THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE: THEORETICAL APPROACH

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Abstract

Purpose - The aim of this paper is to analyse and evaluate the role of stakeholders in corporate governance from a theoretical perspective. To achieve this goal, the following tasks have been raised: what theories and different approaches emphasize the relationship between stakeholders and the organization (analysis of the theoretical aspects of the stakeholder concept); how stakeholders influence corporate governance decisions (assessment of the external environmental impact on corporate governance); what are the key factors that influence stakeholder action (stakeholders’ role in an organization decision-making process).

Methodology – The theoretical methods (comparative, analytical and systemic).

Findings – Stakeholders have a significant and extensive influence on the corporate governance. Scientific research shows that the role of stakeholders in corporate governance can be negative (e.g. extra disturbances) or positive (e.g. increasing competition). While engaged in decision-making processes organizations need to give power to stakeholders, i.e. the power of influence. This would enable stakeholders to help to achieve sustainable governance of the organization. Stakeholders generally attempt to achieve integrity, transparency, respect, environmental standards and implementation of accounting. They also require a positive resource policy, the involvement and participation of organizations in addressing important social issues such as reduction of social exclusion, community renewal, education and cultural issues, promotion of employee volunteering activities.

Research implications – The list of sources used for comparative analysis is not exhaustive.

Originality – The role of stakeholders in the organization decision-making process is constantly raising scientific debate. The solutions of the changing corporate governance environment must satisfy the needs of management practice. The significance of stakeholders’ role in the organization is taken very seriously by scientists (Gil-Lafuente, Paula, 2013). The scientific analysis that has been carried out will help to better understand the role of stakeholders in the corporate governance and the factors that determine the relationship between stakeholders and the organization.

Key words – Corporate governance, organization, management, stakeholders.

JEL classification: D12, M19, G34.

Introduction

The activities of modern organizations are constantly influenced by various technological, social and economic changes in the market. With the aim to suit the constantly changing market needs organizations analyse the market environment and assess the situation in it. Such organizations pursue the goals to know their consumers, look for opportunities to attract new customers, identify competitors. In other words, organizations respond to any changes in their external environment. Environmental factors particularly affect the stability and further
development of an organization. Therefore, it can be said that the relationship between an organisation and its external environment is a crucial factor in corporate governance.

There are various individuals and groups in the external environment of an organization and their needs and interests have influence on the goals of the organization. Modern business organizations have been becoming increasingly dependent on them. There is a view that an organization can operate in the environment that affects its activities and it cannot operate alone. The individuals and groups of individuals that determine the functioning and development of an organization are called stakeholders. In other words, the application of organization management functions and their changes stem from stakeholder influence. Stakeholders are active individuals who have a direct impact on the organization activities or management. Stakeholders are often actively involved in the activities of the organisation (they make recommendations, give advice, etc.), thus contributing to the improvement of the production (Qureshi et al., 2017). This means that corporate management which has become the key issue in the theory of management rests on the implementation of stakeholder goals and needs. In other words, by meeting the needs of different stakeholders, organizations can increase their financial results or simply make the organization performance more effective (Platonova et al., 2016).

It is emphasized that stakeholders are part of the management strategy relevant to any kind of activity. The objective of the traditional stakeholder management model is to meet the needs of stakeholders as well as achieve the goals of the organization. Therefore, stakeholder management is a framework for managing a wide range of stakeholder relationships.

Changes in the global market affect the overall business microclimate. Organizations strengthen their relationship and trust with stakeholders with the aim for a long-term and responsible operation in the market. However, active scientific discussions on the topic of stakeholder management within the organization have recently been noted. Researchers note that organizations are under pressure from a variety of stakeholders: employees, shareholders, suppliers, customers, communities, media, etc. This is due to the complicated market needs that organizations are unable to meet (Lehtinena, Aaltonen, Rajalaa, 2019). Organizations, therefore, wrongly prepare strategic responses, change their functioning principles and provisions. In other words, stakeholders determine the inefficiency of organizational management activities. Various concepts are evident in the evolution of management practice. These are practice guidelines that emphasize risk management or damage evasion. However, little consideration has been given to the communication process with stakeholders. Today, with the changes in corporate governance paradigm, it is of great importance to re-think and re-evaluate the role of stakeholders in the organizational management process. Systematic methodologies and models are being developed to meet the needs of management practice.

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Organization management in the context of stakeholder influence often becomes inconsistent due to the contradictory risk impact. Therefore, systematic identification of organization stakeholders and the labelling of their characteristics is currently one of the key issues in the research area of practices. It is of great importance not only to understand the needs and expectations of various stakeholders, but also to realize whether the exercise of those expectations will foster the implementation and realization of the organization goals. In other words, because stakeholders have their own interests, the organization must reconcile and implement them, thus achieving mutual benefits. Otherwise, if the needs of stakeholders fail to be satisfied the performance of the organization will become unclear in a long-term perspective. It should be emphasized that R. E. Freeman’s theoretical approach on stakeholders is widely used in research. However, the application of this theory in identification and management of stakeholders within the organization is rather complicated, as it is assumed that all stakeholders can influence the organisation performance as well as be affected by those goals themselves. It is obvious, though, that not all stakeholders can have impact on the performance of an organization. Thus, the key question addressed in this study is: what is the role of stakeholders in the organization decision-making process?

1. Research methodology

The methodology of the research paper employs a descriptive-analytical scientific content analysis. The key methods used are the review of scientific literature and comparative analysis. Data collection has been performed on the basis of scientific literature of over the last decade (2011-2019). Google Search Engine (https://scholar.google.com/) has been used to search for scientific articles. Articles were searched by the following keywords: „Stakeholder Influence“, „Stakeholder Management“, „Stakeholder Theory“, „Stakeholder Analysis“, „Stakeholder Inclusion“, „Stakeholder Roles“. The analysis has been carried out to assess the theoretical aspects of the stakeholder concept, to validate the management of the external environmental impact on the organization, and to identify the issues related to the role of stakeholders in corporate governance.

2. Results

2.1. The concept of stakeholders

The theoretical approaches of stakeholders are diverse. However, in the analysis of stakeholder performance within an organization most scientists refer to the concept worked out by R. E. Freeman (1984). Freeman points out that stakeholders can determine the performance of an organization and vice versa (Crane, Ruebottom, 2011). Today the term stakeholder is very popular
in research that discusses stakeholder significance. The concept of stakeholder has become a significant issue in business, however, there is no consensus on what this concept is. Empirical and theoretical research reveals conflicts of interest between managers and stakeholders or stakeholders themselves. In this way, researchers focus on different issues and no emphasis is placed on stakeholder influence toward an organization (Eskerod et al., 2015; Miles, 2012; Derry, 2012).

Contemporary scientific research provides the following definitions of a stakeholder within an organization:

- stakeholders are the public or relevant markets that the organization interacts with (Dickinson-Delaporte, Beverland and Lindgreen, 2010);
- stakeholders are individuals or groups of individuals that contribute to the well-being of an organization in a voluntary or involuntary way and are potential profit or risk generators (Gil-Lafuente, Paula, 2013);
- the success of an organization depends on how well the organization manages the relationship with such key groups as customers, employees, suppliers, communities, financiers, and others that may affect the implementation of the organization goals (Ditlev-Simonsen and Wenstøp, 2013);
- stakeholder theory underlines that decisions and performance of an organization are greatly influenced by the involvement of many different stakeholders (Matos and Silvestre, 2013);

Stakeholder theory examines the relationship between organizations and stakeholders with respect to interest and interaction (Viveros, 2017). It is emphasized that stakeholder theory has become the basis for stakeholder pressure to implement good quality strategies with the purpose to improve financial performance, thereby ensuring a competitive edge over other organizations (Wang et al., 2016); (Cordeiro and Tewari, 2015).

Of great significance is the concern that today organizational processes are explained with respect to moral and value provisions that allow to determine the management processes in an organizational unit. Stakeholder theory has created a link between the elements of an organizational unit and the coherence of processes. It is argued that the importance of stakeholders for the effective management of an organization is significant as it influences long-term strategic goals (Aarseth et al. 2011; Freeman, 1984). In other words, the direct involvement of stakeholders into strategic decision-making process within an organization is crucial to the success of the organization (Theodoulidis, Diaz, Crotto, & Rancati, 2017). The emphasis is laid on the need for interaction between an organization and stakeholders, thus strengthening mutual cooperation and understanding each other's needs (Blok et al., 2015). Cooperation and proper management of communication with stakeholders is a paramount step towards success in business (Baugh, 2015).
Stakeholders can be found in every modern business organization. Researchers agree that stakeholders are an integral part of business in an organization. They can be both inside and outside the organization. Stakeholder management in the context of an organization requires a great deal of skill as it is necessary not only to correctly identify stakeholders, but also to define their expectations, threats, opportunities for positive impact as well as develop and implement the strategy for managing the mutual relationship (Ferenca et al., 2017). It has been affirmed that stakeholders always have different expectations that relate to a particular organization. Their expectations are most often associated with value-creation, expression of social responsibility. There is a link between stakeholder personal expectations and financial resources of organizations, their performance results (Darškuvienė, Bendoraitienė, 2013).

Researchers agree that stakeholder analysis is fundamental to ensure successful management of an organization. Otherwise there is a risk in social, managerial and economic development of an organization. In other words, "business culture is based on the identification of all the parties involved in the process that facilitate political and social renewal" (Gil-Lafuente, Paula, 2013). However, it has been emphasized that, although the identification of stakeholders is beneficial, it often makes the corporate governance process more difficult. Besides, it is also problematic and sometimes even impossible to name all the potential stakeholders in an organization. This is due to a variety of industries, organizations, geographic locations, specific situations, problems and time (Gil-Lafuente, Paula, 2013). Researchers admit that there are no guidelines that can easily identify and classify stakeholders into groups according to their nature or situation (Fiedler, Kirchgeorg, 2007).

The differences between stakeholders with regard to the level of their involvement in the organization performance are of significant relevance in relation to the management of an organization. Shareholders that are more interested in the financial activities of the organization (profit, efficiency, financial returns) are usually named as employees, owners, managers, shareholders, board. Their relevance is tremendous. Thus, if an organization failed to meet the expectations, the organization performance activities would possibly cease and consequently the economic value of the organization would be reduced. In other words, the key stakeholders are the individuals or groups of individuals that play a principal role in business performance and have a direct impact on the organization. Other stakeholders are concerned with the issues related to value, quality, satisfaction, long-term relationship, ethical and moral performance, financial support, etc. They can be either subject to the management of the organization or they can affect the decision-taking process themselves. Researchers acknowledge that these stakeholders cover the following groups: consumers, suppliers, business partners, the community, society, competitors, government, special interest groups, traders, business associations, government regulatory agencies, financial
institutions, analysts. These stakeholders do not necessarily have a direct connection with the organization, yet they can affect key stakeholders of the organization. In other words, these stakeholders are not constantly involved in transactions with the organization. Their relevance is understood only in the context of mutual relationship with the organization (Florea, Florea, 2013; Stahl, 2013; Shontaite, 2011; Changsu et al., 2018).

2.2. Managing an organization in the context of stakeholders

Today the interaction between an organization and external environment is inevitable. Most management theoreticians emphasize that for decades the focus has been on the internal aspects within organizations. However, in the context of globalization, organizations are increasingly exposed to external environment. Global business environment conditions require established organizations to continue introduction of innovations to fit their markets (Morris, Kurat-ko, & Covin, 2011). The ability to adapt to changes determines the success of the organization. One of the key factors in the organization external environment is stakeholders. It is emphasized that in the modern business market, stakeholders play a significant role in the process of organization management. The stakeholder impact on the organization can be either negative (e.g., extra disturbances) or positive (e.g., increase of competition). In other words, the results that the organisation can achieve are directly affected by the organisation relationship with stakeholders (Masoa, Mazzib and others, 2018).

Prior research has looked into stakeholder role in the management and development of an organization (Mol and Birkinshaw, 2014; Lacoste, 2016; Töyttri, Rajala, & Alejandro, 2015; Mackelprang, Robinson, Bernardes, & Webb, 2014; Reypens, Lievens & Blazevic, 2016; Aaltonen, Kujala, Havela, and Savage, 2015; Rampersad, Quester, & Troshani, 2010; Meynhardt, Chandler, & Strathoff, 2016) with increasing focus on external stakeholder engagement in various contexts, including innovation management, marketing, complex product systems, service value creation, project management, supply chain management and external stakeholder involvement. Scientific research witnesses a growing theoretical and empirical interest on the topic of stakeholder integration in the management of an organization (Erdiaw-Kwasie, Alam, and Kabir, 2017; Li, Xia, & Zajac, 2018).

It is claimed that organizations are increasingly engaging stakeholders in decision-making process on the issues related to innovations and performance results. Engagement is defined as the exchange of views between stakeholders. Stakeholder engagement in decision-making processes is becoming more open and focused on sustainable development. At the same time, organizations can "manage" and set priorities to stakeholders (Ribeiro et al., 2018; Lubberink et al., 2017; Goldsby et
al., 2018). The long-term performance of an organization depends on the effective management of stakeholder relations (Rodriguez-Melo, Mansouri, 2011; Meding et al. 2013).

Studies have shown that some organizations experience pressure from stakeholders. This depends on the power and functioning of the stakeholders. Although they may be controversial, they are still significant. Helmig and others (2013) explain that stakeholder pressure is the ability of stakeholders to influence decision-making process within an organization. "Dangerous" stakeholders pose risk to the organization performance. The role of stakeholders in corporate governance needs to be further explored.

Researchers distinguish "power" as a key aspect of stakeholder management. Power means the influence that stakeholders express in relation to the organization decision-making process. In 2010, Heiko Spitzeck and Erik G. Hansen examined 46 stakeholder management practices within organizations that had set up stakeholder participation mechanisms, taking into account the models of management structures and stakeholder influence on organizational decision-making. They claimed that most stakeholders were advisory and not always involved in innovation programs. Only few organizations give stakeholders an extensive power in shaping organizational decisions. Therefore, in order to make stakeholder management sustainable, organizations need to give stakeholders “real” power to address issues that are important to them (Spitzeck, Hansen, 2010).

Previous studies have shown that stakeholder role in the organization management can be multifaceted (Kanopka, 2015). Stakeholders can be considered dormant, discretionary, demanding, dominant, dependent, dangerous, definite.

- Dormant stakeholders have the power to influence decisions, however they lack legitimacy and relevant needs and therefore do not exploit this potential;
- Discretionary stakeholders stand out for their legitimacy, yet they do not have relevant needs and powers. They are often the organization beneficiaries in the context of corporate philanthropy and corporate social responsibility.
- Demanding stakeholders usually have relevant requirements, however, they have neither power nor legitimacy;
- Dominant stakeholders are characterized by both power and legitimacy. Not only do they have legitimate requirements, but also real opportunities to achieve them;
- Dependent stakeholders have legitimate and relevant requirements, however, the implementation of the latter depends on other stakeholders;
- Dangerous stakeholders have power and requirements, yet they lack legitimacy;
• The most paramount type of stakeholders is definite stakeholders, which are empowered with all three features: they can raise critical and legitimate demands and they have sufficient power to implement them.

The role of stakeholders in an organization is, in many cases, based on a special tactic and manifested by pressure and the desire to change the organisation performance. Stakeholder behaviour is often associated with pressure from stakeholders. In other words, action tactics are used to change organizational positions. Stakeholder pressure is the possibility and ability of stakeholders to influence the organization in the decision-making process. The relationship between an organization and stakeholders rests on dependence of resource theory. In other words, the organisational relationship is based on reliance on certain resources, which are of great relevance to an organization. Such interdependence between stakeholders and an organization is expressed by two main factors: resources, i.e. something that is of great value for the organization, and the organisational dependence on stakeholders who can provide these resources (Wolf, 2014).

In their research M. Lango and others (2005) list four groups of stakeholders with a direct impact on organizations. They cover customers, suppliers, employees and community. Other researchers, J. Andriof and Waddock (2002), classify the stakeholder impact on the organization into three areas: environmental, economic, social. In the environmental context, stakeholders pursue integrity, transparency, respect, environmental standards and implementation of accounting. In a social responsibility environment, stakeholders require a positive resource policy, the involvement and participation of an organization in addressing important social issues such as reduction of social exclusion, community renewal, education and cultural issues, promotion of employee volunteering activities. In terms of economic responsibility, stakeholders attempt to increase value, income, wealth growth, work, implementation of ethical trade or advertising standards. Stakeholder impact is also classified in terms of stakeholder resources and organizational resources. Employees, investors and clients are most noticeable groups, since their needs are most important to the organization (Post et al. 2002).

The role of stakeholders in decision-making or performance is in many cases analysed on the basis of stakeholder theory. The organization is recognized here as a complex stakeholder system encompassing their rights, objectives, needs and responsibilities (Mutti et al. 2011). While analysing stakeholder impact on organizational performance scientists refer to Theory of Limited Resources and Theory of Social Movement. The Theory of Limited Resources states that stakeholders that are directly involved in the resource supply and distribution activities become the most relevant party in the performance and development processes of organizations (Helmig et al. 2013). Scientists prove that such stakeholders as shareholders, employees, suppliers and clients have direct contact with the organization and can access the company resources. They participate in
resources supply and redistribution activities and thus can influence the organizational performance. They expect some benefit, collaboration opportunities or access to organizational or public resources. Organizations that fail to satisfy these needs induce stakeholders to take measures to adversely affect the management of the organization. This stakeholder group has a significant and direct impact on the decision-making and implementation process within organizations (Brower, Mahajan, 2012). Other stakeholders (e.g. community, media, NGOs, activists) have no direct relationship with the organization and are not directly involved in the resource supply or distribution processes. Therefore, their influence can only occur in cases of cooperation, strikes, boycotts or judicial processes. Their access to organizational resources is not direct, thus the impact and pressure on the company are also indirect. They do not have the necessary power and legitimacy to express their needs. The theory of social movement rests on collective behaviour characterized by coordinated behaviour of actors. It speaks about one or more individuals who pursue their individual needs as well as common implementation goals. This theory discusses the conditions that make external persons to become influential social groups, and assesses the impact these groups express on social and political change. Without collective action, the influence of stakeholders on the organization would not make sense, as without the consensus, stakeholders would only be individuals without any consistent interest in the organisation behaviour. Stakeholders join and establish collective groups. The key forms of their influence are protests, boycotts, public demonstrations, etc. (Vasi, King, 2012).

It should be noted that the influence of stakeholders can be passive and aggressive. Passive stakeholder influence includes letter-writing, collaborative processes, and stakeholder voting. Behaviour dominates the actions of religious groups or shareholders. Aggressive stakeholder influence is manifested via strikes, protests, boycotts, judicial actions. The latter stakeholder behaviour is more influential and has a greater impact on corporate governance than passive stakeholder behaviour. The expression of this form of influence has the potential to directly increase the organizational operating costs by increasing public relations expenses or legal fees. Boycotts, strikes and protests attract extra attention from the bodies that regulate the organization and negatively affect the reputation of organizations, their ability to attract or retain customers, employees or shareholders. (Eesley, Lenox, 2005).

3. Conclusions

Management theoreticians analyse the changing corporate governance environment since they recognize the importance of stakeholder roles. Stakeholders have a significant and extensive influence on the corporate governance. In the scientific literature, the concept of stakeholders is
based on the most universal concept that was presented by R.E. Freeman. The conceptual nature of stakeholders has been developed, which looks into the influence of individuals on the organization or the functioning that is influenced by the goals of the organization. It is a rather complicated and dynamic construct that manifests itself through the interconnection of interacting parties and which should facilitate corporate governance.

Scientific research shows that the role of stakeholders in corporate governance can be negative (e.g. extra disturbances) or positive (e.g. increasing competition). It depends on the effective involvement of stakeholders in decision-making processes. In this way, organizations “manage” stakeholders and set priorities for them. While engaged in decision-making processes organizations need to give power to stakeholders, i.e. the power of influence. This would enable stakeholders to help to achieve sustainable governance of the organization. Otherwise, stakeholder tactics will have the expression of pressure and the desire to change the activities in the organization.

Stakeholders can be passive or aggressive in relation to the decision-making process within an organization. Passive stakeholder influence includes letter-writing, collaborative processes, and stakeholder voting. Aggressive stakeholder influence is manifested via strikes, protests, boycotts, judicial actions. The latter stakeholder behaviour is more influential and has a greater impact on corporate governance than passive stakeholder behaviour.

Stakeholders generally attempt to achieve integrity, transparency, respect, environmental standards and implementation of accounting. They also require a positive resource policy, the involvement and participation of organizations in addressing important social issues such as reduction of social exclusion, community renewal, education and cultural issues, promotion of employee volunteering activities. They find significance in the increase of the value and income, growth of wealth, work, implementation of ethical trade or advertising standards.

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