# STAKEHOLDER IDENTIFICATION AND SALIENCE:

## DIALOGUE AND OPERATIONALIZATION

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This paper discusses dialogue surrounding, and issues in the operationalization of the forthcoming Mitchell, Agle & Wood (1997) model of Stakeholder Identification and Salience in the *Academy of Management Review*.

## INTRODUCTION

Forthcoming in the October issue of the *Academy of Management Review*, is an article which proposes a model of stakeholder identification and salience (Mitchell, Agle & Wood, 1997) that was first developed in 1994 at the Second Toronto Conference on Stakeholder Theory, and was later presented in the 1995 Academy of Management Annual Meeting. As a result of these conferences, this model has occasioned much dialogue within the IABS and SIM community, especially with regard to the definition and operationalization of the concepts upon which the model is based. In the spirit of encouraging this ongoing conversation, and to help us in moving toward the testing phase of this research, this present paper reports and attempts to address three aspects of this dialogue.

These include the following issues. First, among many colleagues, we find that there is some confusion regarding our separation of the notion of stakeholder identification from the notion of stakeholder salience. Our intention has been to suggest that a general perspective be utilized to identify stakeholders, and that the managerial perspective be utilized to ascertain salience. Further, upon an initial exposure to the model—which employs power, legitimacy, and urgency as the three key constructs—many colleagues find that the term salience is easily confused with the construct of urgency. Second, there continues to be a great deal of interest in the legitimacy construct, especially since the space constraints of an *AMR* article do not permit a discussion of many of the fine points of this multifaceted concept. Specifically, many colleagues wish to further pursue what we have termed the *norms and legitimacy* issue. Third, as we have developed the notion of urgency, and have argued that its inclusion is essential to the dynamism of our model, we have been engaged in an ongoing conversation with reviewers and other colleagues that we feel, if recounted in part, might provide a wider context for our arguments, and in doing so might shed further light on our ideas with respect to urgency.

The paper proceeds as follows. To provide context, we begin with a brief summary of the model cited from the forthcoming *AMR* paper. We then proceed to explore each of the three issues outlined in the preceding paragraph. We conclude with a description of: (1) the work of operationalization presently underway, and (2) our preparations to invite—and indeed our invitation to—colleagues to become involved in the empirical portion of the project.

## THE MODEL

Our model, as described in the *AMR* paper, begins with one of the path breaking definitions, which describes stakeholders as:

> . . . "Any group or individual who can affect or is affected by the achievement of the organization's objectives," (Freeman, 1984) and develop(s) a theory of stakeholder identification drawn from various theoretical literatures . . . We then propose that classes of stakeholders can be identified by their possession or attributed possession of one, two, or all three of the following attributes: the stakeholder's *power* to influence the firm, the *legitimacy* of the stakeholder's relationship with the firm, and the *urgency* of the stakeholder's claim on the firm. This theory produces a comprehensive typology of stakeholders based on the normative assumption that these variables define the field of stakeholders, those entities to whom managers *should* pay attention.
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> Building upon this typology, we further propose a theory of stakeholder salience. In this theory we suggest a dynamic model based upon the identification typology, that permits the explicit recognition of situational uniqueness and managerial perception to explain how managers prioritize stakeholder relationships. We demonstrate how the identification typology allows predictions to be made about managerial behavior with respect to each class of stakeholder, as well as predictions about how stakeholders change from one class to another and what this means to managers. In the theory of stakeholder salience we do not argue that managers should pay attention to this class of stakeholders or that. Rather, we argue that, to achieve certain ends, or because of perceptual factors, managers do pay certain kinds of attention to certain kinds of stakeholders. Knowing what types of stakeholders actually exist, which our identification typology facilitates, and why managers respond to them the way they do, which our notion of salience clarifies, sets the stage for future work in stakeholder theory that specifies how and under what circumstances managers can and should respond to various stakeholder types (Mitchell, Agle & Wood, 1997).

## SEPARATING IDENTIFICATION FROM SALIENCE

In attempting to define The Principle of Who or What Really Counts? (Freeman, 1994) we separated the question into two parts: (1) who (or what) *are* the stakeholders of the firm? and (2) to whom (or what) *do* manager's pay attention? As we state in the paper:

> The first question calls for a *normative theory of stakeholder identification*, to explain logically why managers should consider certain classes of entities as stakeholders. The second question calls for a *descriptive theory of stakeholder salience*, to explain the conditions under which managers do consider certain classes of entities as stakeholders (Mitchell, Agle & Wood, 1997).

Stakeholder identification is a process that can be—and is—undertaken by anyone. We argue that implicitly, people use the three attributes: power, legitimacy, and urgency to make judgments about whether or not some individual or entity has stakeholder "status" in relationship to another individual or entity. By making this typology explicit, we attempt to explain *who or what counts* in stakeholder relationships, and to surface the reasons why people or entities count in particular ways. We do not argue that particular individuals or entities *should* count in any particular way. To this extent our approach is *evaluator neutral*. In our proposed framework for stakeholder identification, we describe a process, not an outcome.

We argue, on the other hand, that the *outcome*, stakeholder salience with respect to the organization, is to be found in the *eye of the manager*. In our paper, we define salience as "... the degree to which managers give priority to competing stakeholder claims" (Mitchell, Agle & Wood, 1997). We argue that the notion of salience goes beyond the question of stakeholder identification, because the dynamics inherent in each relationship involve complex considerations that are not readily explained by the stakeholder framework as it currently stands. The notion of stakeholder salience is therefore needed to explain who and what managers actually pay attention to.

We further argue that, similar to all individuals in the general case, the attributes that are important to managers will be exactly those attributes used for identification, but will be a function of managers' *perceptions* of these stakeholder attributes. The perceptions of managers may be correct or incorrect, but—we suggest—managers' perceptions of levels of power, legitimacy, and urgency coincident to the manager-stakeholder relationship, will drive how salient certain stakeholders are to managers, and thus—according to our definition—how much priority managers give them.

The remaining task in our making the distinction between identification and salience, is to differentiate between salience and urgency. Salience implies priority as *given* by managers. Urgency implies priority as *claimed* within the stakeholder-manager relationship. In common usage these terms may be confused. Because we employ each of the terms in our model, we must distinguish between them. Stakeholder salience as defined above is "related to the cumulative number of stakeholder attributes - power, legitimacy, and urgency - perceived by managers to be present." ( Mitchell, Agle & Wood. 1997) As discussed in more detail in a later section, we define urgency as "the degree to which stakeholder claims call for immediate attention" (Mitchell, Agle & Wood, 1997).

## NORMS AND LEGITIMACY

In our *AMR* paper we adopt a recent definition of legitimacy, which describes it 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, p. 574). This definition is somewhat restrictive, in the sense that *only the majority* (a common standard for the term *generalized* within a society) is entitled to confer legitimacy. Disenfranchised by this definition are many voices in the minority, which may have a different view than the majority, and may or may not have moral justification for that view. A less-restrictive view would grant legitimacy based upon some normative standard—justified according to some moral code or argument. Thus, in our discussions regarding legitimacy, we have received comments such as the following:

> If legitimacy is defined in this manner (i.e. using Suchman, 1995) then is any normative objectivity allowed to remain? (For example, if in Turkmenistan environmental groups and environmental concerns are regarded by managers (and perhaps the majority of everyone else) as illegitimate, does it follow that they should not be "identified" as stakeholders?)

This is an important question, which—we think—may be properly responded to only if the full spectrum of definitional choices is considered. In our *AMR* paper we were faced with the tradeoffs that arise along the continuum between restrictive interpretations on one extreme, and non-restrictive interpretations on the other. Each position has its advantages and disadvantages. For example, restrictive definitions—where only a majority may confer legitimacy—have the advantage of providing the counterweight of *mass judgment* to offset the ill-conceived or the excessive. This advantage is especially helpful as we introduce power and urgency into a dynamic model, because of the propensity—when these attributes of stakeholder situations exist in the absence of the stabilizing effects of legitimacy—for abuse due to force or hysteria. However, when norms are lacking among the majority in a society, another type of potential abuse becomes a disadvantage of a restrictive definition of legitimacy. Where normative standards are lacking, there exists the possibility that stakeholder claims—that would be deemed to be legitimate according to some moral framework (e.g. Kant's categorical imperative)–might be ignored.

Or, under the least restrictive definitions of legitimacy—where almost anyone can appeal to precedent, religious or moral stance, or to need as defined in the present—there also exist plusses and minuses. Less restrictive definitions of legitimacy provide the opportunity for moral principles—even for *urgency* as a normative expression of a stakeholder claim—to permeate the stakeholder identification decision, regardless of how generally this principle is held within a society. Less restrictive definitions provide room for *the voice of sanity* to be heard, in the face of mass error. Yet, by virtue of this same permeability, the less restrictive definition of legitimacy also opens the dialogue to the *voice of insanity*, where the abuses of power and urgency—

through the attainment of *non-general legitimacy* (which, incidentally, sounds a lot like an oxymoron)—can result in mass catastrophe.

In our *AMR* article we have utilized the more restrictive Suchman definition. We prefer to rely upon the judgments of majorities—erroneous though they sometimes are, to confer legitimacy. The alternative, to contribute (by our failure to restrict the definition) to definitions that continue to be impaled upon the horns of normative, instrumental, descriptive dilemmas (Donaldson & Preston, 1995), we consider to be unacceptable. We hope—through the proposal of a dynamic model of stakeholder identification and salience, where power and urgency are attended to so that managers may serve the legal and moral interests of legitimate stakeholders (Mitchell, Agle & Wood, 1997)—to avoid the necessity to develop an additional stakeholder theory to identify those who are *deserving* of being considered stakeholders.

In short, we (by choice) attempt to adhere to and utilize the concept of social legitimacy as defined in sociology, and for the moment to ignore our roles as moral philosophers (i.e. we do not intend to tackle the notion of moral legitimacy in this social model). Of course we recognize the importance of this activity, and encourage the efforts of others in this realm.

## URGENCY

Notions of power and legitimacy have been well-explored in management literature (and are somewhat addressed in the stakeholder literature). And, while disagreement exists about the finer points of definition, relatively few misunderstandings exist about the terms power and legitimacy themselves.

However, a very different situation exists in the case of urgency. While dealt with to some degree in the crisis and issues management literatures (Cobb & Elder, 1972; Eyestone, 1978; Wartick & Mahon, 1994), urgency is a concept that has not been dealt with extensively in the stakeholder literature. Therefore, as we have attempted to articulate the urgency construct as we move toward a theory of stakeholder identification and salience, the process of definition and of building consensus upon the use of the construct has been somewhat daunting.

> In our *AMR* paper, urgency is discussed as follows:
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> Urgency, is defined by the Merriam-Webster Dictionary as "calling for immediate attention," or "pressing." We believe that urgency, with synonyms including compelling, driving, and imperative, only exists when two conditions are met; first, when a relationship or claim is of a time-sensitive nature, and second, when that relationship or claim is important or critical to the stakeholder. Thus, similar to Jones' (1993) description of moral intensity as a multidimensional construct, we argue that urgency is based on the following two attributes: (1) time sensitivity - the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) criticality - the importance of the claim or the relationship to the stakeholder. We define urgency as the degree to which stakeholder claims call for immediate attention.

In our discussions, the confusion over this construct seems to arise from two issues: First, where does urgency reside? And second, what is the definition of urgency, or what concepts does it encompass? The locus of urgency has been discussed in an earlier section, which hopefully has clarified this portion of the confusion.

The remaining difficulty that we continue to experience with our use of the term urgency (recognizing of course that the *AMR* paper has not yet been published, and that the dialogue is thereby constrained by a certain lack of access to and familiarity with the paper) is thus in communicating an unambiguous definition that supports a clear understanding of the term as used in our model. Throughout several rewrites of the paper, and prompted by reviewers' comments, we have searched extensively for a word that captures the concept that we visualize to be operating in judgments regarding stakeholder identification and salience. We have concluded that the word urgency comes closest to imparting the idea that we are attempting to convey, which is a time/importance-type notion. As noted in the paper, our search reveals urgency to be a multidimensional construct, in that it is based in two other constructs - time-sensitivity and criticality.

Yet, in the dialogue surrounding the development of our model, we have often been presented with the argument that urgency only conveys the notion of time-sensitivity or temporality, and not importance or criticality. Our appeal to the dictionary argues otherwise. It has also been suggested that we substitute the term criticality for urgency. While we have considered this as a possibility, we are not persuaded that criticality conveys the notion of time-sensitivity or temporality as well as does urgency. Thus we have been left with little choice in attempting to convey the notion of a stakeholder claim being *both* important and time-sensitive. Our choice of urgency arises from our reading of dictionary definitions, synonyms, and antonyms reported in Table 1.

We therefore wish to stress that urgency requires *both* time-sensitivity and criticality. As argued by one reviewer of the *AMR* paper, his employment relationship is important or critical to him but not necessarily time-sensitive. In this case, we would respond that while he has standing as a stakeholder of the university because of power and legitimacy, he does not possess urgency. When something happens to make that relationship time-sensitive (such as contract renewal or tenure consideration), we would then argue that urgency is present.

Another example suggests how the term urgency as we envision it, requires both time-sensitivity and criticality. A salesperson is on the *last day* of the reporting *quarter*, and needs one more sale to meet quota. If the salesperson has multiple clients to which this sale could be made, urgency with respect to any given firm is not that high. If the sale is not made at firm A, one can move on to firm B. Suppose that a different salesperson is in the *middle* of the reporting quarter, but only has one client. In this case, the relationship to that client is critical, but it is currently not *time-critical*. Thus, we would argue that this situation does not evidence much urgency. However, when we combine the two and find a salesperson on the last day to meet a quota with only one client, the relationship to that client is urgent as we conceptualize the term.

## CONCLUSION: TOWARD OPERATIONALIZATION

It is our hope through this IABS conference to obtain the perspectives and the assistance of colleagues who are interested in and wish to assist with the operationalization of the model. Toward this end, we have developed a set of items that might be utilized to measure the incidence of power, legitimacy, and urgency and other variables related to a given stakeholder situation (please see Table 2). Further, we have developed a mathematical decision structure to help us to quantify the *absence-presence* features of each of the variables in dynamic situations as defined in our *AMR* article (please see Appendix 1 for a brief description). Finally, we have placed the preliminary items and the decision algorithms into a software program, which can interactively gather data on managers' responses to a variety of stakeholder situations (programs are available by contacting the authors at the foregoing addresses).

Being *soft*, the items and coefficients that drive the algorithms are readily susceptible to the changes and improvements that can arise as a research team operationalizes the empirical testing of the model. It is our intention to make the computer program available to interested colleagues for pilot testing of our operational ideas as they presently stand. Once the pilot study has been run, we then anticipate that a revision of the computer program as a data-gathering tool will be made, and that it will be distributed to a research team for large-sample testing.

We are indebted to Max Clarkson for his dedication to moving the stakeholder field forward that has resulted in this present line of inquiry, and to our co-author on the *AMR* paper, Donna Wood, for her early recognition of the importance of the model, and her encouragement to rigorously define and explain it. We also greatly appreciate those scholars who have taken their time to engage us, as editors, as reviewers, and as commentors and commentators. Through our preparations for the testing of this model we have tried to create a research frame within which multiple research *stakeholders* can be empowered to join us in *follow-on* studies. We extend this invitation, and urge you to contribute to an exciting next phase of this exploration.

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Table 1
Dictionary Analysis of Urgency-related Terms
(Based on Merriam-Webster Dictionary & Microsoft Word Thesauraus)

URGENT - calling for immediate attention, pressing.

*Synonyms* for URGENT - pressing, compelling, demanding, driving, imperative, immediate
(Synonyms for pressing - immediate, instant, dire, imperative, burning)
*Antonyms* for URGENT - commonplace, immaterial, frivolous, ordinary, petty, insignificant

CRITICAL - being a crisis

*Synonyms* for CRITICAL - important, grave, acute, great, crucial
*Antonyms* for CRITICAL - trivial, unimportant

TEMPORAL - of, relating to, or limited by time.

*Synonyms* for TEMPORAL - temporary, transitory, brief, ephemeral, fleeting, passing
*Antonyms* for TEMPORAL - permanent, perpetual, infinite, immortal

Table 2
Proposed Items for Measuring Model Constructs

Power

1. What level of physical force (bomb, gun, lock, etc. including access to legal process that can invoke the use of physical force) can this stakeholder bring to bear to obtain his/her will?
2. What effective level of direct economic reward or punishment (money, goods, services, etc.) can this stakeholder bring to bear to obtain his/her will?
3. What effective level of positive or negative social influence (on reputation, prestige and esteem, love, acceptance, etc.) can this stakeholder bring to bear to obtain his/her will?
4. How skillful is this stakeholder in utilizing the means at his/her/its disposal to maximum effect?

Legitimacy

1. How desirable, proper, or appropriate is the claim of this particular stakeholder from his/her/its own (individual) perspective?
2. How desirable, proper, or appropriate is the claim of this particular stakeholder from the perspective of the organization?
3. How desirable, proper, or appropriate is the claim of this particular stakeholder from the perspective of society as a whole?
4. What degree of agreement do you think there is among your colleagues within your organization that the claim of this specific stakeholder is desirable, proper, or appropriate?
5. What degree of agreement do you think there is among your colleagues in other similar organizations that the claim of this specific stakeholder is desirable, proper, or appropriate?

Urgency

1. How much does this specific claim matter to this specific stakeholder?
2. To what degree is delay in addressing this specific claim acceptable to this stakeholder?

Salience

1. What level of the organization's resources have gone to satisfying this stakeholder's claims?
2. What level of priority do you assign this stakeholder?
3. How much of your time do you spend thinking about or acting on the claims of this stakeholder?

## Appendix 1
## A Conceptual Model of Categorical Decisions in Multiple-level Situations

Most decision-making situations are binary. That is, they eventually require a yes or a no—a categorical judgment. The number of conditions on a dependent variable depends upon the number of independent variables that are taken into consideration by a decision-maker in yes-no decision situations. Thus, the number of consequences (conditions on the dependent variable) in a multiple-variable decision situation are an exponential function of the number of independent variables (n) on a base of 2 (e.g. $2^n$). Thus, for 2 IV's the number of conditions is $2^2 = 4$; for 3 IV's the number of conditions is $2^3 = 8$; and for 4 IV's the number of conditions is $2^4 = 16$; etc.

In the case of the stakeholder identification model it is argued that " . . . to better understand the Principle of Who and What Really Counts, we need to systematically evaluate stakeholder-manager relationships, both actual and potential, in terms of the relative absence or presence of all or some of these three attributes: power, legitimacy, and/or urgency (Mitchell et al., 1997). This decision-making situation thus involves the making of a 3 IV no-yes/absence-presence judgment, which yields 8 DV conditions. Yet, most constructs in social science tend to be characterized by levels on a continuum. An analytical technique is needed that can model the reduction of levels on continuous social variables, to the yes-no required by decision-making so that, as data are gathered, the relative absence or presence of given conditions can be assessed (not because we necessarily believe the world to be so reduced, but as a representative means to enable the isolation and testing of key variables in such models).

The following method summarizes the steps taken to develop and apply the decision algorithm for the computer-based analysis of a wide variety of stakeholder situations. (The authors wish to acknowledge the contribution of Stanley J. Smith to the development of this analytical technique.)

1. Determine a normalized metric for each of three variables, and also establish a minimum.
2. Perform a "center of mass" calculation.
3. Compute distance of "center of mass" with respect to centers of variables A, B, and C.
4. Compute a function which is proportional to "area of influence" for circle modulus A, B, and C.
5. Compute a likelihood ratio for each variable A, B, and C.
6. Employ a threshold coefficient (call it lambda) to perform a binary decision on each variable likelihood ratio, and then assemble an "octal word" made up of three characters that correspond to one of the $2^3 = 8$ conditions on the dependent variable.
7. Lookup the applicable region (condition on the dependent variable) specified by the octal word using a lookup table.