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Stockholders and Stakeholders: A New Perspective on Corporate Governance

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The purpose of this article is to show how the concept of stakeholders in an organization can be used to understand the tasks of the board of directors. The authors argue that a volunteeristic approach to questions of corporate governance which focuses on effective director behavior is preferable to structural change via legislation.

Management thought has changed dramatically in recent years. There have been, and are now underway, both conceptual and practical revolutions in the ways that management theorists and managers think about organizational life.[1] The purpose of this article is to understand the implications of one of these shifts in world view; namely, the shift from "stockholder" to "stakeholder."

The Stakeholder Concept

It has long been gospel that corporations have obligations to stockholders, holders of the firm's equity, that are sacrosanct and inviolable. Corporate action or inaction is to be driven by attention to the needs of its stockholders, usually thought to be measured by stock price, earnings per share, or some other financial measure. It has been argued that the proper relationship of management to its stockholders is similar to that of the fiduciary to the *cestui que trustent,* whereby the interests of the stockholders should be dutifully cared for by management.[2] Thus, any action taken by management must ultimately be justified by whether or not it furthers the interests of the corporation and its stockholders.

There is also a long tradition of departure from the view that stockholders have a privileged place in the business enterprise. Berle and

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Means were worried about the "degree of prominence entitling (the corporation) to be dealt with as a major social institution."[3] Chester Barnard argued that the purpose of the corporation was to serve society, and that the function of the executive was to instill this sense of moral purpose in the corporation's employees.[4] Public relations and corporate social action have a history too long to be catalogued here.[5] However, a recent development calls for a more far-reaching change in the way that we look at corporate life, and that is the good currency of the idea of "stakeholders."

The stakeholder notion is indeed a deceptively simple one. It says that there are other groups to whom the corporation is responsible in addition to stockholders: those groups who have a *stake* in the actions of the corporation.[6] The word *stakeholder*, coined in an internal memorandum at the Stanford Research Institute in 1963,[7] refers to "those groups without whose support the organization would cease to exist." The list of stakeholders originally included shareowners, employees, customers, suppliers, lenders, and society. Stemming from the work of Igor Ansoff and Robert Stewart (in the planning department at Lockheed) and, later, Marion Doscher and Stewart (at SRI), stakeholder analysis served and continues to serve an important function in the SRI corporate planning process.

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From the original work at SRI, the historical trail diverges in a number of directions. One recent author was forced to claim, "The precise origins of stakeholder theory are impossible to determine."[8] In his now classic *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion*, Igor Ansoff makes limited use of the theory.

> While as we shall see later, "responsibilities" and "objectives" are not synonymous, they have been made one in a "stakeholder theory" of objectives. This theory maintains that the objectives of the firm should be derived by balancing the conflicting claims of the various "stakeholders" in the firm: managers, workers, stockholders, suppliers, vendors.[9]

Ansoff credits Abrams and Cyert and March with a similar view,[10] but goes on to reject the stakeholder theory in favor of a view which separates objectives into "economic" and "social" with the latter being a "secondary modifying and constraining influence" on the former.

For the most part the development of the stakeholder concept was slow during the late sixties and early seventies, except for the continued work at SRI by a number of researchers and consultants. A notable exception is the work of Eric Rhenman in Sweden, who applied the concept to industrial democracy.[11]

In the mid-1970s, researchers in systems theory, led by Russell Ackoff "rediscovered" stakeholder analysis, or at least took Ansoff's admonition more seriously.[12] Propounding essentially an open systems view of organizations, Ackoff argues that many social problems can be solved by the redesign of fundamental institutions with the support and interaction of stakeholders in the system.

A second trail from Ansoff's original reference is the work of William Dill, who in concert with Ackoff, sought to move the stakeholder concept from the periphery of corporate planning to a central place. In 1975 Dill argued:

> For a long time, we have assumed that the views and the initiative of stakeholders could be dealt with as externalities to the strategic planning and management process: as data to help management shape decisions, or as legal and social constraints to limit them. We have been reluctant, though, to admit the idea that some of these outside stakeholders might seek and earn active roles with management to make decisions. The move today is from *stakeholder influence towards stakeholder participation.*[13]

Dill went on to set out a role for strategic managers as communicators with stakeholders and considered the role of adversary groups such as Nader's Raiders in the strategic process. For the most part, until Dill's paper, stakeholders had been assumed to be nonadversarial, or adversarial only in the sense of labor-management relations. By broadening the notion of stakeholder to "people outside . . . who have ideas about what the economic and social performance of the enterprise should include," Dill set the stage for the use of the stakeholder concept as an umbrella for strategic management.

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A related development is primarily responsible for giving the stakeholder concept a boost; namely, the increase in concern with the social involvement of business. The corporate social responsibility movement is too diverse and has spawned too many ideas, concepts, and techniques to explain here.[14] Suffice it to say that the social movements of the sixties and seventies—civil rights, the antiwar movement, consumerism, environmentalism, and women's rights—served as a catalyst for rethinking the role of the business enterprise in society. From Milton Friedman to John Kenneth Galbraith, there are a diversity of arguments. However, one aspect of the corporate social responsibility debate is particularly relevant to understanding the good currency of the stakeholder concept.

In the early 1970s the Harvard Business School undertook a project on corporate social responsibility. The output of the project was voluminous, and of particular importance was the development of a pragmatic model of social responsibility called "the corporate social responsiveness model."[15] It essentially addressed Dill's question with respect to social issues: "How can the corporation respond proactively to the increased pressure for positive social change?" By concentrating on responsiveness instead of responsibility, the Harvard researchers were able to link the analysis of social issues with the traditional areas of strategy and organization.

By the late 1970s the need for strategic management processes to take account of nontraditional business problems in terms of government, special interest groups, trade associations, foreign competitors, dissident shareholders, and complex issues such as employee rights, equal opportunity, environmental pollution, consumer rights, tariffs, government regulation, and reindustrialization had become obvious. To begin to develop these processes, The Wharton School began, in 1977 in its Applied Research Center, a "stakeholder project." The objectives of the project were to put together a number of strands of thought and to develop a theory of management which enabled executives to formulate and implement corporate strategy in turbulent environments. Thus, an action research model was used whereby stakeholder theory was generated by actual cases.

To date the project has explored the implications of the stakeholder concept on three levels: as a management theory; as a process for practitioners to use in strategic management; and as an analytical framework.

At the theoretical level the implications of substituting *stakeholder* for *stockholder* needs to be explicated. The first problem at this level is the actual definition of *stakeholder*. SRI's original definition is too general and too exclusive to serve as a means of identifying those external groups who are strategically important. The concentration on generic stakeholders, such as society and customers, rather than specific social interest groups and specific customer segments produces an analysis which can only be used as a background for the planning process. Strategically useful information about the actions, objectives, and motivations of specific groups, which is needed if management is to be responsive to stakeholder concerns, requires a more specific and inclusive definition.

We propose two definitions of *stakeholder*: a wide sense, which includes groups who are friendly or hostile, and a narrow sense, which captures the essence of the SRI definition, but is more specific.[16]

- *The Wide Sense of Stakeholder*: Any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives. (Public interest groups, protest groups, government agencies, trade associations, competitors, unions, as well as employees, customer segments, shareowners, and others are stakeholders, in this sense.)
- *The Narrow Sense of Stakeholder*: Any identifiable group or individual on which the organization is dependent for its continued survival. (Employees, customer segments, certain suppliers, key government agencies, shareowners, certain financial institutions, as well as others are all stakeholders in the narrow sense of the term.)

While executives are willing to recognize that employees, suppliers, and customers have a stake in the corporation, many resist the inclusion of adversary groups. But from the standpoint of corporate strategy, *stakeholder* must be understood in the wide sense: strategies need to account for those groups who can affect the achievement of the firm's objectives. Some may feel happier with other words, such as *influencers*, *claimants*, *publics*, or *constituencies*. Semantics aside, if corporations are to formulate and implement strategies in turbulent environments, theories of strategy must have concepts, such as the wide sense of *stakeholder*, which allow the analysis of all external forces and pressures whether they are friendly or hostile.[17] In what follows we will use *stakeholder* in the wide sense, as our primary objective is to elucidate the questions of corporate governance from the perspective of strategic management.

A second issue at the theoretical level is the generation of prescriptive propositions which explain actual cases and articulate regulative principles for future use. Thus, a *post hoc* analysis of the brewing industry and the problem of beverage container legislation, combined with a similar analysis of the regulatory environments of public utilities have led to some simple propositions which serve as a philosophical guideline for strategy formulation.[18] For example:

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- Generalize the marketing approach: understand the needs of each stakeholder, in a similar fashion to understanding customer needs, and design products, services, and programs to fulfill those needs.
- Establish negotiation processes: understand the political nature of a number of stakeholders, and the applicability of concepts and techniques of political science, such as coalition analysis, conflict management, and the use and abuse of unilateral action.
- Establish a decision philosophy that is oriented towards seizing the initiative rather than reacting to events as they occur.
- Allocate organizational resources based on the degree of importance of the environmental turbulence (the stakeholders' claims).

Other prescriptive propositions can be put forth, especially with respect to issues of corporate governance. One proposition that has been discussed is to "involve stakeholder groups in strategic decisions," or "invite stakeholders to participate in governance decisions." While propositions like this may have substantial merit, we have not examined enough cases nor marshalled enough evidence to support them in an unqualified manner. There are cases where participation is appropriate. Some public utilities have been quite successful in the use of stakeholder advisory groups in matters of rate setting.[19] However, given the breadth of our concept of stakeholder we believe that co-optation through participation is not always the correct strategic decision.

The second level of analysis is the use of stakeholder concepts in strategy formulation processes. Two processes have been used so far: the Stakeholder Strategy Process and the Stakeholder Audit Process. The Stakeholder Strategy Process is a systematic method for analyzing the relative importance of stakeholders and their cooperative potential (how they can help the corporation achieve its objectives) and their competitive threat (how they can prevent the corporation from achieving its objectives). The process is one which relies on a behavioral analysis (both actual and potential) for input, and an explanatory model of stakeholder objectives and resultant strategic shifts for output. The Stakeholder Audit Process is a systematic method for identifying stakeholders and assessing the effec-

Table 1. Classical Grid

Power Stake	Formal or Voting	Economic	Political
Equity	• Stockholders • Directors • Minority interests		
Economic	• Debt holders	• Customers • Competitors • Suppliers • Unions	• Foreign governments
Influencers			• Consumer advocates • Government • Nader's Raiders • Sierra Club • Trade associations

tiveness of current organizational strategies.[20] By itself, each process has a use in the strategic management of an organization. Each analyzes the stakeholder environment from the standpoint of organizational mission and objectives and seeks to formulate strategies for meeting stakeholder needs and concerns.

The use of the stakeholder concept at the analytical level means thinking in terms which are broader than current strategic and operational problems. It implies looking at public policy questions in stakeholder terms and trying to understand how the relationships between an organization and its stakeholders would change given the implementation of certain policies.

One analytical device depicts an organization's stakeholders on a two-dimensional grid map. The first dimension is one of "interest" or "stake" and ranges from an equity interest to an economic interest or marketplace stake to an interest or stake as a "kibitzer" or influencer.[21] Shareowners have an equity stake; customers and suppliers have an economic stake; and single-issue groups have an influencer stake. The second dimension of a stakeholder is its power, which ranges from the formalistic or voting power of stockholders to the economic power of customers to the political power of special interest groups. By *economic power* we mean "the ability to influence due to marketplace decisions" and by *political power* we mean "the ability to influence due to use of the political process."[22]

Table 1 represents this stakeholder grid graphically. It is of course possible that a stakeholder has more than one kind of both stake and power, especially in light of the fact that there are stakeholders who have multiple roles. An employee may be at once shareholder, customer, employee, and even kibitzer. Table 1 represents the prevailing world view. That is, shareholders and directors have formal or voting power;

Table 2. "Real World" Stakeholder Grid

Power Stake	Formal or Voting	Economic	Political
Equity	• Stockholders • Directors • Minority interests		• Dissident stockholders
Economic		• Suppliers • Debt holders • Customers • Unions	• Local governments • Foreign governments • Consumer groups • Unions
Influencers	• Government • SEC • Outside directors	• EPA/OSHA	• Nader's Raiders • Government • Trade associations

customers, suppliers, and employees have economic power; and government and special interest groups have political power. Moreover, management concepts and principles have evolved to treat this "diagonal case." Managers learn how to handle stockholders and boards via their ability to vote on certain key decisions, and conflicts are resolved by the procedures and processes written into the corporate charter or by methods which involve formal legal parameters. Strategic planners, marketers, financial analysts, and operations executives base their decisions on marketplace variables, and an entire tradition of management principles is based on the economic analysis of the marketplace. Finally, public relations and public affairs managers and lobbyists learn to deal in the political arena. As long as the real world approximately fits into the diagonal, management processes may be able to deal effectively with them. A more thoughtful examination, however, reveals that Table 1 is either a straw man or that shifts of position have occurred. In the auto industry, for instance, one part of government has acquired economic power in terms of the imposition of import quotas or the trigger price mechanism. The Securities and Exchange Commission might be looked at as a kibitzer with formal power in terms of disclosure and accounting rules. Outside directors do not necessarily have an equity stake, especially those women, minorities, and academics who are becoming more and more normal for the boards of large corporations. Some kibitzer groups are buying stock and acquiring an equity stake, and while they also acquire formal power, their main source of power is still political. Witness the marshalling of the political process by church groups in bringing up, at annual meetings, issues such as selling infant formula in the Third World or investing in South Africa. Unions are using their political power as well as their formal clout as managers of large portions of pension funds to influence the company. Customers are being organized by consumer advocates to exercise the voice option and to politicize the marketplace. In short, the real world looks more like Table 2. (Of course, each organization will have its own individual grid.) Thus, search for alternative applications of traditional management processes must begin, and new concepts and techniques are needed to understand the shifts that have occurred and to manage in the new environment.

The second problem which Table 1 illustrates is the complexity of some issues and the lack of clear solutions, which make it necessary to adapt the tricks of the trade of one box on the diagonal to a different box. Thus, Ian MacMillan has argued that elements of strategic planning such as "Strengths, Weaknesses, Opportunities and Threats Analysis" can be applied to the pure political case.[23] There is a long tradition of applying economic analysis to policy questions,[24] and we are beginning to see the application of political concepts to economic questions, via recent discussions of codetermination and quality of working life.[25]

Finally, there is a need to develop new and innovative management processes to deal with the current and future complexities of management issues. At the theoretical level, stakeholder analysis has been developed to enrich the economic approach to corporate strategy by arguing that kibitzers with political power must be included in the strategy process. At the strategic level, stakeholder analysis takes a number of groups into account and analyzes their strategic impact on the corporation. Tables 1 and 2 suggest two additional applications. The first is the analysis of the policy questions in corporate democracy, the subject of the next section; and the second is the analysis of the complex issues of conflicts in ownership interests and the resulting generation of policy and strategic alternatives.

Stakeholder Analysis and Corporate Democracy

The debate on corporate governance and, in particular, corporate democracy has recently intensified. Proposals have been put forth to make the corporation more democratic, to encourage shareholder participation and management responsiveness to shareholder needs, and to make corporations more responsive to other stakeholder needs and, hence, to encourage the participation of stakeholders in the governance process. Reforms from cumulative voting to audit committees have been suggested.[26]

Corporate democracy has come to have at least three meanings over the years, which prescribe that corporations should be made more democratic: by increasing the role of government, either as a watchdog or by having public officials on boards of directors; by allowing citizen or public participation in the managing of its affairs via public interest directors and the like; or by encouraging or mandating the active participation of all or many of its shareholdrs. The analysis of the preceding section has implications for each of these levels of democratization.

The propositions of stakeholder analysis advocate a thorough understanding of a firm's stakeholders (in the wide sense) and recognize that there are times when stakeholders must participate in the decision-making process. The strategic tools and techniques of stakeholder analysis yield a method for determining the timing and degree of such participation. At the absolute minimum this implies that boards of directors must be aware of the impact of their decisions on key stakeholder groups. As stakeholders have begun to exercise more politicial power and as marketplace decisions become politicized, the need for awareness to grow into responsiveness has become apparent. Thus, the analytical model can be used by boards to map carefully the power and stake of each group. While it is not the proper role of the board to be involved in the implementation of tactical programs at the operational level of the corporation, it must set the tone for how the company deals with stakeholders, both traditional marketplace ones and those who have political power. The board must decide not only whether management is managing the affairs of the corporation, but indeed, what are to count as the affairs of the corporation. This involves assessing the stake and power of each stakeholder group.

Much has been written about the failure of senior management to think strategically, competitively, and globally. Some have argued that American businesspersons are "managing [their] way to economic decline."[27] Executives have countered the critics with complaints about the increase in the adversarial role of government and in the number of hostile external interest groups. Yet if the criteria for success for senior executives remains fixated on economic stakeholders with economic power and on short-term performance on Wall Street, the rise of such a turbulent political environment in a free and open society should come as no surprise. If the board sees itself as responsive only to the shareholder in the short term, senior management will continue to manage towards economic decline.[28] We have argued that the problem of governing the corporation in today's world must be viewed in terms of the entire grid of stakeholders and their power base. It is only by setting the direction for positive response and negotiation at the board level that the adversarial nature of the business-government relationship can be overcome.

If this task of stakeholder management is done properly, much of the air is let out of critics who argue that the corporation must be democratized in terms of increased direct citizen participation. Issues which involve both economic and political stakes and power bases must be addressed in an integrated fashion. No longer can public affairs, public relations, and corporate philanthropy serve as adequate management tools. The penalties of only "doing good" and "having a positive image" are enormous in the wake of OPEC, Love Canal, and OSHA. The sophistication of interest groups who are beginning to use formal power mechanisms, such as proxy fights, annual meetings, the corporate charter, to focus the attention of management on the affairs of the corporation has increased. [29] Responsive boards will seize these opportunities to learn more about those stakeholders who have chosen the option of voice over the Wall Street Rule. As boards direct management to respond to these concerns, to negotiate with critics, to trade off certain policies in return for positive support, the pressure for mandated citizen participation will subside.

In addition to the implications of the stakeholder concept for proposed policy change in corporate democracy and in the context which stakeholder theory sets for the role of the boards, we believe that our analysis has implications for the current state of the art in the board room.

Conflicting Interests and the Board

The implications of stakeholder analysis for the practical affairs of the corporation and its advisors can perhaps best be illustrated by exploring examples of conflict within the ownership groups of corporations. We believe that stakeholder analysis can be as valuable in addressing these conflicts as in dealing with groups external to the corporation who are seeking increased voice in its operations.

Given the significance of the voting machinery within the corporation, it is not surprising that many of these internal corporate conflicts take the form of the traditional proxy fight. Over the past two decades, however, a number of techniques have been developed in contests for corporate control. These tactics include: direct appeal to shareholder economic interests through tender offers, issuance of blocks of shares to employees, employee stock ownership plans or other "friendly" holders, "secondary" boycotts of organizations represented on a corporation's board, and "freezing-out" certain board members from crucial decisions.[30] While these tactics span a broad area of the law and are not usually lumped together, from the perspective of the analysis presented here, they share the aspect of a conflict within the ownership group of the corporation. Such a conflict raises fundamental questions of the affairs of the corporation and more fundamentally of the identity of the corporation and presents especially thorny issues for the board of directors, its advisors and counselors. For the present, the variety of these conflicts will be analyzed to show the strengths and weaknesses of these techniques.

Conflicts within the Board

Over the past few years a number of examples of disputes on boards of directors have been serious enough to erupt into the press. The most notorious of these disputes, perhaps, occurred at Beatrice Foods, a huge Chicago-based food conglomerate, in the context of a transition of chief executives.[31]

Beatrice Foods had been rather slow over the years in reorganizing its board of directors away from the insider-dominated board of the past. A company that grew largely by acquisitions, first under William G. Karnes and then under Wallace N. Rasmussen, Beatrice owed much of its success to the strength and character of its chief executives and presented them with hand-picked boards to do their bidding. In 1978, facing a Securities and Exchange Commission investigation into kickbacks to dairy customers of tools and techniques or through lack of courage or stamina, have taken passive attitudes and allowed management to strike its own bargains.

In recent months, a number of courts have begun to increase their surveillance of the activities of boards of directors through a trend toward discarding certain aspects of the so-called business judgment rule.[41] Over the same period, the Corporate Democracy Act received some modest support in Congress. It is clear that corporate boards and their advisors are not persuading the other interested parties in the corporate governance arena that their stewardships of corporations is satisfactory. We contend that much of this failure is due to a lack of systematic processes for developing strategies to deal with these admittedly intricate situations, and, further, that the approach presented here, carried out by experienced practitioners, offers hope for improving the practice of strategy formulations and the more effective functioning of the board in making governance decisions.

References

1. One problem which plagues management theorists is the tendency for the field to become compartmentalized and fragmented. Thus, we have no confidence that any two people who read this article will agree that there is a discipline of management or what that discipline contains. Thomas Kuhn's *The Structure of Scientific Revolutions*, 2nd edition (Chicago: University of Chicago Press, 1970) and the resulting literature in philosophy of science—see I. Lakatos and A. Musgrave (eds.), *Criticism and the Growth of Knowledge* (Cambridge: Cambridge University Press, 1970) and G. Gutting (ed.), *Paradigms and Revolutions* (Notre Dame: University of Notre Dame Press, 1980)—are of some help. We prefer the locution "conceptual revolution" to "paradigm shift" to signify that paradigms aren't the tidy little animals they are sometimes believed to be.

2. A. Berle and G. Means, *The Modern Corporation and Private Property* (New York: Commerce Clearing House, 1932), pp. 220-221. For a discussion of the implications for corporate governance see W. Evan, *Organization Theory* (New York: John Wiley and Sons, 1976), pp. 89-107.

3. Berle and Means, op. cit., p. 3.

4. C. Barnard, *The Function of the Executive* (Cambridge, MA: Harvard University Press, 1938).

5. For an excellent history see F. Sturdivant, *Business and Society* (Homewood, IL: R. D. Irwin, 1977), pp. 1-125.

6. Throughout our analysis one may substitute "organization" for "corporation," since other organizational forms have stakeholders as well. Our emphasis is on the business-for-profit organizational sector. For interesting recent discussions of the special problems of nonprofit organizations, see R. Clark, "Does the Nonprofit Form Fit the Hospital Industry," *Harvard Law Review*, vol. 93, no. 7 (May 1980), pp. 1417-1489; and H. Hansmann, "The Role of Nonprofit Enterprise," *The Yale Law Journal*, vol. 89, no. 5 (April 1980), pp. 835-901.

7. We wish to thank an anonymous referee for *Applications of Management Science* for this point, as well as subsequent correspondence with William Royce, senior management consultant at SRI International. Mr. Royce has been quite helpful in tracking down the development of the concept at SRI where "stakeholder analysis" is a thriving ongoing concern. *Stakeholder* appears in *Webster's* as "one who holds the stakes in a gamble." It does not appear in the *Oxford English Dictionary*.

8. F. Sturdivant, "Executives and Activists: A Test of Stakeholder Management," *California Management Review*, vol. 22, no. 1 (Fall 1979), pp. 53-59. The present authors

deserve a great deal of the blame for this comment through informal conversations with Sturdivant, having been led astray by a reference in R. L. Ackoff, *Redesigning the Future,* which, though technically correct, made the origin of the term "difficult to determine." For a complete history of the concept, see R. E. Freeman, *Strategic Management: A Stakeholder Approach* (Marshfield, MA: Pitman, 1983), ch. 2.

9. See I. Ansoff, *Corporate Strategy* (New York: McGraw-Hill, 1965), 33-35.

10. F. Abrams, "Management Responsibilities in a Complex World," in T. H. Carroll (ed.), *Business Education for Competence and Responsibility* (Chapel Hill, NC: University of North Carolina Press, 1954); R. M. Cyert and J. G. March, *A Behavioral Theory of the Firm* (Englewood Cliffs, NJ: Prentice-Hall, 1963).

11. E. Rhenman, *Industrial Democracy and Industrial Management* (London: Tavistock Publications Limited, 1968).

12. R. L. Ackoff, *Redesigning the Future* (New York: John Wiley and Sons, 1974).

13. W. R. Dill, "Public Participation in Corporate Planning: Strategic Management in a Kibitzer's World," *Long Range Planning* (1975), pp. 57-63.

14. See F. Sturdivant, *Business and Society: A Managerial Approach* (Homewood, IL: R. D. Irwin, 1977), and T. A. Klein, *Social Costs and Benefits of Business* (Englewood Cliffs, NJ: Prentice-Hall, 1977).

15. See R. W. Ackerman, "How Companies Respond to Social Demands," *Harvard Business Review*, vol. 51, no. 4 (1973); idem, *The Social Challenge to Business* (Cambridge, MA: Harvard University Press, 1975); and R. W. Ackerman and R. A. Bauer, *Corporate Social Performance: The Modern Dilemma* (Reston, VA: Reston, 1976) as well as other books and articles.

16. We do not believe definitions can be constructed and justified in isolation. They should be descriptive of current use, and in emerging theories, prescriptive of linguistic change. While we offer two definitions in order to ease the linguistic change, we are ultimately wedded to the wide inclusive sense of *stakeholder*. The authors wish to thank Dr. Marvin Olassky of DuPont for the suggestion of different levels of definitions.

17. The importance of external forces for business strategy is explored in R. Charan and R. E. Freeman, "Planning for the Business Environment of the 1980s," *The Journal of Business Strategy*, vol. 1, no. 2 (Fall 1980), pp. 9-19.

18. The initial results of the Wharton Stakeholder Project have been described by J. R. Emshoff and R. E. Freeman in "Stakeholder Management," Working Paper 3-78 (The Wharton Applied Research Center) and have been published as "Who's Butting Into Your Business," *The Wharton Magazine* (Fall 1979), and "Stakeholder Management: A Case Study of the U.S. Brewers Association and the Container Issue," forthcoming in R. Schultz (ed.), *Applications of Management Science* (Greenwich: JAI Press, 1981). Freeman, op. cit.

19. J. A. Baude, et al., *Perspectives on Local Measured Service* (Kansas City: Telecommunications Industry Workshop Organizing Committee, 1979).

20. For another stakeholder technique, see H. L. Lee and R. L. Banker, "Stakeholder Decision Analysis," Working Paper 20880 (The Wharton Applied Research Center); and R. E. Freeman, R. L. Banker, and H. L. Lee, "A Stakeholder Approach to Health Care Planning," in C. Tilquin (ed.) *Systems Science in Health Care* (Toronto: Pergamon Press, 1981). See Freeman, op. cit.

21. William Dill first used *kibitzer* to refer to external groups who try to use the political process to influence the affairs of the corporation. Its use is not meant perjoratively.

22. Some have argued that markets and politics are inherently connected. We agree. Our distinctions are useful, however, in order to understand how and why they are connected The analyses of Lindbloom, *Politics and Markets* (New York: Basic Books, 1977), and Hirschman, *Exit, Voice and Loyalty* (Cambridge, MA: Harvard University Press, 1970), do not pay adequate attention to the positions of shareholders and directors and hence, to questions of corporate governance. Yet another way of phrasing our distinction is to differentiate between stakeholders who classically exercise voice. Here, the curiosity of shareowners and directors is apparent for, despite the Wall Street Rule, each exercises a mix of exit and voice.

23. I. MacMillan, *Strategy Formulation: Political Concepts* (St. Paul: West Publishing Company, 1978).

24. See especially the work of G. Becker, *The Economic Approach to Human Behavior* (Chicago: University of Chicago Press, 1976).

25. L. Davis and A. Cherns (eds.), *The Quality of Working Life*, vols. I and II (New York: The Free Press, 1975).

26. For a sample of the issues see W. Dill, *Running the American Corporation* (Englewood Cliffs, NJ: Prentice-Hall, 1978); T. Bradshaw and D. Vogel (eds.), *Corporations and Their Critics* (New York: McGraw-Hill, 1981); and R. Ferrara and M. Goldfus, *Everything You Ever Wanted to Know About the Future of Federal Influence in Corporate Governance* (Washington, D.C.: Financial, Government and Public Affairs, 1979).

27. R. Hayes and W. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review*, vol. 58., no. 4 (1980).

28. It is arguable whether responsiveness to nonmarket stakeholders is in the long-term interest of the corporation. We believe that there is no need to appeal to utilitarian notions of greatest social good or altruism or social responsibility. Rather, the corporation fulfills its obligations to shareholders in the long term only through proper stakeholder management. In short, we believe that enlightened self-interest gives both reasons why (personal motivation) and reasons for (social justification) taking stakeholder concerns into account. The development of this argument is, however, beyond our present scope.

29. For an interesting discussion of this point with respect to dissident stockholders, see D. Vogel, *Lobbying the Corporation* (New York: Basic Books, 1978).

30. For the use of issuance of stock to ESOPs, see *Klaus* v. *Hi-Shear Corp.*, 528 F. 2d 225 (9th Cir. 1975); for the issuance of stock to friendly holders see *Care Co.* v. *Treadway Corp.*, ___ F. 2d ___ (2d Cir. 1980). The other techniques are described below in detail.

31. The Beatrice Foods story was widely chronicled in the business press. See *Wall Street Journal* (7 May 1980), p. 22; idem (21 July 1980), p. 1; *Business Week* (9 April 1979), p. 36; idem (10 September 1979), p. 76; *Barrons* (14 January 1980), p. 76.

32. The Bunker-Ramo story is chronicled in the *Wall Street Journal* (31 March 1980), p. 12; idem (23 April 1980), p. 12; idem (5 May 1980), p. 21; idem (11 June 1980), p. 37.

33. See *Wall Street Journal* (24 April 1980), p. 31.

34. 15 U.S.C. § 78 m(d).

35. The classic case is *G. A. F. Corp.* v. *Milstein*, 453 F. 2d 709 (2d Cir. 1973).

36. A complete history of this struggle would require a paper itself. For useful surveys see W. Buzzard, "How the Union Got the Upper Hand on J. P. Stevens," *Fortune* (19 June 1978), p. 86; K. Kovachs, "J. P. Stevens and the Struggle for Union Organization," *Labor Law Journal* (May 1978), p. 300. The union's victory is chronicled in *Wall Street Journal* (20 October 1980), p. 1.

37. For private firms, the Employee Retirement Investment Security Act (ERISA), 29 U. S. C. §§ 1001-1381 (1976) governs the investment of these funds. See H. R. 14138, 95th Cong. 2d Sess. for a public employee version of ERISA. See also Hutchinson & Cole, "Legal Standards Governing Investment of Pension Assets for Political Goals," *University of Pennsylvania Law Review*, vol. 128 (1980), p. 1340, for a detailed discussion of these issues under current law.

38. See, for example, *Withers* v. *Teachers' Retirement System of New York*, 447 F. Supp. 1248 (S.D.N.Y., 1978) *aff'd*, 575 F. 2d 1210 (2d Cir. 1979) in which the teachers' retirement system investment in New York City's obligation was upheld against a challenge of imprudence.

39. EC 5-18, *Code of Professional Responsibility*.

40. 430 F. 2d 1093 (5th Cir. 1970).

41. See, for example, *Maldonado* v. *Flynn*, 413 A. 2d 1251 (Del. Ch. 1980), *Maher* v. *Zapata*, F. Supp. (S.D. Tex. 1980). But see *Treadway Cos.* v. *Care Corp.*, 490 F. Supp. 669 (S.D.N.Y. 1980), *Panter* v. *Marshall Field & Co.*, 486 F. Supp. 1168 (N.D. Ill. 1980).