1 Introduction to Stakeholder Theory

Learning objectives

At the end of the chapter readers should be able to:

- ☐ Understand the meaning of shareholder and interpretations of stakeholder
- ☐ Describe the differences between internal and external stakeholders
- ☐ Describe the origins and nature of stakeholder theory
- ☐ Discuss why stakeholder theory is vital to event management and tourism
- ☐ Examine social responsibility and how it influences stakeholder management
- ☐ Differentiate between the systems theory, social network theory, collaboration theory and social exchange theory.

1.1 Introduction

Of the many management-oriented theories, concepts and models available, stakeholder theory (ST) is one of the few that has found a firm place in event management and event tourism, both in the research literature and in practice. Why? Because of the vital importance of knowing and managing stakeholders in all contexts, whether it is a single event, a city or destination, or a business dealing with events. The influence of stakeholders cannot be ignored, as they are an inherent part of planning, marketing and management.

Once you understand the basics as described in this book you should be able to identify and classify your organization or event's stakeholders and develop appropriate management tools reflecting your needs. Although the origins of the theory concern a company's external relationships, it is especially important for events and destinations to consider both internal and external stakeholders. The chapter starts with basic definitions, then goes on to fully explore stakeholder theory.

To get the reader thinking about stakeholders and their management, consider these scenarios:

1 The festival's arts director and all the artistic staff and volunteers want to change the program in substantial ways in order to attract new audiences,

but the chairperson of the board of directors (who was the founder of the festival and remains entrenched) is adamant that nothing will ever change. It is a classic case of an organizational culture conflict (I have seen this myself, and it can be messy!) and it raises issues that involve both internal stakeholders (staff, volunteers, directors) and external stakeholders – especially those bodies giving financial support to the festival who want it to become more financially sustainable. How is it to be resolved?

2 A member-based destination marketing organization (DMO) is developing and marketing an event portfolio to maximize tourism and other economic benefits for the city, but some of the events it wants to promote and grow are funded and coordinated within the city's arts and culture department. In fact, cities and destinations often have multiple portfolios of events pertaining to separate policy fields such as tourism, arts, culture, sport, health or leisure. How do all these stakeholders (some businesses, others local government, still others not-for-profits) agree on goals and strategy? Who is responsible for bringing them together and working towards consensus?

3 An international sport governing body owns the rights to host a popular event that is in high demand, and so it obtains many concessions and large bidding fees from cities or countries that want the event. The event owners have power, at least up to the point where the rights to host the event are granted, then the organizers have the obligation to get it done. Relationships between stakeholders often involve unbalanced power relationships, questions of legitimacy (i.e., who should be involved or consulted) and an inequitable distribution of benefits and costs.

These scenarios illustrate some of the important stakeholder-related challenges within event and tourism management. Scenario 1 involves mostly internal stakeholders in a power struggle, but most event organizations cannot isolate their decisions from the influence of, or impacts on external stakeholders. In scenario 2 diverse stakeholders must find a way to cooperate and work towards common goals – a challenge requiring diplomacy and leadership that most leaders face, and in a variety of situations. The third scenario introduces the inevitable challenges related to legitimacy, power and consequences when managing stakeholder relationships – challenges played out over and over in many different settings.

In this book we examine stakeholder theory as it relates to event and tourism management, with emphasis on demonstrating both challenges and applications. The ultimate aim of this book, and the entire series, is to position these applied fields more firmly within the management mainstream. This does not mean the *business* mainstream, as governmental and not-for-profit perspectives are just as important. Our approach takes into account the unique aspects of tourism and events management that requires adaptation of mainstream management theory and methods.

1.2 Key terms defined

The term 'stakeholder' is now in common use, but not always mentioned with regard to underlying theory. The purpose of theory is to provide general knowledge that can be applied in any situation, based on research and discourse. Of importance is the fact that people define stakeholders in different ways, and it keeps evolving. Once you understand the basics as described in this book you should feel free to identify and classify your organization or event's stakeholders and develop appropriate management tools reflecting your needs.

Note that there are two definitions of stakeholder from Freeman, reflecting the evolution of thinking about this subject. Although the origins of the theory concern a private company's external relationships, it is especially important for events and destinations to consider both internal and external stakeholders.

To hold a 'stake' in something is to make an investment, as reflected in the old term 'grubstakes' which was applied to the investment people made in an enterprise (like gold mining) in return for a share of any profits. Of course, the grubstake could also have been completely lost. Nowadays, one's stake in an event or in tourism could be emotional or political, with perceived legitimacy being a key determinant.

Freeman (2004) defined stakeholders as those groups who are vital to survival or success. He said stakeholder theory leads to managers articulating who are their key stakeholders, how they can create value working together, and how they can be brought together. The theory can help managers be more effective in negotiating with stakeholders. This view of stakeholder theory emphasizes practical considerations important to all business managers.

There are four general perspectives on stakeholder theory, discussed fully in Chapter 2: descriptive or empirical (exploring how organizations work in a stakeholder environment); instrumental (determination of how stakeholder relationships and their management actually affect the organization and achievement of its goals); managerial (theory development leading to recommended practices, attitudes, structures for stakeholder management); and normative.

The normative approach to stakeholder theory stresses ethics, including the principle of corporate social responsibility (CSR). It admonishes that companies should not be solely inward looking, and that they cannot simply focus on maximizing profit for owners and shareholders. This is in part rooted in philosophy, and in part based on strategy – the belief that organizations must be responsive and open.

Freeman (1984, p. 40) said this about social responsibility:

> *"While there have been many criticisms of the research in corporate social responsibility, perhaps the most troubling issue is the very nature of 'corporate social responsibility' as if the concept were needed to augment the study of business*

policy… We need to understand the complex interconnections between economic and social forces. Isolating 'social issues' as separate from the economic impact, which they have, and conversely isolating economic issues as if they had no social effect, misses the mark both managerially and intellectually. Actions aimed at one side will not address the concerns of the other. Processes, techniques and theories that do not consider all of these forces will fail to describe and predict the business world as it really is."

Not all adherents of stakeholder theory believe it involves CSR or ethics. The original perspective was that of business managers who traditionally only took into account the interests of owners and/or shareholders. However, the normative position (i.e. value-based) on stakeholder theory is that *business ethics* and *social responsibility* should be part of every organization's mandate.

We can make the definition for stakeholder theory more suitable for events and tourism, and in these contexts it is considered to be essential to encompass the twin notions of ethical relationships and social responsibility. Let us look at the following key concepts and definitions:

Stakeholder

"Any individual or group who can affect the firm's performance or who is affected by the achievement of the organization's objectives" (Freeman, 1984) or "those groups who are vital to the survival and success of the corporation" (Freeman, 2004). Carroll (1993) defines stakeholders as "those groups or individuals with whom the organization interacts or has interdependencies" or Savage et al. (1991) describe them as "groups or individuals who have an interest in the actions of an organization and ... the ability to influence it."

Internal stakeholders

Those persons and groups involved in the organization itself, or within the event, including staff, volunteers, directors/owners and key advisers; co-producers of events might be included here, such as occurs when various organizations combine their efforts to produce an event, or at the destination level it arises through inter-company marketing collaborations.

External stakeholders

Those external to the organization or event, including community, suppliers, regulators, supporters and partners, lobby groups, and the public at large. The existing audience and target market segments are crucial external stakeholders, as are the media, politicians and possibly other events – even if they are potential competitors.

Shareholder

"A shareholder is any person, company or other institution that owns at least one share of a company's stock. Because shareholders are a company's owners, they reap