

## Stakeholder Theory: A Millennial Lens on Institutional Foundations, Functional Imperatives, and the Governance of Value

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### Article Info

Volume 7, Issue 3

#### *Publication history:*

Accepted on 29 April 2026;  
Published: 30 May 2026

#### *Key Words:*

Stakeholder theory, corporate governance, value creation, organisational performance, stakeholder management

#### *Article Doi:*

10.59413/ajocs/v7.i3.49

### Abstract

Stakeholder theory posits that organisations must create value not only for shareholders but for all parties affected by their operations. This study examines the historical evolution of stakeholder thinking, the broad categories of stakeholders, the two dominant perspectives through which stakeholder management is practised, the core theoretical framework and related theories that underpin the process, the rationale for stakeholder governance and regulation, and the strategic functions that stakeholder engagement serves for households, firms, and government. The study contends that organisations operating with a millennial lens must integrate institutional and functional stakeholder perspectives to sustain profitability and long-run societal growth.

## 1. History of Stakeholder Thought

The intellectual roots of stakeholder thinking stretch back well before the term entered corporate vocabulary. Early political philosophy recognised that rulers held obligations to those governed beyond narrow self-interest. Adam Smith's moral sentiment tradition (1759) acknowledged the social embeddedness of economic exchange, while John Stuart Mill's utilitarian framework demanded that organisations account for the greatest good of the greatest number. The cooperative movement of the 19th century institutionalised the notion that enterprises could be structured around the interests of workers, consumers, and communities simultaneously.

The formal articulation of stakeholder theory is widely attributed to R. Edward Freeman's landmark work *Strategic Management: A Stakeholder Approach* (1984). Freeman defined a stakeholder as any group or individual who can affect or is affected by the achievement of the organisation's objectives. This definition was deliberately broad, encompassing employees, customers, suppliers, communities, governments, and financiers. Freeman argued that strategic management guided solely by shareholder returns was both empirically incomplete and normatively unjustifiable.

Prior to Freeman, Ansoff (1965) had briefly referenced the concept of balancing stakeholder goals, and the Stanford Research Institute used the term internally as early as 1963. The 1970s brought growing social and environmental awareness that pressured corporations to expand their horizons. Regulatory developments—occupational safety legislation, consumer protection acts, environmental laws—implicitly operationalised the stakeholder idea decades before it acquired theoretical coherence.

The millennial era has intensified stakeholder salience. Globalisation, digital transparency, and social media have amplified the voice of previously marginalised groups. The Business Roundtable's 2019 Statement on the Purpose of a Corporation, signed by nearly 200 chief executives, formally abandoned the primacy of shareholder value and committed to delivering value to all stakeholders. This shift represents a generational inflection point in the theory's journey from academic proposition to board-level doctrine.

### 1.1 Introduction

The organisational ecosystem of the 21st century is characterised by interdependence. No firm operates in isolation; each is embedded in a web of relationships with parties whose cooperation is necessary for sustained value creation. The stakeholder framework provides a conceptual architecture for mapping, prioritising, and managing these relationships in a manner that advances both organisational performance and societal welfare.

From a millennial perspective, stakeholder management is no longer a philanthropic afterthought—it is a strategic necessity. Millennials and Generation Z consumers, employees, and investors increasingly allocate their attention, labour, and capital on the basis of alignment with values. Organisations that ignore environmental, social, and governance (ESG) dimensions face rising capital costs, talent attrition, and reputational risk. Conversely, firms that authentically embed stakeholder principles into their operating models report higher employee engagement, stronger brand loyalty, and superior long-run financial performance (Eccles, Ioannou & Serafeim, 2014).

This study narrows its focus to the theory of stakeholder management from both institutional and functional perspectives, examining why stakeholders are relevant, why stakeholder governance must be regulated, and the functions that effective stakeholder engagement performs for households, firms, and government.

## 1.2 Stakeholder Structure and the Economy

The structure of stakeholder relationships within an economy parallels the architecture of its financial system: both are webs of interdependency that mediate the allocation of resources. Where financial intermediaries channel capital, stakeholder networks channel legitimacy, trust, and social licence to operate. Schumpeter's (1934) insight that innovation requires social acceptance is as applicable to stakeholder governance as it is to financial development.

Economists and management theorists broadly agree on the importance of institutional structure as a catalyst for economic welfare. Porter and Kramer (2011) introduce the concept of shared value—policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation differs from corporate social responsibility in that it is integral to competitive strategy rather than peripheral to it.

There are different views on how stakeholder orientation affects firm performance and economic outcomes:

- The instrumental view holds that stakeholder management is justified primarily because it produces superior financial returns (Jones, 1995).
- The normative view argues that firms have moral obligations to stakeholders irrespective of financial consequences (Donaldson & Preston, 1995).
- The descriptive view treats stakeholder theory as an empirical account of how organisations actually behave (Brenner & Cochran, 1991).
- The integrative view synthesises all three, recognising that moral obligations, empirical patterns, and instrumental payoffs are mutually reinforcing (Freeman, Harrison & Wicks, 2007).

Empirical evidence suggests that history and path-dependency shape stakeholder configurations just as they shape financial institutions. The legal, cultural, and regulatory environments of different nations produce distinct stakeholder ecosystems. Efficient stakeholder management confers two important benefits: it raises the level of organisational legitimacy and social trust, and it increases efficiency in the allocation of human and natural capital across the economic system.

## 2 Conceptual Review

### 2.1 Stakeholders

A stakeholder is any individual, group, or institution that has a legitimate interest in—or is capable of influencing—an organisation's activities and outcomes. The stakeholder universe can be conceptualised along two primary dimensions: those with a direct transactional relationship with the firm (primary stakeholders) and those whose relationship is indirect or mediated (secondary stakeholders).

The various stakeholder categories can be classified into two broad groups:

- Primary Stakeholders (internal and contractual relationships).
- Secondary Stakeholders (external and societal relationships).

#### Primary Stakeholders

Primary stakeholders are those without whose continuing participation the organisation cannot survive. They include shareholders, employees, customers, suppliers, and financiers. Each primary stakeholder group brings a distinct set of resource contributions and expectations. Shareholders provide risk capital and expect returns. Employees supply labour and expertise and expect fair compensation, development, and dignity. Customers exchange revenue for quality goods and services. Suppliers provide inputs in exchange for timely and fair payment. Financiers extend credit in exchange for repayment and interest.

In most jurisdictions, primary stakeholder relationships are contractually structured and legally enforceable. Corporate law, labour regulation, consumer protection legislation, and contract law collectively define the minimum standards that govern these relationships. The millennial organisation increasingly goes beyond legal minima, embedding stakeholder commitments into its mission, values, and governance structures.

#### Secondary Stakeholders

Secondary stakeholders include communities, governments, regulators, media, civil society organisations, environmental groups, and the general public. They do not engage in direct economic exchange with the firm but can significantly affect—or be affected by—its operations. Freeman has identified the role of secondary stakeholders in constraining or enabling organisational legitimacy, noting that social licence to operate is as critical as legal licence in a transparent information environment.

The digital age has elevated the salience of secondary stakeholders. A viral social media campaign by an environmental NGO can damage a brand's value

within hours; a community grievance unaddressed for months can evolve into regulatory action. Firms that proactively engage secondary stakeholders as partners in value creation—rather than adversaries to be managed—consistently outperform on long-run reputational metrics.

## 2.2 Theoretical Review

### Theory of Stakeholder Management

Stakeholder theory was formally developed by R. Edward Freeman in 1984, though its intellectual precursors stretch across moral philosophy, political economy, and organisational sociology. The theory holds that effective management requires the simultaneous consideration of the interests of all groups whose cooperation is necessary for firm survival and growth. It directly challenges the shareholder primacy doctrine advanced by Friedman (1970), who argued that the sole social responsibility of business is to increase profits within the rules of the game.

The existence of a stakeholder orientation in management is explained by three attributable factors: the limits of shareholder-only governance models in capturing full value creation; the empirical reality of organisational embeddedness in social and ecological systems; and the moral obligations that arise from power asymmetries between organisations and affected communities.

The unique contribution of stakeholder theory lies in its relational ontology—the claim that value is not created by firms acting unilaterally but emerges through the quality and durability of relationships. This relational framing generates specific managerial implications: stakeholder identification, salience assessment, engagement strategy, and accountability reporting.

### Institutional Perspective of Stakeholder Management

From an institutional perspective, organisations are profit-seeking entities subject to institutional pressures that shape their stakeholder practices. DiMaggio and Powell (1983) identify three mechanisms through which institutional forces drive organisational conformity: coercive isomorphism (regulatory mandates), mimetic isomorphism (copying successful peers), and normative isomorphism (professional standards). ESG reporting frameworks, sustainability indices, and stakeholder governance codes operate through all three mechanisms.

Under the institutional perspective, firms adopt stakeholder practices not solely from ethical conviction but from the pressure to maintain legitimacy with regulators, investors, and the public. The profit-maximising objective is modulated by reputational constraints: firms that visibly violate stakeholder norms face capital flight, talent withdrawal, and regulatory sanction. The millennial firm must therefore balance the objective of market share growth with the imperative of stakeholder legitimacy, recognising that the two are increasingly inseparable.

### Functional Perspectives of Stakeholder Management

From a functional perspective, stakeholder management serves as an organisational capability that enhances efficiency and resilience. Drawing from Merton's (1995) functional analysis framework, six core functions can be identified:

**Function 1;** A stakeholder management system provides a governance framework for the equitable distribution of value created by the organisation.

**Function 2;** A stakeholder management system provides a mechanism for pooling diverse knowledge, networks, and legitimacy to enable large-scale collaborative endeavours.

**Function 3;** A stakeholder management system provides a way to distribute risk across the stakeholder network, reducing systemic fragility.

**Function 4;** A stakeholder management system provides a channel for managing uncertainty and translating social expectations into organisational strategy.

**Function 5;** A stakeholder management system provides feedback signals that help coordinate decentralised decision-making across business units, geographies, and value chains.

**Function 6;** A stakeholder management system provides a mechanism to address information asymmetries between the organisation and affected parties, supporting accountability and informed consent.

The functional perspective treats stakeholder engagement not as a cost centre but as a value-generating activity that yields returns in the form of enhanced reputation, reduced regulatory risk, employee motivation, customer loyalty, and community resilience. The competitive advantage of the 21st-century firm increasingly resides in the quality of its stakeholder relationships rather than in proprietary technology or physical assets alone.

## 2.3 Related Theories to Stakeholder Management

### Agency Theory

Agency theory (Jensen & Meckling, 1976) examines the conflicts of interest between principals (shareholders) and agents (managers). Stakeholder theory extends this framework by recognising that managers are agents not only of shareholders but of a broader constituency. Agency costs arise when managerial decisions diverge from stakeholder welfare; governance mechanisms—board composition, executive incentives, transparency requirements—are designed to align these interests. Harrison and Bosse (2013) demonstrate that firms which fairly distribute value among stakeholders face lower agency costs because stakeholders reciprocate with discretionary effort and cooperation beyond contractual obligations.

### Resource Dependence Theory

Resource dependence theory (Pfeffer & Salancik, 1978) posits that organisations must acquire critical resources from their environments and that power flows from resource control. Stakeholders who control resources critical to firm survival enjoy disproportionate salience. This theory explains why firms invest heavily in relationships with powerful customers, dominant suppliers, and influential regulators. Millennial firms navigate resource dependence

by diversifying their stakeholder portfolios—developing multiple sources of capital, talent, legitimacy, and data to reduce vulnerability to any single stakeholder group.

**Legitimacy Theory**

Legitimacy theory (Suchman, 1995) holds that organisations operate within social contracts with their communities and must demonstrate that their activities are desirable, proper, and appropriate within prevailing norms and values. Stakeholder management is a primary vehicle through which firms build, maintain, and when necessary restore legitimacy. In the digital era, legitimacy is harder to claim and easier to lose; firms must engage authentically with stakeholder expectations on issues ranging from climate action to supply chain ethics, or face reputational crises that rapidly translate into financial losses.

**Social Contract Theory**

Social contract theory (Rousseau, 1762; Rawls, 1971) grounds stakeholder obligations in the implicit agreement between organisations and the societies that grant them the privilege to operate. Firms consume public goods—infrastructure, educated labour, environmental commons—and bear corresponding obligations to contribute to the social fabric. The social contract framework justifies taxation, environmental regulation, and community investment requirements as legitimate claims on corporate resources. Millennial stakeholder governance increasingly operationalises social contract principles through community benefit agreements, living wage commitments, and net-zero pledges.

**Institutional Theory**

Institutional theory (North, 1990; Scott, 1995) examines how formal rules (laws, regulations), informal norms (customs, culture), and enforcement mechanisms shape organisational behaviour. Stakeholder governance is partly a response to institutional pressures: mandatory ESG disclosure, modern slavery reporting, and board diversity requirements compel firms to account for non-shareholder interests. Institutional theory explains why stakeholder practices vary across national contexts—firms operating in stakeholder-oriented governance systems (Continental Europe, Japan) exhibit different engagement patterns from those in shareholder-oriented systems (Anglo-American economies).

**2.4 Conceptual Framework**

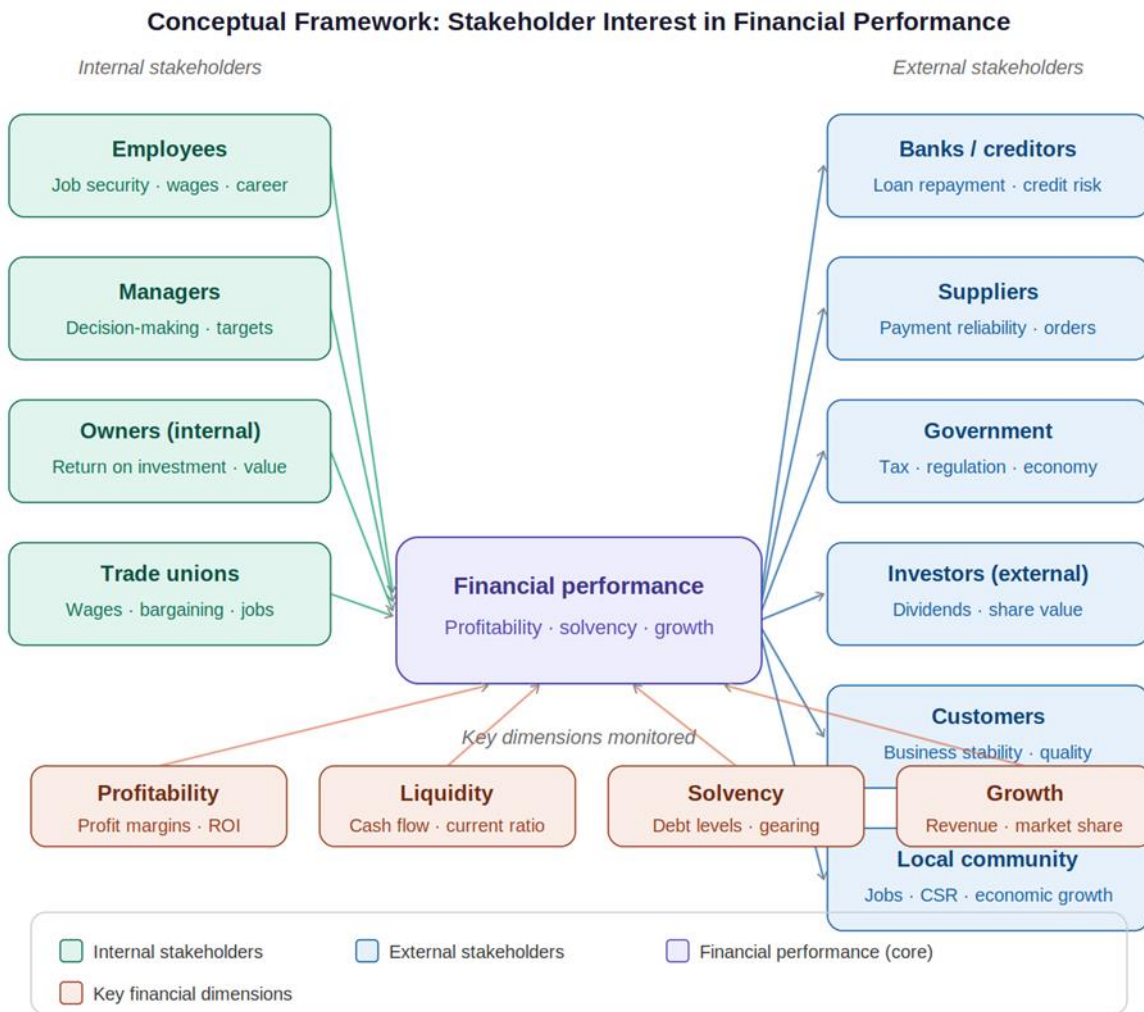


Figure 1: Conceptual Framework

### Internal Stakeholders

Internal stakeholders are individuals and groups that operate within the business. They have a direct influence on financial performance and a personal stake in its outcomes. This group includes:

**Employees:** Are interested in financial performance to assess job security, evaluate prospects for pay rises and bonuses, and determine long-term career stability within the organisation.

**Managers:** Monitor financial results to measure whether departmental targets and budgets are being met, make informed strategic decisions, and justify resource allocation.

**Owners (internal):** Review financial performance to determine their return on investment, decide whether to reinvest or withdraw funds, and assess whether the business is growing in value.

### External Stakeholders

External stakeholders are individuals and organisations outside the business that are affected by, or have an interest in, its financial performance. This group includes:

**Banks / creditors:** Assess whether the business can repay loans and meet interest payments, and evaluate the level of financial risk before approving new credit facilities.

**Suppliers:** Monitor financial health to determine whether the business can pay its bills on time and to decide whether to extend trade credit or favourable payment terms.

**Government:** Ensure the correct amount of tax is being paid, monitor regulatory compliance, and assess the business's contribution to the wider economy.

**Investors (external):** Evaluate dividends and returns on their investment, and decide whether to buy, hold, or sell shares based on financial performance trends.

**Customers:** Assess whether the business is financially stable enough to continue trading, and evaluate the likelihood of sustained product quality and after-sales support.

**Local community:** Monitor whether the business contributes to local employment and whether profits are reinvested into the community through CSR initiatives.

**Trade unions:** Use financial data to assess the business's ability to afford wage increases, monitor risks of redundancies, and strengthen their position in collective bargaining negotiations.

### Key Financial Dimensions

All stakeholders ultimately monitor one or more of the following four dimensions of financial performance:

**Profitability:** The ability of the business to generate profit relative to revenue and costs. Measured through indicators such as gross profit margin, net profit margin, and return on investment (ROI).

**Liquidity:** The ability of the business to meet its short-term financial obligations. Measured using the current ratio and cash flow statements.

**Solvency:** The ability of the business to meet its long-term financial obligations. Assessed through debt levels and gearing ratios.

**Growth:** The rate at which the business is expanding. Tracked through revenue growth, market share, and asset accumulation over time.

## 2.5 Why Must Stakeholder Governance be Regulated?

Just as financial intermediaries require regulatory oversight to prevent systemic risk and protect depositors, stakeholder governance requires external accountability mechanisms to ensure that corporate commitments to stakeholders are genuine, verifiable, and enforceable rather than merely rhetorical.

Government and regulatory bodies influence stakeholder governance through five pathways:

- As rule-setters and enforcers: establishing minimum standards for environmental protection, labour rights, consumer safety, and corporate disclosure.
- As market participants: through public procurement policies that reward firms with strong stakeholder practices.
- As catalysts of innovation: by supporting the development of ESG metrics, impact reporting frameworks, and stewardship codes.
- As negotiators: representing domestic stakeholder interests in international trade, investment, and climate agreements.
- As unintended influencers: where general tax, competition, and planning laws have significant unintended consequences for stakeholder relationships.

The specific rationale for regulating stakeholder governance includes the following:

- To correct information asymmetries: mandatory disclosure requirements ensure that investors, employees, and communities can make informed decisions based on reliable stakeholder performance data.
- To prevent externalities: regulation internalises social and environmental costs that unregulated markets would otherwise impose on third parties.
- To maintain trust: credible governance frameworks sustain public confidence in business institutions, a precondition for the social licence to

operate.

- To promote long-run investment: regulated stakeholder standards reduce uncertainty and create conditions for patient capital and long-term value creation.
- To protect vulnerable stakeholders: regulatory intervention is necessary where power imbalances leave weaker stakeholder groups unable to negotiate effectively on their own behalf.

## 2.6 Functions of Stakeholder Management

Stakeholder theory distinguishes four primary functions of effective stakeholder management:

- The reduction of relational costs;
- The provision of organisational legitimacy;
- The facilitation of information exchange; and
- The enablement of collaborative value creation.

### Reduction of Relational Costs

Stakeholder management reduces the transaction and coordination costs that arise from mistrust, conflict, and misalignment between the firm and its constituencies. When stakeholder relationships are well-managed, firms spend less on litigation, crisis communication, regulatory remediation, and employee replacement. The quality of stakeholder relationships functions as an intangible asset that depreciates when neglected and appreciates through consistent, authentic engagement.

Small and medium enterprises benefit disproportionately from proactive stakeholder engagement: where large corporations can absorb the costs of stakeholder conflict, smaller firms often cannot. Community goodwill, supplier flexibility, and employee loyalty are forms of relational capital that cushion SMEs against market shocks and provide competitive advantages that cannot easily be replicated by financially superior rivals.

### Legitimacy Provision

Organisational legitimacy is the generalised perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Stakeholder management is the primary mechanism through which organisations earn, sustain, and when necessary restore legitimacy. Unlike financial capital, legitimacy cannot be purchased or manufactured; it must be earned through demonstrated commitment to stakeholder welfare over time.

The millennial era has made legitimacy simultaneously more valuable and more fragile. Digital platforms amplify stakeholder voices and compress the time between corporate misstep and public accountability. Firms that invest in genuine stakeholder engagement participatory governance, grievance mechanisms, transparent reporting—build legitimacy reserves that provide resilience against inevitably imperfect performance.

### Information Provision

Stakeholders possess information that is essential to effective organisational decision-making. Employees know where processes waste resources and where quality fails. Customers experience product limitations that laboratory testing cannot replicate. Communities understand local environmental conditions that remote corporate headquarters cannot monitor. Suppliers identify supply chain vulnerabilities before they propagate upstream.

Effective stakeholder engagement transforms these distributed knowledge assets into organisational intelligence. Firms that create formal and informal channels for stakeholder input—employee suggestion systems, customer advisory panels, supplier development programmes, community consultations—gain access to information streams that competitors relying solely on internal analysis cannot match.

### Collaborative Value Creation (Quantitative Asset Transformation)

The most advanced expression of stakeholder management moves beyond managing relationships towards co-creating value with stakeholder communities. Porter and Kramer's (2011) shared value framework, the social enterprise model, and the B Corporation movement all operationalise the idea that firms and their stakeholders can jointly design products, services, and business models that deliver superior returns for shareholders while simultaneously addressing social and environmental challenges.

Collaborative value creation requires a fundamental reorientation of organisational culture: from stakeholder management as risk mitigation to stakeholder partnership as innovation engine. Firms that co-develop sustainability solutions with communities, design inclusive employment programmes with workforce development agencies, and engineer circular economy initiatives with suppliers routinely outperform on both financial and impact metrics.

Hence, there are at least three reasons which demonstrate advantages of financial intermediaries in stakeholder collaboration: (1) the trust advantage built through consistent engagement, which acts as a coordination instrument; (2) the reputational advantage of the firm as a reliable partner, acting as informal commitment; and (3) the relationship capital dimension, which also acts as a strategic commitment instrument.

## 3 Assumptions of Stakeholder Theory

Stakeholder theory rests on a set of foundational assumptions that shape its normative claims, its descriptive scope, and its practical prescriptions. Understanding these assumptions is essential for both applying the theory and evaluating the critiques directed at it. Freeman (1984) and subsequent scholars have made these assumptions explicit across three analytical dimensions: ontological, normative, and instrumental.

### 3.1 Ontological Assumptions

Stakeholder theory assumes that the firm is not a stand-alone entity maximising an exogenous objective function, but rather a nexus of relationships whose value is co-created through interaction with multiple parties. The following ontological assumptions underpin this relational view:

- **Relational ontology:** The firm exists within a web of interdependent relationships. Value is not created unilaterally by the organisation but emerges through sustained cooperation with stakeholders who contribute resources, legitimacy, and knowledge.
- **Embeddedness:** Organisations are socially and institutionally embedded. Their survival depends not only on financial capital but on social licence, regulatory approval, and reputational legitimacy granted by the broader stakeholder environment.
- **Stakeholder plurality:** Multiple parties have legitimate interests in organisational activity. These interests are irreducibly plural and cannot be collapsed into a single financial metric without loss of normative and empirical content.

### 3.2 Normative Assumptions

At its normative core, stakeholder theory makes several moral claims about how firms ought to behave. Donaldson and Preston (1995) identify the normative dimension as the theory's foundational layer, on which the descriptive and instrumental dimensions rest:

- **Intrinsic stakeholder value:** Stakeholders have legitimate interests in the firm's activities that merit consideration independent of whether attending to those interests enhances financial returns. Stakeholder welfare is an end in itself, not merely a means to profit.
- **Moral equality of claims:** No single stakeholder group enjoys automatic moral priority. The interests of shareholders, employees, customers, and communities are presumptively equal in their claim to managerial attention, subject to contextual and contractual factors that may alter their relative salience.
- **Managerial fiduciary duty:** Managers bear fiduciary obligations not only to shareholders but to all primary stakeholders whose cooperation is necessary for organisational survival and value creation. This is a direct challenge to the shareholder primacy norm.
- **Distributive fairness:** Value created through stakeholder collaboration should be distributed in a manner that is perceived as fair by all contributing parties. Systematic under-distribution to any stakeholder group undermines cooperation, trust, and long-run value creation.

### 3.3 Instrumental Assumptions

The instrumental dimension of stakeholder theory holds that attending to stakeholder interests is not merely ethically required but strategically advantageous. The most systematic articulation of this position, can be grounded in the following assumptions:

- **Trust as a competitive asset:** Firms that build genuine trust with stakeholders benefit from lower transaction costs, reduced monitoring requirements, and enhanced cooperation. Trust is an intangible asset that generates measurable financial returns over the long run.
- **Reputation and legitimacy as value drivers:** Organisational reputation and social legitimacy have direct consequences for capital access, talent attraction, customer loyalty, and regulatory relations. Firms that invest in stakeholder relationships build reputational capital that buffers against market and regulatory shocks.
- **Long-run complementarity of stakeholder and shareholder value:** Stakeholder theory assumes that, over a sufficiently long time horizon, serving stakeholder interests and generating shareholder returns are complementary rather than competing objectives. Short-run trade-offs exist but do not invalidate the long-run alignment thesis (Eccles, Ioannou & Serafeim, 2014).

These assumptions are not uncontested. Critics challenge the relational ontology as utopian, the normative assumptions as insufficiently grounded, and the instrumental assumptions as empirically contingent. The following section examines these critiques systematically.

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## 4 Critics of Stakeholder Theory

Despite its widespread adoption, stakeholder theory has attracted sustained criticism from multiple scholarly traditions. The critiques span economics, agency theory, empirical social science, corporate governance, and critical management studies. Each tradition interrogates a different assumption of the theory and proposes a different corrective.

### 4.1 The Shareholder Primacy Critique

The most celebrated critique originates with Milton Friedman (1970), who argued that the sole social responsibility of business is to increase its profits within the rules of the law and ethical custom. Friedman contended that managers who spend corporate resources on broad social objectives impose an unauthorised tax on shareholders spending others' money without their consent. For Friedman, the redistribution of corporate resources is a political function belonging to democratically elected governments, not to unelected corporate executives.

Asserting that value maximisation cannot be achieved when managers are required to optimise across multiple incommensurable dimensions simultaneously. Without a single objective function, managers lack a clear performance criterion and can justify any decision by appealing to some stakeholder's interest. Jensen's proposed solution enlightened value maximisation accepts that stakeholder relationships matter instrumentally while preserving shareholder value as the ultimate corporate objective.

### 4.2 The Agency Theory Critique

The multi-stakeholder mandate creates conditions for managerial opportunism. When managers are instructed to serve multiple principals without a clear priority ordering, they acquire enormous discretion over corporate resources discretion likely to be exercised in ways that serve managerial self-interest rather than any stakeholder's welfare. Stakeholderism, on this account, functions less as a theory of social responsibility than as a theory of managerial self-justification.

Multiple principals produce diffuse accountability: when a manager is answerable to employees, customers, suppliers, communities, and regulators simultaneously, no single metric is adequate, and poor performance can always be excused by reference to trade-offs among stakeholder interests. The disciplinary function of corporate governance is thereby weakened.

### 4.3 Definitional Critique

Stakeholder theory lacks predictive content. A theory that instructs managers to “balance stakeholder interests” without specifying how to identify stakeholders, measure their interests, or resolve conflicts cannot generate testable hypotheses. Freeman’s original definition any group or individual who can affect or is affected by the organisation’s objectives is sufficiently broad to include competitors, regulators, and future generations, rendering the concept analytically indeterminate. Mitchell, Agle and Wood (1997) attempted to address definitional ambiguity through the stakeholder salience model, classifying stakeholders by power, legitimacy, and urgency. While influential, this model still does not specify how managers should weigh competing claims, leaving the priority problem unresolved.

### 4.4 The Political Economy and Critical Theory Critique

Stakeholder theory does not sufficiently challenge corporate power it legitimises it. Banerjee (2008) contends that corporate stakeholder management is itself a form of power: corporations determine which stakeholders are recognised, which interests are incorporated, and which claims are dismissed. Communities, labour organisations, and environmental groups are incorporated into corporate governance processes on corporate terms, not as equal co-determinants of strategy.

There is complementary public choice concern: when corporations claim to serve broad stakeholder interests, they acquire political legitimacy to lobby for regulatory outcomes that serve their own interests under the guise of social responsibility. Voluntary stakeholder frameworks, without mandatory disclosure and independent verification, risk functioning as instruments of regulatory capture rather than genuine accountability.

### 4.5 Responses to the Critics

Proponents of stakeholder theory have responded to each critique. Against shareholder primacy, Freeman (2004) argues that the Friedman position simply assumes what it must prove: that shareholder interests deserve lexical priority. This is itself a normative claim requiring justification. Against the agency critique, Harrison and Bosse (2013) demonstrate that firms which treat stakeholders fairly experience lower agency costs, because stakeholders reciprocate with discretionary cooperation that reduces monitoring requirements. Against the empirical critique, Freeman maintains that stakeholder theory is a normative framework, not a predictive algorithm, and that contextual specification – not conceptual abandonment is the appropriate response to definitional ambiguity.

Eccles, Ioannou and Serafeim (2014) provide empirical support for the long-run complementarity thesis: firms with strong stakeholder orientation report superior financial performance over a 15-year horizon, suggesting that the trade-off between stakeholder welfare and shareholder value is less acute than critics contend. The critics of stakeholder theory have identified genuine tensions; the task for the millennial firm is to resolve those tensions through governance design, transparent reporting, and authentic stakeholder engagement not by abandoning the theory’s foundational premise.

## 5 Conclusion

The structure of an organisation’s stakeholder system should constitute a web of interrelationships—between internal and external parties, between economic and social value, and between short-run performance and long-run legitimacy that collectively fosters both enterprise growth and societal welfare. Stakeholders are the lifeblood of organisational vitality: through their labour, capital, knowledge, loyalty, and social licence, they enable firms to create, distribute, and sustain value.

Hence, organisations must combine the institutional perspective which attends to legitimacy, compliance, and the social contract with the functional perspective which mobilises stakeholder relationships as a source of competitive advantage. Neither perspective alone is sufficient: institutions without function become bureaucratic compliance exercises; function without institutional grounding becomes strategic manipulation.

This vehicle of stakeholder engagement must be calibrated, maintained, and where necessary mandated by regulatory frameworks, whether through ESG disclosure requirements, stewardship codes, corporate governance regulations, or community benefit obligations. The regulatory tools include moral suasion through codes of conduct, direct incentives through tax and procurement policy, and open-market mechanisms through ESG capital markets. The millennial firm that navigates this landscape with genuine commitment to all stakeholders not merely its shareholders will find that doing good and doing well are not competing objectives but complementary dimensions of enduring organisational success.

### Declaration of Competing Interests

The authors declare that they do not have any known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

### Funding

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for profit sectors.

### Acknowledgements

The authors would like to offer my heartfelt gratitude to everyone who made a contribution to this research

## Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

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