5. Stakeholder Theory

5.1. Stakeholder Theory definition

Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders.

5.2. History of stakeholder theory

Stakeholder theory was formally laid out in 1984 by R. Edward Freeman in his book “Strategic Management: A Stakeholder Approach.” The idea of viewing all affected parties as equal stakeholders came as a response to shareholder theory, which holds that a company’s sole responsibility is to make money for its shareholders. In his book “Capitalism and Freedom,” economist Milton Friedman details the tenets of shareholder theory and states that corporations have no real “social responsibility.” According to Friedman, it is up to the shareholders to be socially responsible, not the company itself.

Freeman argued against this stance, stating, “If you can get all your stakeholders to swim or row in the same direction, you’ve got a company with momentum and real power. Saying that profits are the only important thing to a company is like saying, ‘Red blood cells are life.’ You need red blood cells to have life, but you need so much more.

5.3. Big Five stakeholders

- **Employees**: are major stakeholders in any company. They expect to be compensated fairly and work in safe conditions. If the company doesn’t meet these basic expectations and treats its employees like cogs in a wheel rather than valued team members, it can harm the business in the long run. There will be constant employee turnover, and the firm will earn a negative reputation among the workforce, ultimately weakening the company and its potential to earn higher revenues.
- **Manufacturers/suppliers**: Under stakeholder theory, manufacturers, suppliers, and other vendors that the auto company works with are considered stakeholders. The auto company should treat these vendors fairly in business dealings and consider their employees and other stakeholders. For instance, if a supplier has a reputation for mistreating its employees and underpaying, then stakeholder theory would hold that you should find a different supplier that is more aligned with your business ethics.
- **Customers**: If anyone impacted by a business or its workings is a stakeholder, then the car company’s customers are some of its biggest stakeholders. According to stakeholder theory, a top priority for the company should be producing a

vehicle that safely transports its customers from point A to point B as reliably, comfortably, and efficiently as possible.

- Customers' neighbors and community members Since automobiles produce emissions that can impact the environment, stakeholder theory says that anyone who lives in proximity to one of these vehicles may be affected and should be viewed as a stakeholder. With these stakeholders in mind, the company may adopt more fuel-efficient technology and cut down harmful carbon emissions.
- **Governmental bodies:** Carmakers must also consider any city, county, or state-mandated requirements, such as emission standards or safety features. The governmental agencies that enforce these standards are another set of stakeholders for the auto company.

5.4. Benefits of Stakeholder Theory

There are financial benefits to applying stakeholder theory. They include things such as:

- Higher productivity through employee satisfaction
- Improved retention/referrals from happy customers
- Increased investment from happy financiers
- Improved talent acquisition from a positive image in the community
- The increased mental health of the workforce through job satisfaction
- Scientific progression which benefits all
- Elevation of the socio-economic status of the local community
- Contribution towards a healthy competitive ecosystem where other companies can also thrive and bring benefits to their own stakeholders in turn.

5.5. The criticisms of stakeholder theory

Critics of stakeholder theory have said that the needs and interests of the various stakeholder groups simply cannot be reconciled equitably. Under stakeholder theory, stakeholders represent multiple large and diverse groups, and one or more of those groups will inevitably take a back seat at some point in the process. Similarly, certain groups of stakeholders will hold more power or influence than others, which can create tension and discord.

For project managers, these challenges can largely be solved with a stakeholder management plan. This plan should detail each group of stakeholders' expectations and the rules for communicating with stakeholders. Additionally, the stakeholder management plan should prioritize stakeholders based on their level of influence on the project and how much they care about the outcome.