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TOWARD A THEORY OF STAKEHOLDER IDENTIFICATION AND SALIENCE: DEFINING THE PRINCIPLE OF WHO AND WHAT REALLY COUNTS

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Stakeholder theory has been a popular heuristic for describing the management environment for years, but it has not attained full theoretical status. Our aim in this article is to contribute to a theory of stakeholder identification and salience based on stakeholders possessing one or more of three relationship attributes: power, legitimacy, and urgency. By combining these attributes, we generate a typology of stakeholders, propositions concerning their salience to managers of the firm, and research and management implications.

Since Freeman (1984) published his landmark book, *Strategic Management: A Stakeholder Approach*, the concept of "stakeholders" has become embedded in management scholarship and in managers' thinking. Yet, as popular as the term has become and as richly descriptive as it is, there is no agreement on what Freeman (1994) calls "The Principle of Who or What Really Counts." That is, who (or what) are the stakeholders of the firm? And to whom (or what) do managers pay attention? The first question calls for a *normative theory of stakeholder identification*, to explain logically why managers should consider certain classes of entities as stakeholders. The second question calls for a *descriptive theory of stakeholder salience*, to explain the conditions under which managers do consider certain classes of entities as stakeholders.

Stakeholder theory, reviewed in this article, offers a maddening variety of signals on how questions of stakeholder identification might be answered. We will see stakeholders identified as primary or secondary

We thank the members of the Second Toronto Conference on Stakeholder Theory, sponsored by the Clarkson Centre for Business Ethics at the University of Toronto, where the centrality of these three attributes to a theory of stakeholder-manager relationships was first noted. We also recognize the contribution of various working groups in SIM and IABS and are grateful for the comments provided by A. R. Elangoven and Barry Mitnick, the intellectual and financial support of Fritz Faulhaber, and the valuable insights of the consulting editor and the anonymous reviewers.

stakeholders; as owners and nonowners of the firm; as owners of capital or owners of less tangible assets; as actors or those acted upon; as those existing in a voluntary or an involuntary relationship with the firm; as rights-holders, contractors, or moral claimants; as resource providers to or dependents of the firm; as risk-takers or influencers; and as legal principals to whom agent-managers bear a fiduciary duty. In the stakeholder literature there are a few broad definitions that attempt to specify the empirical reality that virtually anyone can affect or be affected by an organization's actions. What is needed is a theory of stakeholder identification that can reliably separate stakeholders from nonstakeholders.

Also in the stakeholder literature are a number of *narrow* definitions that attempt to specify the pragmatic reality that managers simply cannot attend to all actual or potential claims, and that propose a variety of priorities for managerial attention. In this article we suggest that the question of stakeholder salience—the degree to which managers give priority to competing stakeholder claims—goes beyond the question of stakeholder identification, because the dynamics inherent in each relationship involve complex considerations that are not readily explained by the stakeholder framework as it currently stands. What is needed also is a theory of stakeholder salience that can explain to whom and to what managers actually pay attention.

Among the various ways of identifying stakeholders, as well as in the agency, behavioral, ecological, institutional, resource dependence, and transaction cost theories of the firm, we have found no single attribute within a given theory that can guide us reliably on these issues. However, we find that one can extract from these literatures the idea that just a few attributes can be used to identify different classes of stakeholders in a firm's environment. We begin our analysis with Freeman's definition of stakeholder—"any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984: 46)—and develop a theory of stakeholder identification drawn from these various theoretical literatures. We start with a broad definition so that no stakeholders, potential or actual, are excluded from analysis arbitrarily or a priori. We then propose that classes of stakeholders can be identified by their possession or attributed possession of one, two, or all three of the following attributes: (1) the stakeholder's power to influence the firm, (2) the *legitimacy* of the stakeholder's relationship with the firm, and (3) the *urgency* of the stakeholder's claim on the firm. This theory produces a comprehensive typology of stakeholders based on the normative assumption that these variables define the field of stakeholders: those entities to whom managers *should* pay attention.

Building upon this typology, we further propose a theory of stakeholder salience. In this theory we suggest a dynamic model, based upon the identification typology, that permits the explicit recognition of situational uniqueness and managerial perception to explain how managers prioritize stakeholder relationships. We demonstrate how the identifica-

tion typology allows predictions to be made about managerial behavior with respect to each class of stakeholder, as well as predictions about how stakeholders change from one class to another and what this means to managers. In the theory of stakeholder salience, we do not argue that managers should pay attention to this or that class of stakeholders. Rather, we argue that to achieve certain ends, or because of perceptual factors, managers do pay certain kinds of attention to certain kinds of stakeholders. Knowing what types of stakeholders actually exist, which our identification typology facilitates, and why managers respond to them the way they do, which our notion of salience clarifies, sets the stage for future work in stakeholder theory that specifies how and under what circumstances managers can and should respond to various stakeholder types.

The argument proceeds as follows. First, we review the stakeholder literature, laying out the various explicit and implicit positions on "The Principle of Who or What Really Counts." We then present our defense of the three key attributes—power, legitimacy, and urgency—as identifiers of stakeholder classes and briefly examine the major organizational theories to discern how they handle these three crucial variables. Next we introduce managers and salience into the discussion and present our analysis of the stakeholder classes that result from possession of one, two, or three of these attributes, giving special attention to the managerial implications of the existence and salience of each stakeholder class. Finally, we further illustrate the theory's dynamic qualities by showing how stakeholders can shift from one class to another, with important consequences for managers and the firm itself, and we explore the research questions and directions that emerge from the theory.

STAKEHOLDER THEORY—STATE OF THE ART

For more than a decade the stakeholder approach to understanding the firm in its environment has been a powerful heuristic device, intended to broaden management's vision of its roles and responsibilities beyond the profit maximization function to include interests and claims of non-stockholding groups. Stakeholder theory, in contrast, attempts to articulate a fundamental question in a systematic way: which groups are stakeholders deserving or requiring management attention, and which are not? In this section we examine how scholars have so far answered these central questions. Who is a stakeholder, and what is a stake? What does stakeholder theory offer that is not found in other theories of the firm?

Who Is a Stakeholder, and What Is a Stake?

There is not much disagreement on *what kind of entity* can be a stakeholder. Persons, groups, neighborhoods, organizations, institutions, societies, and even the natural environment are generally thought to qualify as actual or potential stakeholders. We find that it is the view

taken about the existence and nature of the *stake* that presents an area of argument, because it is upon the basis of "stake" that "what counts" is ultimately decided.

Early vagueness in definition. In an early statement Jones defined corporate social responsibility as "the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract, indicating that a stake may go beyond mere ownership" (1980: 59–60). He then asked the pragmatic questions stakeholder theory still seeks to answer: "What are these groups? How many of these groups must be served? Which of their interests are most important? How can their interests be balanced? How much corporate money should be allotted to serve these interests?" (1980: 60).

These questions are still being explored in stakeholder literature and management thinking. Alkhafaji, for example, defines stakeholders as "groups to whom the corporation is responsible" (1989: 36). Thompson, Wartick, and Smith define stakeholders as groups "in relationship with an organization" (1991: 209). Most scholars, however, have attempted to specify a more concrete stakeholder definition, albeit with limited success.

Broad or narrow view? Windsor (1992) correctly points out that stakeholder theorists differ considerably on whether they take a broad or narrow view of a firm's stakeholder universe. Freeman and Reed (1983) recognized early on that there would be serious differences of opinion about broad versus narrow definitions of "Who or What Really Counts." Their broad definition of a stakeholder as an individual or group who "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" (1983: 91) is virtually identical to Freeman's (1984) definition. And their narrow definition reverted to the language of the Stanford Research Institute (1963), defining stakeholders as those groups "on which the organization is dependent for its continued survival" (1983: 91).

Freeman's now-classic definition is this: "A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984: 46). This is certainly one of the broadest definitions in the literature, for it leaves the notion of stake and the field of possible stakeholders unambiguously open to include virtually anyone. In this definition the basis of the stake can be unidirectional or bidirectional—"can affect or is affected by"—and there is no implication or necessity of reciprocal impact, as definitions involving relationships, transactions, or contracts require. Excluded from having a stake are only those who cannot affect the firm (have no power) *and* are not affected by it (have no claim or relationship).

In contrast, Clarkson offers one of the narrower definitions of stakeholders as voluntary or involuntary risk-bearers: "Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm. Involuntary stakehold-

ers are placed at risk as a result of a firm's activities. But without the element of risk there is no stake" (1994: 5). A stake, in this sense, is only something that can be lost. The use of risk to denote stake appears to be a way to narrow the stakeholder field to those with *legitimate claims*, regardless of their power to influence the firm or the legitimacy of their relationship to the firm. This search for legitimacy, we argue later, is necessary to understand fully a firm's stakeholder environment, but it also can be a powerful blinder to the real impact of stakeholder power and claim urgency. We argue, in contrast to the position of all those who appear to focus primarily on legitimacy, that this narrower view captures only one key attribute of stakeholder salience to managers.

Between the broad and narrow are many other efforts to define what constitutes a stakeholder. The range of definitions as it has developed chronologically appears in Table 1.

Major differences between broad and narrow views. Narrow views of stakeholders are based on the practical reality of limited resources, limited time and attention, and limited patience of managers for dealing with external constraints. In general, narrow views of stakeholders attempt to define relevant groups in terms of their *direct relevance to the firm's core economic interests*. For example, several scholars define stakeholders in terms of their necessity for the firm's survival (Bowie, 1988; Freeman & Reed, 1983; Näsi, 1995); as noted, Clarkson (1995) defines stakeholders as those who have placed something at risk in relationship with the firm, whereas Freeman and Evan (1990), Hill and Jones (1992), and Cornell and Shapiro (1987) speak of stakeholders as contractors or participants in exchange relationships.

A few scholars narrow the field of relevant groups in terms of their *moral claims*, arguing that the essence of stakeholder management should be the firm's participation in creating and sustaining moral relationships (Freeman, 1994; Wicks, Gilbert, & Freeman, 1994), or the firm's fulfilling its affirmative duty to stakeholders in terms of fairly distributing the harms and benefits of the firm's actions (Donaldson & Preston, 1995; Evan & Freeman, 1988; Langtry, 1994). In any case, we see those favoring a narrow definition of stakeholders as searching for a "normative core" of legitimacy so that managers can be advised to focus on the claims of a few legitimate stakeholders.

The broad view of stakeholders, in contrast, is based on the empirical reality that companies can indeed be vitally affected by, or they can vitally affect, almost anyone. But it is bewilderingly complex for managers to apply. The idea of comprehensively identifying stakeholder types, then, is to equip managers with the ability to recognize and respond effectively to a disparate, yet systematically comprehensible, set of entities who may or may not have legitimate claims, but who may be able to affect or are affected by the firm nonetheless, and thus affect the interests of those who do have legitimate claims.

The ultimate aim of stakeholder management practices, according to

TABLE 1
Who Is a Stakeholder? A Chronology

Source	Stake
Stanford memo, 1963	"those groups without whose support the organization would cease to exist" (cited in Freeman & Reed, 1983, and Freeman, 1984)
Rhenman, 1964	"are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (cited in Näsi, 1995)
Ahlstedt & Jahnukainen, 1971	"driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending" (cited in Näsi, 1995)
Freeman & Reed, 1983: 91	Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" Narrow: "on which the organization is dependent for its continued survival"
Freeman, 1984: 46	"can affect or is affected by the achievement of the organization's objectives"
Freeman & Gilbert, 1987: 397	"can affect or is affected by a business"
Cornell & Shapiro, 1987: 5	"claimants" who have "contracts"
Evan & Freeman, 1988: 75-76	"have a stake in or claim on the firm"
Evan & Freeman, 1988: 79	"benefit from or are harmed by, and whose rights are violated or respected by, corporate actions"
Bowie, 1988: 112, n. 2	"without whose support the organization would cease to exist"
Alkhafaji, 1989: 36	"groups to whom the corporation is responsible"
Carroll, 1989: 57	"asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"
Freeman & Evan, 1990	contract holders
Thompson et al., 1991: 209	in "relationship with an organization"
Savage et al., 1991: 61	"have an interest in the actions of an organization and . . . the ability to influence it"
Hill & Jones, 1992: 133	"constituents who have a legitimate claim on the firm . . . established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"
Brenner, 1993: 205	"having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts, and moral responsibilities"
Carroll, 1993: 60	"asserts to have one or more of the kinds of stakes in business"—may be affected or affect . . .
Freeman, 1994: 415	participants in "the human process of joint value creation"
Wicks et al., 1994: 483	"interact with and give meaning and definition to the corporation"
Langtry, 1994: 433	the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
Starik, 1994: 90	"can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of, some organization"
Clarkson, 1994: 5	"bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "are placed at risk as a result of a firm's activities"
Clarkson, 1995: 106	"have, or claim, ownership, rights, or interests in a corporation and its activities"
Näsi, 1995: 19	"interact with the firm and thus make its operation possible"
Brenner, 1995: 76, n. 1	"are or which could impact or be impacted by the firm/organization"
Donaldson & Preston, 1995: 85	"persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity"

this view, could be firm centered or system centered; that is, managers might want to know about all of their stakeholders for firm-centered purposes of survival, economic well-being, damage control, taking advantage of opportunities, "doing in" the competition, winning friends and influencing public policy, coalition building, and so forth. Or, in contrast, managers might want an exhaustive list of all stakeholders in order to participate in a fair balancing of various claims and interests within the firm's social system. Both the former public affairs approach and the latter social responsibility approach require broad knowledge of actual and potential actors and claimants in the firm's environment.

Claimants versus influencers. In order to clarify the term "stake," we need to differentiate between groups that have a legal, moral, or presumed claim on the firm and groups that have an ability to influence the firm's behavior, direction, process, or outcomes. Savage, Nix, Whitehead, and Blair (1991) consider two attributes to be necessary to identify a stakeholder: (1) a claim and (2) the ability to influence a firm. Brenner (1993) and Starik (1994), however, pose these attributes as either/or components of the definition of those with a stake.

In our view this is a muddled set, confusing and contrasting two of the three criteria we see as important. Influencers have power over the firm, whether or not they have valid claims or any claims at all and whether or not they wish to press their claims. Claimants may have legitimate claims or illegitimate ones, and they may or may not have any power to influence the firm. Power and legitimacy are different, sometimes overlapping dimensions, and each can exist without the other. A theory of stakeholder identification must accommodate these differences.

Actual versus potential relationship. Another crucial question leading to the comprehensibility of the term "stake" is whether an entity can be a stakeholder without being in actual relationship with the firm. Some scholars (e.g., Ring, 1994) emphatically answer, "No." We argue that, on the contrary, the *potential* relationship can be as relevant as the actual one. Clarkson's (1994) idea of involuntary stakeholders as those with something not willfully placed at risk addresses the potentiality issue somewhat. Starik quite clearly includes potential when he refers to stakeholders as those who "are or might be influenced by, or are or potentially are influencers of, some organization" (1994: 90). We suggest that a theory of stakeholder identification and salience must somehow account for *latent* stakeholders if it is to be both comprehensive and useful, because such identification can, at a minimum, help organizations avoid problems and perhaps even enhance effectiveness.

Power, dependence, and reciprocity in relationships. If the firm and a stakeholder have a relationship, what is the nature of that relationship? The literature offers a confusing jumble of answers to this question, but most answers use a power-dependence frame of some sort. As Table 2 shows, some definitions focus on the firm's dependency on stakeholders for its survival; some focus on the stakeholder's dependency on the firm

TABLE 2
A Sorting of Rationales for Stakeholder Identification

A Relationship Exists

The firm and stakeholder are in relationship:

Thompson et al., 1991: 209—in "relationship with an organization"

Brenner, 1993: 205—"having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts, and moral responsibilities"

Freeman, 1994: 415—participants in "the human process of joint value creation"

Wicks et al., 1994: 483—"interact with and give meaning and definition to the corporation"

The stakeholder exercises voice with respect to the firm:

Starik, 1994: 90—"can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of, some organization"

Power Dependence: Stakeholder Dominant

The firm is dependent on the stakeholder:

Stanford memo, 1963—"those groups without whose support the organization would cease to exist" (cited in Freeman & Reed, 1983, and Freeman, 1984)

Freeman & Reed, 1983: 91—Narrow: "on which the organization is dependent for its continued survival"

Bowie, 1988: 112, n. 2—"without whose support the organization would cease to exist"

Näsi, 1995: 19—"interact with the firm and thus make its operation possible"

The stakeholder has power over the firm:

Freeman, 1984: 46—"can affect or is affected by the achievement of the organization's objectives"

Freeman & Gilbert, 1987: 397—"can affect or is affected by a business"

Savage et al., 1991: 61—"have an interest in the actions of an organization and . . . the ability to influence it"

Carroll, 1993: 60—"asserts to have one or more of the kinds of stakes in business"—may be affected or affect . . .

Starik, 1994: 90—"can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of, some organization"

Brenner, 1995: 76, n. 1—"are or which could impact or be impacted by the firm/organization"

Power Dependence: Firm Dominant

The stakeholder is dependent on the firm:

Langtry, 1994: 433—the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm

The firm has power over the stakeholder:

Freeman & Reed, 1983: 91—Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives"

Freeman, 1984: 46—"can affect or is affected by the achievement of the organization's objectives"

Freeman & Gilbert, 1987: 397—"can affect or is affected by a business"

Carroll, 1993: 60—"asserts to have one or more of the kinds of stakes in business"—may be affected or affect . . .

TABLE 2 (continued)

Starik, 1994: 90—"can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of, some organization"

Brenner, 1995: 76, n. 1—"are or which could impact or be impacted by the firm/organization"

Mutual Power-Dependence Relationship

The firm and stakeholder are mutually dependent:

Rhenman, 1964—"are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (cited in Näsi, 1995)

Ahlstedt & Jahnukainen, 1971—"driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending" (cited in Näsi, 1995)

Basis for Legitimacy of Relationship

The firm and stakeholder are in contractual relationship:

Cornell & Shapiro, 1987: 5—"claimants" who have "contracts"

Carroll, 1989: 57—"asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"

Freeman & Evan, 1990—contract holders

Hill & Jones, 1992: 133—"constituents who have a legitimate claim on the firm . . . established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"

The stakeholder has a claim on the firm:

Evan & Freeman, 1988: 75-76—"have a stake in or claim on the firm"

Alkhafaji, 1989: 36—"groups to whom the corporation is responsible"

Carroll, 1989: 57—"asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"

Hill & Jones, 1992: 133—"constituents who have a legitimate claim on the firm . . . established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"

Langtry, 1994: 433—the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm

Clarkson, 1995: 106—"have, or claim, ownership, rights, or interests in a corporation and its activities"

The stakeholder has something at risk:

Clarkson, 1994: 5—"bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "are placed at risk as a result of a firm's activities"

The stakeholder has a moral claim on the firm:

Evan & Freeman, 1988: 79—"benefit from or are harmed by, and whose rights are violated or respected by, corporate actions"

Carroll, 1989: 57—"asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"

TABLE 2 (continued)

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- Langtry, 1994: 433—the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
- Clarkson, 1995: 106—“have, or claim, ownership, rights, or interests in a corporation and its activities”
- Donaldson & Preston, 1995: 85—“identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm’s actions or inactions”

Stakeholder Interests—Legitimacy Not Implied

The stakeholder has an interest in the firm:

- Carroll, 1989: 57—“asserts to have one or more of these kinds of stakes”—“ranging from an interest to a right (legal or moral) to ownership or legal title to the company’s assets or property”
- Savage et al., 1991: 61—“have an interest in the actions of an organization and . . . have the ability to influence it”
- Carroll, 1993: 60—“asserts to have one or more of the kinds of stakes in business”—may be affected or affect . . .
- Clarkson, 1995: 106—“have, or claim, ownership, rights, or interests in a corporation and its activities”
-

for upholding its rights, minimizing harms, or achieving its interest; and some focus on the mutuality of power-dependence relations (although, interestingly, we found no definition that emphasized mutual power, and only two from Scandinavia that emphasized mutual dependence).

As shown, a broad-view sorting of stakeholders along previously defined dimensions is still somewhat overwhelming.

Sorting criteria. Thus, although Freeman’s (1984) definition is widely cited in the literature, it is not accepted universally among scholars working in the stakeholder minefields. Narrowing the range of stakeholders requires applying some acceptable and justifiable sorting criteria to the field of possibilities. Some additional approaches are relationship based, built on acknowledged transactional conditions, such as the existence of a legal or implied contract, an exchange relationship, or an identifiable power-dependence relationship. Others are claim based, citing the existence or attribution of a legal or moral right, a real or attributed benefit or harm, or merely an interest.

Overall, the information in Table 2 suggests that scholars who attempt to narrow the definition of stakeholder emphasize the *claim’s legitimacy* based upon contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions and that, in contrast, scholars who favor a broad definition emphasize the *stakeholder’s power* to influence the firm’s behavior, whether or not there are legitimate claims. As a bridging concept, we argue that the broad concept of stakeholder management must be better defined in order to serve the narrower interests of legitimate stake-

holders. Otherwise, influencing groups with power over the firm can disrupt operations so severely that legitimate claims cannot be met and the firm may not survive. Yet, at the same time, it is important to recognize the legitimacy of some claims over others. Power and legitimacy, then, are necessarily core attributes of a comprehensive stakeholder identification model. We argue that when these attributes are evaluated in light of the compelling demands of urgency, a systematic, comprehensible, and dynamic model is the result.

What Added Value Does a Theory of Stakeholder Identification Offer?

As we see from the preceding discussion of the stakeholder literature, one can extract just a few attributes to identify different classes of stakeholders that are salient to managers in certain respects. We also can see that stakeholder power and legitimacy of the claim frequently are treated as competing explanations of stakeholder status, when instead they are partially intersecting variables. Interestingly, this conceptual competition between power and legitimacy is reflected in virtually every major theory of the firm—particularly in agency, behavioral, institutional, population ecology, resource dependence, and transaction cost theories. This state-of-the-field provides an opportunity for a theory of stakeholder identification to move us forward by showing how power and legitimacy interact and, when combined with urgency, create different types of stakeholders with different expected behavioral patterns regarding the firm.

Agency, resource dependence, and transaction cost theories are particularly helpful in explaining why power plays such an important role in the attention managers give to stakeholders. The central problem agency theory addresses is how principals can control the behavior of their agents to achieve their, rather than the agent's, interests. The power of agents to act in ways divergent from the interests of principals may be limited by use of incentives or monitoring (Jensen & Meckling, 1976), so that managers are expected to attend to those stakeholders having the power to reward and/or punish them. Resource dependence theory suggests that power accrues to those who control resources needed by the organization, creating power differentials among parties (Pfeffer, 1981), and it confirms that the possession of resource power makes a stakeholder important to managers. Transaction cost theory proposes that the power accruing to economic actors with small numbers bargaining advantages will affect the nature of firm governance and structure (Williamson, 1975, 1985). That is, stakeholders outside the firm boundary who participate in a very small competitive set can increase transaction costs to levels that justify their absorption into the firm, where the costs of hierarchy are lower than the transaction costs of market failure—a clear indication of their significance to managers (Jones & Hill, 1988).

These three organizational theories teach us why power is a crucial variable in a theory of stakeholder-manager relations. But, as previously

noted, power alone does not help us to fully understand salience in the stakeholder-manager relationship. There remain stakeholders who do not have power, but who nevertheless matter to firms and managers. Other means to identify "Who or What Really Counts" are needed.

Organizational theories with an open-system orientation (Scott, 1987), including institutional and population ecology theories, help us to understand the crucial effects of the environment upon organizations, but they are less helpful when it comes to understanding power in stakeholder-manager relationships. In both theories organizational legitimacy is linked closely with survival (see Meyer & Rowan, 1977, and Carroll & Hannan, 1989, respectively). In the socially constructed world within which managers engage stakeholders, these two theories suggest that "legitimate" stakeholders are the ones who "really count." Under institutional theory, "illegitimacy" results in isomorphic pressures on organizations that operate outside of accepted norms (DiMaggio & Powell, 1983). Under population ecology theory, lack of legitimacy results in organizational mortality (Carroll & Hannan, 1989). According to these two theories, legitimacy figures heavily in helping us to identify stakeholders that merit managerial attention. However, emphasizing legitimacy and ignoring power leave major gaps in a stakeholder identification scheme, because some legitimate stakeholders have no influence.

A final attribute that profoundly influences managerial perception and attention, although not the primary feature of any particular organizational theory, is implicit in each. Agency theory treats this attribute in terms of its contribution to cost, as does transaction cost theory. Behavioral theory (Cyert & March, 1963) treats it as a consequence of unmet "aspirations." Institutional, resource dependence, and population ecology theories treat it in terms of outside pressures on the firm. This attribute is *urgency*, the degree to which stakeholder claims call for immediate attention. Whether dealing with the prevention of losses, the pursuit of goals, or selection pressures, one constant in the stakeholder-manager relationship is the attention-getting capacity of the urgent claim. Urgency, as we discuss below, adds a catalytic component to a theory of stakeholder identification, for urgency demands attention.

In summary, it is clear that no individual organizational theory offers systematic answers to questions about stakeholder identification and salience, although most such theories have much to tell us about the role of power or legitimacy (but not both) in stakeholder-manager relations. Urgency, in contrast, is not a main focus of any organizational theory, but it is critical nonetheless to any theory that purports to identify stakeholders and to explain the degree of attention paid to them by managers. Therefore, we suggest that to better understand "The Principle of Who and What Really Counts," we need to evaluate stakeholder-manager relationships systematically, both actual and potential, in terms of the relative absence or presence of all or some of the attributes: power, legitimacy, and/or urgency.

Defining Stakeholder Attributes

Power. Most current definitions of power derive, at least in part, from the early Weberian idea that power is "the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance" (Weber, 1947). Pfeffer rephrases Dahl's (1957) definition of power as "a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done" (1981: 3). Like Pfeffer and Weber, we concur that "power may be tricky to define, but it is not that difficult to recognize: '[it is] the ability of those who possess power to bring about the outcomes they desire'" (Salancik & Pfeffer, 1974: 3). This leads to the following question: How is power exercised, or, alternatively, what are the bases of power?

French and Raven's (1960) typology of power bases is one framework commonly cited in the organizational literature in answer to this question, but from a sociological perspective it is messy, for there is not a sorting logic at work to create the mutually exclusive and exhaustive categories a true typology requires. Etzioni (1964) suggests a logic for the more precise categorization of power in the organizational setting, based on the type of resource used to exercise power: *coercive* power, based on the physical resources of force, violence, or restraint; *utilitarian* power, based on material or financial resources; and *normative* power, based on symbolic resources.¹

Therefore, a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship. We note, however, that this access to means is a

¹ Etzioni explains these types of power as follows:

The use of a gun, a whip, or a lock is physical since it affects the body; the threat to use physical sanctions is viewed as physical because the effect on the subject is similar in kind, though not in intensity, to the actual use. Control based on application of physical means is ascribed as coercive power.

Material rewards consist of goods and services. The granting of symbols (e.g. money) which allow one to acquire goods and services is classified as material because the effect on the recipient is similar to that of material means. The use of material means for control purposes constitutes *utilitarian* power.

Pure symbols are those whose use does not constitute a physical threat or a claim on material rewards. These include normative symbols, those of prestige and esteem; and social symbols, those of love and acceptance. When physical contact is used to symbolize love, or material objects to symbolize prestige, such contacts or objects are viewed as symbols because their effect on the recipient is similar to that of "pure" symbols. The use of symbols for control purposes is referred to as *normative*, *normative-social*, or *social* power. (1964: 59)

variable, not a steady state, which is one reason why power is transitory: it can be acquired as well as lost.

Legitimacy. It is apparent from our analysis in Table 2 that narrow-definition scholars, particularly those seeking a "normative core" for stakeholder theory, are focused almost exclusively on defining the basis of stakeholder legitimacy. Whether or not that core of legitimacy is to be found in something "at risk," or in property rights, in moral claims, or in some other construct, articulations of "The Principle of Who or What Really Counts" generally are legitimacy based.

However, the notion of "legitimacy," loosely referring to socially accepted and expected structures or behaviors, often is coupled implicitly with that of power when people attempt to evaluate the nature of relationships in society. Davis, for example, distinguishes legitimate from illegitimate use of power by declaring, "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (1973: 314). Many scholars seeking to define a firm's stakeholders narrowly also make an implicit assumption that legitimate stakeholders are necessarily powerful, when this is not always the case (e.g., minority stockholders in a closely held company), and that powerful stakeholders are necessarily legitimate (e.g., corporate raiders in the eyes of current managers).

Despite this common linkage, we accept Weber's (1947) proposal that legitimacy and power are distinct attributes that can combine to create *authority* (defined by Weber as the legitimate use of power) but that can exist independently as well. An entity may have legitimate standing in society, or it may have a legitimate claim on the firm, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience for the firm's managers. For this reason we argue that a comprehensive theory of stakeholder salience requires that separate attention be paid to legitimacy as an attribute of stakeholder-manager relations.

Recently, Suchman (1995) has worked to strengthen the conceptual moorings of the notion of legitimacy, building upon Weber's functionalism (1947), Parsons' structural-functional theory (1960), "open systems" theory (Scott, 1987), and institutional theory (DiMaggio & Powell, 1983). The definition that Suchman suggests is broad based and recognizes the evaluative, cognitive, and socially constructed nature of legitimacy. He defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (1995: 574).

Although this definition is imprecise and difficult to operationalize, it is representative of sociologically based definitions of legitimacy and contains several descriptions that are useful in our approach to stakeholder identification. Therefore, we accept and utilize Suchman's definition of legitimacy, recognizing that the social system within which legiti-

macy is attained is a system with multiple levels of analysis, the most common of which are the individual, organizational, and societal (Wood, 1991). This definition implies that legitimacy is a desirable social good, that it is something larger and more shared than a mere self-perception, and that it may be defined and negotiated differently at various levels of social organization.

Urgency. Viewing power and legitimacy as independent variables in stakeholder-manager relationships takes us some distance toward a theory of stakeholder identification and salience, but it does not capture the dynamics of stakeholder-manager interactions. We propose that adding the stakeholder attribute of urgency helps move the model from static to dynamic. "Urgency" is defined by the Merriam-Webster Dictionary as "calling for immediate attention" or "pressing." We believe that urgency, with synonyms including "compelling," "driving," and "imperative," exists only when two conditions are met: (1) when a relationship or claim is of a time-sensitive nature and (2) when that relationship or claim is important or critical to the stakeholder. Thus, similar to Jones' (1993) description of moral intensity as a multidimensional construct, we argue that urgency is based on the following two attributes: (1) time sensitivity—the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) criticality—the importance of the claim or the relationship to the stakeholder. We define urgency as the degree to which stakeholder claims call for immediate attention.

Although it was virtually ignored until now in any explicit sense in the stakeholder literature, the idea of paying attention to various stakeholder relationships in a timely fashion has been a focus of issues management (Wartick & Mahon, 1994) and crisis management scholars for decades. Eyestone (1978) highlighted the speed with which an issue can become salient to a firm, and Cobb and Elder discussed the important role symbols play in creating time urgency: "Symbols such as 'Freedom Now' have an advantage because they connote a specific time commitment to action. If one is attempting to mobilize a public against some outside threat, one must emphasize the rapidity with which the opponent is gaining strength" (1972: 139).

However, although time sensitivity is necessary, it is not sufficient to identify a stakeholder's claim or "manager relationship" as urgent. In addition, the stakeholder must view its claim on the firm or its relationship with the firm as critical or highly important. Some examples of why a stakeholder would view its relationship with the firm as critical include the following:

- ownership—the stakeholder's possession of firm-specific assets, or those assets tied to a firm that cannot be used in a different way without loss of value (Hill & Jones, 1992; Williamson, 1985), making it very costly for the stakeholder to exit the relationship;

- sentiment—as in the case of easily traded stock that is held by generations of owners within a family, regardless of the stock's performance;
- expectation—the stakeholder's anticipation that the firm will continue providing it with something of great value (e.g., compensation and benefits in the case of employees); or
- exposure—the importance the stakeholder attaches to that which is at risk in the relationship with the firm (Clarkson, 1994).

Our theory does not specify why stakeholders assess their relationships with firms as critical. Furthermore, our theory does not attempt to predict the circumstances under which "time will be of the essence." Rather, when both factors are present, our theory captures the resulting multidimensional attribute as *urgency*, juxtaposes it with the attributes of power and legitimacy, and proposes dynamism in the systematic identification of stakeholders.

Additional Features of Stakeholder Attributes

Table 3 summarizes the constructs, definitions, and origins of the concepts discussed thus far in the article. To support a dynamic theory of stakeholder identification and salience, however, we need to consider several additional implications of power, legitimacy, and urgency. First, each attribute is a variable, not a steady state, and can change for any particular entity or stakeholder-manager relationship. Second, the existence (or degree present) of each attribute is a matter of multiple perceptions and is a constructed reality rather than an "objective" one. Third, an individual or entity may not be "conscious" of possessing the attribute or, if conscious of possession, may not choose to enact any implied behaviors. These features of stakeholder attributes, summarized below, are important to the theory's dynamism; that is, they provide a preliminary framework for understanding how stakeholders can gain or lose salience to a firm's managers:

1. Stakeholder attributes are variable, not steady state.
2. Stakeholder attributes are socially constructed, not objective, reality.
3. Consciousness and willful exercise may or may not be present.

Thus, with respect to power, for example, access to the means of influencing another entity's behavior is a variable, with both discrete and continuous features. As we argued earlier, power may be coercive, utilitarian, or normative—qualitatively different types that may exist independently or in combination. Each type of power may range from nonexistent to complete. Power is transitory—it can be acquired as well as lost. Further, possession of power does not necessarily imply its actual or intended use, nor does possession of power imply consciousness of such possession by the possessor or "correct" perception of objective reality by the perceivers. An entity may possess power to impose its will upon a firm, but unless it is aware of its power and willing to exercise it on the firm, it is not a stakeholder with high salience for managers. Rather, latent power exists in stakeholder relationships, and the exercise of

TABLE 3
Key Constructs in the Theory of Stakeholder Identification and Salience

Construct	Definition	Sources
Stakeholder	Any group or individual who can affect or is affected by the achievement of the organization's objectives	Freeman, 1984; Jones, 1995; Kreiner & Bhambri, 1988
Power	A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done	Dahl, 1957; Pfeffer, 1981; Weber, 1947
Bases	Coercive—force/threat Utilitarian—material/incentives Normative—symbolic influences	Etzioni, 1964
Legitimacy	A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, definitions	Suchman, 1995; Weber, 1947
Bases	Individual Organizational Societal	Wood, 1991
Urgency	The degree to which stakeholder claims call for immediate attention	Original—builds on the definition from the Merriam-Webster Dictionary
Bases	Time sensitivity—the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder Criticality—the importance of the claim or the relationship to the stakeholder	Eyestone, 1978; Wartick & Mahon, 1994 Original—asset specificity from Hill & Jones, 1992; Williamson, 1985
Salience	The degree to which managers give priority to competing stakeholder claims	Original—builds on the definition from the Merriam-Webster Dictionary

stakeholder power is triggered by conditions that are manifest in the other two attributes of the relationship: legitimacy and urgency. That is, power by itself does not guarantee high salience in a stakeholder-manager relationship. Power gains authority through legitimacy, and it gains exercise through urgency.

Legitimacy, like power, is a variable rather than a steady state—a dynamic attribute of the stakeholder-manager relationship. It may be present or absent. If it is present, it is based upon a generalized virtue that is perceived for or attributed to a stakeholder at one or more social levels of analysis. Claimants may or may not correctly perceive the legitimacy of their claims; likewise, managers may have perceptions of stakeholder legitimacy that are at variance with the stakeholder's own perception.

Also, like the power attribute, legitimacy's contribution to stakeholder salience depends upon interaction with the other two attributes: power and urgency. Legitimacy gains rights through power and voice through urgency.

Finally, urgency is not a steady-state attribute but can vary across stakeholder-manager relationships or within a single relationship across time. As is true of power and legitimacy, urgency is a socially constructed perceptual phenomenon and may be perceived correctly or falsely by the stakeholder, the managers, or others in the firm's environment. For example, neighbors of a nuclear power plant that is about to melt down have a serious claim on that plant, but they may not be aware of the time pressure and criticality and, thus, may not act on their claim. Urgency by itself is not sufficient to guarantee high salience in the stakeholder-manager relationship. However, when it is combined with at least one of the other attributes, urgency will change the relationship and cause it to increase in salience to the firm's managers. Specifically, in combination with legitimacy, urgency promotes access to decision-making channels, and in combination with power, it encourages one-sided stakeholder action. In combination with both, urgency triggers reciprocal acknowledgment and action between stakeholders and managers.

These three features of stakeholder attributes—variable status, perceptual quality, and variable consciousness and will—lay the groundwork for a future analysis of the dynamic nature of stakeholder-manager relations. The common "bicycle-wheel" model of a firm's stakeholder environment does not begin to capture the ebb and flow of changes in stakeholder-manager relations or the fact that these relations are multilateral and often coalitional, not bilateral and independent. We explore the dynamic possibilities of the theory of stakeholder salience briefly in the concluding section, but it seems clear that a great deal more paradigmatic development is now possible because of our ability to recognize theoretically that stakeholder-manager relations are not static but, rather, are in constant flux.

Managers' Role in the Theory

Cyert & March (1963) contributed to the management literature the notion of organizations as coalitions of individuals and organized "sub coalitions" (1963: 27), with "disparate demands, changing foci of attention, and limited ability to attend to all problems simultaneously" (1963: 43), which, under uncertainty, must seek feedback from the environment (1963: 12). Pfeffer & Salancik (1978) picked up the idea of organizations as coalitions of varying interests and contributed the notion that organizations are "other-directed" (1978: 257), being influenced by actors that control critical resources and have the attention of managers (1978: 259–260). In developing their stakeholder-agency model, Hill and Jones (1992) employed the agency theory view of the firm as a nexus of contracts between stakeholders and managers at a central node, where managers

have the responsibility 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 stakeholder groups (1992: 134). They write:

Whatever the magnitude of their stake, each stakeholder is a part of the nexus of implicit and explicit contracts that constitutes the firm. However, as a group, managers are unique in this respect because of their position at the centre of the nexus of contracts. Managers are the only group of stakeholders who enter into a contractual relationship with all other stakeholders. Managers are also the only group of stakeholders with direct control over the decision-making apparatus of the firm. (Hill & Jones, 1992: 134; emphasis in original)

The idea that the organization is an environmentally dependent coalition of divergent interests, which depends upon gaining the attention of (making claims upon) managers at the center of the nexus to effect reconciliations among stakeholders, suggests that the perspective of managers might be vital. We propose that, although groups can be identified reliably as stakeholders based on their possession of power, legitimacy, and urgency in relationship to the firm, it is the firm's managers who determine which stakeholders are *salient* and therefore will receive management attention. In short, one can identify a firm's stakeholders based on attributes, but managers may or may not perceive the stakeholder field correctly. The stakeholders winning management's attention will be only those the managers perceive to be highly salient.²

Therefore, if managers are central to this theory, what role do their own characteristics play? The propositions we present later suggest that the manager's *perception* of a stakeholder's attributes is critical to the manager's view of stakeholder salience. Therefore, we suggest, although space constraints prohibit systematic development here, that managerial characteristics are a moderator of the relationships presented in this article. For example, managers vary greatly in their environmental scanning practices (Daft, Sormunen, & Parks, 1988) and in their values (Hambrick & Mason, 1984). Differences in managerial values are illustrative of the moderating effects of management characteristics (Frederick, 1995). Greer and Downey (1982) have found that managers' values relative to social regulation have a strong effect on how they react to stakeholders covered by these statutes. Another value theorists suggest as important in

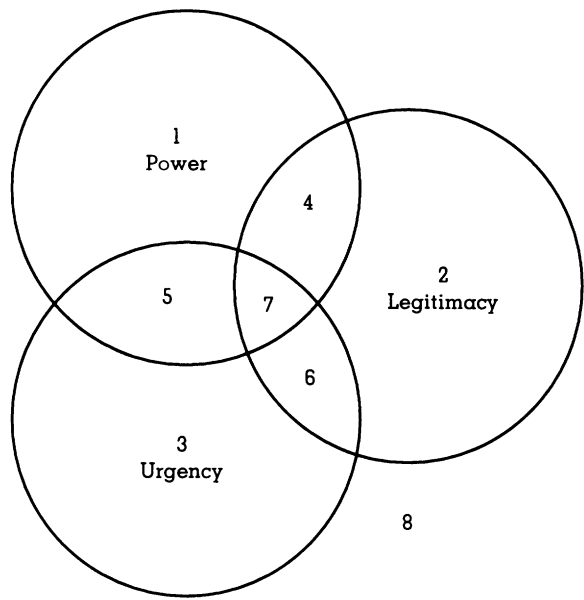
² We note, however, that Freeman and Evan view the firm "as a series of multilateral contracts among stakeholders" (1990: 342), with no central role for managers. This implies a network theory solution to the problem of systematic description, in comparison with the cognitive approach that we take. We make no representations about a fully networked, nonnexus approach. We merely suggest the sociology-organization theory approach as a logically developed "sorting system" for improving the descriptive capability of the stakeholder approach.

this relationship is management’s sense of self-interest or self-sacrifice. Although some theorists have suggested that all behavior ultimately is self-interested (Dawkins, 1976; Wilson, 1974), several social scientists have questioned the common assumption of self-interest and have suggested that people often act in ways that benefit others, even to their own detriment (see Etzioni, 1988; Granovetter, 1985; Perrow, 1986). Like Perrow (1986) and Brenner and Cochran (1991), we treat managerial characteristics as a variable and suggest that it will be an important moderator of the stakeholder-manager relationship.

STAKEHOLDER CLASSES

Up to this point in the article, we have argued that a definition of “The Principle of Who or What Really Counts” rests upon the assumptions, first, that managers who want to achieve certain ends pay particular kinds of attention to various classes of stakeholders; second, that managers’ perceptions dictate stakeholder salience; and third, that the various classes of stakeholders might be identified based upon the possession, or the attributed possession, of one, two, or all three of the attributes: power, legitimacy, and urgency. We now proceed to our analysis of the stakeholder classes that result from the various combinations of these attributes, as shown in Figure 1.

FIGURE 1
Qualitative Classes of Stakeholders



We first lay out the stakeholder types that emerge from various combinations of the attributes: power, legitimacy, and urgency. Logically and conceptually, seven types are examined—three possessing only one attribute, three possessing two attributes, and one possessing all three attributes. We propose that stakeholders' possession of these attributes, upon further methodological and empirical work, can be measured reliably. This analysis allows and justifies identification of entities that should be considered stakeholders of the firm, and it also constitutes the set from which managers select those entities they perceive as salient. According to this model, then, entities with no power, legitimacy, or urgency in relation to the firm are not stakeholders and will be perceived as having no salience by the firm's managers.

In conjunction with the analysis of stakeholder types, and based on the assumption that managers' perceptions of stakeholders form the crucial variable in determining organizational resource allocation in response to stakeholder claims, we also present several propositions leading to a theory of stakeholder salience.

Therefore:

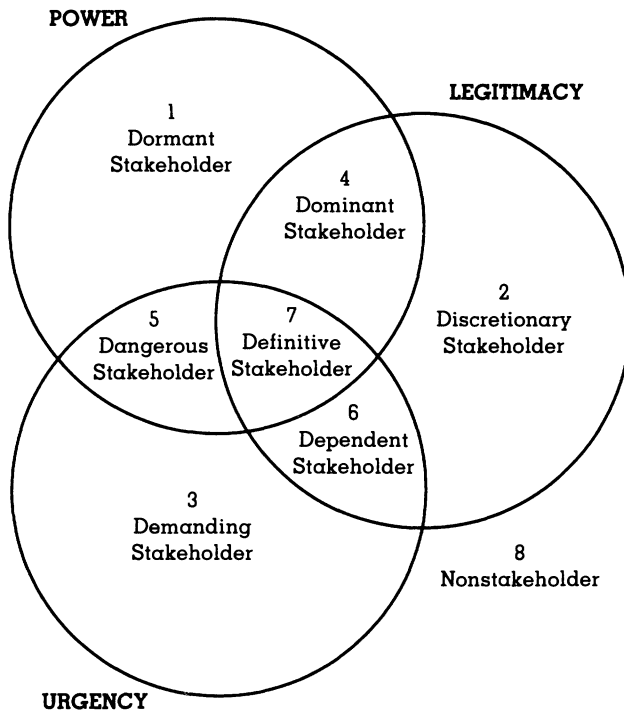
Proposition 1: Stakeholder salience will be positively related to the cumulative number of stakeholder attributes—power, legitimacy, and urgency—perceived by managers to be present.

The low salience classes (areas 1, 2, and 3), which we term "latent" stakeholders, are identified by their possession or attributed possession of only one of the attributes. The moderately salient stakeholders (areas 4, 5, and 6) are identified by their possession or attributed possession of two of the attributes, and because they are stakeholders who "expect something," we call them "expectant" stakeholders. The combination of all three attributes (including the dynamic relations among them) is the defining feature of highly salient stakeholders (area 7).

In this section we present our analysis of the stakeholder classes that the theory identifies, paying special attention to the managerial implications of the existence of each stakeholder class. We have given each class a descriptive name to facilitate discussion, recognizing that the names are less important than the theoretical types they represent. We invite the indulgence of the reader as we alliterate these descriptive names as a mnemonic device to promote recall and as a further means to suggest a starting point for future dialogue.

As Figure 2 illustrates, latent stakeholders are those possessing only one of the three attributes, and include dormant, discretionary, and demanding stakeholders. Expectant stakeholders are those possessing two attributes, and include dominant, dependent, and dangerous stakeholders. Definitive stakeholders are those possessing all three attributes. Finally, individuals or entities possessing none of the attributes are non-stakeholders or potential stakeholders.

FIGURE 2
Stakeholder Typology:
One, Two, or Three Attributes Present



Latent Stakeholders

With limited time, energy, and other resources to track stakeholder behavior and to manage relationships, managers may well do nothing about stakeholders they believe possess only one of the identifying attributes, and managers may not even go so far as to recognize those stakeholders' existence. Similarly, latent stakeholders are not likely to give any attention or acknowledgment to the firm. Hence:

Proposition 1a: Stakeholder salience will be low where only one of the stakeholder attributes—power, legitimacy, and urgency—is perceived by managers to be present.

In the next few paragraphs we discuss the reasoning behind this expectation as it applies to each class of latent stakeholder, and we also discuss the implications for managers.

Dormant stakeholders. The relevant attribute of a dormant stakeholder is power. Dormant stakeholders possess power to impose their will on a firm, but by not having a legitimate relationship or an urgent claim,

their power remains unused. Examples of dormant stakeholders are plentiful. For instance, power is held by those who have a loaded gun (coercive), those who can spend a lot of money (utilitarian), or those who can command the attention of the news media (symbolic). Dormant stakeholders have little or no interaction with the firm. However, because of their potential to acquire a second attribute, management should remain cognizant of such stakeholders, for the dynamic nature of the stakeholder-manager relationship suggests that dormant stakeholders will become more salient to managers if they acquire either urgency or legitimacy.

Although difficult, it is oftentimes possible to predict which dormant stakeholders may become salient. For example, while employees who have been fired or laid off from an organization could be considered by the firm to be dormant stakeholders, experience suggests that these stakeholders can seek to exercise their latent power. The multiple shootings at postal facilities by ex-U.S. mail employees (coercive), the filing of wrongful dismissal suits in the court system (utilitarian), and the increase in "speaking out" on talk radio (symbolic) all are evidence of such combinations.

Discretionary stakeholders. Discretionary stakeholders possess the attribute of legitimacy, but they have no power to influence the firm and no urgent claims. Discretionary stakeholders are a particularly interesting group for scholars of corporate social responsibility and performance (see Wood, 1991), for they are most likely to be recipients of what Carroll (1979) calls discretionary corporate social responsibility, which he later redefined as corporate philanthropy (Carroll, 1991). The key point regarding discretionary stakeholders is that, absent power and urgent claims, there is absolutely no pressure on managers to engage in an active relationship with such a stakeholder, although managers can choose to do so.

Not all recipients of corporate philanthropy are discretionary stakeholders—only those with neither power over nor urgent claims on the firm. Examples of discretionary stakeholders include beneficiaries of the Take-A-Taxi program in the Twin Cities, in which the Fingerhut company picks up the tab for anyone who feels they have consumed too much alcohol to drive, and nonprofit organizations, such as schools, soup kitchens, and hospitals, who receive donations and volunteer labor from such companies as Rhino Records, Timberland, Honeywell, JustDesserts, and Levi-Strauss.

Demanding stakeholders. Where the sole relevant attribute of the stakeholder-manager relationship is urgency, the stakeholder is described as "demanding." Demanding stakeholders, those with urgent claims but having neither power nor legitimacy, are the "mosquitoes buzzing in the ears" of managers: irksome but not dangerous, bothersome but not warranting more than passing management attention, if any at all. Where stakeholders are unable or unwilling to acquire either the power or the legitimacy necessary to move their claim into a more salient status, the "noise" of urgency is insufficient to project a stakeholder claim

beyond latency. For example, a lone millenarian picketer who marches outside the headquarters with a sign that says, "The end of the world is coming! Acme chemical is the cause!" might be extremely irritating to Acme's managers, but the claims of the picketer remain largely unconsidered.

Expectant Stakeholders

As we consider the potential relationship between managers and the group of stakeholders with two of the three identifying stakeholder attributes, we observe a qualitatively different zone of salience. In analyzing the situations in which any two of the three attributes—power, legitimacy, and urgency—are present, we cannot help but notice the change in momentum that characterizes this condition. Whereas one-attribute low-salience stakeholders are anticipated to have a latent relationship with managers, two-attribute moderate-salience stakeholders are seen as "expecting something," because the combination of two attributes leads the stakeholder to an active versus a passive stance, with a corresponding increase in firm responsiveness to the stakeholder's interests. Thus, the level of engagement between managers and these expectant stakeholders is likely to be higher. Accordingly:

Proposition 1b: Stakeholder salience will be moderate where two of the stakeholder attributes—power, legitimacy, and urgency—are perceived by managers to be present.

We describe the three expectant stakeholder classes (dominant, dependent, and dangerous) in the following paragraphs.

Dominant stakeholders. In the situation where stakeholders are both powerful and legitimate, their influence in the firm is assured, since by possessing power with legitimacy, they form the "dominant coalition" in the enterprise (Cyert & March, 1963). We characterize these stakeholders as "dominant," in deference to the legitimate claims they have upon the firm and their ability to act on these claims (rather than as a forecast of their intentions with respect to the firm—they may or may not ever choose to act on their claims). It seems clear to us, at least, that the expectations of any stakeholders perceived by managers to have power and legitimacy will "matter" to managers.

Thus, we might expect that dominant stakeholders will have some formal mechanism in place that acknowledges the importance of their relationship with the firm. For example, corporate boards of directors generally include representatives of owners, significant creditors, and community leaders, and there is normally an investor relations office to handle ongoing relationships with investors. Most corporations have a human resources department that acknowledges the importance of the firm-employee relationship. Public affairs offices are common in firms

that depend on maintaining good relationships with government. In addition, corporations produce reports to legitimate, powerful stakeholders, including annual reports, proxy statements, and, increasingly, environmental and social responsibility reports. Dominant stakeholders, in fact, are those stakeholders that so many scholars are trying to establish as the *only* stakeholders of the firm. In our typology dominant stakeholders expect and receive much of managers' attention, but they are by no means the full set of stakeholders to whom managers should or do relate.

Dependent stakeholders. We characterize stakeholders who lack power but who have urgent legitimate claims as "dependent," because these stakeholders depend upon others (other stakeholders or the firm's managers) for the power necessary to carry out their will. Because power in this relationship is not reciprocal, its exercise is governed either through the advocacy or guardianship of other stakeholders, or through the guidance of internal management values.

Using the case of the giant oil spill from the Exxon Valdez in Prince William Sound as an example, we can show that several stakeholder groups had urgent and legitimate claims, but they had little or no power to enforce their will in the relationship. To satisfy their claims these stakeholders had to rely on the advocacy of other, powerful stakeholders or on the benevolence and voluntarism of the firm's management. Included in this category were local residents, marine mammals and birds, and even the natural environment itself (Starik, 1993). For the claims of these dependent stakeholders to be satisfied, it was necessary for dominant stakeholders—the Alaska state government and the court system—to provide guardianship of the region's citizens, animals, and ecosystems. Here a dependent stakeholder moved into the most salient stakeholder class by having its urgent claims adopted by dominant stakeholders, illustrating the dynamism that can be modeled effectively using the theory and principles of stakeholder identification and salience suggested here.

Dangerous stakeholders. We suggest that where urgency and power characterize a stakeholder who lacks legitimacy, that stakeholder will be coercive and possibly violent, making the stakeholder "dangerous," literally, to the firm. "Coercion" is suggested as a descriptor because the use of coercive power often accompanies illegitimate status.

Examples of unlawful, yet common, attempts at using coercive means to advance stakeholder claims (which may or may not be legitimate) include wildcat strikes, employee sabotage, and terrorism. For example, in the 1970s General Motors' employees in Lordstown, Ohio, welded pop cans to engine blocks to protest certain company policies. Other examples of stakeholders using coercive tactics include environmentalists spiking trees in areas to be logged and religious or political terrorists using bombings, shootings, or kidnappings to call attention to their claims. The actions of these stakeholders not only are outside the bounds of legitimacy but are dangerous, both to the stakeholder-manager relationship and to the individuals and entities involved.

It is important for us to note that we, along with other responsible individuals, are very uncomfortable with the notion that those whose actions are dangerous, both to stakeholder-manager relationships as well as to life and well-being, might be accorded some measure of legitimacy by virtue of the typology proposed in this analysis. Notwithstanding our discomfort, however, we are even more concerned that failure to identify dangerous stakeholders would result in missed opportunities for mitigating the dangers and in lower levels of preparedness, where no accommodation is possible. Further, to maintain the integrity of our approach to better define stakeholders, we feel bound to "identify" dangerous stakeholders without "acknowledging" them, for, like most of our colleagues, we abhor their practices. We are fully aware that society's "refusal to acknowledge" after identification of a dangerous stakeholder, by counteracting terror in all its forms, is an effective counteragent in the battle to maintain civility and civilization. The identification of this class of stakeholder is undertaken with the support of this tactic in mind.

Definitive Stakeholders

Previously, we defined "salience" as the degree to which managers give priority to competing stakeholder claims. Thus:

Proposition 1c: Stakeholder salience will be high where all three of the stakeholder attributes—power, legitimacy, and urgency—are perceived by managers to be present.

By definition, a stakeholder exhibiting both power and legitimacy already will be a member of a firm's dominant coalition. When such a stakeholder's claim is urgent, managers have a clear and immediate mandate to attend to and give priority to that stakeholder's claim. The most common occurrence is likely to be the movement of a dominant stakeholder into the "definitive" category.

For example, in 1993 stockholders (dominant stakeholders) of IBM, General Motors, Kodak, Westinghouse, and American Express became active when they felt that their legitimate interests were not being served by the managers of these companies. A sense of urgency was engendered when these powerful, legitimate stakeholders saw their stock values plummet. Because top managers did not respond sufficiently or appropriately to these definitive stakeholders, they were removed, thus demonstrating in a general way the importance of an accurate perception of power, legitimacy, and urgency; the necessity of acknowledgment and action that salience implies; and, more specifically, the consequences of the misperception of or inattention to the claims of definitive stakeholders.

Any expectant stakeholder can become a definitive stakeholder by acquiring the missing attribute. As we saw earlier, dependent Alaskan citizens became definitive stakeholders of Exxon by acquiring a powerful

ally in government. Likewise, the "dangerous" African National Congress became a definitive stakeholder of South African companies when it acquired legitimacy by winning free national elections.

RESEARCH AND MANAGEMENT CONSEQUENCES OF A DYNAMIC THEORY OF STAKEHOLDER IDENTIFICATION

In our analysis we have proposed that stakeholders possess some combination of three critical attributes: power, legitimacy, and urgency. We predict that the salience of a particular stakeholder to the firm's management is low if only one attribute is present, moderate if two attributes are present, and high if all three attributes are present.

Dynamism in Stakeholder-Manager Relations

As our earlier discussion demonstrates, latent stakeholders can increase their salience to managers and move into the "expectant stakeholder" category by acquiring just one of the missing attributes. If the stakeholder is particularly clever, for example, at coalition building, political action, or social construction of reality, that stakeholder can move into the "definitive stakeholder" category (characterized by high salience to managers), starting from *any* position—latent, expectant, or potential.

Static maps of a firm's stakeholder environment are heuristically useful if the intent is to raise consciousness about "Who or What Really Counts" to managers or to specify the stakeholder configuration at a particular time point. But even though most theorists might try for static clarity, managers should never forget that stakeholders change in salience, requiring different degrees and types of attention depending on their attributed possession of power, legitimacy, and/or urgency, and that levels of these attributes (and thereby salience) can vary from issue to issue and from time to time.

We can observe an example of stakeholder dynamism in recent events in South Africa. The African National Congress (ANC) began as a group with an urgent claim but not a legitimate one, given the ruling South African culture and government, and it had no power. At first it was a latent, demanding stakeholder. The ANC next moved into the "dangerous category" by using coercive power. However, this did not lead to definitive status. It was only by acquiring legitimacy while relinquishing the use of coercive power, and thus becoming a dependent stakeholder, that the ANC was able to achieve definitive status, high salience, and eventual success.

Thus, when the ANC moved its urgent claim into the world environment, the claim's legitimacy was established, and the ANC, as well as the South Africans it represented, became an expectant, dependent stakeholder of the multinational enterprises (MNEs) located in South Africa. As a dependent stakeholder, the ANC was able to acquire the protection, advocacy, and guardianship of more salient stakeholders (especially

investors). With the powerful advocacy of these stakeholders, the ANC moved into the "definitive" zone of the stakeholder attribute model for South African MNEs. In fact, it is now widely acknowledged that the worldwide divestment/disinvestment movement, led by MNE stockholders, was a major force in the transformation of the South African system of government and the rise to political power of the ANC (e.g., see Paul, 1992).

Another example of dynamism in stakeholder attributes is offered by Näsi, Näsi, and Savage (1994). This case, involving a business owner, workers, and the courts, illustrates how a dependent stakeholder worker group (one with a legitimate and urgent claim) can increase its salience to a firm's managers by aligning itself with other stakeholders (in this case, a union and the courts) who have the power to impose their will upon a stubborn business owner.

Thus, using our identification typology, we are able to explain stakeholder salience and dynamism systematically. This new capability has implications for management, research, and for the future of the stakeholder framework.

Implications for Management, Research, and Future Directions

On the basis of the model we develop in this article, we can envision refinements in long-standing management techniques designed to assist managers in dealing with multiple stakeholders' interests. Presently, management techniques based on the stakeholder heuristic are being utilized to help managers deal effectively with multiple stakeholder relationships. Current methods include identification of stakeholder roles (e.g., employees, owners, communities, suppliers, and customers), analysis of stakeholder interests, and evaluation of the type and level of stakeholder power (e.g., see current textbooks by Carroll, 1993; Frederick, Post, Lawrence, & Weber, 1996; and Wood, 1994).

The approach introduced in this paper has the potential to improve upon current practice. To current techniques that emphasize power and interests, the model we suggest adds the vital dimensions of legitimacy and urgency. Further, this model enables a more systematic sorting by managers of stakeholder-manager relationships as these relationships attain and relinquish salience in the dynamics of ongoing business. In addition, our three-attribute model permits managers to map the legitimacy of stakeholders and therefore to become sensitized to the moral implications of their actions with respect to each stakeholder. In this sense, our model supports and initiates normative thought in the managerial context. Thus, these refinements contribute to the potential effectiveness of managers as they deal with multiple stakeholder interests. And, as these refinements find their way into accepted practice, we can further envision subsequent rounds of inquiry, which test whether "new maps" result in "new methods."

Stakeholder theory, we believe, holds the key to more effective management and to a more useful, comprehensive theory of the firm in society.

Focusing attention on salience in the manager-stakeholder relationships existing in a firm's environment appears to be a productive strategy for researchers and managers alike in realizing these aspirations. The stakeholder identification typology we have developed here is amenable to empirical operationalization and to the generation of testable hypotheses concerning, for example, predictions about the circumstances under which a stakeholder in one category might attempt to acquire a missing attribute and thus enhance its salience to a firm's managers. We have not developed such operational definitions and hypotheses here, for lack of space, but we believe that such development is the next logical step in articulating completely "The Principle of Who or What Really Counts."

Specifically, we call for empirical research that answers these questions: Are present descriptions of stakeholder attributes adequate? Do the inferences we make herein hold when examining real stakeholder-manager relationships? Are there models of interrelationships among the variables identified here (and possible others) that reveal more subtle, but perhaps more basic, systematics? We realize that for these and other such questions to be addressed, item and scale development, demographic calibration, and second-order model building, among other things, are necessary.

In the process we hope that additional clarity can be achieved at the conceptual level as well. We ask, what are the implications of this model and its subsequent tests for additional research on power, legitimacy, and urgency? More importantly, are power, legitimacy, and urgency really the correct and parsimonious set of variables in understanding stakeholder-manager relationships? We acknowledge that despite their level of emphasis in the second Toronto conference, and despite our logical and theoretical justification of their importance in developing a more inferential and empirically based stakeholder theory, other stakeholder attributes also may be well suited to stakeholder analysis—and we call for the critical evaluation of our choices.

Finally, in attempting to build momentum in the development of stakeholder theory, we are acutely aware that we have necessarily made sweeping assumptions that, for the sake of clarity in a preliminary articulation, are passed over, with the implicit understanding that for the theory to hold, these must be revisited and assessed. For example, we assume and argue that power and legitimacy are distinct attributes. But some might cast one as a subset of the other. To build our identification typology, we treat each attribute as "present or absent," when it is clear that each operates on a continuum or series of continua. Each of these issues, and others like them, point toward additional inquiry that can enrich the theory and add to its usefulness.

Conclusion: The Search for Legitimacy in Stakeholder Theory

Many stakeholder scholars, in attempting to narrow the range of "Who or What Really Counts" in a firm's stakeholder environment, are

searching for the bases of legitimacy in stakeholder-manager relationships. When scholars such as Freeman, Clarkson, Donaldson, Preston, and Dunfee argue that stakeholder theory must articulate a "normative core," they are looking for a compelling reason why some claims and some relationships are legitimate and worthy of management attention and why others are not. They discount the importance of power in stakeholder-manager relations, arguing that the important thing is whether the stakeholder has legitimate (e.g., moral, legal, and property-based) claims.

The theory of stakeholder identification and salience developed in this article in no way discredits this search for a legitimate normative core for stakeholder theory. It makes sense to articulate theoretically why certain groups will hold legitimate, possibly stable claims on managers and firm; these are the stakeholders who should really count. Our aim, however, is to expand scholarly and management understanding beyond legitimacy to incorporate stakeholder power and urgency of a claim, because these attributes of entities in a firm's environment—and their dynamism over periods of time or variation in issues—will make a critical difference in managers' ability to meet legitimate claims and protect legitimate interests. We offer this preliminary theory as a way of understanding which stakeholders do really count.

In 1978 William C. Frederick (in a paper subsequently published in 1994) observed that business and society scholarship was in a transition from a moral focus on social responsibility (CSR₁) to an amoral focus on social responsiveness (CSR₂). When stakeholder theory focuses only on issues of legitimacy, it acquires the fuzzy moral flavor of CSR₁. Focusing only on stakeholder power, however, as several major organizational theories would lead us to do, yields the amorality and self-interested action focus of CSR₂. Instead, we propose a merger.

In sum, we argue that stakeholder theory must account for power and urgency as well as legitimacy, no matter how distasteful or unsettling the results. Managers *must* know about entities in their environment that hold power and have the intent to impose their will upon the firm. *Power and urgency must be attended to if managers are to serve the legal and moral interests of legitimate stakeholders.*

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