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Review Article

WHAT AND WHO IS COMPANY'S STAKEHOLDER?

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Abstract

The author notes that the term stakeholder does not have a uniform definition either in the literature or in practice.The use of this word is of utmost importance also for corporate governance and management. A critical viewof different authors' approaches is giventogether with a more consistent proposal.

Keywords: Stakeholder, Shareholder, Social Responsibility, Value-Added Law

INTRODUCTION

In professional literature, especially on corporate social responsibility, several definitions of corporate stakeholders can be found. They are a basis for discussions on "stakeholder theory" and "stakeholder economy" as well. It means that the word *stakeholder* is quite important especially in the economic and sociological sciences. Therefore, it is important the understanding of its meaning. The use of this word is of utmost importance also for corporate governance and management. However, different authors have different approaches to identify stakeholder groups and they often have the explanations without a connection to the origin of stakeholder as category. In the following, a critical view of different authors' approaches will be given, together with a more consistent aspect.

Some etymological starting points

From etymological point of view, *stakeholder* comes from *stake + holder* (Wiktionary, 2020). The word *stake* means a risk or a position of being at hazard (Chambers, 1988). A stakeholder is then generally a person or organization that bears some risk. However, Wiktionary's explanation of stakeholder is: "a person or organization with a legitimate interest in a given situation, action or enterprise" (Wiktionary, 2020). UK Cambridge Dictionary understands stakeholder as "a person who is involved with organization, society etc. and therefore has responsibilities towards it and an interest in its success" (UK Cambridge Dictionary, 2020).UK Dictionary explains a stakeholder also as "a person with an interest or concern in something, especially a business" (UK Dictionary, 2020). From this point of view, *a stakeholder economy* is understood as "a type of organization or system in which all the members or participants are seen as having an interest in its success" (UK Dictionary, ibidem). In Wikipedia, a broader explanation of *stakeholder* can be found: a group, corporate, organization, member, or system that affects, or can be affected by an organization's actions (Wikipedia, 2020). Such a definition can be found at several authors and is probably broadly accepted in professional literature (e.g. Idowu, Luche, 2011). Similarly, some understand company stakeholders as individuals or groups who may acquire or be harmed by a company, or whose rights may be violated and must be respected by the company (e.g. Matten in: Henningfeld *et al.,* 2006). At the same time, it is mistakenly used for the purpose of identifying stakeholders groups for corporates. It will be shown in next sections.

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Some identification of corporate stakeholders

Relatively broadly, stakeholders may include: shareholders, government with its agencies, stock exchanges, creditors, banks and financial institutions, financial investors and analysts, internal management, employees, union, customers, suppliers, general public, potential investors (Idowu, Louche, 2011, 1247). Some authors add: media, competitors, consumer protection organizations, communities and other special interest groups (e.g. Freeman *et al.,* 2010), or various forms of civil society (e.g. Matten in: Henningfeld *et al.,* 2006). Brooks and Dunn (1018, 17) and Byars, Stanberry (2018) define stakeholders similarly broadly. Some go even further in stakeholder definitions, including even terrorists, extortionists, and thieves (Freeman in: Jensen, 2002). Usually, however, stakeholders are defined more generally, for example, as "groups that are important to the existence and performance of the association" or as "groups or individuals that may influence or be affected by the operations of the association" (Boatright, 2000). From the above, a relatively large diversity of stakeholder definitions is obvious, so it is useful to structure or classify them appropriately. In addition, the classification of stakeholders is important in terms of the content of reporting required by the IESBA Code in point 220 (IESBA, 2018) as well.

In principle, the concept of stakeholder can be defined in two ways:

1. With an interest of the stakeholder in the company;
2. With the interest of the company in the stakeholder.

The second method mainly affects the corporation's business policy, and less the interest of a stakeholder in the corporation. In addition, such a range of stakeholders can be extremely broad and difficult to manage. At the same time, it does not meet the foundations of stakeholder theory, which assumes the existence of stakeholder interest that in its own way influences value creation in the firm (Freeman et al., 2010, 24–29). This

topic is rather an objective of corporate marketing policy. Therefore, only the stakeholders from the first way shown in the previous paragraph are worth discussion. This is in line with corporate social responsibility as well. One option is to classify stakeholders into internal (e.g., shareholders, management, employees) and external (e.g., business partners, creditors).Such a division is simple, but not suitable for a more detailed discussion and analysis of stakeholders. More detailed is the input-output model, which divides stakeholders into investors, customers, suppliers, and employees (Boatright, 2000, 357). The same author suggests a division into investors, political groups, customers, employees, trade associations, suppliers, government, and communities as a more appropriate model (Boatright, ibidem). The problem with the above rankings of stakeholders is not only their number, but above all their diversity of interests. On this basis, conflicts between stakeholders can arise, which the coreporation must take into account (e.g. Prindl, Prodhan, 1994). Clearly, it is essential that corporations manage and coordinate the different interests of stakeholders. The professional literature usually contributes to this by classifying stakeholders, but usually only in the form of a more detailed list of stakeholder types, such as: customers, partners, employees, trade union, local community, society, government, NGOs, associations, competitors, suppliers, investors , shareholders (Pohl, Tolhurst, 2010). This approach is also followed by some corporations, such as Nestlé (Pohl, Tolhurst, 2010). However, a more detailed enumeration does not eliminate the problems, so some suggest classifying stakeholders into individual, substantive categories. According to their impact, we can distinguish four categories of stakeholders (Byars, Stanberry, 2018):

- *Enabling* (shareholders, legislators, government regulators, boards of directors) that permit the firm to function;
- *Normative* (competitors, peers, professional associations) that influence the norms or informal rulesof the industry;
- *Functional* (suppliers, employees, unions, customers, distributors, retailers), which influence inputs and outputs;
- *Diffused* (NGOs, voters, mass media organizations), with less direct relationship but potential for meaningful impacts on corporations.

The classification of stakeholders shown makes it somewhat easier to analyze them, but it is still lacking for the formulation of an appropriate business policy. A better criterion is the aspect of corporate social responsibility, which will be discussed below.

The corporate social responsibility aspect

The starting point is etymological origin of the notion stakeholder that was shown in the section 2.The main stakeholders' feature is that they bear some risk, connected with the corporation. This is also confirmed by the statement related to thinking about corporate social responsibility, namely: “companies are legally responsible to shareholders and strategically responsible to stakeholders” (Brooks, Dunn, 2018).

Although the separation of legal and strategic corporate social responsibility is in some ways contrary to the consistently understood principles of sustainable development, we must conclude that the essence is certainly the corporates' responsibility to stakeholders, which includes shareholders. It is therefore important to find out why the company should be accountable to stakeholders. Most important is the ethical principle of fairness enforced by the value-added law. Every contribution to the creation of added value should be properly evaluated and rewarded. The contribution to the creation of value added also means the contribution to the reduction of business risk or to its management (Bergant, 2017). The value-added law has to be considered. It means that a proper system of distributing value added among all stakeholders, which bear a risk, should be established. Otherwise, the entropy of all organizational systems will grow uncontrollably because of the value-added law, which says (Bergant, 2017):

1. Value added is the net outcome of the organizational system in managing the risk inherent to the system and belonging to risk holders in proportion to their contributions to the functioning of the organizational system (*the aspect of creating value added*).
2. The disproportionately high or disproportionately low participation of individual risk carriers in the value added (according to their work contribution) increases the entropy of the organizational system and threatens the realization of its sustainable development (*the aspect of value-added guidance*).

The value-added law is *a generallaw* because of its validation in *all* socio-economic systems (past, present and future ones), which are oriented towards sustainable development and all human associations, including families.[1]*It is valid and operates also for only two people and through the entire human history. The value-added law operates regardless of the wishes or activities of the people and regardless of the normative organization of the organizational system or its environment. It is, therefore, totally independent of the human will.*

The above statements offer a new (better) definition of stakeholders, namely: stakeholders are those who contribute to risk management in the company's operations in creating added value. This contribution means that the stakeholder assumes a certain part of the risk in the company's operations. At the same time, this fact also provides a substantive basis for justifying the company's liability to the stakeholder from corporate social responsibility (*CSR*) point of view.

Stakeholder classification from CSR point of view

From the point of view of risk-taking, stakeholders can be divided into:

1. *Non-governors,* i.e. those, who bear a small part of the company's risk and whose common feature is that they are directly or indirectly affected by better or worse results from the company's operations, but cannot directly influence business decisions; however, they have the possibility of different types of control:
    - Financiers or creditors to whom interest belongs;
    - Employees as non-co-owners and their union;
    - Supervisory authorities within the corporation;
    - The state, to which the taxes belong;
    - Minority shareholders and portfolio investors to whom dividends or other forms of participation in surplus value added belong (inactive co-owners of the company's capital);

[1] None of the partners in the family usually does not want to be exploited.

- The narrower and also wider society in various organizational forms that may be affected by the association, for example through its environmental policy;

2. Governors and management who, in addition to bearing the risk, also contribute to risk management through their decisions; these are mainly employees who are co-owners and partners or majority shareholders (active co-owners of the company's capital) and top management (management), but they can also be others (e.g. business partners who contractually assume part of the risks by participating in the joint venture or in the case of strategic outsourcing).

It should be emphasized that these groups are not static, but change, as their interest, and thus the obligation of the association, can change relatively quickly for a variety of reasons. This means that group members (individuals or associations) move from one group to another. Stakeholders' interest varies depending on how strongly they feel the risk they are exposed to. This feeling is more and more present with the development of civilization, especially informatics and media. It also increases the interest in greater influence in the corporate operations. The above definition of stakeholders is mainly principled, as they also differ according to which corporation (and its specifics) we have in mind. The final definition of stakeholders is therefore objectively conditioned by the concretely selected entity. It logically follows from the word stakeholder that stakeholders) should also participate (in proportion to the risk taken in the value added created. However, this logic is not fully implemented. The society (including the state) should recognize this interest by formally enabling stakeholders to have an appropriate influence on the operations of a particular corporation (at least in supervising the operations), and thus on managing the risk they take.

The role of the state as a stakeholder should especially emphasized, because it is insufficiently defined in the professional literature. Different authors discuss the role of the state that is usually attributed the task of establishing the rule of law and the tax system or removing obstacles to economic development (e.g. Freeman *et al.,* 2010).At the same time, they do not realize that the state, as a rule, does not actively participate in the business decisions of associations, so its share in associations does not depend on its contribution, but on the established tax bases in associations.

Nevertheless, the state also bears part of the business risk of corporations, as its revenues are directly dependent on the efficiency of their operations. This risk is manifested in particular in two respects:

1. The state writes off its tax claims from time to time, when it can no longer recover them;
2. Inefficient operations of companies reduce their tax base and thus the tax revenues of the state.

Both types of risk affect the state budget, which is therefore, as defined above, also a real stakeholder. It is therefore logical that the state, as a stakeholder, should be particularly interested in corporates' profit, but it does not show this interest through appropriate legislation. On the contrary, the state responds only through insolvency legislation, when the company is already acutely insolvent. The state therefore behaves as if it does not care whether the company operates at a profit or not. Although the loss usually reduces the tax base, the state relies on the response of capital owners and leaves the appropriate decisions to them. Practice shows that the decisions of the owners are not always beneficial, neither in terms of creating added value nor in terms of making a profit. This means that the state has not protected its legitimate interest to secure its participation in corporates' profit with appropriate regulations. In this way, the state creates and consolidates an environment where the owner's right to operate at a loss is inalienable, despite the fact that the state's revenues may decrease the corporates' tax liabilities. This reduces the value added and prosperity of the whole country that is especially evident in government losses due to corporate bankruptcies. This means that the state also bears part of the business risk[2]. Current events in Slovenia show that all of the above also applies to corporates where the state is the majority or significant owner, although the state could intervene more decisively through the relevant governing bodies.A similar case is when the state does not take action against owners who behave irresponsibly towards their property (e.g. real estate) and let it go bankrupt, thereby reducing the value of the corporates' assets as a whole.

The state is usually:

1. Significant participant in the added value of individual corporates;
2. Bearer and guardian of the interests of all citizens with regard to increasing the level of general well-being (e.g. through the growth of gross domestic product);
3. Holder and implementer of measures to ensure the appropriate economic environment and conditions for the successful corporations' operations;
4. Carrier and promoter of ideas and measures for sustainable development and social responsibility.

Therefore, we can reasonably expect that the state will protect its legitimate interest with appropriate legislation. In doing so, of course, we encounter two opposing interests in capitalism, namely the interest of private capital and the interest of wider society. This contradiction can be resolved by appropriate legislation, of course, if there is political will at the level of the country's leadership. The indifference of the state is slightly comparable to the usual indifference of trade unions in the case of a loss-making business. Obviously, this is an important problem that cannot be solved overnight. First of all, it requires an increase in the knowledge of all involved (stakeholders), and on this basis also a change in the organizational culture in the wider society. A similar problem exists in defining banks as stakeholders in corporations. Even banks, one way or another, sooner or later, bear part of the risk.

This is evidenced by urgent provisions in banks, requests for additional collaterals, and in particular by write-offs of receivables (agreed or in compulsory settlement proceedings or in the event of the debtor's bankruptcy). This means that business life does not follow the contractual obligation rule. The better position of banks is entirely due to the contractual relationship, which is purely administrative in nature and has no basis in business or economic logic[3]. By business logic can

[2] In extreme cases, it is not just about business risks, as the state also helps with catastrophic events (weather conditions, epidemics, earthquakes etc.).

[3] There is no study that would economically justify the feasibility of such an arrangement. Most authors, especially in English and American professional literature, do not usually deal with this, but take such an arrangement as a given fact.

be understand the necessity for the right of stakeholders to take part of the business risk. This contradiction with the contractual provisions is reflected in the write-off of receivables when business logic prevails. Namely, it shows that the content is not a contractual relationship, but a business partnership, where the risk must be distributed among the stakeholders. This is also reflected in other business financing solutions, among which is undoubtedly the most important way of financing in the Islamic world. Sharia law prohibits interest on the basis of the Koran. An Islamic financier can only profit from taking risks on an individual project. Of course, the importance of the ethical aspect of such an arrangement does not need to be emphasized. There is possible to identify the inconsistency of the currently prevailing banking regime in the world, not only in terms of value added. At the same time, there are some possibilities for changing such an arrangement. The first step of the changes was made by focusing banks on project financing, which has remained only a small part of the bank's offer to this day. The second step was taken when banks were more intensively dealing in the direction of crisis management in the companies that are unable to repay loans. Assumption of crisis management shows that the banks often become the economic co-owners of the over-indebted company and thus, in addition to the loan assumption, also bear the business risk. Developments in the direction of crisis management are proof that the banks cannot avoid business risk, even though the interest is a contractual obligation. At the same time, they are also a proof of business logic, which requires appropriate decision-making competences when taking a risk.Applying this logic to banks would (at least in the first phase) mean an increasing volume of project financing.

Conclusion

From the above, it can be concluded that not all stakeholders are in the same position, neither in terms of risk-taking nor in terms of the possibility of managing it. For each company, the analysis of its stakeholders is useful both in terms of their impact on business and in terms of their interest. Both factors define corporate social responsibility to stakeholders, which is the basis for formulating an appropriate business policy in terms of sustainable development. The main responsibility still lies on the states to change the legislation regarding the implementation of value added as a purpose of corporations, together with according changes of accounting standards. For this purpose an enormous responsibility bear academic sphere, which brakes or obstruct the consistent implementation of principles of social responsibility.

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