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## Stakeholders

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## Stakeholders

Michael Johnson-Cramer and Robert Phillips. *Encyclopedia of Science, Technology, and Ethics*, Vol. 4, 2005.

The stakeholder concept derives from a simple premise: Organizations and technologies exist in constellations of relationships. Organizations operate in a network of market and nonmarket relationships with other organizations, groups, and individuals. Likewise technologies emerge and exist in a network of suppliers, end users, and others who bear the impact of the technology. Generally with reference to both organizations and technologies, these related parties are termed *stakeholders*, meaning that they hold a stake in the outcomes of the organization or technology.

Stakeholder research has important implications for science, technology, and ethics, as stakeholder thinking concerns itself both with the distribution of benefits among stakeholders and the procedures by which stakeholders work together toward desirable ends. After a brief history of the concept, this entry summarizes the distributive and procedural aspects of stakeholder thinking, particularly as they apply to three areas: corporate decision making, technology assessment, and environmental regulation.

## History of the Concept

The stakeholder concept has its origins in the study of corporations and how they make decisions. R. Edward Freeman's *Strategic Management: A Stakeholder Approach* (1984), is regarded as seminal in the study of stakeholders, though Freeman attributes the term to scholars at the Stanford Research Institute in the 1960s. Farther back still, the premise that organizations must concern themselves with the demands of multiple constituencies traces back to classic management studies by Chester Barnard and Mary Parker Follett.

Contemporary discussions of stakeholders address three main questions. Social scientists have examined two. First, what are the consequences of different approaches to managing stakeholder groups? For example, Thomas Jones (1995) argues that a corporation's ethical treatment of its stakeholders has demonstrable financial implications. Second, why do stakeholder groups behave the way they do? For example, Tim Rowley and Mihnea Moldoveanu (2003) trace collective action by stakeholder groups to both the interests and the collective identity of group members. Put simply, the first question concerns the *instrumental* value of managing stakeholders effectively; the latter is a *descriptive* question aimed at helping decision makers to understand the environment in which they operate (Donaldson and Preston 1995).

Philosophers have concentrated on a third and equally important question: How should corporations behave toward stakeholders? This inquiry reflects the essentially normative nature of the concept—the term *stakeholder* itself serves as a counterpoint to the claim that corporations are responsible only to their stockholders—and has given rise to the search for a so-called *normative core* for stakeholder theory, a fundamental set of principles governing the ethical treatment of stakeholders (Donaldson and Preston 1995). Drawing on a host of ethical theories, ethicists have developed Kantian, feminist, rights-based, and Rawlsian arguments, among others.

## The Distributive Dimension

In practical terms, much stakeholder research (especially in the third, normative, stream) addresses the issue of distribution: how corporations, public policy makers, and technology managers allocate rights and values across multiple stakeholders. Normative stakeholder arguments offer ways to assess the moral quality of these distributive patterns, and these arguments have important implications for ethical issues in the realm of science and technology.

For example, the question of who should benefit from emergent technologies—nanotechnology, pharmaceutical advances, and the human genome, among others—is, at its core, a question of distribution (Singer and Daar 2001) that stakeholder theory helps to resolve. Specifically the principle of stakeholder fairness developed by Robert Phillips (2003) derives from a widely accepted notion of reciprocity and holds that obligations accrue to participants in a cooperative scheme in proportion to contributions by stakeholder groups.

This logic also applies to the less tangible benefits and costs of technology. An emerging issue concerns the steps technology managers take to prevent employees from inappropriately using information technology resources such as e-mail and the Internet. The conflict is not over material resources but rather the tension between the privacy rights of employees, who seek to use these resources for personal reasons without the threat of invasive monitoring, and the property rights of stockholders, who would bear the cost of lawsuits if inappropriate technology use results in hostile work environment lawsuits. An exclusive emphasis on stockholder interests might advocate a total ban on the use of these technologies for nonbusiness purposes, whereas stakeholder theory would suggest a moderate position, allocating rights proportionally and allowing, for example, some personal use of information technology resources along with unobtrusive forms of monitoring to protect stockholder interests.

## The Procedural Dimension

Stakeholder research also addresses procedural concerns that are central to the application of stakeholder theory to science and technology. Evan and Freeman (1993) draw on a Kantian perspective to spell out principles specifying how corporations should engage with stakeholders. They suggest, in part, that stakeholders have a right to participate in decisions that affect them. This concern for procedural justice extends to decisions in the realm of science and technology, where technologies, development paths, and potential science-related policies must be evaluated in light of stakeholder interests. Consequently one finds frequent reference to the procedural aspects of stakeholder theory in the areas of technology assessment and environmental regulation. Here stakeholder theory maintains that those groups with a vested interest in a technology, action, or organization should have an opportunity to express those interests and, in some cases, to participate in decision making. As some have argued, this participation should take the form of comprehensive dialogue among various stakeholder groups.

As diverse development agencies, corporations, and government regulators (from the United Nations to the World Bank to Motorola Corporation) apply these procedural principles by initiating dialogue with stakeholders concerning new technologies and environmental policies, they discover that the procedural aspect of stakeholder management is not only ethically desirable but highly practical. As stakeholder thinkers have long maintained, sharing information, ongoing dialogue, and meaningful participation in decision making enables better collaboration, reduces conflict, and ensures smoother implementation of policies and technologies (Freeman 1984, Johnson-Cramer, Berman, et al. 2003).

In sum, the value of stakeholder theory in resolving ethical issues in science and technology lies, to date, in offering prescriptions (a) that answer the distributive questions arising from development, utilization, and marketing of new technologies by businesses, and (b) that guide the procedural treatment of stakeholders in diverse areas such as technology assessment and environmental regulation. Ultimately amidst efforts to develop general principles and insights, stakeholder researchers have done little to apply their insights to specific questions about science and technology. The potential is clear, but much work remains to be done to demonstrate the usefulness of stakeholder theory in this domain.

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SEE ALSO *Georgia Basin Futures Project; Management: Models; Participation; Science Policy.*

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Evan, William, and R. Edward Freeman. (1993). "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism." In *Ethical Theory and Business*, ed. Tom Beauchamp and Norman E. Bowie. Englewood Cliffs, CA, Prentice Hall.

Freeman, R. Edward. (1984). *Strategic Management: A Stakeholder Approach*. Boston: Pitman. The seminal work in stakeholder research, this book advances the idea that organizations have stakeholders and organizational performance depends on an organization's ability to satisfy its multiple stakeholders.

Johnson-Cramer, Michael; Shawn Berman; et al. (2003). "Reexamining the Concept of Stakeholder Management." *Unfolding Stakeholder Thinking*, Vol. 2., ed. Jorg Andriof, Sandra Waddock, Sandra Rahman, and Bryan Husted. London: Greenleaf. This chapter offers more specific analysis of what it means to manage stakeholders. It outlines a model based on both procedural concerns (how policies toward stakeholders are formulated) and substantive concerns (the content of those policies).

Jones, Thomas. (1995). "Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics." *Academy of Management Review* 20(2): 404–437. Jones argues that business firms that are dishonest or opportunistic will incur higher costs in contracting with stakeholders. This logic underlies the instrumental argument that firms that do not satisfy stakeholders perform poorly.

Phillips, Robert. (2003). *Stakeholder Theory and Organizational Ethics*. San Francisco: Berrett-Koehler. Phillips's book represents the most recent advance in normative stakeholder theory, offering a response to the stakeholder identification problem (that is, who actually count as stakeholders?).

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