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WORKING PAPER

IMPERFECTIONS AND SHORTCOMINGS OF THE STAKEHOLDER MODEL'S GRAPHICAL REPRESENTATION

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IMPERFECTIONS AND SHORTCOMINGS OF THE STAKEHOLDER MODEL'S GRAPHICAL REPRESENTATION

Abstract

The success of the stakeholder theory in management literature as well as in current business practices is largely due to the inherent simplicity of the stakeholder model - and to the clarity of Freeman's powerful synthesised visual conceptualisation. However, over the years, critics have attacked the vagueness and ambiguity of stakeholder theory.

In this paper, rather than building on the discussion from a theoretical point of view, a radically different and innovative approach is chosen: the graphical framework is used as the central perspective. The major shortcomings of the popular stakeholder framework are systematically confronted with the graphical scheme to illustrate their visual impact.

The graphical illustrations of the imperfections help explain the sometimes-oversimplified generalisation inherent to every graphical model. They also make some interrelationships easier to understand. The analysis demonstrates that, with the tacit but implicit acceptance of simplification of the discussed explanatory elements, Freeman's framework remains a rather good approximation of reality. Only a few minor changes to the stakeholder model are consequently proposed.

Keywords: stakeholder, stakeholder model, stakeholder theory, strategy, graphical framework, Freeman's model, stakeholder reciprocity.

Introduction

The stakeholder model, supported by its powerful synthesised visual presentation, has profoundly influenced management literature as well as current business practices. The very simplicity of its scheme has undoubtedly contributed to the success of the model but has, at the same time, fanned heated debate in academic literature and business circles. Few management topics have generated more publications in recent decades than the underlying notion, the model and the theories surrounding stakeholders[1] (Donaldson and Preston, 1995; Gibson, 2000; Wolfe and Putler, 2002; Friedman and Miles, 2006).

The cognitive power of visual representations

It is widely recognised that schemata, diagrams, visual and graphical representations can help people comprehend their environments (e.g. Meyer, 1991). A single graph or scheme can be worth more than a thousand words: visual representations can simplify and aggregate complex information into meaningful patterns and they make sense of information, impose structure and highlight objects (Worren, Moore & Elliott, 2002; Sullivan, 1998). As a means for conceptualisation, they “allow for simultaneous perception of parts as well as a grasp of interrelations between parts” (Maruyama, 1986 cited in Meyer, 1991: 229). Schemata excel “at revealing the data at several levels of analysis, and in inducing the viewer to think about substance rather than about methodology” (Meyer, 1991: 232). A conceptual framework ideally provides an adequate description of observable phenomena (Key, 1999).

Many of the most popular management models are expressed or supported using a visual format; good examples being Porter’s Five Forces framework, Mintzberg’s structuring of organization and Carroll’s four-part model of corporate social responsibilities. Research has demonstrated the preference for narrative and visual knowledge among practitioners over the prevailing prepositional mode in academia (Worren et al., 2002). The considerable impact of Freeman’s stakeholder model amongst practitioners may be explained by the cognitive power of its visual representations.

The framework of the stakeholder model illustrates visually the relationships among different group of actors in and around the firm. However, one should be aware that all synthesised representations, models and schemes are social constructions that inevitably simplify and reduce reality. This remark is naturally valid for the stakeholder framework (Pesqueux and Damak-Ayadi, 2005). Recent literature on the subject proposes an impressive range of refinements and improvements, but legitimate criticism continues to insist on clarification and emphasises the perfectible nature of the model (see, for example, Jones and Wicks, 1999; Lépineux, 2005).

Critique of stakeholder theory

Criticisms of stakeholder theory from philosophical and theoretical standpoints have been thoroughly analysed and widely commented upon in the scientific literature (Donaldson and Dunfee, 1994; Donaldson and Preston, 1995; Weiss, 1995; Sternberg, 1996; Key, 1999; Moore, 1999; Gibson, 2000; Kaler, 2003; Gond and Mercier, 2004). There have also been serious attempts to integrate theory with research from disparate areas to further develop the stakeholder theory (Jawahar and McLaughlin, 2001; Andriof et al., 2002; Venkataraman, 2002).

In this paper, a different and innovative approach has been chosen: rather than building on the discussion from a philosophical or theoretical point of view, the graphical framework will provide the central perspective. The major shortcomings of the popular stakeholder framework will be systematically confronted with the graphical scheme to illustrate their visual impact. Following this analysis, a number of changes to the stakeholder model will be proposed.

Shortcomings and imperfections in the stakeholder model’s graphical representation

Besides the discussions on the identification and selection of specific stakeholders, the stakeholder model has been attacked for other flaws. Indeed, some of the original hypotheses have never been fully justified: reality is far more complex than the simplified graphical presentation provided by the model. In the following systematic analysis of the model’s

shortcomings, certain imperfections will be discussed: the heterogeneity within stakeholder groups, multiple inclusion or *double appartenance,* the variability in the dependence among stakeholders, the variability in salience and the impact of the various stakeholders, the existence of a central place within the model, the multiple linkages and the network relationships.
The impacts of these various imperfections on the graphical model will be systematically illustrated in an attempt to enhance the explanation. Curiously, and paradoxically, although the success of the stakeholder model can largely be attributed to the visual power of its graphical presentation, most of the later research and criticisms of stakeholder theories seem to have ignored or at least partly neglected the graphical framework**.**

1. Heterogeneity within stakeholders and pressure groups

Although the stakeholder model does propose a differentiation into distinct categories or segments within each class, many inconsistencies will strike the observer (Freeman, 1984: 56). The members within a category are not at all homogenous; often quite the contrary, and, so far, stakeholder theory has largely ignored intra-stakeholder heterogeneity (Harrison and Freeman, 1999). Stakeholder groups and subgroups may also have multiple interests and multiple roles (Winn, 2001). As Wolfe and Putler expressed it, “stakeholder group homogeneity focuses on heterogeneity across rather than within stakeholder groups” (2002).

Shareholders, for example, are “far from being a monolithic, homogeneous group, differing widely in terms of interests, involvement and influence capacity” (Winn, 2001). They represent a vast array of subgroups such as financial partners, institutional or private controlling shareholders or marginal small individual investors, with or without representation on the board, long-term or short-term investors and day traders. They are all bundled in one group as they have a common stake, but they do not necessarily share a common objective.

Similarly, other categories of stakeholders are far from homogeneous (Argenti, 1997). For instance, the group labelled employees includes managers, blue- and white-collar workers, production and administrative staff, all with different responsibilities and educational levels. They may have conflicting interests, with both personal and group interests clashing, and they may pursue different agendas and priorities. The supposedly homogenous character of some external stakeholder and pressure groups is similarly at odds with reality. Naturally, within each constituency and pressure group, some communality does exist as well as shared objectives within subgroups and they may well have more in common than what divides them. This situation is represented in Figure 1 below.

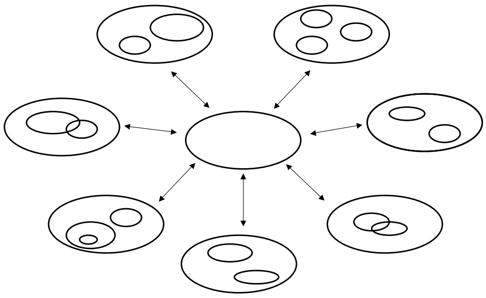

Figure 1. Heterogeneity within stakeholders

2. Multiple inclusion[2] or *double appartenance*

Besides the heterogeneous character of stakeholders (or the lack thereof), some specific cases of *double* (or multiple) *appartenance* require attention. Most individuals are likely to belong to more than one stakeholder group at the same time (see Figure 2) (Jansson, 2005). They may simultaneously occupy several roles (Freeman, 1984: 58; Post, Preston and Sachs, 2002: 23; Pesqueux et al., 2005). Stakeholders typically form groupings which are subsets of the clusters noted earlier, or may even cut across them (Avgeropoulos, in Cooper and Argyris, 1998: 610). A manager is an employee, but can also be a shareholder; an employee is usually also a member of the local community. A stakeholder may well be active as a member of a pressure group; the employee as a member of an action committee, association or school board in the local community, or a member or supporter of an NGO such as the Red Cross, Greenpeace or Amnesty International. The government is also a complex stakeholder since it provides infrastructure and levies taxes while simultaneously enacting laws and imposing regulations.

It has been argued that the analysis of stakeholder positions should be organised in terms of the specific stakeholder role being played at any given moment in time (Pesqueux et al., 2005).

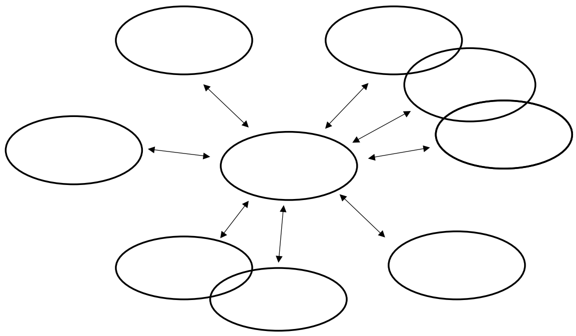

Figure 2. *Double appartenance*

3. Differences in dependence among stakeholders

Carroll and Buchholz (2006: 65, 73, 83) stress the two-way interaction between stakeholders and the company. The stakeholder model graphically represents the relationship between a stakeholder and the firm by means of a bi-directional arrow. These arrows not only show a relationship, they also express dependence and reciprocity. The “stakes of each are reciprocal, since each can affect the other in terms of harms and benefits as well as rights and duties” (Evan and Freeman, 1988: 101). However, all relationships are not equal: the intensity of the interaction may differ in each direction, depending on power and sensitivity to influence (Post, Preston and Sachs, 2002: 22-24; Phillips, 2003: 166). The intensity can be viewed as a point on a continuum, and this could be expressed by differences in the width of the arrow - just as in a sociogram – with, in addition, the possibility of different widths in either direction (see Figure 3).

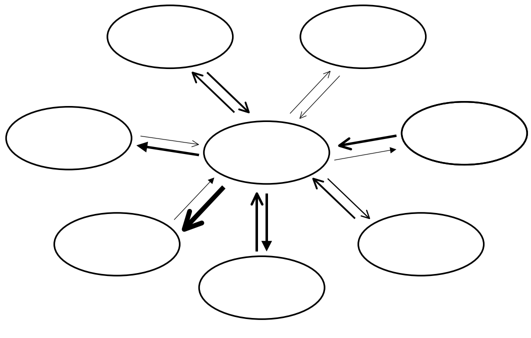

Figure 3. Variability in the dependence between stakeholders

4. The variability in salience and the impact of the various stakeholders

In a comment on the basic stakeholder model it was observed that "all stakeholder relationships are depicted in the same size and shape and are equidistant from the "black box" of the firm in the centre" (Donaldson and Preston, 1995: 68). However, the impacts of the various stakeholders are not equal: not all carry the same weight, and stakes and risks may vary considerably. There are various categories of stakes and different degrees of risk (Clarkson, 1994: 7). The stakeholders also vary in their power or influence. The density of interconnectedness varies (Rowley, 1997). The presence of some stakeholders represents a real asset, whereas others will be seen as a constraint. Mitchell et al. (1997) viewed stakeholder salience as a matter of multiple perceptions, and others see a constructed reality rather than an 'objective one' (Neville et al., 2004).

One of the interpretations of the stakeholder theory incorrectly sees it as arguing that a firm should take into account the aspirations of all its stakeholders and that they must all be treated equally irrespective of the fact that some clearly contribute more than others to the organisation (Gioia, 1999; Marcoux, 2003; Phillips, 2004). However, stakeholder management does not imply that executives have to direct equal amounts of attention to all their constituents (Dentchev and Heene, 2003): within the stakeholder categories, the level of attention and obligation can vary with each attribute operating on a continuum, or series of continua, rather than as a binary, present or absent, term (Phillips, 2003a; Mitchell et al., 1997; Neville et al., 2004).

The original graphical representation of the stakeholder model may be at the root of this misinterpretation since, for reasons of simplicity and clarity, it allotted to each stakeholder category an identical oval. Perhaps, to better reflect reality, one should represent the model with ovals of different sizes and intensities that reflect the relative importance of the various stakeholder categories. In Figure 4, the size of the oval reflects the size of the group, while the salience of the stakeholders is indicated by the intensity of the shading: large ovals have more members than the smaller ovals; the dark ovals are more salient than the light ovals[3].

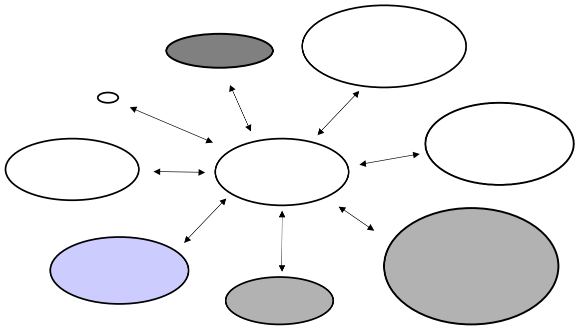

Figure 4. Variability in the salience and impact of the various stakeholders

5. The firm's central place in the model

The firm lies at the hub of Freeman's stakeholder model and, as a consequence, the stakeholders appear to have relationships with the firm but, in reality, they deal with representatives of the firm: with its management. Managers form the main group of stakeholders who enter into contractual relationships with most or all stakeholders (Jansson, 2005). Their position lies "at the centre of the nexus of contracts" (Hill and Jones, 1992). However, their situation is, due to agency problems, seemingly paradoxical (Goodpaster, 1991) since their mission is to manage the firm in the interests of the stockholders: "the manager is both identifier and interpreter, thus the crucial mediator of stakeholder influence" (Winn, 2001). Their responsibility is "to reconcile divergent interests by making strategic decisions and allocating strategic resources in a manner that is most consistent with the claims of the other stakeholders groups" (Hill and Jones, 1992). As a consequence, the central hub of the model should more logically contain the senior management of the company and not the firm itself. This calls for a modification of Freeman's model: the central oval should represent management rather than the firm, a variant already envisaged in the functional application of the stakeholder model in Freeman's original book[4].

Further, besides the managers, other important subgroups can be identified in this core category: these being the CEO and the board members who, in large companies, clearly play distinct and central roles. To visualise the concept, a third dimension could be added to the model, to form an atom-like model. The management takes the central place with, above them, on a second layer the CEO. Multiple arrows show the CEO's relationships with most of the stakeholders. Above the CEO, on a still higher third level, are the board members, who principally have relationships with the shareholders, but often also with other stakeholders. In some cases, they will even represent them as 'independent' directors.

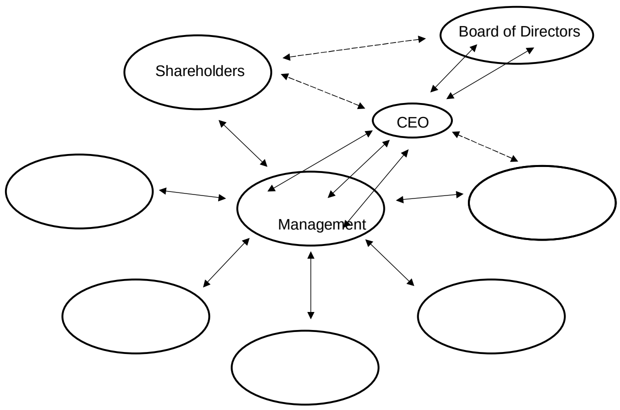

Figure 5. The expanded hub of the model

To simplify the graphical representation, the three levels could be reduced by placing the CEO in the centre of the central oval with the management. Depending on the situation, the central oval could also contain the board of directors or, if they are sufficiently important, they could be represented as a distinct stakeholder (Figure 5b). In this way, the format of the framework would remain as a manageable two-dimensional scheme. The key change is the replacement of the firm in the central oval of Freeman's model by a combination of management and the CEO.

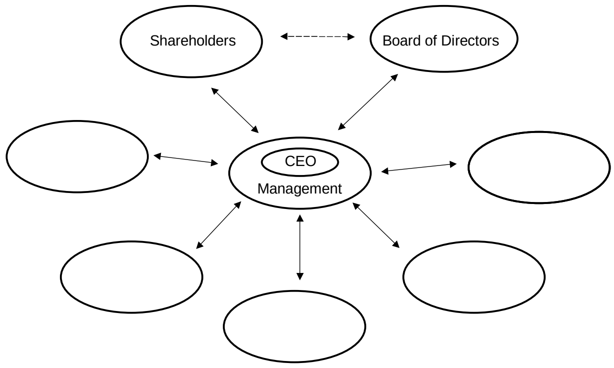

Figure 5b. The adapted central oval

6. Multiple linkages

The original graphical scheme represented the firm as a nexus of contracts with bilateral relationships emanating from the centre (the hub company) to the various stakeholders (Hill and Jones, 1992; Post, Preston and Sachs, 2002a). “It is not usual to draw links between stakeholders” (Waxenberger and Spence, 2003). This simplified representation suggests that the stakeholders have no relationships with one another. In reality, there are a series of multilateral contracts among the stakeholders as indicated by Figure 6 (Williamson, 1985; Key, 1999). Both the network model and the new *stakeholder view of the firm,* respond to this criticism (Rowley, 1997; Post, Preston and Sachs 2002). Insights from other disciplines and theories such as modern Darwinism reinforce the multilateral, interconnected web of relationships (Radin, 2004: 301). Many external stakeholders, such as the media and competitors, are seen as having important and direct influences on other stakeholders of the firm (Phillips, 2003: 127).

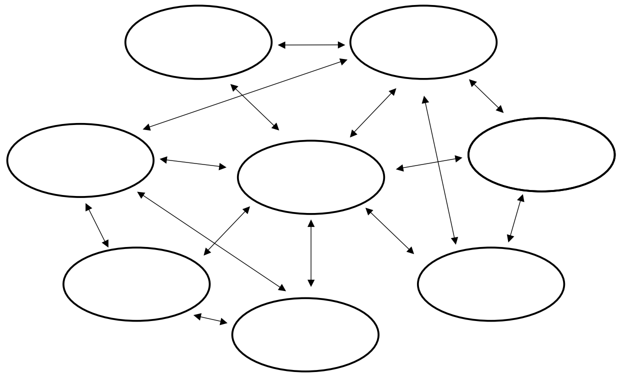

Figure 6. Multiple linkages between stakeholders - source: Phillips (2003)

7. A network model of stakeholder theory

It is also important to note that every stakeholder has its own subset of stakeholders, with associated obligations and influences, and, since this will influence its relationship with the company at the centre of the hub, these in turn become stakeholders of the hub company. This gives rise to a network model of stakeholder theory as shown in Figure 7 (Rowley, 1997; Key, 1999). A stakeholder of one firm can also be a stakeholder of other firms, with its own stakeholder network. A good example is a supplier who delivers to several competitors. A company can also come under different categories in its relationships with other firms: a supplier of one firm can be a customer of another. Stakeholders can also operate at different levels and sub-levels. A stakeholder of the hub firm can have its own sub-stakeholders such as subcontractors at lower levels in the supply chain, plus there are distribution agents and wholesale organisations as well as the final customer. Other examples of such 'indirect' stakeholders include individual investors in pension funds, donors to NGOs and even the families of employees.

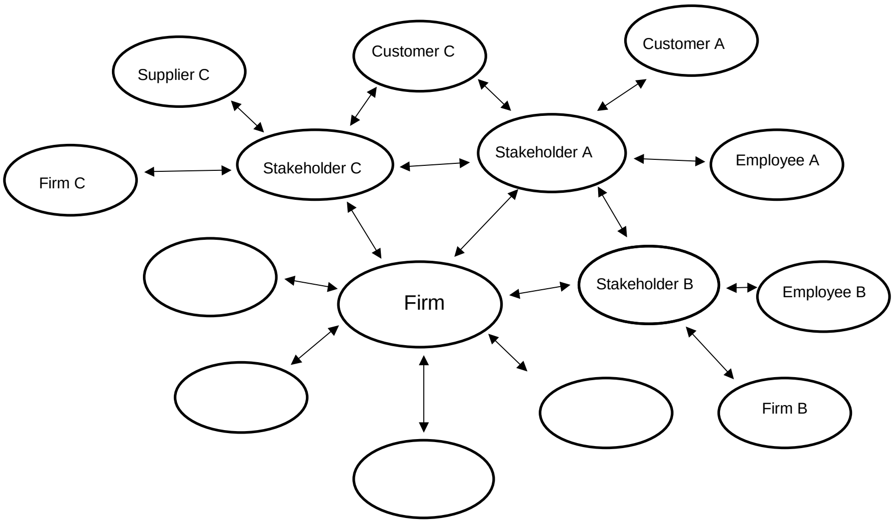

Figure 7. The network model of stakeholder theory - source: Rowley (1997)

An integrated model

The above review of the common criticisms levelled at the alleged shortcomings of the original stakeholder model would enable us to develop, through gradual adaptations, a new framework. A revised model could be developed by superimposing the various graphical outlines discussed above. This would result in a scheme that should be closer to reality. However, its complexity would make it opaque and confusing, and the model would lose its pedagogical value. Indeed, the success of the stakeholder model has been largely due to its visual simplicity and power.

The analysis demonstrates that, albeit with the tacit and implicit acceptance of the simplifications outlined above, Freeman's framework still stands as a rather good approximation of reality. The only change that I would explicitly introduce is the replacement of 'the firm' at the hub by its management and, if appropriate, with the board of directors as a distinct stakeholder. Although this is only a minor change in form, it constitutes a major change in content as it affects the fundamentals of the model: if the central oval contains the management at the nexus of contracts, then the firm envelops all the stakeholders. In this approach, the firm encompasses the whole framework. This view is closer to those definitions that see the corporation as a system of primary stakeholder groups or as a complex network of constituencies (Clarkson, 1995). It is also more coincident with the definition of organizations as coalitions of individuals and organized sub-coalitions (Cyert and March, 1963: 27).

The above review has also clearly demonstrated that the basic model can act as a universal framework for analysis. Given that the stakeholder approach is about concrete “names and faces” (Freeman and McVae, 2001), its application to any individual company is specific to that particular situation. With such a specific and detailed graphical scheme, completely different pictures will emerge for various types of companies. With a multinational company, pressure groups such as unions, consumer groups and environmental activists, and also shareholders’ representatives, will play a more determinant role than in a small or medium-sized enterprise. Conversely, in a small family company, its employees, its banker and the local community will play more important roles than the wider world.

Other shortcomings of the stakeholder framework

Besides the imperfections of the graphical representation of the stakeholder framework illustrated in the previous section, the stakeholder model is seen as having a few other shortcomings.

1. The levels of a firm’s environment

Stakeholder theory is seen as inadequately addressing the environment surrounding a firm (Key, 1999). The model suffers a problem of delimitation with the various levels not clearly defined. Stakeholders around the firm, especially those in the immediate business environment and those in the broader environment, are somewhat confused. Post, Preston and Sachs (2002) have reacted to this criticism by proposing a new graphical model, the new *stakeholder view of the firm*, referred to here as the *PPS view*, with three concentric rings around the corporation representing, successively, the resource base, the industry structure and the social political arena (ibid: 8). This PPS view extends the graphical display of the interface between a business and selected stakeholders with which it has social relationships (Carroll and Buchholtz, 2006: 9, Figure 1.2).

2. The ambivalent position of pressure groups and regulators

Pressure groups belong to the set known as derivative stakeholders. The legitimacy of derivative stakeholders is derived from their ability to affect the organisation based on obligations owed to others (Phillips, 2003: 125-126). Sometimes, pressure groups have been collectively represented as a separate, fully-fledged stakeholder in an additional oval, or sometimes even in individual additional ovals. In reality, pressure groups vary in nature, size and importance. They represent a number of distinct categories of stakeholders. Some have evolved into "institutional structures that serve the function of monitoring and enforcing the terms of the implicit or tacit contracts" (Hill and Jones, 1992). Although they do not have a real stake, they can have a negative influence on a company through their actions. They do not enjoy a real relationship with the firm, and in most cases are independent of it. Their pressure is exerted in one direction, whereas the essence of the original stakeholder model was mutual interdependence. This is the main reason why they have been, over time, presented differently: in a separate circle, on a second layer, with unidirectional arrows, or outside the box as in Freeman's latest adaptation. A detailed analysis clearly shows that pressure groups impinge on various functional areas of the firm. Their impact is generally channelled through one of the more obvious 'genuine' stakeholders of the firm. Investor funds represent shareholders, auditors monitor and control the accounts on behalf of the shareholders and unions represent the employees. They can all assume the role of proxy or intermediary for pressure groups.

A category often closely linked to pressure groups is made up of regulators who, although they are mostly situated outside the company, can exert a significant influence. The regulator *par excellence* is the state and the law, with its agencies, commissions and other authorities. Regulators are often independent, and tend to be seen as a constraint rather than as a pressure group. Many observers prefer to consider them as non-stakeholders and suggest placing them in a separate group.

3. The dynamic aspect of stakeholders

The model in the form of a diagram gives a static impression of the situation. It can create a false illusion that the categories are fixed. Many scholars seem to have overlooked the fact that Freeman warned about this important 'simplification' of the stakeholders' map in his seminal book (1984: 57). Relationships between a firm and its stakeholders change over time with every stakeholder role being "situation and issue specific, and thus temporary" (Winn, 2001; Kochan and Rubinstein, 2000; Friedman and Miles, 2002; Phillips, 2003a) or, put in other words, pressures, threats and opportunities in a corporation's environment vary with the lifecycle stages (Jawahar and McLaughlin, 2001). Stakeholder status is thus subject to change as it reflects the urgency of the claim (Phillips, 2003a). Press coverage and the media can suddenly highlight a claim - as a serious incident, a demonstration or a boycott - from a specific pressure group in such a manner that a secondary stakeholder can, overnight, become a primary stakeholder (Carroll and Buchholtz, 2006: 71).

4. <u>Stakeholder reciprocity</u>

The interaction between stakeholders operates in both directions. The mutual dependence between a stakeholder and the firm is expressed in the model by means of a bi-directional arrow (Crane and Matten, 2004:52). There is dependence and reciprocity in influence, since each can affect the other in terms of harms and benefits. But despite the fact that Evan and Freeman (1988: 101) also add that affect can operate in terms of rights and duties, the question can be raised whether stakeholders should also consider the impact of their actions on the other stakeholders of the corporation, whether stakeholders have to treat the corporation in a fair and responsible way. Do stakeholders have responsibility for the corporation and responsibilities for other stakeholders? Stakeholder reciprocity seems to be an important issue that has not been addressed yet in stakeholder theory. Whereas stakeholders have rights, they also may have duties and obligations. Does corporate responsibility imply stakeholder responsibility?

Conclusions

It is interesting to see that while the graphical representation of the stakeholder model has generally been adopted by most researchers and has contributed to the acceptance of the stakeholder concept by the business community, it has hardly been used in most of the extensive debate and critique to be found in academic literature. The systematic confrontation of most of the existing criticisms with the graphical model has provided an insightful extension to the existing stakeholder literature. This innovative approach has helped to clarify many of the misunderstandings and misinterpretations that have threatened to undermine the model. The graphical illustrations of the imperfections help explain the inevitable simplifying generalisations inherent to every graphical model. They also make some of the interrelationships easier to understand.

Keeping these clarifications in mind, Freeman's model can still be seen as a good approximation to reality. The proposal for minor adaptations to his graphical representation can hopefully contribute to silencing a number of the criticisms and objections, and so bring the focus back to the stakeholder concept's essence: the managerial implications. Nevertheless, the stakeholder view of the corporation in the model proposed by Post, Preston and Sachs brings a valuable and complementary insight into the corporation in its wider environment, and one that is more in line with the traditional theory of the firm.

Future work on the stakeholder framework should attempt to integrate the issues surrounding the level of the firm's environment in Freeman's model, and should concentrate on the ambivalent position of pressure groups and regulators. However, in order to retain clarity, the synthesised representations of the stakeholder model, and of the stakeholder view of the firm, need to be preserved. Further, any modifications to the stakeholder framework to bring it closer to reality should involve only minor amendments and minimal changes in its design if the visual power of the widely-accepted framework is to be maintained.

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[1] Donaldson and Preston (1995) note more than one hundred articles on the stakeholder concept between 1984 and 1995, Wolfe and Putler (2002), 76 articles between 1990 and 1999. Gibson (2000) finds 200 articles in the 1990s alone. A search on EBSCO, at the end of 2005, produced over 8000 references to stakeholders, including 4000 in academic journals. Several leading journals have dedicated special editions to the stakeholder concept. A search on Google at the same time gave 1.4 million entries under 'stakeholder theory' and 21.2 million on the term 'stakeholder'.

[2] The term 'multiple inclusion' was provided by an anonymous reviewer as an alternative to the French 'double appartenance'.

[3] The suggestion to combine size and salience came from another anonymous reviewer.

[4] The central hub in Freeman's model (1984:55) is the firm. Curiously, when one goes back to his in-depth analysis leading to the implementation of the stakeholder approach for strategic management, this central place is filled by the manager for the traditional business disciplines of management (p.218), by the marketing manager for marketing (227), by the financial manager for finance (229), etc., while the CEO fills the central place in the illustration of the role of the CEO (241) (Freeman, 1984, Chapter VIII).