

THE STAKEHOLDER THEORY AND THE RESOURCE DEPENDENCY THEORY: A LEGAL APPRAISAL

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Abstract

Without the stakeholders and necessary resources, no company can efficiently function. The failure of companies therefore always has huge effects on the stakeholders who range from the shareholders to the creditors to the suppliers to the employees to the consumers and to the host community amongst others. This paper explores the convergence and distinctions between the Stakeholder Theory and the Resource Dependency Theory, providing a legal appraisal of their implications. It highlights the pivotal role of stakeholders in influencing firm decisions and outcomes. It also considers the Resource Dependency Theory which posits that inter-organizational relations are a mechanism for securing essential resources and enhancing control over resource supply. The paper accesses the legal standing of stakeholders in corporate decision-making, analyzes the legal ramifications of resource dependence, and identifies legal challenges arising from the theories. The paper

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finds that while Stakeholder Theory emphasizes the moral and ethical obligations of firms towards various stakeholders, Resource Dependency Theory underscores the strategic necessity for organizations to manage external dependencies for survival and success. The legal appraisal reveals complexities in balancing stakeholder interests and navigating resource dependencies within the legal framework. In conclusion, the legal appraisal highlights the need for a nuanced legal understanding of stakeholder dynamics and resource dependencies. Recommendations include incorporating legal considerations into managerial decision-making processes, enhancing legal frameworks that govern stakeholder rights, and fostering legal scholarship that explores the intersection of these theories within corporate law.

Keywords: Corporate governance, Stakeholder theory, Resource dependency theory, Company, Directors.

1.0 Introduction

Corporate governance is a widespread issue globally. It became an issue of concern after the collapse of two major American companies namely Enron a company within the power sector and WorldCom a company within the communication sector in 2001 and 2002.¹ The collapse of Enron also led to the fall of

¹ Elisa S. Moncarz, Raul Moncarz, Alejandra Cabello, Benjamin Moncarz
'The Rise and Fall of Enron: Financial Innovation, Errors and

Arthur Andersen as a result of corporate scandal that surfaced from auditing the accounts of Enron.² Many banks and companies have failed as a result of engaging in unethical corporate practices such as falsifying financial statements, lack of disclosure and transparency to stakeholders, directors and CEOs approving loans for themselves without following due process and most times default in repayment of the loans.³ Those who usually suffer the effects of these acts are the stakeholders. Shareholders are not paid dividends, investors loss money, employees' loss their jobs etc. Oceanic bank which used to be a vibrant bank in Nigeria engaged in unethical practices which led to its collapse.⁴ Sometime ago, the directors of First Bank of Nigeria were sacked by the Central Bank of Nigeria (CBN) for engaging in inside trading and bad corporate governance. According to CBN, the directors were sacked to protect the interest of the minority shareholders and other customers.⁵ In 2006, Cadbury Nigeria engaged in the falsification of its financial statement by padding it up thereby deceiving shareholders and intending investors. The

Lessons' <<https://www.redalyc.org/pdf/395/39521802.pdf>> accessed 5 November 2023.

² *ibid*

³ Babalola Adeyemi. 'Bank Failure in Nigeria: A Consequence of Capital Inadequacy, Lack of Transparency and Non-performing Loans?' (2011) 6 *Banks and Bank System* 1.

⁴ SPA Ajibade: 'Business Rescue Tools for Failing Banks in Nigeria' <http://www.spajibade.com/resources/business-rescue-tools-for-failing-banks-in-nigeria/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=LinkedIn-integration> accessed 2 November 2023.

⁵ Emma Ujah, Babajide Komolafe, 'CBN Sacks First Bank, FBN Holdings Directors, Retains Adeduntan as MD', <<https://www.vanguardngr.com/2021/04/cbn-sacks-first-bank-fbn-holdings-directors-retains-adeduntan-as-md/>> accessed 2 November 2023.

shareholders suffered huge loss due to the deceit. Till date, many shareholders have suffered irrecoverable losses as a result of bad corporate governance and unethical corporate practices by the directors, a number of employees have lost their jobs as a result of collapse of companies they worked for, likewise, host community members in some part of the country especially the Niger Delta Area have suffered a lot of environmental issues. The stakeholder theory covers and protects the interest of all stakeholders and it also promotes corporate social responsibility which even though is social obligation has come to stay and now more of a legal obligation. Without certain resources such as capital resources, material resources etc., and even manpower, no company would be able to carry out its intended purpose as no company is an island. The directors therefore depend on certain resources for the functionality of the company. This paper discusses the concept and principles of corporate governance. It also discusses and focuses on the stakeholder and resource dependency theory of corporate governance. It goes further to highlight the provisions of law available for the protection of all stakeholders and the responsibilities of the board of directors and considers the challenges attributed to the theories.

2.0 The Concept and Principles of Corporate Governance

The concept of corporate governance cuts across businesses worldwide⁶. Corporate governance has been defined in several ways by various writers. It has been defined as the structure that directs and regulates corporations by distributing rights and

⁶ Manuel Alfonso Garzon Castrillon, 'The Concept of Corporate Governance' (2021) 25 *Revista Científica Vision de Futuro* 2, pp 178-194.

responsibilities within the corporation.⁷ It also set the order by which objectives are set and achieved and how decisions on corporate matters are arrived at.⁸ The Organization for Economic Co-operation and Development (OECD) as defined corporate governance to be the standards and principles that sets up corporate objectives and the framework and mechanism put in place to ensure compliance and achievements of the objectives.⁹ It covers all the realm of management. The United Kingdom Cadbury Committee report of 1992 defines corporate governance as the process by which companies are directed and controlled.¹⁰

There are two perceptions of corporate governance and they are the narrow perception and the broad perception.¹¹ The narrow perception is the structure within which company receives its

⁷ *ibid.*

⁸ ICAEW: 'What is Corporate Governance?' <<https://www.icaew.com/technical/corporate-governance/principles/principles-articles/does-corporate-governance-matter>> accessed 5 November 2023.

⁹ G20/OECD, 'Principles of Corporate Governance' <<https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>> accessed 1 November 2023.

¹⁰ Financial Reporting Council: 'The UK Corporate Governance Code' <<https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf>> accessed 13 November 2023, Neeta Shah, Christopher J. Napier, 'The Cadbury Report 1992: Shared Vision and Beyond' <<http://www.data.unibg.it/dati/corsi/900002/79548-Beyond%20Cadbury%20Report%20Napier%20paper.pdf>> accessed 5 November 2023.

¹¹ Oguntibeju Jephther A., Ibitoye Olayinka, Atoyebi Kehinde, Falana Adedamola, 'Leadership, Corporate Governance and Entrepreneurship Development in Nigeria: A Mutual Link' (2014) 5 *Journal of Economics and Sustainable Development* 25.

basic orientation and direction while the broad perception is the connecting link of the market economy and democratic society. Matter relating to institutional, legal, rule of law and capacity building in any business society is at the core of corporate governance.¹² To Kachukwu, corporate governance is the regulation set to regularize the conducts and roles of directors.¹³ It expects directors to be accountable to shareholders and recognise and protect the interests of all stakeholders.¹⁴ The integrity of a company is embodied in its governance.¹⁵ What the company stands for is portrayed by how the directors conduct themselves, what deals they involve in and how effective and efficient they play out their roles which includes satisfying the stakeholders according and appropriately.¹⁶ Corporate governance focuses on balancing the interests of the stakeholders in a company. These include its shareholders, management, customers, suppliers, creditors, government agencies and the host community. Corporate governance deals with transparency, responsibility and accountability as it places certain responsibilities on the directors.¹⁷ It also deals with the

¹² *ibid*

¹³ Mack Ogbamosa, 'Corporate Governance Challenges in Nigeria: The Way Forward' <<https://guardian.ng/features/law/corporate-governance-challenges-in-nigeria-the-way-forward/>> accessed 4 November 2023.

¹⁴ Shamsher Mohamad, Zulkarnain Muhamad Sori, 'An Overview of Corporate Governance: Some Essentials' <file:///C:/Users/hp/Downloads/An_Overview_of_Corporate_Governance_Some_Essential.pdf> accessed 5 November 2023.

¹⁵ Mack Ogbamosa, 'Corporate Governance Challenges in Nigeria: The Way Forward' <<https://guardian.ng/features/law/corporate-governance-challenges-in-nigeria-the-way-forward/>> accessed 4 November 2023.

¹⁶ *ibid*

¹⁷ Harvard Law School Forum on Corporate Governance, 'The Principles of Corporate Governance'

available provisions of law enacted to protect corporations and all stakeholders.¹⁸ These available laws and regulations control the functions of the company and its directors. The principle of corporate governance has to do with roles and responsibilities expected of the board especially towards all stakeholders. This involves tools and steps put in place to ensure that integrity and continuity of the corporations are maintained¹⁹. The members of the board are expected to act in good faith at all times: This is to protect the interest of the companies, investors and all other stakeholders. To act ethically and with due diligence: this means the actions of the directors are guided by the provisions of the appropriate code of conduct to ensure that responsible and ethical decisions are made.²⁰ They are also expected to guide corporate strategy and review same when necessary. They have to set objectives and take major decisions. The board is also involved in risk policy, capital plans, annual budgets and it is also in charge of acquisitions, it selects key executives and also replaces when necessary.²¹ The board also monitors the activities of the executives and it is involved in the payment of compensation when necessary and importantly, the actions of

<<https://corpgov.law.harvard.edu/2016/09/08/principles-of-corporate-governance/>> accessed 4 November 2023.

¹⁸ Kingsley Mrabure, Alfred Abhulimhen-Iyoha, 'Corporate Governance and Protection of Stakeholders Rights and Interests. (2020) 11 Beijing Law Review 1.

¹⁹ *ibid*

²⁰ Kingsley Mrabure, Alfred Abhulimhen-Iyoha 'Corporate Governance and Protection of Stakeholders Rights and Interests' (2020) 11 Beijing Law Review 292-308.

²¹ The Institute of Internal Auditors, 'Guiding Principles of Corporate Governance' <<https://dl.theiia.org/Documents/Guiding-Principles-of-Corporate-Governance.pdf>> accessed 4 November 2023.

the board and management should always be disclosed and transparent to all shareholders.²²

3.0 Legal Framework on Corporate Practices

In Nigeria, there are various rules and regulations governing corporate practices and they include the Company and Allied Matters Act 2020 which is the major law that regulates corporate governance in Nigeria, Securities and Exchange Commission Rules 2013, Bank and Other Financial Institutions Act of 2020, Code of Corporate Governance for Banks in Nigeria Post Consolidation, Code of Corporate Governance for Public Companies in Nigeria, Code of Conduct for Capital Market Operators and their Employees amongst others. The purpose of the various rules and regulations is to protect all stakeholders, lay down procedures that directors are to take in the operations of a company and set out liabilities when there is a default.

The Companies and Allied Matters Act (CAMA)²³ has placed certain responsibilities on the directors. Section 312 provides for the liabilities of the directors as regard any loss suffered as a result of transactions involving acquisition of property by the company from the directors. Section 313 prohibits directors from accepting bribes, gifts or commission in any form from any person or share in the profit of the person in respect of any transaction involving the company. And when it is an unsolicited gift to show gratitude, the director may keep the gift as long as he declares it before the board. Section 316 provides for the personal liability of directors and officers when he

²² Sylvester Udemezue, 'Role of Company Employee in Promoting Corporate Governance: A Comparative Analysis of Approaches in Nigeria and United Kingdom' (2020) 3 Run Law Journal 2.

²³ Companies and Allied Matters Act 2020 ss 312, 313, 316, 374.

receives money but fails to utilize the money for the purpose for which it was meant. Section 374 provides that the company keeps accounting records and at any time disclose with reasonable accuracy the financial status of the company. The board has to be transparent and accountable to all stakeholders and relevant information and disclosures relating to the financial position of the company shall be made known to the stakeholders. Section 377 mandates the directors to prepare an annual financial statement.²⁴ Section 385 provides that a report shall be prepared yearly by the directors stating the development of the business of the company during the year and also stating the amount recommended to be paid as dividend and the amount to be put in reserve. It is the duty of the directors in Section 388 to lay before the company in general meetings the financial statements of the company and also deliver a copy of the balance sheet, the profit and loss account and notes on the statements to the commission. And section 390 provides for penalty for non-compliance to the provision of Section 388. Section 391 provides for a penalty as shall be specify by the commission for presenting defective financial statements. Every shareholder according to Section 392 is entitled to a copy of the company's financial statements.²⁵

Section 401 gives power to appoint an auditor(s) to audit the financial statement of the company at every general meeting and the auditor by virtue of Section 404 is to report its findings to the board. Section 406 makes it an offence for any officer, director, insider or any other person acting under the direction of the officer, insider or director to influence, coerce, manipulate or mislead the external auditor in order to make the financial statement misleading. Section 407 gives power to the auditor to

²⁴ Companies and Allied Matters Act 2020 s 377.

²⁵ *ibid*, ss 385, 388 and 390.

carry out investigations necessary when preparing the financial report. The auditor has a right of access to the company's book, accounts and vouchers. When there is any form of negligence on the path of the auditor, Section 415 makes him liable.²⁶

Employees are also provided for by Section 431 to partake in profit sharing of the company if same is included in his contract of service. Section 434 gives shareholders the right to sue for dividends. Section 544 provides for penalties for various default and Section 862 provides for penalty for making false statements.²⁷

BOFIA 2020²⁸ Section 17 of BOFIA provides for the disclosure of interest by directors or other officials regarding a loan or advance by the bank. Section 23 provides that proper accounting records and book should be kept. Section 25 provides for the publication of consolidated statements and Section 26 provides for the publication of financial statements.²⁹

The Nigerian Code of Corporate Governance 2018³⁰ provides that there should be transparency which includes stakeholder communication and disclosure in Part F. Principle 27 provides for the importance of communication and interaction with stakeholders being that it keeps them acquainted with the activities of the company and helps them to make good decisions. Principle 28 provides that full and comprehensive disclosure of all important matters must be made to the investors and stakeholders.

Part G of the Code of Corporate Governance for Public Companies in Nigeria (SEC CODE) provides in Section 34.1

²⁶ *ibid*, 401, 404, 406, 407 and 415.

²⁷ *Ibid*, ss 431, 434, 544 and 862.

²⁸ Banks and Other Financial Institution Act 2020.

²⁹ Banks and Other Financial Institution Act 2020 ss 25 and 26.

³⁰ Nigerian Code of Corporate Governance 2018 (operational 2020). Pt G –H.

vast rules that govern disclosure. Section 34.13 provides that companies should disclose all matters necessary. Section 34.2 provides that financial statement should be certified as it is expected to reveal the true financial position of the company. Section 34.3 provides that information on capital structure, share buybacks, borrowings, details of directors etc. must be disclosed in the annual accounts. Section 34.4 provides for a corporate governance report which much consists of the responsibilities of the directors, the present board members, social responsibilities, board performance evaluation report, human resources policies etc. Section 34.5 provides that accounting and risk management issues must be disclosed in the annual report. The chairman's statement must contain the performance of the company in the course of the year and the future plans of the company as provided in Section 34.6. Audit function must be put in place by the board as required by Section 34.7. Part H provides for communication and transparency, it provides that policies that will enhance communication and transparency should be put in place by the company. There should be timely, accurate, continuous and clear disclosure of financial and non-financial matters of the company.

4.0 The Theories of Corporate Governance

There are different theories of corporate governance- agency theory, transaction cost theory, stewardship theory, political theory, stakeholders' theory, shareholders theory, resource dependency theory etc. This work will focus on stakeholder and resource dependency theories.

4.1 The Stakeholders Theory

This can be defined as "any group or individual who can affect or is affected by the achievement of the organization's

objectives.³¹ The theory suggests that managers in organisations have a network of relationship to serve- this includes the suppliers, employees, business partners, creditors etc.³² The theory attempts to address the group of stakeholders deserving and requiring management's attention.³³ The directors in corporation have other stakeholders to serve. The theory also encourages companies to engage in corporate social responsibility.³⁴ Directors owe a duty to all stakeholders that contribute be it voluntary or involuntary to the wealth-building capacity and activities of the corporation.³⁵ Companies have to consider the effects that their actions would have on the stakeholders. When the needs of the stakeholders are met, then there is continuity in the success of the company.³⁶ However, according to Ogbuanya,³⁷ the stakeholder theory is one of the two schools of thought that sculpted the theory and growth of corporate social responsibility (CSR) the other being

³¹ Bradley Steven O. Thornock, 'A Strategic Stakeholder Approach for Addressing Further Analysis Requests in Whole Genome Sequencing Research' <<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4835404/>> accessed 4 November 2023.

³² Nelson Ogbuanya, 'Legal Status of Corporate Social Responsibility: From Philanthropy to Obligation' (2017) 1 *African Journal of Law and Human Rights*.

³³ Nicholas Price, 'The Stakeholder Model of Corporate Governance' (2019) <<https://www.diligent.com/insights/shareholder-engagement/stakeholder-model-corporate-governance/>> accessed 4 November 2023.

³⁴ *ibid.*

³⁵ Umar Bello, Martins Mustapha, 'Shareholder and Stakeholder Theories. Understanding Corporate Governance Practice' (2021) 7 *Nile Journal of Business and Economics* 17.

³⁶ *ibid.*

³⁷ Nelson Ogbuanya, 'Legal Status of Corporate Social Responsibility: From Philanthropy to Obligation' (2017) 1 *African Journal of Law and Human Rights*.

the stockholder theory. He submitted that the concept of CSR has to do with the growing expectation that corporations have responsibilities toward the society which is a greater duty than that toward the stockholders or investors.³⁸ CSR has been defined as the certain actions of the management in relation to social and economic decisions.³⁹ It is also a voluntary action that companies take to contribute to the social and environmental good within the society regarding issues of concern in their business operations and interaction with stakeholders.⁴⁰ In contemporary days, the various definitions of CSR have brought to lime light some germane issues. It considers the impact of company actions on others. It points out the duties of directors and managers to protect and improve on the welfare of the society. It attends to economic and legal duties by diluting them with ethics and humanitarianism.⁴¹

The stakeholder theory has set in motion the growth of CSR from just being a humanitarian service but into a legal duty.⁴² The stakeholder theory propels a company in the direction of social responsibility which gives beyond just rendering services or manufacturing products.⁴³ Performing CSR is traceable to operations of the Quakers in the 17th and 18th centuries who

³⁸ *ibid.*

³⁹ UNIDO: 'What is CSR?' <<https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/what-csr>> accessed 6 November 2023.

⁴⁰ Nelson Ogbuanya, 'Legal Status of Corporate Social Responsibility: From Philanthropy to Obligation' (2017) 1 *African Journal of Law and Human Rights*.

⁴¹ *ibid.*

⁴² Antonio Argandoña, 'The Stakeholder Theory and the Common Good' (Research Paper, University of Navarra 1998)

⁴³ *ibid.*

believed in adding value to the society beyond the scope of making profits.⁴⁴ The act of social responsibility of corporations is propeller to profit making as it tends to boost the value of the corporation in the world of commerce.⁴⁵

There are different categories of stakeholders in a corporation. The internal stakeholder includes the shareholders who own and have the main goal of making profit from their investment in the company.⁴⁶ The external stakeholders are the employees who make up the workforce of the company. The creditors are also stakeholders as they furnish the financial needs of the company. The suppliers who make provisions for the necessary things needed for the smooth operation and functioning of the company, government agencies who have delegated powers from the government to enact rules and regulations and also to examine and oversee the activities of companies. The host community which is the location and members of the area where the company is set up is also a stakeholder.⁴⁷ Every company owes all its stakeholders a sense of accountability. The exigencies and interests of the stakeholders have to be met and provided for.⁴⁸

⁴⁴ J Moon, *Corporate Social Responsibility: An Overview in International Directory Corporate Philanthropy* (Europa 2002).

⁴⁵ Nelson Ogbuanya, 'Legal Status of Corporate Social Responsibility: From Philanthropy to Obligation' (2017) 1 African Journal of Law and Human Rights.

⁴⁶ Kingsley Mrabure, Alfred Abhulimhen-Iyoha 'Corporate Governance and Protection of Stakeholders Rights and Interests' (2020) 11 Beijing Law Review, 11.

⁴⁷ Vargas-Hernandez J.G., Gonzalez D.C, 'The Discussion on Stakeholders in Contrast with the Shareholders Theory: Reconciliation to a Conscious Capitalism' (2018) 14 SAMVAD 55-57.

⁴⁸ Nelson Ogbuanya, 'Legal Status of Corporate Social Responsibility: From Philanthropy to Obligation' (2017) 1 African Journal of Law and Human Rights.

A stakeholder is therefore anyone or class of persons that can impact the growth and development of a company and who if anything affects the company is affected too.⁴⁹ Stakeholders are those who can lay moral or legal claims to the actions of a company.⁵⁰ The company has a responsibility to collaborate with the stakeholders for the progress and advancement of the company and the company has to always consider the impact of its actions on its stakeholders.⁵¹ When the needs of the stakeholders are met, the success of the company is assured. The stakeholder theory promotes CSR as it is believed by the theorists and CSR makes companies more appealing to customers.⁵²

4.2 Criticism of the Stakeholders Theory

The stakeholder theory however is not without criticism and same has been highlighted by Mrabure et al. according to him the pursuit for CSR would lead to the creation of more thorough and laborious regulations for companies.⁵³ But then, if regulations are not put in place, there is the possibility that companies would neglect to do what they are to do. Another criticism is the conflict of interests.⁵⁴ Because there are various classes of persons and groups involved in the functionality of a company, it is not unexpected that there would be conflict of interests. Each stakeholder would clamour for what would

⁴⁹ *ibid.*

⁵⁰ *Ibid.*

⁵¹ Jones T.M.S, Dicks A.C, 'Convergent Stakeholder Theory' (1999) 24 *Academy of Management Review*.

⁵² Kingsley Mrabure, Alfred Abhulimhen-Iyoha, 'Corporate Governance and Protection of Stakeholders Rights and Interests' (2020) 11 *Beijing Law Review* 11

⁵³ *Ibid.*

⁵⁴ *Ibid.*

benefit it. e.g., shareholders would want good returns on their investments, employees would want better working conditions and increment in salaries etc. at the end, not all the stakeholders would be adequately satisfied. It has also been argued that the theory would hinder profit motive because it does not focus on profit making. Another criticism includes determining who the stakeholders are. This may set up expectations that might be difficult to achieve and which might end up in litigation. According to Ambler, the theory does not define how stakeholders are to be represented nor how their interests are to be protected.⁵⁵

The objective of the theory is to ensure continued existence of the company, this would be possible when the interests of the stakeholders are balanced. The theory extends the responsibility of the directors toward corporate social responsibility. Directors are to discharge their duties and run the business practices of the company in the best interest of the stakeholders as they have to consider the stakeholders interest when making decisions. The stakeholder theory and the resource dependency theory are interrelated as everyone involved in the resource dependency theory be it the supplier of the resources, the finance institution or the legal firm has a stake which must be protected in the company.

4.3 The Challenges of Stakeholder Theory

i. Fiduciary Duty Dilemma: Stakeholder theory often raises questions about managers' fiduciary duties to shareholders versus other stakeholders. But then, Managers face the

⁵⁵ Tim Ambler, Andrea Wilson, 'The Problems of Stakeholder Theory' <https://www.researchgate.net/publication/229445951_Problems_of_Stakeholder_Theory> accessed 5 November 2023.

complexity of balancing fiduciary duties, as traditional corporate law prioritizes shareholder interests. This therefore creates legal tensions in decision-making processes.

ii. Contractual Protections: Stakeholder interests may be protected through contracts or other legal regimes outside traditional corporate law. The challenge however lies in defining and enforcing these contracts effectively, as they may not offer the same level of legal clarity and protection as traditional shareholder agreements.

iii. Identification and Prioritization: The Stakeholder theory advocates for considering diverse interests, posing challenges in identifying and prioritizing stakeholders but establishing legal frameworks for the identification and prioritization of stakeholders is complex, requiring clear legal guidelines to avoid ambiguity and disputes.

iv. Legal Disputes and Accountability: Stakeholder theory's emphasis on inclusivity may lead to increased legal disputes over conflicting interests. Hence, establishing legal mechanisms for addressing disputes and ensuring accountability becomes crucial to maintaining the credibility of stakeholder theory in legal contexts.

In navigating these legal challenges, a delicate balance must be struck between recognizing the moral imperative of stakeholder consideration and ensuring legal clarity and compliance within existing corporate legal frameworks.

5.0 Resource Dependency Theory

Every company needs continuous and constant suppliers of resources for it to survive and perform its day-to-day activities. These resources range from raw materials needed for production

to man power resources.⁵⁶ This theory therefore centers on the role of the board of directors in making available resources needed by the company.⁵⁷ It focuses on the role that directors play in providing or securing essential resources for a company through their connections to the external environment.⁵⁸ It also provides focus on the appointment of representatives of independent organisations as a means for gaining access in resources that are essential for the growth of the company e.g., outside directors who are partners to a law firm provide legal advice either in board meetings or in private discussions with the other directors and management at large instead of the company hiring lawyers from outside.⁵⁹ This is done usually to save cost for the company.

The theory interprets organization as interdependent with the context in which they operate. Organizations will depend to ensure their survival on the resources and information provided by other companies. So, in a way, organizations compete with other entities for the same resources as theirs. The resource dependency theory argues that the company's success relies on the company maximizing its power over certain resources that

⁵⁶ Samuel Fadare, 'Resource Dependency, Institutional and Stakeholder Organizational Theories in France, Nigeria and India (2013) 2 International Journal of Management and Sustainability 12.

⁵⁷ *ibid.*

⁵⁸ Werner Nienhuser, 'Resources Dependence Theory- How Well Does It Explain Behaviour of Organizations?' <file:///C:/Users/hp/Downloads/RDT.pdf> accessed 2 November 2023.

⁵⁹ Cemal Zehir, Mine Afacan Findikli, Kudret Celtekliligil, 'The European Proceedings of Social & Behavioural Sciences' <file:///C:/Users/hp/Downloads/Resource_Dependence_Theory_Firm_Performance_And_Pr.pdf> 204 November 2023.

are needed for the smooth running of the company.⁶⁰ The board of directors can be said to be the main source for the achievement of different resources required by the company. The theory highlighted the role of the directors as resource providers who meet the essential needs of the company by providing for it e.g., capital, skills, knowledge etc.

5.1 The Challenges of Resource Dependency Theory

The resource dependency theory is not without its challenges. Determining fair and legal mechanisms for allocating resources, especially in inter-organizational relations may raise issues of equity and potential conflicts among stakeholder which may lead to resource allocation disputes.

Also, organizations may face risks associated with depending on external entities for crucial resources. Likewise, it would require careful legal considerations to navigate legal compliance for the purpose of stable supply of resources. It is crucial to ensure clarity and enforceability in contractual arrangements otherwise; drafting legally binding contracts to secure resources may get ambiguous. It would be required to define the parameters and legal implications of negotiations establishing a legal framework to help organizations negotiate with external entities for ease of access to resource. Furthermore, understanding and addressing power dynamics in inter-organizational relations also have legal implications. It is therefore a necessity to make sure legal scrutiny so that power imbalances do not lead to exploitative practices. Hence, Resource Dependency Theory provides guidance for managerial decisions, and incorporating legal considerations into these

⁶⁰ Samuel Fadare, 'Resource dependency, institutional and Stakeholder Organizational Theories in France, Nigeria and India' (2013) 2 International Journal of Management and Sustainability 12.

decisions demands a nuanced understanding of legal constraints and opportunities.

6.0 Conclusion and Recommendations

A common provision in the laws and regulations discussed is that each promotes and makes provision for accountability, transparency and disclosure at every point in time. Lack of transparency, accountability and disclosure is a trace of bad corporate practice which is a major problem that causes the collapse of companies. Hence, it becomes necessary to incorporate legal considerations into managerial decision-making processes. Being informed of what is going on within the company enables the concerned stakeholders to take necessary independent steps where appropriate. Stakeholders are therefore to be involved in decision making as this will help in the development and survival of the company. When stakeholders are adequately involved, they will also seek to add more value to the company. It is also of importance to enhance legal frameworks that govern stakeholder rights, There are more than enough rules and regulations for the protection of stakeholders but lack of enforcement and inadequate penalties make the available provisions of law tigers on paper as there are no stringent sanctions attached to defaults. Organizations need to engage legal expertise to develop robust contractual frameworks, navigate power dynamics, and ensure compliance while effectively managing resource dependencies. Finally, legal scholarship that explores the intersection of these theories should be fostered within corporate law.