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STAKEHOLDER THEORY: THE STATE OF THE ART (1)

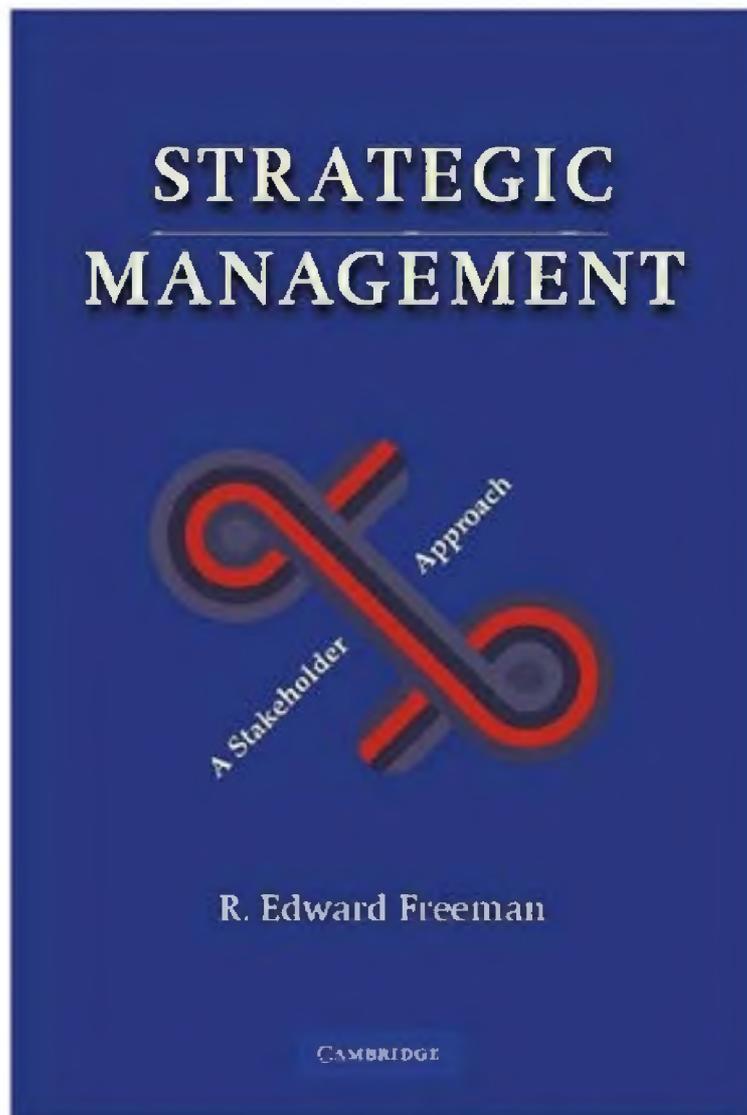


Figure 1: A textbook of Strategic Management: A Stakeholder Approach

STAKEHOLDER THEORY: --- THE STATE OF THE ART (1)

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THE STAKEHOLDER THEORY

This theory has its origins in the early 1960s. The term "stakeholder" first appeared in an internal memo at the Stanford Research Institute (now SRI International, Inc.) in 1963. The term was coined to disprove the notion that stockholders are the only group to whom management must respond. The phrase 'stakeholder' was intended to challenge the notion that stockholders (or shareholders) are the only group to whom management must respond. The Stakeholder Theory, in fact, has been inseparably linked to the concept of strategy since its early establishment.

INTRODUCTION

The Stakeholder Theory is the main theory commonly associated with social issues related to management. Stakeholder Theory is defined as "a theory of organisational management and ethics in which stakeholders and their interactions with the firm are viewed as a series of activities leading to end results that are implicitly valued and morally impacted". Using social drivers and barriers, the Stakeholder Theory considers all individuals who are socially impacted or have a social impact on the firm. This theory was developed by R. Edward Freeman in early 1980s. Freeman's early book, *Strategic Management: A Stakeholder Approach*, which was produced in 1984 was written as a textbook for business policy and strategy courses.

By the late 1970s and early 80s, scholars and practitioners had been focusing on developing management theories to clarify management difficulties involving high levels of uncertainty and change. However, little attention had been paid to the ethical aspects of business or management. Following that, management education was embedded in theories that allowed for reasonable accuracy, prediction, and behavioural control. In this context, Freeman (1984) proposed that managers should have used a diction based on the 'stakeholder' concept. Thus, throughout the 1980's and 1990's Freeman and other scholars shaped these phrases to address these three interconnected problems relating to business:

1. The Problem of Value Creation and Trade: In a rapidly changing and global business context, how is value created and traded? It is the responsibility of the business player to manage and shape these relationships to create as much value as possible for stakeholders and to oversee the distribution of that value.
2. The Problem of the Ethics of Capitalism: What ties exist between capitalism and morality today? Many individuals and groups are affected by this decision; therefore, it is the moral undertaking that should be taken into consideration by all firms.
3. The Managerial Mindset Problem: How should managers think about

management in order to create more value and then explicitly connect business and ethics. A description of management which focuses attention on the creation, maintenance, and alignment of stakeholder relationships may better equip practitioners to create value and avoid moral failures.

ISSUES DISCUSSED

The following are some of the issues that have arisen in relation to the theory:

Issue 1:

It is not a 'theory'

Some argue that it is not a "theory" because theories are linked to collections of testable propositions. Others have argued that the definition of the central term is simply too contentious to ever admit the status of theory. Others have proposed that it is an alternative "theory of the firm" to the shareholder theory.

But the fact is the founder and his team believe in ideology or propositions are true if they are implemented in practice, and whereas unpractical ideas are regarded as untrue by them.

Issue 2:

Managerial opportunism

The second point of contention is whether the Stakeholder Theory can be used as an excuse for managerial opportunism (Jensen, 2000; Marcoux, 2000; Sternberg, 2000). The central claim is that by giving management more groups (stakeholders) to argue (justify) their actions in favour of the Stakeholder Theory, makes it far easier to engage in self-dealing and defend it than if the shareholder theory were the sole purpose.

The founder, however, justifies that there are compelling reasons to believe that the Stakeholder Theory increases managers' accountability because they have more obligations and duties to care for more interest groups, making it difficult to engage in self-dealing. This is evidently more beneficial and impactful for those

stakeholders.

Issue 3:

Concerned with distribution of financial output

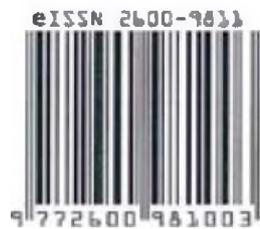
There is an argument that says the Stakeholder Theory is primarily concerned with distribution of financial output (profit) (Marcoux, 2000). The Stakeholder Theory is mostly about who gets the organization's resources. This put shareholders and other stakeholders in a clear and obvious conflict over who gets what.

However, distribution is only a portion of the whole idea. It is more important on the process and procedural justice, which refer to how resources are allocated to find opportunities to create more value.

(To be continued...)

Reference:

Parnos, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Pernal, L., & de Colle, S. (2010). Stakeholder theory: The state of the art. *Academy of Management Annals*, 4(1), 403-445. <https://doi.org/10.1080/19416520.2010.495581>



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