what it wants. It has no "self-interest" as such. Similarly, young children, who undoubtedly do have rights and interests but are less able to articulate them, are forced to rely on others to interpret and act on those interests.[14]

For any group in society to be disenfranchised (whether it is children, the environment, or "the poorest of the poor")[15] is for that group to lack representation. While usually employed in discussions related to democracy, the same principle holds for general societal engagement. Society fails these groups if no advocate steps forward to represent them, and we are all worse off as a result. In such cases, therefore, the agents for these interests (e.g., parents, Greenpeace, the government, the media, etc.) have an elevated role in ensuring the groups are represented and their concerns addressed. This is true in general, but also specifically in terms of the actions firms may take to protect the interests of groups who cannot represent themselves. It is these agents who have the ability to influence the firm who should be considered *stakeholders*.

With this general definition in place, the firm needs to sort these groups. To do so and begin to understand the interests of its core stakeholders, the firm may find it helpful to divide its constituents into three categories: *organizational* stakeholders (internal to the firm) and *economic* and *societal* stakeholders (external to the firm). Together, these three kinds of stakeholders form a metaphorical concentric set of circles, with the firm and its organizational stakeholders at the center of a larger circle that signifies the firm's economic stakeholders. Both of these circles sit within the largest circle, which represents society and the firm's societal stakeholders. This model is presented in Figure 4.1 as a framework that firms can use to identify their key stakeholders and demonstrates the broad spectrum of issues that affect corporate behavior and are related to CSR.

As indicated in Figure 4.1, a firm's stakeholders can be divided into three categories: organizational stakeholders (internal to the firm) and economic and societal stakeholders (external to the firm). First, stakeholders exist within the organization. Examples of such groups include employees, managers, and directors. Taken

Figure 4.1 A Stakeholder Model



together, these internal stakeholders constitute the organization as a whole—they are most directly involved in producing the products and services the firm offers and, therefore, should be its primary concern.

Second are economic stakeholders, examples of which include consumers, shareholders, and competitors. The interactions that these stakeholders have with the firm are driven primarily by economic concerns. As such, these stakeholders fulfill an important role as the interface between the organization and its larger social environment. Not only do these groups affect the financial/economic aspects of the organization, but they also create bonds of accountability between the firm and its operating context.

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

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

Within this overall classification, all possible actors fit primarily into one of the three stakeholder groups, although almost all stakeholders exist simultaneously as multiple stakeholder types with network ties among each of them, as well as with the firm.[16] A company's employees, for example, are primarily organizational stakeholders. They are also, however, occasional customers of the company, as well as being members of the society in which the business operates. The government that regulates the firm's industry, however, is only a societal stakeholder and has no economic relationship with the company (beyond the taxes it levies), nor is it a formal part of the organization. Similarly, a firm's customers are, first and foremost, economic stakeholders of the firm. They are not organizational (internal) stakeholders, but they are part of the society within which the firm operates. They are also one of the primary means by which the firm delivers its product and interacts with its society. Without the economic interface, an organization loses its mechanism of accountability and, therefore, its legitimacy over the long term. This is true whether the organization is a business, government, or nonprofit.

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

WHICH STAKEHOLDERS SHOULD BE PRIORITIZED?

An effective stakeholder model must do more than merely identify a firm's stakeholders. Equally important, if the model is to be of practical use, is the ability to prioritize among these stakeholders. In other words, in addition to answering the question *Who is a stakeholder?* another challenge for managers in implementing stakeholder theory arises when faced with this question: *When interests conflict, which stakeholders should be prioritized?*

Stakeholder theory can only be of true value to the firm's managers when it accounts fully for the dynamic environment in which business is conducted. To this end, stakeholder theory has not been very useful in providing a road map to navigate among the interests of the firm's stakeholders, especially when they conflict. There is a reason for this—while accounting for a broader range of interests is a valuable perspective for a modern-day corporation, it often complicates decisions:

> A single goal, such as maximum profit, is simple and reasonably concrete. But when several goals are introduced and businessmen must sometimes choose from among them (e.g., greater immediate profit vs. greater company security, or good labor relations vs. low-cost production, or higher dividends vs. higher wages), then confusion and divided counsel are sometimes inevitable.[17]

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

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

> Customers want lower prices and higher quality; employees want higher wages and better benefits and better working conditions; suppliers want to give fewer discounts and want you to pick up more of their products; communities want more donations; governments want higher taxes; investors want higher dividends and higher stock prices—every one of the stakeholders wants more, they always want more.[18]

In other words, being able to prioritize among stakeholder groups is important because their interests often conflict. As Mackey continues, each stakeholder group "will define the purpose of the business in terms of its own needs and desires, and each perspective is valid and legitimate."[19] Each stakeholder understandably has a relatively narrow perspective on the firm's operations that revolves around their specific interests. This creates opportunities for those firms willing to form lasting relationships with their stakeholders. Similarly, it creates potential threats for those firms that are unwilling to form such ties or accommodate such interests:

> Some industries . . . have long had to contend with well-organized pressure groups. . . . Many of the world's major pharmaceutical companies have been pushed to sell low-cost drugs to developing countries. Gap and Nike had been attacked for exploiting child labour in the Indian sub-continent. Coca-Cola, Kraft and other food and beverage companies have been accused of contributing to child obesity in the developed world. . . . Companies that do not acknowledge such claims run risks of reputational damage.[20]

The businesses most likely to succeed in today's rapidly evolving global environment will be those best able to adapt to their environment by balancing the conflicting interests of multiple stakeholders. While this is true of firms, it is doubly true for managers. It can even be argued that the fundamental "job of management is to maintain an equitable and working balance among the claims of the various . . . interest groups" that are directly affected by the firm's operations.[21] Increasingly, managers who understand the firm as a series of ties with its various stakeholders will be better able to identify and take advantage of potential opportunities (while mitigating or avoiding potential threats) than those managers who see the firm more narrowly.

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

Organizational, Economic, and Societal Stakeholders

The concentric circles of organizational, economic, and societal stakeholders presented in Figure 4.1 provide a rough guide to prioritization. By identifying the firm's key stakeholders *within* each of the three categories, executives can prioritize the needs and interests of certain groups over others. In addition, it is important to note that *among* categories, stakeholders generally decrease in importance to the firm the further they are removed from core operations. Implicit in Figure 4.1, therefore, is the idea that organizational stakeholders are a firm's most important set of constituents. These stakeholders are followed in importance by economic stakeholders, who provide the firm with its economic capital. Finally, societal stakeholders deliver the firm with the social capital that is central to its legitimacy and long term validity, but is less immediately needed for day-to-day operations.

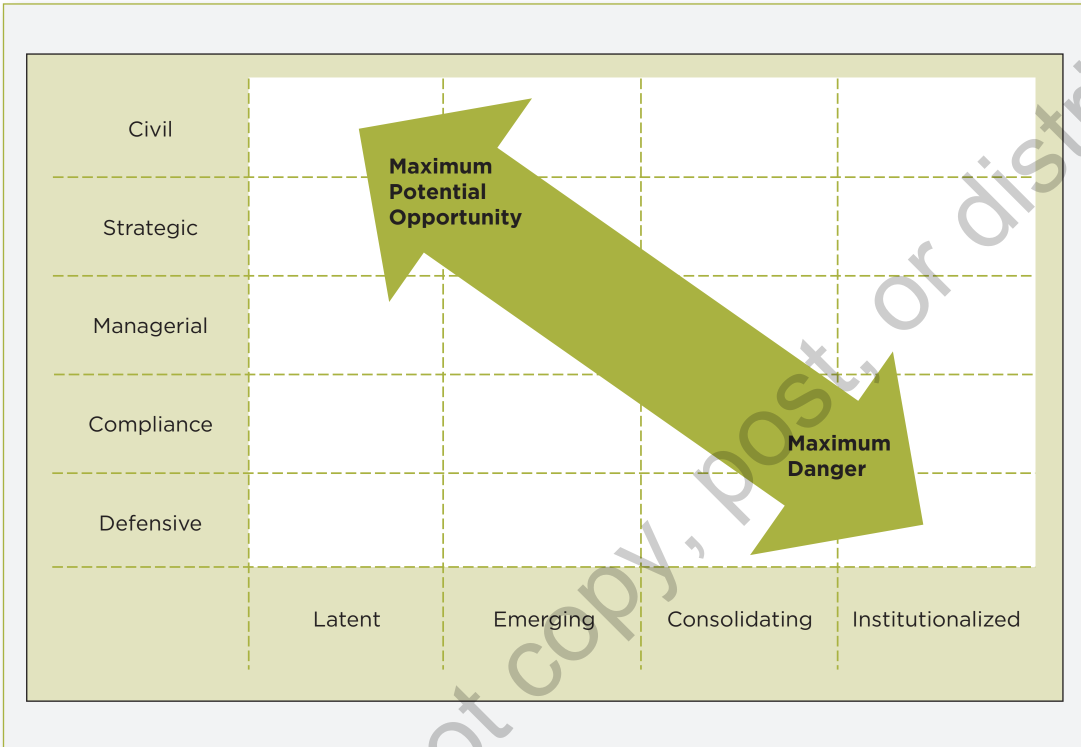
In seeking to prioritize the firm's stakeholders, however, managers need to keep two points in mind: First, no organization can afford to ignore consistently the interests of a powerful stakeholder, even if the group to which the stakeholder belongs is lower in the firm's relative hierarchy of stakeholders or is relatively removed from the firm's day-to-day operations. A good example of this is the government, which is a societal stakeholder in the model and therefore, in theory, less important to the firm than its organizational or economic stakeholders. It would be unwise, however, for a firm to ignore the government repeatedly in relation to an issue that enjoys broad societal support. Given that the government has the power to constrain industries dramatically via legislation, it is only rational that firms should adhere to the government's basic needs and requests.[22] This logic applies on an ongoing basis; it applies even more so when a specific issue spikes the attention of politicians who feel pressured by their constituents to act.

Second, it is vital to remember that the relative importance of stakeholders will inevitably differ from firm to firm, from issue to issue, and from time to time. And, depending on these factors, the change in relative ordering can be dramatic. As such, addressing the fluctuating needs of stakeholders and meeting those needs wherever possible (ideally proactively, but also reactively) is essential for firms to survive. In order to do this, it is important that executives have a framework that will enable them to prioritize stakeholder interests for a given issue and account for those expectations in formulating a strategic response.

Evolving Issues

Simon Zadek, founder and CEO of AccountAbility,[23] has developed a powerful tool that firms can use to evaluate which issues pose the greatest potential opportunity and threat.[24] First, Zadek identified the five stages of learning that organizations go through "when it comes to developing a sense of corporate responsibility":[25] *defensive* (to deny responsibility), *compliance* (to do the minimum required), *managerial* (to begin integrating CSR into management practices), *strategic* (to embed CSR within the strategy-planning process), and *civil* (to promote CSR practices industry-wide). Zadek combines these five stages of learning with four stages of intensity "to measure the maturity of societal issues and the public's expectations around the issues":[26] *latent* (awareness among activists only), *emerging* (awareness seeps into the political and media communities), *consolidating* (much broader awareness is established), and *institutionalized* (tangible reaction from powerful stakeholders). The range of possible interactions of these different stages is presented in Figure 4.2.

Figure 4.2 Prioritizing Issues



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

The maximum danger, Zadek argues, is for a company that is in defensive mode when facing an institutionalized issue, as it will be resisting an issue that has sufficient public support to pose a threat to its business. A firm that continues to deny publicly the existence of climate change, for example, falls into this category. In contrast, those businesses that are promoting industry-wide adoption of standard practices in relation to a newly emerging issue stand to gain the maximum *potential* opportunity. A firm that introduces a standardized process to measure carbon footprint and report this information on product labels in the retail industry, for example, falls into this category. Such a company stands to gain the maximum economic and social value for its effort. It is important to note, however, that being an early adopter of a controversial idea or practice that has yet to be widely accepted is only a *potential* opportunity. Due to its controversial nature, early action also poses potential danger. Moreover, if the idea never institutionalizes, the firm may expose itself to the danger of being out of touch with its stakeholders.

A Model of Stakeholder Prioritization

While it is essential for firms to understand that issues vary along metrics such as their intensity and level of widespread acceptance, a limitation of Zadek's model is that it focuses on the firm's interaction with a particular issue, without including the firm's interactions with its various stakeholders. In reality, a firm cannot consider its environment without also considering its wide variety of stakeholders, for whom certain issues are more or less important.

The model presented in Figure 4.3 addresses this complexity. It does so by focusing on the three core components that define the firm–environment relationship in any given context: the firm, the issue, and the stakeholder. The goal is to build a multistep process by which managers can account for variance in (1) the strategic interests of the *firm*, (2) the evolution of the *issue*, and (3) the motivation to act of the *stakeholder(s)*. The resulting tool provides managers with the framework they need in deciding how to prioritize stakeholder concerns and when to act.

The Firm. Any for-profit firm has strategic goals that determine the industries in which it operates and the products it produces. In addition, the firm has

Figure 4.3 Prioritizing Stakeholder Interests

Organizational stakeholders exist within the firm and include the firm's employees, managers, and directors.

Economic stakeholders include the firm's stockholders, consumers, creditors, and competitors.

Societal stakeholders include government agencies, the media, and nonprofits.

performance targets it deems both attainable and desirable (such as percentage market share or a particular level of sales). Together, these strategic goals and performance targets determine the operational priorities of the firm. With this benchmark in mind, managers are able to gauge the relevance of any issue that arises.

The Issue. The key factor that arises with any issue is the extent to which it has become established. As Zadek notes, the maximum risk arises when a firm is defensive in relation to an issue that is institutionalized, because it will be resisting a potential threat (or opportunity) to its business. A good example of this is a firm that continues to deny publicly the existence of climate change, even while its operations contribute to and are affected by this phenomenon. In contrast, those firms that promote industry-wide adoption of standardized practices in relation to an issue that is emerging (but not yet formalized in law) stand to gain the maximum economic and social value for their efforts. Even better, firms willing to take a bold stand on a contentious issue differentiate themselves in the eyes of those stakeholders for whom the issue is important.

The Stakeholder. Once a manager has established that an issue is important and relevant to the firm, the next step is to identify those stakeholders who are most affected. It is these stakeholders who will likely demand action from the firm in relation to this issue. But different issues will resonate with different stakeholders at different times. Rather than launch a prosocial campaign after the fact designed to dilute media attention and mitigate potential stakeholder threats, such as a consumer boycott, effective prioritization allows firms to intervene sufficiently early to avoid some problems and solve others, before confrontation occurs. The goal should be to "quantify how big an issue it is and how rapidly it's spreading and how influential the people hollering are,"[27] while allowing for the degree of consensus within the stakeholder group regarding the issue. The firm can then prioritize and formulate a proactive response.

Once these three dimensions have been defined independently, it is necessary for the manager to consider them in combination to determine how the firm should proceed. This is achieved by considering the three factors in terms of three dimensions on the same matrix—strategic relevance, issue evolution, and stakeholder motivation. *Strategic relevance* captures how important the issue is to the firm—in other words, how proximal it is to the firm's core competency or source of competitive advantage. This dimension is plotted along the *y*-axis of Figure 4.3. *Issue evolution* captures the extent to which an issue has become institutionalized—in other words, the extent to which the issue has become accepted business practice. This dimension is plotted along the *x*-axis of Figure 4.3. Finally, *stakeholder motivation* captures how important the issue is to each stakeholder—in other words, how likely that group is to act. This dimension is captured in terms of degree of intensity—the more motivated the stakeholder is to act, the darker the color of the circle that represents that stakeholder. These three dimensions form the dominant variables that help managers react to stakeholder demands. Additional prioritization is achieved by plotting each of the stakeholders on Figure 4.3 according to whether they are organizational (the largest circles), economic (the medium circles), or societal (the smallest circles).

The extent to which a firm should respond to a stakeholder demand for change with substantial action is determined at the intersection of these three dimensions. Importantly, this framework should be embedded within a culture of outreach to stakeholders that allows firms to understand their evolving concerns and assess the level of importance of each issue to each stakeholder on an ongoing basis. Ultimately, when strategic relevance, issue evolution, and stakeholder motivation are all high (i.e., a dark circle is located in the upper righthand corner of Figure 4.3), the firm is compelled to act, and act quickly, in order to protect its self-interest (in terms of either avoiding a potential threat or taking advantage of a potential opportunity).[28]

Prioritizing Stakeholders

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

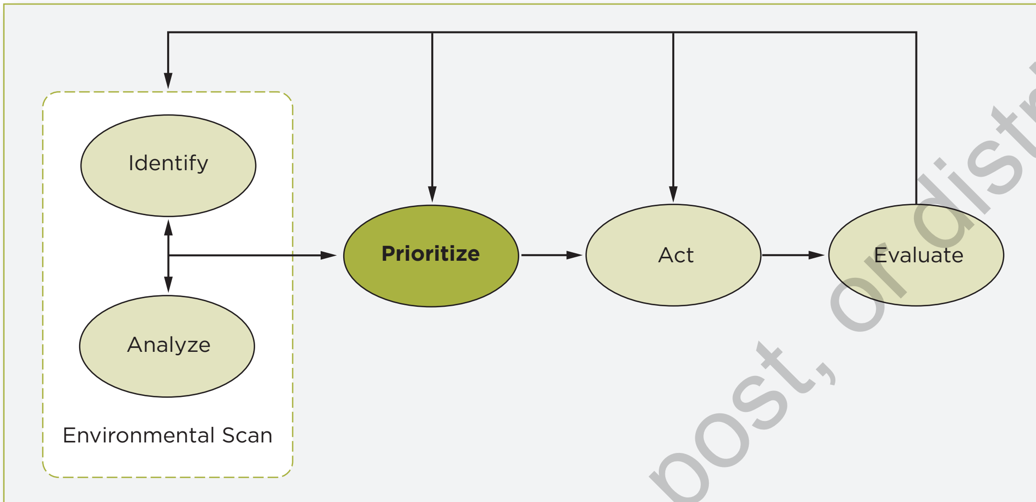
The Five Steps of Stakeholder Prioritization

1. **Identify** and engage the set of stakeholders that are relevant to the firm (Figure 4.1).
2. **Analyze** the nature of the issue to see how it relates to firm operations and what stage it is at in its evolution (Figure 4.2).
3. **Prioritize** among any competing stakeholder interests and demands in relation to the issue at hand (Figure 4.3).
4. **Act** as quickly as is prudent, attempting to satisfy as many stakeholders as possible, in order of priority (while avoiding excessive harm to any one stakeholder).
5. **Evaluate** the effect of the action to optimize the outcomes for the firm and its stakeholders. When necessary, repeat the process (Figure 4.4).

Utilizing these five steps optimizes the practical value of a stakeholder perspective for the firm. The resulting managerial stakeholder model is presented in Figure 4.4.[29]

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

Figure 4.4 The Five Steps of Stakeholder Prioritization



example, while the issue of Exxon's stance on climate change is one that a large number of its stakeholders will feel is relevant to them, it is particularly relevant to Greenpeace. Having said this, Greenpeace has a number of issues that it thinks are important, one of which is Exxon's stance on climate change. While Exxon can analyze the issue of climate change in relation to all of its stakeholders using the frameworks in Figure 4.3 and Figure 4.4, it can also use the same frameworks to analyze Greenpeace in terms of the many issues that are important to the NGO and that affect its relationship with Exxon.

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

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

Strategic CSR Debate

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

QUESTIONS FOR DISCUSSION AND REVIEW

1. What is your definition of a *stakeholder*?
2. Can an individual or a group self-appoint itself as a stakeholder, or does the firm need to recognize it as a stakeholder in order for it to qualify as such?
3. What criteria do you think should be used to prioritize competing stakeholder interests?
4. Of the "five steps of stakeholder prioritization," which step, if missed, is likely to have the most adverse effect on the firm's ability to build effective stakeholder relationships?
5. Using a real-life firm, list its stakeholders and use the model presented in the chapter to prioritize their importance.