A TEST OF THE RELATIONSHIP BETWEEN STAKEHOLDER ATTRIBUTES AND STAKEHOLDER SALIENCE

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The stakeholder model articulated by Freeman (1984) has seen significant theoretical development in the past few years. This study seeks to provide empirical insights to this burgeoning body of theory. Using a unique sample of 78 large U.S. firms with primary data provided by the CEO, it examines relationships between stakeholder attributes of Power, Legitimacy, Urgency, and Salience (Mitchell, Agle, Wood, 1997).

In an attempt to improve our collective understanding of what Freeman (1994) calls "The Principle of Who or What Really Counts" Mitchell, Agle, and Wood (1997) offer a theory of stakeholder identification and salience, which suggests that managers' perceptions of three key stakeholder attributes (power, legitimacy, and urgency) affect stakeholder salience—the degree to which managers give priority to competing stakeholder. In its modeling of the dynamic nature of manager-stakeholder relationships, their framework reflects a renewed sensitivity to the operative structure of corporate authority, and is responsive—we think—to a reflective mood in management scholarship (e.g. the Sloan Foundation's initiative: "Redefining the Corporation"; or the 40th Anniversary issue of Administrative Science Quarterly, which examines the organization/society interface) that anticipates the dawning of a new millennium.

In this article, we empirically test the Mitchell, et al. (1997) model as it applies to specific decisions made by chief executive officers (CEO's). Because leaders, especially the CEO's of business organizations, imprint their firms with their own values (Wally & Baum, 1994)—which are then manifest in decision processes (Keeney, 1992; Norburn, 1989) that lead to stakeholder salience, we have studied their perceptions as the most important managerial perceptions to be described by the theory.

We begin by defining the variables in the study: the stakeholder attributes, Power, Legitimacy, Urgency, and Salience. We then proceed to describe the methods used to test the hypothesis, and to report the results of those tests. We conclude with a discussion of the implications of this study for the field of stakeholder management and for the development of dynamic stakeholder theory.

STAKEHOLDER ATTRIBUTES AND SALIENCE

Our research model is based upon the Mitchell, et al. (1997: 873) proposition that Stakeholder Salience will be positively related to the cumulative number of stakeholder attributes—power, legitimacy, and urgency—perceived by managers to be present. In this section of the article we explain each of the variables, and the logical and literature-based reasons which we believe support the hypothesized relationship.

Stakeholder Attributes

Freeman's (1984: 46) definition of stakeholders— "any group or individual who can affect or is affected by the achievement of the organization's objectives," is widely cited in the literature, but it offers an extremely wide field of possibilities for Who or What really is a stakeholder. Mitchell, et al. (1997) suggest that we may "identify" stakeholders by applying sorting criteria to the field of possibilities. They argue that an emphasis on the *claim's legitimacy* based upon—for example—contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions is required in order to narrow the definition of stakeholder. They also argue that the *stakeholder's power* to influence the firm's behavior—whether or not there are legitimate claims—must also be taken into account to balance the identification exercise to ensure that breadth is retained as well. Power and legitimacy are thus defined as core attributes that are expected to affect stakeholder salience, and when combined, constitute authority (Weber, 1947). They also suggest that the attribute of urgency is a core attribute, because it captures the degree to which stakeholder claims call for immediate attention, thus adding a catalytic/dynamic component to the process whereby stakeholders attain salience in the minds of managers (Mitchell & Agle, 1997; Mitchell et al., 1997: 864).

In this study we accept the definitions of these three attributes as presented by Mitchell, et al. (1997). Thus, we consider: (1) that stakeholder power exists where 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), (2) that stakeholder legitimacy is defined 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 (Suchman, 1995; Weber, 1947), and (3) that stakeholder urgency is a multidimensional notion that includes both criticality, and temporality, with a stakeholder claim considered to be urgent where it is both important and where delay in attention to it is unacceptable (Mitchell & Agle, 1997; Mitchell et al., 1997).

Stakeholder Salience

The Mitchell, et al. (1997) model that proposes a theory of stakeholder salience is defined in terms of managerial perceptions. Stakeholder Salience—the degree to which managers give priority to competing stakeholder claims—is proposed to be positively related to the cumulative

number of the variable attributes: Power, Legitimacy, and Urgency that are *perceived* by managers to be present. And, in addition to the notion that the three foregoing stakeholder attributes function as variables—not as steady states—and can change for any particular entity or stakeholder-manager relationship, they argue that the existence (or degree present) of each attribute is a matter of managerial perceptions and is a constructed reality rather than an "objective" one (1997: 868). Unfortunately, they do not provide sufficient theoretical justification for why salience should be influenced by managerial perceptions. But fortunately, social cognition theory and organization theory provide assistance with the requisite explanations to fill the gap. Next, their respective contributions to the argument are discussed in turn.

Social Cognition Theory and Stakeholder Salience

Social cognition theory defines the systematic ways in which social salience and perception are related (Fiske & Taylor, 1984: 189). Specifically, social salience has been found to depend upon stimulus *domination* of the visual field, individual notice of *unusual* or *differential* aspects in behavior, and/or experiencing *figural/novel* elements in the immediate context, which contribute to the overall salience notion, "selectivity." Further, social cognition theory holds that the effect of social salience on attention is related to the effects of selectivity, depending also upon the "intensity" of perception, meaning "how much mental effort is devoted to the focus of attention selected" (1984: 184). Attention theory thus suggests that the most attention will be paid by individuals when intensity is high, since little expectation exists for an individual to attend to selected items outside the realm of focus.

Therefore, when this general model is applied to the stakeholder case, it is expected that Stakeholder Salience will be highest when both selectivity and intensity are high—which provides a theoretical reason for the expectations proposed by Mitchell, et al. (1997). Thus, as the stakeholder attributes: power, legitimacy, and urgency cumulate in the mind of the manager, selectivity is enhanced, intensity is increased, and Stakeholder Salience is the expected result. The reasons why such cumulations might be expected to enhance selectivity and intensity through *domination, differentiation,* and *novelty* thereby affecting Stakeholder Salience are suggested by organizational theory.

Organization Theory and Stakeholder Salience

Domination of the visual field. Resource dependence theory suggests that something as crucial as dominance of the visual field will likely be based upon access to "critical resources," which confers power upon those with access to critical resources (Pfeffer & Salancik, 1978: 258). We therefore argue that the attribute of stakeholder Power creates domination of the visual field by that stakeholder. This notion is supported by Fiske and Taylor (1984: 187) who in this context state that, ". . . people attend more to others on whom their outcomes are dependent."

Noticing the unusual/differential. Hill and Jones (1992) suggest the means whereby the differentiation of usual from unusual stimuli is accomplished in stakeholder-manager relationships. Citing Freeman (1984) they argue that stakeholders (as differentiated from non-stakeholders) are those constituents who have a legitimate claim on the firm, established through the existence of an exchange relationship (Hill & Jones, 1992: 133). We therefore suggest that the assessment of stake-

holder Legitimacy is based—in part at least—upon perceiving *unusual* or *differential* (legitimate v. illegitimate) aspects in behavior surrounding stakeholder claims.[1]

Novelty in the immediate context. Cyert and March (1963) lay groundwork that assists us in suggesting that Urgency captures the notion of experiencing *figural/novel* elements in the immediate context. In attempting to rationalize the dilemma that "... the idea of an organization goal and the conception of an organization as a coalition are implicitly contradictory" these authors observe that "... most organization objectives take the form of an aspiration level ..." (Cyert & March, 1963: 27-28). We therefore reason that where aspiration levels are high, the actions of "high-aspiration stakeholders" will—in the immediate context—figure prominently in the selectivity and intensity judgments (perceptions) of managers. Mitchell, et al.. (1997) label this aspiration variable *urgency*, and we concur.

Thus since—according to organization theory—the job of the organization is to act to "reconcile divergent interests" (Hill and Jones, 1992: 134); to accomplish "interlocking of the behaviors of the various participants that comprise the organization" (Pfeffer and Salancik, 1978: 258); and to facilitate "aspiration-level adjustment" (Cyert and March, 1963: 38), we expect that for CEO's:

> *Hypothesis: The stakeholder attributes of Power, Legitimacy, and Urgency will be positively related to the Stakeholder Salience of shareholders, employees, customers, government, and communities.*

METHODS

The hypotheses proposed in this paper are tested using survey data obtained from 78 CEOs of major U.S. firms. The survey contains scales measuring the major constructs of Stakeholder Power, Legitimacy, Urgency, and Salience.

Sample

The data used for the study are based on two datasets. The first was collected from CEOs who were scheduled to attend a CEO conference on general leadership and governance topics. Of the 75 scheduled to attend, we received 31 surveys for a 41% response rate. We expect this rate would have been higher except that the conference had to be canceled before the other surveys could be obtained. In addition, because of the cancellation, a second data collection process was conducted. In this process, surveys (with follow-up surveys and telephone calls two weeks later) were sent to 650 CEOs on the Kinder, Domini, Lydenberg database. This database includes the members of the S&P 500, as well as 150 other large U.S. firms. Through the process of mailing, we learned that of these, 591 were valid for our survey. 59 were deleted from the sample because the CEOs were no longer in their current positions or their companies had ceased to exist as

[1] It should be made explicit that this suggestion implies an inverse relationship between difference or "unusualness" and attention, an additional variation from the general model. In the case of stakeholder-manager relationships, it is anticipated that those with a legitimate claim would engender higher selectivity and therefore salience, than those who are perceived (for whatever reason) to be different because they are illegitimate. It is an open question in our minds, whether it is strictly an inverse relationship that prompts unusualness or differentiation (a more traditional reading), or whether it is BOTH the presumptuous actions of illegitimate stakeholders as well as the claims or legitimate stakeholders that drive differentiability.

independent entities. Of the remaining 591, 47 returned the completed survey providing an 8% response rate. Response rates for this audience are notoriously low and our response rate for the KLD sample was but slightly below the norm (Friedman & Singh, 1989), which continues to decline.

This sample has both positive and negative aspects to it. On the positive side, the 78 firms represented in the database have an average annual revenue of $3.8 billion. Thus, the CEOs of these firms have a major impact on the economic activity in the United States. Also, we have confidence that a majority of the surveys were completed by the CEO him or herself (a concern in research of this nature). We enclosed a consent form with the survey, the majority of which were returned by the CEO with his/her signature. On the negative side, the response rate from the KLD sample is low. While the sample size of 78 firms is sufficient for statistical analyses, response rates are reported in social science research because of the possibility of bias in the response. Therefore, we tested for response bias in our data. Bias could arise based on any of the major constructs of the paper - stakeholder attributes, or stakeholder salience. T-tests between this sample and the KLD sample failed to detect any differences between these two subsamples. Thus, while we would prefer to have a larger dataset, we feel that the dataset utilized here is a rich, useful, representative and valid one.

Construct Measures

Stakeholder Power, Legitimacy, Urgency, and Salience. The early development of items measuring stakeholder attributes and stakeholder salience are outlined by Mitchell & Agle (1997). They develop several items measuring each of the aforementioned constructs. However, because of the necessity of creating a brief questionnaire for CEOs, based on the items of Mitchell & Agle (1997), in order to increase response, we created one item scales for each of the stakeholder constructs. Each of these items is evaluated based on a 7-point likert scale ranging from strongly disagree (1) to strongly agree (7). Because the theory of stakeholder salience is a dynamic one suggesting that salience changes over time, the CEOs were given a specific time period for which they were to evaluate the stakeholder attributes and stakeholder salience. Specifically, preceding the items measuring those constructs came the following statement: "For each of the stakeholder groups, rate the following statements based on your interactions with this group ***during the past month***." Then came the actual items. The item for measuring stakeholder urgency states: "This stakeholder group exhibited **urgency** in its relationship with our firm (definition: active in pursuing claims - demands or desires - which it felt were important)." The item for measuring stakeholder legitimacy states: "The claims of this particular stakeholder group were viewed by our management team as **legitimate**. (definition: proper or appropriate)." The item for measuring stakeholder power states: "This stakeholder group had **power**, whether used or not. (definition: the ability to apply a high level of direct economic reward or punishment [money, goods, services, etc.] and/or coercive or physical force [gun, lock, sabotage, etc., including access to legal processes that can invoke the use of physical force] and/or positive or negative social influence [on reputation, prestige, etc., through media, etc.] to obtain its will.)." Finally, the item measuring stakeholder salience states: "This stakeholder group was highly **salient** to our organization. (definition: received high priority from our management team.)." Keller and Winn (1997) playfully refer to the interaction of the three measures of stakeholder attributes (power, urgency, legitimacy) on stakeholder salience as a P-U-L ("pull") index.

Each of the above items was evaluated for Freeman's (1984) generic stakeholder groups - shareholders, employees, customers, government bodies, and community/charitable groups. Thus, each respondent evaluated each of the four constructs five times, each time with a different stakeholder group.

Data Analysis

Various statistical tests were performed on the data. To test the hypothesis, two separate analyses were performed. First, to gain the advantages of a larger sample size, each evaluation of Stakeholder Attributes and Salience was used as one sample. This is theoretically justified in that Mitchell, Agle & Wood (1997) argue that it is the stakeholder attributes, and not the particular stakeholder group which determines salience. Using this method, we obtain 370 useable observations of Stakeholder Attributes and Salience. To test for the relationships between Stakeholder Power, Legitimacy and Urgency and Stakeholder Salience, we performed a stepwise regression, entering each of the independent variables Power, Legitimacy, and Urgency. Also, due to our interest in their interaction effects as well as their direct effects we also entered in each of the two-way interaction terms.

For the second analysis, we left each of the stakeholder groups separate. While decreasing the statistical power, using the sample in this manner allows us to see the particular relationships among stakeholder attributes and stakeholder salience for each of the different stakeholder groups. With this method we have a useable sample size of 73. Simple Pearson correlations were obtained for these data with resultant two-way statistical significance provided.

RESULTS

The results of the hypothesis testing is found in Tables 1-2 and in the following discussion. Table 1 shows the results of the analysis performed on all of the stakeholders simultaneously.

TABLE 1

Stepwise Regression of Stakeholder Salience

	Adj. R. Square	R Square Change	Sig. F. Change
Variables Entered			
Interaction of Stakeholder Power and Legitimacy	.451	.452	.000
Power	.489	.040	.000
Legitimacy	.555	.067	.000
Urgency	.566	.012	.002
N = 370			

The stepwise regression demonstrates strong support for the hypothesis. In particular, stepwise regression looks for the strongest predictor and then enters variables in after that which add unique variance. As depicted in Table 1, the strongest predictor of stakeholder salience is the

interaction between stakeholder power and legitimacy. Thus, the interaction of power and legitimacy, also known in the literature as authority (Weber, 1947), explains approximately 45% of the variance in stakeholder salience. Next power alone provides about 4% unique variance, followed by 7% by legitimacy alone and 1% by urgency alone. Each of these results is statistically significant at the .01 level. While not shown in the Table, regressing Power, Legitimacy, and Urgency alone on Salience provide significant results with R^2s of .433, .294, and .201respectively.

The second analysis, shown in Table 2, also demonstrates strong support for the hypothesis, although not quite as uniform as the first analysis. In this analysis we see that Stakeholder Power, Legitimacy and Urgency are significantly correlated with Stakeholder Salience for shareholders, government, and community. However, using this more fine-grained approach, albeit with less statistical power, we see that urgency is not a predictor of employee or customer salience. This more fine-grained approach also allows us to see the relative weight that each of the stakeholder attributes has for each different stakeholder group.

DISCUSSION AND CONCLUSION

As members of a scholarly community which considers the business/society interface to be important, we have great expectations for stakeholder theory. We hope that it will become the basis for a new theory of the firm, and energetically apply our efforts toward this end. Why? A variety of reasons for a stakeholder-based theory of the firm have been given:

- to reconceptualize the theory of the firm along essentially Kantian lines (Evan & Freeman, 1988),
- to describe how organizations operate and to help predict organizational behavior (Brenner & Cochran, 1991: 452),
- to encompass the implicit and explicit contractual relationships between all stakeholders (Hill & Jones, 1992),
- to create sufficient wealth, value, or satisfaction for those who belong to each (primary) stakeholder group, so that each group continues as a part of the corporation's stakeholder system (Clarkson, 1995),
- so that all persons or groups with legitimate interests obtain benefits (Donaldson & Preston, 1995),
- to attain competitive advantage if it is able to develop relationships with its stakeholders based on mutual trust and cooperation (Jones, 1995),
- to reconceptualize the firm along fairness lines (i.e. Rawls) (Phillips, 1997).
- to describe how firms are likely to respond to stakeholder influences (Rowley, 1997),
- to ensure that power and urgency are attended to such that managers are able to serve the legal and moral interests of legitimate stakeholders (Mitchell, Agle, & Wood, 1997);

which all may be compared with theories of the firm as advanced elsewhere:

- (neoclassical) to explain the economic principles governing production, investment, and pricing decisions of established firms operating in competitive markets as cited in (Cyert & March, 1963)

TABLE 2

Means, Standard Deviations, and Correlations of Stakeholder Attributes and Stakeholder Salience for Five Stakeholder Groups

	Mean	SD	Salience
Shareholder			
Power	5.92	1.35	.525**
Urgency	4.66	2.19	.276*
Legitimacy	5.93	1.37	.247*
Salience	6.30	0.87	1.000
Employee			
Power	5.45	1.29	.350**
Urgency	4.84	1.70	.087
Legitimacy	5.81	1.11	.316**
Salience	6.41	0.72	1.000
Customer			
Power	6.32	0.99	.333**
Urgency	5.30	1.70	.205
Legitimacy	6.05	1.40	.463**
Salience	6.71	0.48	1.000
Government			
Power	5.61	1.51	.547**
Urgency	3.63	1.85	.541**
Legitimacy	4.12	1.82	.253*
Salience	4.97	1.70	1.000
Community			
Power	3.03	1.61	.632**
Urgency	3.76	1.84	.461**
Legitimacy	4.32	1.48	.604**
Salience	3.95	1.55	1.000

N = 73

* p <.05 ** p<.01

- (behavioral) to explain the process of decision making in the modern firm in terms of goals, expectations, and choice-making procedures (Cyert & March, 1963)
- (organizational economic) to economize on transaction costs (Coase, 1937; Williamson, 1985).
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As illustrated in the foregoing comparison, the fundamental basis for stakeholder theory according to the authors contributing to this literature, is normative (Donaldson & Preston, 1995), as compared to the descriptive function of several other well-respected theories of the firm. Why should this be? In the case of stakeholder theory, though its descriptive and instrumental aspects are also important, they pale in comparison to the normative declaration that " . . . the interests of all stakeholders are of intrinsic value" (1995: 66). It appears to us that, while the dominant paradigm needs little justification, the alternative conceptions—such as stakeholder theory—which attempt to articulate the weaknesses of the *status quo*, are held by the institutions of society to a higher standard (Kuhn, 1970).

The empirical test of the Mitchell, Agle, Wood (1997) model of stakeholder salience reveals the outlines of this challenger v. challenged dialogue. We find that stakeholder attributes are indeed related to stakeholder salience—across all stakeholder groups. This finding suggests that the stakeholder attributes: Power, Legitimacy and Urgency, are sufficient to gain the attention of top managers. As such, we confirm the theoretical model of stakeholder salience. However, data from the full study, which, due to space constraints is not outlined here, suggest that a stakeholder model of the firm is not yet emerging. This more complete data, examining CEO values and corporate financial and social performance suggest that traditional structures persist.

Conclusion

The capability of normative declarations to alter outcomes is well accepted. "We hold these truths to be self-evident . . , " "inalienable rights , . . life, liberty, . . . pursuit of happiness, etc., " and similar statements, contain within them social energy that inspires the mind, justifies new modes of thought, and enables change. In our study we have observed that the terms "stakeholder," and "really counting," are not yet synonymous. We thus believe that without the persistent and persuasive linkage of these terms in the normative discourse of our society, and without the careful construction upon this foundation of a truly viable, rigorous alternative to the dominant view (Clarkson, 1995), the future of the corporation is uncertain.

We reason as follows. We have seen in our study, confirmation that—at present—society does grant authority (legitimacy and power) to business leaders. And we are reminded of Davis's (1973) Iron Law, which states that in the long run, those who do not use power in a manner which society considers responsible will tend to lose it (Davis, 1973: 314). It appears to us that after over 30 years of attention to the stakeholder concept, it is unlikely that descriptive discourse (describing what the corporation is—a constellation of cooperative and competitive interests possessing intrinsic value), or instrumental discourse (establishing a framework for examining the connections between the practice of stakeholder management and the achievement of various corporate performance goals) (Donaldson & Preston, 1995)—as helpful as these aspects of stakeholder theory are in explaining "what is"—will generate the social energy necessary to effect an actual link between Stakeholder Salience and corporate outcomes. Normative discourse,

we therefore believe, must continue to be a feature endemic to stakeholder theory should we wish it to flourish and fulfill its aims as a theory of the firm—not the least of which is attending to the long-run interests (Selznick, 1996: 271) of both the business corporation and the society which gives it life.

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