INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue III March 2026

Stakeholder Theory

AJANI Sodiq Olayemi., *OLORUNFEMI Gbenga Samuel

Crescent University Abeokuta, Ogun State, Nigeria

DOI: https://doi.org/10.47772/IJRISS.2026.100300103

Received: 21 February 2026; Accepted: 26 February 2026; Published: 27 March 2026

INTRODUCTION

Stakeholder Theory is a foundational framework in business ethics, corporate governance, and strategic management that challenges the traditional shareholder-centric view of the firm. Unlike the classical perspective, which assumes that the primary responsibility of an organization is to maximize shareholders' wealth, Stakeholder Theory posits that firms exist within a broader network of relationships and are accountable to multiple parties whose interests may be affected by organizational activities (Freeman, 1984). These parties referred to as stakeholders include shareholders, employees, customers, suppliers, creditors, regulators, host communities, and society at large.

The core premise of Stakeholder Theory is that organizational success and sustainability depend on the firm's ability to balance and integrate the interests of its diverse stakeholders rather than prioritizing shareholders alone (Donaldson & Preston, 1995). From this perspective, value creation is viewed as a collective process in which firms generate economic, social, and relational value through ethical engagement with stakeholders. Consequently, managerial decisions are expected to reflect not only financial considerations but also social responsibility, fairness, and accountability.

Stakeholder Theory gained prominence as a response to growing concerns over corporate scandals, environmental degradation, social inequality, and governance failures, which exposed the limitations of profit-maximization models (Freeman et al., 2010). The theory argues that neglecting stakeholder interests can lead to reputational damage, regulatory sanctions, operational disruptions, and ultimately poor financial performance. In contrast, effective stakeholder management enhances trust, reduces conflict, improves access to critical resources, and supports long-term firm performance (Mitchell et al., 1997).

In the context of corporate governance and financial reporting, Stakeholder Theory provides a compelling explanation for why firms adopt transparent reporting practices, ethical accounting standards, and socially responsible policies. By recognizing the legitimate claims of various stakeholder groups, organizations are encouraged to disclose relevant information, comply with regulations, and ensure accountability beyond statutory requirements. This has made the theory particularly relevant in contemporary accounting and finance research, especially in studies examining audit quality, corporate performance, sustainability reporting, and governance practices in emerging economies.

Origin and Development of Stakeholder Theory

Stakeholder Theory was formally articulated by R. Edward Freeman in his seminal book *Strategic Management: A Stakeholder Approach* (Freeman, 1984). Freeman introduced the theory as a response to the dominant shareholder-centric model of the firm, which views corporate responsibility as primarily the maximization of shareholder wealth. Contrary to this narrow perspective, Freeman argued that organizations operate within a complex web of relationships involving various stakeholders whose interests must be recognized and strategically managed for long-term organizational success.

The intellectual roots of Stakeholder Theory can be traced to earlier works in organizational theory, systems theory, and corporate planning, particularly the work of Cyert and March (1963) and Ackoff (1974), who emphasized the firm as a coalition of diverse interest groups rather than a single profit-maximizing entity. Freeman (1984) synthesized these ideas and provided a structured framework that identified key stakeholder

groups including shareholders, employees, customers, suppliers, governments, and local communities and emphasized their role in shaping corporate strategy and performance.

Over time, Stakeholder Theory has evolved beyond its strategic management origins into a multidisciplinary framework applied across corporate governance, ethics, accounting, and public administration. Donaldson and Preston (1995) significantly advanced the theory by categorizing it into normative, instrumental, and descriptive dimensions. The normative dimension asserts that stakeholders have intrinsic value and legitimate claims on the firm; the instrumental dimension links stakeholder management to improved financial and organizational performance; while the descriptive dimension explains how firms actually behave in relation to stakeholders. This tripartite framework strengthened the theoretical legitimacy of Stakeholder Theory and expanded its empirical applicability.

In the area of corporate governance, Stakeholder Theory has been used to justify governance structures that balance the interests of multiple stakeholders rather than prioritizing shareholders alone. Scholars argue that inclusive governance mechanisms enhance accountability, transparency, and long-term firm value (Hill & Jones, 1992; Freeman et al., 2010). This perspective has been particularly influential in debates on board composition, executive accountability, and stakeholder representation in decision-making processes.

Stakeholder Theory has also become a foundational framework in corporate social responsibility (CSR) and sustainability reporting. Firms are increasingly expected to disclose social, environmental, and governance (ESG) information in response to stakeholder pressures. From a stakeholder perspective, CSR activities and sustainability disclosures are mechanisms through which organizations maintain legitimacy and trust among stakeholder groups (Gray, Owen, & Adams, 1996; Deegan, 2002). Consequently, Stakeholder Theory provides a strong theoretical justification for non-financial reporting practices.

Within financial reporting and audit quality research, Stakeholder Theory explains why firms may adopt higher reporting quality, timely disclosures, and conservative accounting practices to meet the information needs of diverse stakeholders such as investors, regulators, creditors, and the general public. High-quality financial reporting is viewed as a tool for reducing information asymmetry and sustaining stakeholder confidence (Freeman et al., 2010; Ullmann, 1985).

In the public sector context, Stakeholder Theory has been applied to public sector management and governance, where government entities are accountable to a broad range of stakeholders including citizens, taxpayers, regulatory bodies, and international organizations. Public sector organizations are expected to balance competing stakeholder interests while delivering public value, transparency, and fiscal responsibility. As such, Stakeholder Theory provides a useful lens for analyzing public accountability, service delivery, and performance management in government institutions (Bryson, 2004).

Meaning of Stakeholders

Stakeholders are individuals, groups, or entities that have an interest in, or are affected by, the activities, decisions, and outcomes of an organization. The concept of stakeholders is central to stakeholder theory, which argues that organizations do not operate solely for the benefit of shareholders but must consider the interests of a wider range of parties who can influence or are influenced by corporate actions. Freeman (1984) provides the most widely cited definition, describing a stakeholder as any group or individual who can affect or is affected by the achievement of an organization’s objectives. This definition broadens the scope of corporate responsibility beyond profit maximization to include ethical, social, and environmental considerations.

From a managerial perspective, stakeholders are crucial because their support or opposition can significantly influence organizational survival, performance, and legitimacy. Mitchell, Agle, and Wood (1997) argue that stakeholders possess varying degrees of power, legitimacy, and urgency, which determine the extent to which management pays attention to their claims. Consequently, effective stakeholder management requires identifying key stakeholder groups and balancing their often competing interests to achieve sustainable organizational success.

Stakeholders are commonly classified into internal and external categories based on the nature of their relationship with the organization.

Internal Stakeholders

Internal stakeholders are parties that operate within the organization and are directly involved in its day-to-day activities. They have a formal relationship with the firm and play a critical role in achieving organizational objectives.

Shareholders are the owners of the organization who provide capital and expect returns in the form of dividends and capital appreciation. While traditional shareholder theory prioritizes shareholder wealth maximization, stakeholder theory recognizes shareholders as one of several important stakeholder groups whose interests must be balanced with those of others (Freeman et al., 2010).

Managers are responsible for planning, organizing, directing, and controlling organizational resources. They act as agents of shareholders while simultaneously serving as mediators among competing stakeholder interests. Their decisions directly affect employees, customers, and the broader society, making them central actors in stakeholder management (Donaldson & Preston, 1995).

Employees contribute human capital, skills, and expertise necessary for organizational operations. They are interested in fair remuneration, job security, safe working conditions, and career development. Research suggests that organizations that consider employee interests tend to experience higher productivity, commitment, and long-term performance (Jones, Harrison, & Felps, 2018).

External Stakeholders

External stakeholders are individuals or groups outside the organization who do not participate in internal operations but are affected by organizational activities or can influence organizational outcomes.

Customers are vital stakeholders because they generate revenue and sustain business continuity. Their interests include product quality, fair pricing, safety, and ethical business practices. Firms that prioritize customer satisfaction often achieve competitive advantage and enhanced reputational capital (Harrison, Barney, Freeman, & Phillips, 2019).

Suppliers provide essential inputs such as raw materials, services, and technology. They are concerned with timely payments, stable demand, and long-term business relationships. Cooperative relationships with suppliers can improve efficiency and reduce operational risks.

Creditors, including banks and other financial institutions, supply debt capital and are primarily interested in the organization’s liquidity, solvency, and risk profile. Sound financial reporting and risk management practices help maintain creditors’ confidence and access to finance.

Government and regulators influence organizations through laws, policies, taxation, and regulatory oversight. Their interest lies in compliance, economic stability, employment generation, and social welfare. Failure to meet regulatory requirements may result in sanctions, reputational damage, or loss of operating licenses.

Local communities are affected by organizations through employment opportunities, environmental impacts, and social responsibility initiatives. Organizations that engage positively with host communities often gain social legitimacy and reduced conflict (Suchman, 1995).

Environmental groups advocate for sustainable practices and environmental protection. Their growing influence reflects increased global concern for climate change, resource depletion, and ecological sustainability. Organizations are increasingly expected to integrate environmental considerations into strategic decision-making.

The general public represents society at large and is concerned with ethical conduct, transparency, and corporate citizenship. Public perception can shape corporate reputation and influence consumer behavior, investor confidence, and regulatory scrutiny.

Core Assumptions of Stakeholder Theory

Stakeholder Theory is founded on a set of core assumptions that challenge the traditional shareholder-centric view of the firm and instead emphasize the broader social, economic, and ethical responsibilities of organizations. These assumptions explain how organizations operate within complex social systems and why managers must consider the interests of multiple stakeholder groups in decision-making processes.

Organizations Are Embedded in a Network of Stakeholder Relationships

A fundamental assumption of Stakeholder Theory is that organizations do not operate in isolation; rather, they are embedded within a complex network of relationships involving various stakeholders such as shareholders, employees, customers, suppliers, creditors, regulators, host communities, and society at large. Freeman (1984) argues that the firm is best understood as a constellation of cooperative and competitive interests, where organizational survival depends on the effective management of these relationships.

From this perspective, organizational outcomes such as financial performance, reputation, and sustainability are shaped by the quality of interactions between the firm and its stakeholders. In the accounting and governance context, this implies that corporate reporting, accountability mechanisms, and control systems must reflect the information needs and expectations of diverse stakeholder groups rather than focusing solely on shareholders (Donaldson & Preston, 1995). This assumption underscores the relational nature of the firm and highlights the interdependence between organizations and their operating environments.

Each Stakeholder Group Has Legitimate Interests That Deserve Consideration

Another core assumption of Stakeholder Theory is that all stakeholders possess legitimate interests in the organization, irrespective of their ability to provide capital or exercise formal ownership rights. Legitimacy, in this context, refers to the moral or contractual right of stakeholders to have their interests acknowledged and considered in managerial decisions (Mitchell, Agle, & Wood, 1997).

Unlike the shareholder primacy model, which prioritizes shareholders' wealth maximization, Stakeholder Theory asserts that employees have legitimate interests in fair wages and job security, customers in product quality and safety, suppliers in timely payments, and communities in environmental protection and social development. Donaldson and Preston (1995) emphasize that stakeholder interests are intrinsically valuable and should not be treated merely as instrumental means to achieving shareholder objectives. This assumption provides a strong ethical foundation for inclusive corporate governance and responsible business practices.

Value Creation Should Be Shared Among Stakeholders, Not Restricted to Shareholders Alone

Stakeholder Theory assumes that value creation is a collective process arising from the contributions of multiple stakeholders and, therefore, should be distributed fairly among them. Freeman et al. (2010) argue that firms create value through cooperation and mutual benefit rather than through the exclusive pursuit of shareholder profits. Employees contribute human capital, customers provide revenue, suppliers ensure operational continuity, and communities offer social license to operate.

In this regard, value is not limited to short-term financial returns but includes non-financial outcomes such as employee well-being, customer satisfaction, environmental sustainability, and social impact. In accounting research, this assumption supports broader performance measurement frameworks that go beyond traditional profit indicators to include environmental, social, and governance (ESG) metrics. The emphasis on shared value challenges firms to adopt inclusive strategies that balance economic efficiency with social responsibility (Harrison, Freeman, & Abreu, 2015).

Long-Term Sustainability and Performance Depend on Balancing Stakeholder Interests

The final assumption of Stakeholder Theory is that long-term organizational sustainability and superior performance are achieved by effectively balancing and managing competing stakeholder interests. Firms that consistently favor one stakeholder group particularly shareholders at the expense of others may experience short-term gains but risk long-term instability, reputational damage, regulatory sanctions, or loss of stakeholder trust (Freeman, 1984).

Empirical studies suggest that firms with strong stakeholder engagement practices tend to exhibit better long-term financial performance, lower risk, and enhanced corporate resilience (Jones, Harrison, & Felps, 2018). This assumption aligns with sustainability theory and reinforces the idea that ethical stakeholder management is not only normatively desirable but also strategically beneficial. Consequently, managers are expected to act as mediators who reconcile diverse stakeholder interests to ensure organizational continuity and sustainable value creation.

Types of Stakeholder Theory

Stakeholder Theory is not a monolithic framework; rather, it is commonly conceptualized through three interrelated but analytically distinct perspectives: normative, instrumental, and descriptive stakeholder theory. This tripartite classification, most notably articulated by Donaldson and Preston (1995), provides a comprehensive understanding of why stakeholders matter, how stakeholder management affects organizational outcomes, and how firms actually relate with their stakeholders in practice.

Normative Stakeholder Theory

Normative stakeholder theory is concerned with the ethical and moral foundations of organizational responsibility. It posits that firms have an inherent obligation to recognize and respect the interests of all stakeholders, not merely shareholders, regardless of whether such consideration enhances financial performance. From this perspective, stakeholders are viewed as ends in themselves rather than as means to achieve corporate objectives (Donaldson & Preston, 1995).

The normative approach is grounded in ethical principles such as fairness, justice, rights, and accountability, arguing that stakeholders possess legitimate claims on the firm by virtue of their relationship with it. Freeman (1984) emphasizes that managers are trustees of stakeholder interests and are therefore morally bound to balance competing stakeholder claims in a responsible manner. This ethical obligation extends to employees, customers, suppliers, communities, and regulators, whose welfare may be affected by corporate activities.

In accounting and corporate governance literature, normative stakeholder theory provides a strong justification for practices such as transparent financial reporting, corporate social responsibility (CSR), sustainability reporting, and ethical auditing. Firms that adopt this perspective are expected to disclose information that meets not only statutory requirements but also the broader informational needs of stakeholders, thereby enhancing accountability and trust (Gray, Owen, & Adams, 2010).

Instrumental Stakeholder Theory

Instrumental stakeholder theory adopts a more pragmatic and performance-oriented stance. It examines the relationship between stakeholder management and the achievement of traditional corporate objectives, particularly financial performance, competitiveness, and long-term value creation. Unlike the normative perspective, the instrumental view does not primarily focus on ethical obligations; rather, it evaluates stakeholder engagement as a strategic means to improve organizational outcomes.

Proponents of this view argue that firms that effectively manage relationships with key stakeholders are more likely to enjoy benefits such as enhanced reputation, reduced operational risk, improved access to resources, and sustained profitability (Jones, 1995). Empirical studies have linked effective stakeholder engagement to improved financial performance, market valuation, and reduced agency conflicts, suggesting that stakeholder-oriented practices can be economically advantageous (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010).

Within the context of accounting and finance, instrumental stakeholder theory supports the argument that high-quality financial reporting, strong internal controls, and robust governance mechanisms can enhance investor confidence and firm value. For instance, transparent disclosure practices may reduce information asymmetry and lower the cost of capital, thereby aligning stakeholder management with shareholder wealth maximization (Hillman & Keim, 2001).

Descriptive Stakeholder Theory

Descriptive stakeholder theory focuses on explaining and describing actual organizational behavior. It seeks to depict how firms operate in reality by examining the existing relationships between organizations and their stakeholders. This perspective does not prescribe what firms ought to do (normative) or assess performance implications (instrumental); instead, it provides an empirical account of how stakeholder relationships are structured and managed in practice (Donaldson & Preston, 1995).

Through this lens, organizations are viewed as a constellation of cooperative and competitive interests, where managers routinely interact with multiple stakeholder groups whose expectations and influence vary over time. Descriptive stakeholder theory is widely applied in organizational studies, corporate governance research, and public sector analysis to understand decision-making processes, power dynamics, and stakeholder salience.

In empirical research, this perspective is particularly useful for **case** studies and institutional analyses, where scholars investigate how firms prioritize certain stakeholders over others, how regulatory environments shape stakeholder engagement, and how contextual factors influence disclosure and accountability practices. As such, descriptive stakeholder theory provides the empirical foundation upon which normative and instrumental arguments can be evaluated and refined.

Relevance of Stakeholder Theory to Accounting and Finance

Stakeholder Theory is highly relevant to accounting and finance because these disciplines fundamentally exist to produce, verify, and communicate financial information to a wide range of stakeholders, rather than solely to shareholders. Accounting information influences the decisions of investors, creditors, employees, regulators, governments, customers, and the wider society, all of whom have legitimate interests in the financial outcomes and sustainability of an organization (Freeman, 1984; Gray et al., 1995).

From a stakeholder perspective, the objective of accounting extends beyond profit measurement to include accountability, transparency, and stewardship. Financial statements therefore serve as a mechanism through which managers discharge their responsibility to various stakeholder groups by providing credible, timely, and relevant information about the firm's financial position, performance, and risks (Deegan, 2014).

Financial Reporting Quality and Transparency

Stakeholder Theory emphasizes high-quality financial reporting as a means of reducing information asymmetry between managers and stakeholders. Transparent and reliable financial reports enhance stakeholders' ability to assess firm performance, evaluate risk, and make informed economic decisions (Bushman & Smith, 2001). When accounting information is manipulated or selectively disclosed, non-managerial stakeholders particularly investors and creditors are exposed to higher levels of uncertainty and potential losses.

Consequently, the theory supports rigorous accounting standards and enforcement mechanisms that promote faithful representation, comparability, and verifiability of financial information. High reporting quality strengthens trust between firms and stakeholders, thereby improving access to capital and long-term organizational sustainability (Healy & Palepu, 2001).

Corporate Social Responsibility (CSR) Disclosure

Stakeholder Theory provides a strong theoretical foundation for Corporate Social Responsibility (CSR) reporting. The theory argues that firms have obligations not only to capital providers but also to social and environmental stakeholders affected by corporate activities (Freeman et al., 2010). CSR disclosures enable firms

to communicate their social and environmental impacts, ethical practices, and community engagements to stakeholders who are increasingly concerned about corporate behavior beyond financial performance.

Empirical studies suggest that firms with broader stakeholder orientation tend to disclose more CSR information to maintain legitimacy and stakeholder support (Gray et al., 1995; Deegan, 2014). In this sense, CSR reporting serves as an accountability tool that aligns corporate actions with stakeholder expectations.

Environmental, Social, and Governance (ESG) Reporting

Closely related to CSR, ESG reporting has gained prominence as investors, regulators, and society demand information on non-financial risks and long-term value creation. Stakeholder Theory justifies ESG reporting by recognizing that environmental degradation, poor social practices, and weak governance structures can adversely affect multiple stakeholder groups and threaten organizational continuity (Eccles et al., 2014).

By disclosing ESG information, firms demonstrate responsiveness to stakeholder concerns and enhance their reputational capital. Such disclosures also assist investors and creditors in assessing sustainability risks and long-term financial performance, reinforcing the role of accounting as a comprehensive information system for diverse stakeholders.

Asset Impairment Recognition and Disclosure (IAS 36)

Asset impairment accounting under IAS 36 is particularly relevant within the stakeholder framework. Impairment recognition ensures that assets are not carried at amounts exceeding their recoverable values, thereby preventing the overstatement of financial position and performance. Stakeholder Theory supports timely and transparent impairment recognition because delayed or inadequate impairment disclosures can mislead investors, creditors, regulators, and the public (IASB, 2023).

For example, failure to recognize impairment losses may artificially inflate profits and asset values, leading stakeholders to make sub-optimal decisions. Transparent impairment reporting therefore enhances accountability and protects stakeholder interests by providing a more faithful representation of economic reality.

Audit Quality and Auditor Responsibility

Audit quality is another critical area where Stakeholder Theory is highly applicable. Auditors act as independent monitors who enhance the credibility of financial statements relied upon by various stakeholders. Under Stakeholder Theory, the auditor's responsibility extends beyond shareholders to include all users of financial reports who depend on audited information for decision-making (Watts & Zimmerman, 1986).

High audit quality reduces agency conflicts, deters financial misreporting, and strengthens stakeholder confidence in corporate reporting. Conversely, audit failures can harm multiple stakeholder groups and undermine public trust in the accounting profession, highlighting the broader social responsibility of auditors.

Criticisms of Stakeholder Theory

Despite its widespread acceptance and relevance in explaining firm–stakeholder relationships, Stakeholder Theory has attracted significant scholarly criticism, particularly regarding its practical applicability, conceptual clarity, and managerial implications. These criticisms are discussed under four major themes.

Difficulty in Identifying and Prioritizing Stakeholders

One of the most persistent criticisms of Stakeholder Theory is the challenge of identifying who qualifies as a stakeholder and determining whose interests should take precedence. Freeman (1984) broadly defines stakeholders as any group or individual who can affect or is affected by the achievement of an organization's objectives. While this inclusive definition enhances ethical sensitivity, it creates ambiguity in practice. Organizations often struggle to determine the boundaries of stakeholder inclusion, especially in complex business environments involving multiple interest groups such as communities, regulators, creditors, employees, customers, and the environment.

Moreover, critics argue that the theory provides no universally accepted framework for prioritizing stakeholders when their claims conflict (Jensen, 2002). Although Mitchell, Agle, and Wood (1997) attempted to address this issue by proposing a stakeholder salience model based on power, legitimacy, and urgency, the application of this model remains subjective. As a result, managerial decisions may become inconsistent, selective, or biased, undermining strategic clarity and accountability.

Potential Conflict Among Stakeholder Interests

Another major criticism is that Stakeholder Theory fails to offer a clear mechanism for resolving conflicts among competing stakeholder interests. In reality, stakeholder objectives often diverge; for instance, shareholders may prioritize profit maximization, employees may seek higher wages and job security, while customers demand lower prices and higher quality. Balancing these competing interests can be inherently problematic.

According to Sundaram and Inkpen (2004), the absence of a dominant objective function may weaken strategic decision-making, as managers are left without a clear criterion for evaluating trade-offs. This concern is particularly relevant in financial and accounting contexts, where firms are expected to pursue measurable financial outcomes. Critics argue that attempting to satisfy all stakeholders simultaneously may lead to strategic paralysis or suboptimal performance, thereby reducing organizational efficiency and competitiveness.

Lack of Clear Performance Measurement Standards

Stakeholder Theory is also criticized for its inability to provide clear and objective performance measurement standards. Unlike shareholder theory, which relies on well-defined financial indicators such as profit, return on equity, or market value, Stakeholder Theory promotes a multi-dimensional performance perspective that incorporates both financial and non-financial outcomes.

However, scholars argue that this pluralistic approach lacks precision and comparability (Jensen, 2002). Measuring stakeholder satisfaction across diverse groups is often subjective and difficult to quantify, making it challenging to assess managerial performance objectively. From an accounting and reporting perspective, this limitation complicates performance evaluation, accountability, and incentive design, particularly in regulated or capital-market-driven environments (Donaldson & Preston, 1995).

Risk of Managerial Opportunism

A further criticism is that Stakeholder Theory may unintentionally encourage managerial opportunism. Because the theory grants managers broad discretion to balance stakeholder interests, it may be exploited as a justification for decisions that primarily serve managerial self-interest rather than organizational or stakeholder welfare (Jensen, 2002).

Easterbrook and Fischel (1991) argue that without a clear objective function, managers may selectively invoke stakeholder concerns to defend poor performance, resist shareholder monitoring, or pursue personal goals. This risk is particularly pronounced in environments with weak corporate governance structures, where stakeholder rhetoric may mask inefficiency, entrenchment, or agency problems. Consequently, critics contend that Stakeholder Theory may dilute managerial accountability rather than enhance it.

Practical Implications of Stakeholder Theory in Corporate Governance and Financial Reporting

Stakeholder theory emphasizes that organizations should create value not only for shareholders but also for a broad range of stakeholders, including employees, customers, suppliers, regulators, communities, and the environment (Freeman et al., 2020; Harrison et al., 2020). In practice, this theoretical perspective significantly influences corporate governance mechanisms and financial reporting practices by encouraging organizations to consider the interests and expectations of multiple stakeholder groups in their decision-making processes.

In corporate governance, stakeholder theory promotes a governance structure that balances the interests of diverse stakeholder groups. Boards of directors are increasingly expected to consider stakeholder interests when making strategic decisions (Freeman et al., 2020). For instance, many corporations now include independent

directors, employee representatives, and sustainability committees within their governance structures to ensure that stakeholder concerns are adequately addressed. These governance mechanisms enable organizations to improve accountability, transparency, and ethical conduct, thereby enhancing long-term organizational sustainability (Harrison et al., 2020; Parmar et al., 2022).

A practical example can be observed in companies that integrate environmental and social considerations into their governance practices. Organizations in industries with significant environmental impact often establish sustainability or environmental committees within their boards to oversee compliance with environmental regulations and stakeholder expectations. Such committees ensure that environmental risks are properly managed and disclosed in corporate reports, thereby strengthening corporate accountability and sustainability practices (Eccles & Klimenko, 2019; Kotsantonis & Serafeim, 2019).

Stakeholder theory also influences financial reporting practices through expanded disclosure requirements. Traditional financial reporting primarily focused on information relevant to shareholders; however, contemporary reporting practices increasingly incorporate non-financial information that reflects the interests of broader stakeholders. Many organizations now publish sustainability reports, integrated reports, and corporate social responsibility (CSR) disclosures that provide information on environmental performance, employee welfare, community engagement, and ethical governance (Global Reporting Initiative [GRI], 2021; Adams, 2020).

A notable example is the adoption of integrated reporting frameworks, where organizations combine financial and non-financial information into a single report. This reporting approach enables companies to demonstrate how they create value for multiple stakeholders over time. Through such practices, stakeholder theory has contributed to the evolution of financial reporting from a purely financial perspective to a more holistic approach that reflects the economic, social, and environmental impacts of corporate activities (Adams, 2020; Eccles & Klimenko, 2019).

Comparison with Shareholder Primacy Theory and Agency Theory in the Context of Contemporary Regulatory Developments

While stakeholder theory emphasizes the interests of multiple stakeholders, other prominent theories such as shareholder primacy theory and agency theory focus primarily on the relationship between shareholders and managers. Comparing these theories provides a deeper understanding of the theoretical foundations of corporate governance and financial reporting (Freeman et al., 2020).

Shareholder primacy theory posits that the primary objective of a corporation is to maximize shareholder wealth. Under this perspective, corporate managers are expected to prioritize shareholder returns above the interests of other stakeholder groups. Financial reporting, therefore, tends to focus mainly on financial performance indicators that are relevant to investors, such as profitability, earnings per share, and dividend payments (Friedman, 1970; Jensen, 2019).

Agency theory similarly focuses on the relationship between shareholders (principals) and managers (agents). It highlights the potential conflict of interest that may arise when managers pursue personal objectives that diverge from shareholder interests. To mitigate such agency problems, mechanisms such as performance-based compensation, monitoring by the board of directors, and transparent financial reporting are implemented to align managerial actions with shareholder interests (Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

In contrast, stakeholder theory broadens the scope of corporate responsibility by recognizing that organizations have obligations to multiple stakeholder groups beyond shareholders. From this perspective, corporate governance should ensure that the interests of employees, customers, suppliers, regulators, and communities are considered in organizational decision-making processes (Freeman et al., 2020; Parmar et al., 2019).

The contemporary relevance of stakeholder theory has been further strengthened by recent developments in sustainability reporting standards and regulatory frameworks. Globally, there has been increasing emphasis on environmental, social, and governance (ESG) disclosures as stakeholders demand greater transparency regarding the social and environmental impacts of corporate activities (Eccles & Klimenko, 2019; KPMG, 2022).

Regulatory bodies and international standard-setting organizations have introduced frameworks that encourage companies to disclose sustainability-related information alongside traditional financial information. Examples include the emergence of sustainability standards issued by the International Sustainability Standards Board (ISSB) and the growing adoption of integrated reporting frameworks (IFRS Foundation, 2023).

These developments reflect a shift away from a purely shareholder-centric model toward a more inclusive governance approach consistent with stakeholder theory. Organizations are increasingly required to report on issues such as climate risk, environmental impact, human capital management, and ethical governance practices. As a result, stakeholder theory provides a more comprehensive framework for understanding contemporary corporate governance and reporting practices in an evolving regulatory environment (Freeman et al., 2020; Eccles & Klimenko, 2019).

Conceptual Framework of Stakeholder Theory

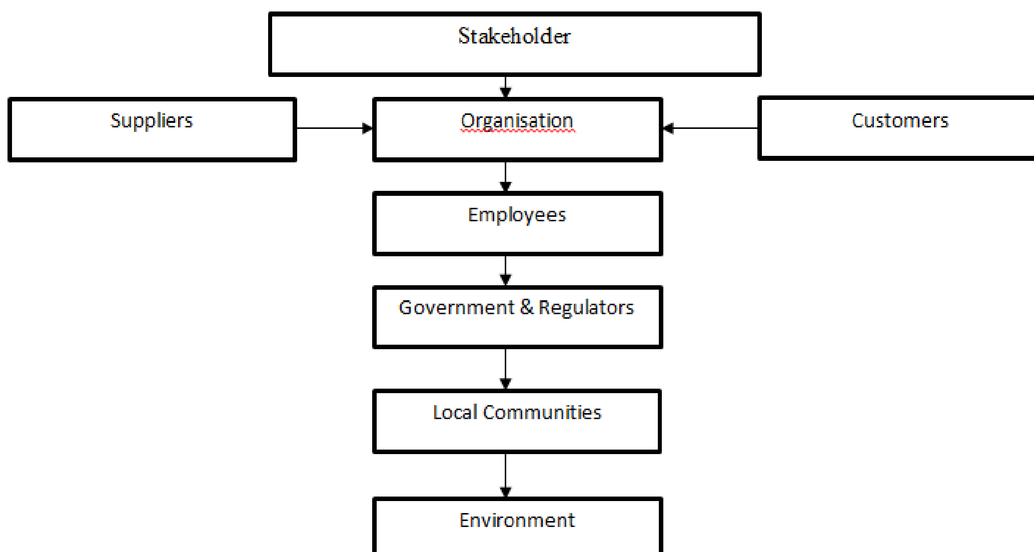
To provide a clearer understanding of the stakeholder approach, a conceptual framework can be used to illustrate the relationships between the organization and its key stakeholder groups. Stakeholder theory views the firm as a central entity that interacts with various stakeholders who influence or are influenced by the organization's activities (Freeman, 1984; Freeman, Phillips, & Sisodia, 2020).

The conceptual framework positions the organization at the center of a network of stakeholder relationships. These stakeholders typically include shareholders, employees, customers, suppliers, government regulators, local communities, and the environment. Each stakeholder group possesses distinct interests, expectations, and levels of influence over organizational activities (Harrison, Barney, Freeman, & Phillips, 2020).

Within this framework, corporate governance mechanisms play a mediating role by ensuring that stakeholder interests are considered in managerial decision-making processes. The board of directors and management are responsible for balancing competing stakeholder interests while pursuing sustainable organizational performance. Effective communication and disclosure practices, such as financial reports, sustainability reports, and stakeholder engagement initiatives, serve as channels through which organizations provide information to stakeholders and maintain accountability (Phillips, Freeman, & Wicks, 2019; Freeman et al., 2020).

The conceptual framework also emphasizes that stakeholder relationships are dynamic and mutually influential. Organizations rely on stakeholders for resources such as capital, labor, regulatory approval, and market support, while stakeholders depend on organizations for value creation, employment opportunities, products, services, and social contributions (Harrison et al., 2020).

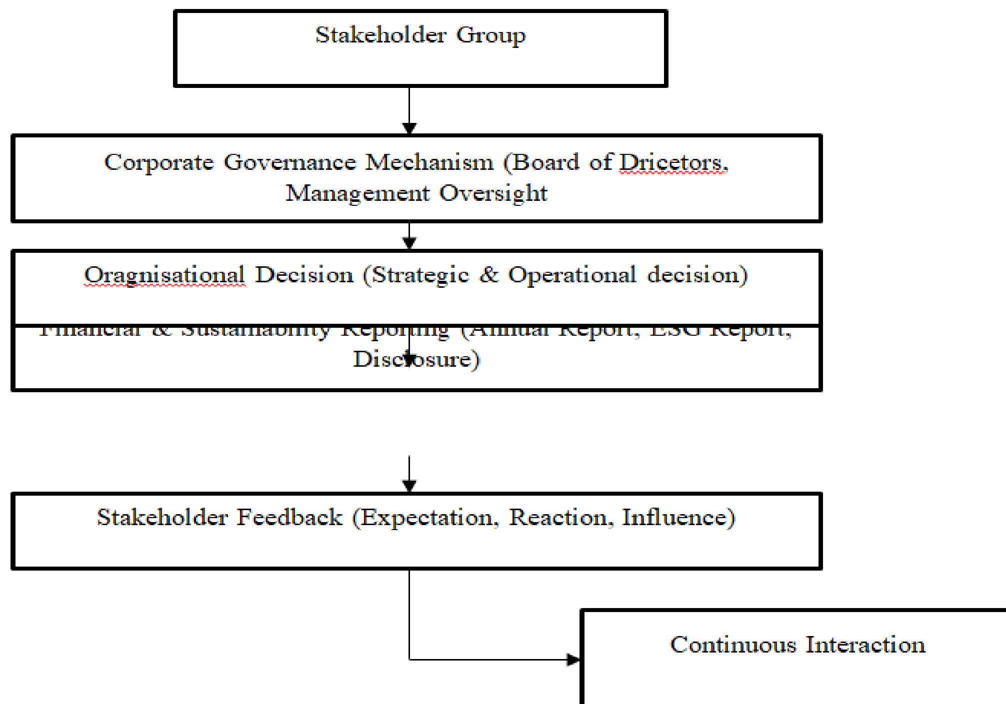
A simplified representation of the stakeholder framework can be illustrated as follows:



Source: Author's Model (2025)

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue III March 2026

Stakeholder Interaction Process



Source: Author's Model (2025)

CONCLUSION

Stakeholder Theory offers a robust and inclusive framework for understanding how organizations operate within a complex network of relationships that extend beyond shareholders to include employees, customers, suppliers, regulators, host communities, and the wider society. By emphasizing the legitimacy and interdependence of these multiple stakeholder interests, the theory challenges the traditional shareholder-centric model of the firm and redefines organizational success as the creation of sustainable value for all relevant stakeholders. This perspective reinforces the principles of ethical conduct, transparency, accountability, and fairness in corporate decision-making and governance structures.

In an era marked by heightened regulatory scrutiny, growing stakeholder activism, environmental and social concerns, and increasing demand for corporate transparency, Stakeholder Theory remains particularly relevant. Organizations are no longer evaluated solely on financial performance but also on their social, environmental, and governance (ESG) outcomes. As such, effective stakeholder engagement has become a strategic necessity rather than a moral obligation alone. Firms that successfully balance stakeholder interests are more likely to enhance trust, legitimacy, risk management, and long-term organizational performance.

From an academic standpoint, Stakeholder Theory continues to provide a valuable lens for examining issues in corporate governance, financial reporting quality, sustainability reporting, audit quality, and organizational performance, especially in emerging economies where institutional frameworks may be evolving. Practically, the theory guides managers and policymakers in designing governance mechanisms and policies that align corporate objectives with broader societal goals. Overall, Stakeholder Theory remains a vital and enduring theoretical foundation for understanding modern organizational responsibility and for promoting sustainable and inclusive business practices in both developed and developing contexts.

REFERENCES

1. Ackoff, R. L. (1974). Redesigning the future: A systems approach to societal problems. John Wiley & Sons.

2. Adams, C. A. (2020). Sustainable development goals disclosure (SDGD) recommendations: Feedback on the consultation responses. Sustainability Accounting, Management and Policy Journal, 11(5), 813–826.
3. Bryson, J. M. (2004). What to do when stakeholders matter: Stakeholder identification and analysis techniques. Public Management Review, 6(1), 21–53. https://doi.org/10.1080/14719030410001675722
4. Bushman, R. M., & Smith, A. J. (2001). Financial accounting information and corporate governance. Journal of Accounting and Economics, 32(1–3), 237–333. https://doi.org/10.1016/S0165-4101(01)00027-1
5. Cyert, R. M., & March, J. G. (1963). A behavioral theory of the firm. Prentice Hall.
6. Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures – A theoretical foundation. Accounting, Auditing & Accountability Journal, 15(3), 282–311. https://doi.org/10.1108/09513570210435852
7. Deegan, C. (2014). Financial accounting theory (4th ed.). McGraw-Hill Education.
8. Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. Academy of Management Review, 20(1), 65–91. https://doi.org/10.5465/amr.1995.9503271992
9. Easterbrook, F. H., & Fischel, D. R. (1991). The economic structure of corporate law. Harvard University Press.
10. Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984
11. Eccles, R. G., & Klimenko, S. (2019). The investor revolution. Harvard Business Review, 97(3), 106–116.
12. Freeman, R. E. (1984). Strategic management: A stakeholder approach. Pitman.
13. Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & De Colle, S. (2010). Stakeholder theory: The state of the art. Cambridge University Press. https://doi.org/10.1017/CBO9780511815768
14. Freeman, R. E., Phillips, R., & Sisodia, R. (2020). Tensions in stakeholder theory. Business & Society, 59(2), 213–231. https://doi.org/10.1177/0007650318773750
15. Friedman, M. (1970). The social responsibility of business is to increase its profits. The New York Times Magazine, 13, 32–33.
16. Global Reporting Initiative. (2021). GRI standards for sustainability reporting. Global Reporting Initiative.
17. Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. Accounting, Auditing & Accountability Journal, 8(2), 47–77. https://doi.org/10.1108/09513579510146996
18. Gray, R., Owen, D., & Adams, C. (1996). Accounting and accountability: Changes and challenges in corporate social and environmental reporting. Prentice Hall.
19. Gray, R., Owen, D., & Adams, C. (2010). Some theories for social accounting? A review essay and a tentative pedagogic categorisation of theorisations around social accounting. In M. Freedman & B. Jaggi (Eds.), Sustainability, environmental performance and disclosures (pp. 1–54). Emerald.
20. Harrison, J. S., Barney, J. B., Freeman, R. E., & Phillips, R. A. (2019). The Cambridge handbook of stakeholder theory. Cambridge University Press.
21. Harrison, J. S., Freeman, R. E., & Abreu, M. C. S. (2015). Stakeholder theory as an ethical approach to effective management. Business Ethics Quarterly, 25(1), 97–124. https://doi.org/10.1017/beq.2014.47
22. Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. Journal of Accounting and Economics, 31(1–3), 405–440. https://doi.org/10.1016/S0165-4101(01)00018-0
23. Hill, C. W. L., & Jones, T. M. (1992). Stakeholder–agency theory. Journal of Management Studies, 29(2), 131–154. https://doi.org/10.1111/j.1467-6486.1992.tb00657.x
24. Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? Strategic Management Journal, 22(2), 125–139. https://doi.org/10.1002/1097-0266(200101)22:2<125::AID-SMJ150>3.0.CO;2-H
25. International Accounting Standards Board. (2023). IAS 36: Impairment of assets. IFRS Foundation.

26. IFRS Foundation. (2023). International sustainability standards board (ISSB): Sustainability disclosure standards. IFRS Foundation.
27. Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. Business Ethics Quarterly, 12(2), 235–256. https://doi.org/10.2307/3857812
28. Jensen, M. C. (2019). Value maximization, stakeholder theory, and the corporate objective function. Journal of Applied Corporate Finance, 31(2), 8–21.
29. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.
30. Jones, T. M., Harrison, J. S., & Felps, W. (2018). How applying instrumental stakeholder theory can provide sustainable competitive advantage. Academy of Management Review, 43(3), 371–391. https://doi.org/10.5465/amr.2016.0111
31. Kotsantonis, S., & Serafeim, G. (2019). Four things no one will tell you about ESG data. Journal of Applied Corporate Finance, 31(2), 50–58.
32. KPMG. (2022). Survey of sustainability reporting 2022. KPMG International.
33. Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review, 22(4), 853–886. https://doi.org/10.5465/amr.1997.9711022105
34. Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., & De Colle, S. (2019). Stakeholder theory: The state of the art. Academy of Management Annals, 13(2), 403–445.
35. Parmar, B., Freeman, R. E., Harrison, J. S., Wicks, A., Purnell, L., & De Colle, S. (2022). Stakeholder theory: The state of the art. Academy of Management Annals, 16(1), 1–47.
36. Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. Journal of Finance, 52(2), 737–783.
37. Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. Academy of Management Review, 20(3), 571–610. https://doi.org/10.5465/amr.1995.9508080331
38. Sundaram, A. K., & Inkpen, A. C. (2004). The corporate objective revisited. Organization Science, 15(3), 350–363. https://doi.org/10.1287/orsc.1040.0068
39. Ullmann, A. A. (1985). Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance. Academy of Management Review, 10(3), 540–557. https://doi.org/10.5465/amr.1985.4278989
40. Watts, R. L., & Zimmerman, J. L. (1986). Positive accounting theory. Prentice Hall.