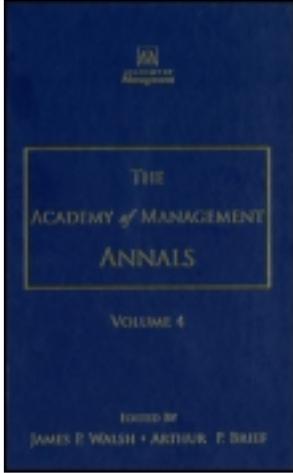


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Stakeholder Theory: The State of the Art

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Stakeholder Theory: *The State of the Art*

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Abstract

For the last 30 years a growing number of scholars and practitioners have been experimenting with concepts and models that facilitate our understanding of

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the complexities of today's business challenges. Among these, "stakeholder theory" or "stakeholder thinking" has emerged as a new narrative to understand and remedy three interconnected business problems—the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management such that the first two problems are addressed. In this article, we review the major uses and adaptations of stakeholder theory across a broad array of disciplines such as business ethics, corporate strategy, finance, accounting, management, and marketing. We also evaluate and suggest future directions in which research on stakeholder theory can continue to provide useful insights into the practice of sustainable and ethical value creation.

Introduction

The first decade of the twenty-first century has been book-ended with two major blows to the public trust in business as an institution. In the early part of the decade, corporate scandals like Enron, WorldCom, and Tyco reinforced the idea that companies and corporate executives care little for ethics, in their pursuit of profit. At the end of the decade the global financial crisis, brought about by a wide confluence of factors in the housing market and secondary financial markets, again reinforced the separation of Main Street from Wall Street. Despite their considerable differences, both of these crises of trust have at least two features in common. First, both crises illustrate that managerial actions have the potential to affect a broad range of people all over the world (Clement, 2005). Additionally, they underscore that pursuit of corporate objectives can be easily disrupted by the actions of unexpected groups and individuals. These challenges, driven by change and interconnectedness, reveal a need for managers and academics to rethink the traditional ways of conceptualizing the responsibilities of the firm.

For the last 30 years, a growing number of scholars and practitioners have been experimenting with concepts and models that facilitate our understanding of the complexities of today's business challenges. Among these, "stakeholder theory" or "stakeholder thinking" has emerged as a new narrative to understand and remedy three interconnected business problems—the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management such that the first two problems are addressed. These problems matter and their effects are not confined to theorizing in management, but cut across a variety of disciplines and ultimately suggest a revision of how we should think about capitalism.

In this article, we review the major uses and adaptations of stakeholder theory across a broad array of disciplines such as business ethics, corporate strategy, finance, accounting, management, and marketing. We also evaluate and suggest future directions in which research on stakeholder theory can

continue to provide useful insights into the practice of sustainable and ethical value creation.

We begin by offering a short history of the stakeholder concept and the three problems it was designed to solve. Subsequently, we turn to outlining and evaluating the uses of this concept in various fields. We end each section with suggestions for future theoretical development.

Stakeholder Origins

The word “stakeholder,” the way we now use it, first appeared in an internal memorandum at the Stanford Research Institute (now SRI International, Inc.), in 1963. The term was meant to challenge the notion that stockholders are the only group to whom management need be responsive.² By the late 1970s and early 1980s, scholars and practitioners were working to develop management theories to help explain management problems that involved high levels of uncertainty and change. Much of the management vocabulary that had previously developed under the influence of Weberian bureaucratic theory assumed that organizations were in relatively stable environments. In addition, little attention, since Barnard (1938), had been paid to the ethical aspects of business or management, and management education was embedded in a search for theories that allowed more certainty, prediction and behavioral control. It was in this environment that Freeman (1984) suggested that managers apply a vocabulary based on the “stakeholder” concept. Throughout the 1980s and 1990s, Freeman and other scholars shaped this vocabulary to address these three interconnected problems relating to business:

The problem of value creation and trade: In a rapidly changing and global business context, how is value created and traded?

The problem of the ethics of capitalism: What are the connections between capitalism and ethics?

The problem of managerial mindset: How should managers think about management to:

- (1) Better create value, and
- (2) Explicitly connect business and ethics?

Stakeholder theory suggests that if we adopt as a unit of analysis the relationships³ between a business and the groups and individuals who can affect or are affected by it, then we have a better chance to deal effectively with these three problems. First, from a stakeholder perspective, business can be understood as a set of relationships among groups that have a stake in the activities that make up the business (Freeman, 1984; Jones, 1995; Walsh,

2005). It is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.), communities and managers interact to jointly create and trade value. To understand a business is to know how these relationships work and change over time. It is the executive's job to manage and shape these relationships to create as much value as possible for stakeholders and to manage the distribution of that value (Freeman, 1984). Where stakeholder interests conflict, the executive must find a way to rethink problems so that the needs of a broad group of stakeholders are addressed, and to the extent this is done even more value may be created for each (Harrison, Bosse, & Phillips, 2010). If tradeoffs have to be made, as sometimes happens, then executives must figure out how to make the tradeoffs, and then work on improving the tradeoffs for all sides (Freeman, Harrison, & Wicks, 2007).

Second, although effective management of stakeholder relationships helps businesses survive and thrive in capitalist systems, it is also a moral endeavor because it concerns questions of values, choice, and potential harms and benefits for a large group of groups and individuals (Phillips, 2003). Finally, a description of management that focuses attention on the creation, maintenance, and alignment of stakeholder relationships better equips practitioners to create value and avoid moral failures (Post, Preston, & Sachs, 2002a; Sisodia, Wolfe, & Sheth, 2007).

There has been a great deal of discussion about what kind of entity "stakeholder theory" really is. Some have argued that it isn't a "theory," because theories are connected sets of testable propositions. Others have suggested that there is just too much ambiguity in the definition of the central term to ever admit of the status of theory. Still others have suggested that it is an alternative "theory of the firm," *contra* the shareholder theory of the firm. As philosophical pragmatists, we don't have much to say about these debates. We see "stakeholder theory" as a "framework," a set of ideas from which a number of theories can be derived. And we often use "stakeholder theory" to refer to the rather substantial body of scholarship that depends on the centrality of the stakeholder idea or framework. For some purposes, it is surely advantageous to use the term in very specific ways (e.g., to facilitate certain kinds of theory development and empirical testing); but for others, it is not.

Think of stakeholder theory as a genre of management theory. That is, rather than being a specific theory used for one purpose (e.g., resource dependence theory in management), seeing stakeholder theory as a "genre" is to recognize the value of the variety of uses one can make of this set of ideas. There is enough commonality across these uses to see them as part of the same genre, but enough diversity to allow them to function in an array of settings and serve different purposes. The stakeholder perspective has been widely applied in a wide variety of disciplines, including law, healthcare, public administration, environmental policy, and ethics (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). Before we turn to these applications, we pause to

lay out some important limitations and boundary conditions for stakeholder theory.

Stakeholder Theory Limitations and Boundary Conditions

Stakeholder theory has been used in a variety of different ways, by critics and friends alike. We will quickly overview what we consider to be some important misapplications and boundary conditions to stakeholder theory:

Stakeholder theory is an excuse for managerial opportunism (Jensen, 2000; Marcoux, 2000; Sternberg, 2000). The core claim is that by providing more groups who management can argue their actions benefit, stakeholder theory makes it far easier to engage in self-dealing and defend it than if shareholder theory were the sole purpose. In contrast, they argue that managers who have a duty only to shareholders are better able to judge their performance and clearly see whether they have done well (or not). Phillips, Freeman, and Wicks (2003) offer two replies: first, that much of the current managerial opportunism has been done under the banner of shareholder maximization (e.g., Enron, Worldcom) and they specifically critique the actions of Al Dunlap, who grossly mismanaged a number of companies to create his own financial benefit; second, that this is an issue for any theory of organization and does not put stakeholder theory in a worse light because of it. Indeed, the authors argue that there are good reasons to see stakeholder theory as creating more accountability from managers, as they have more obligations and duties of care to more constituencies, and are therefore less likely to engage in self-dealing.

Stakeholder theory is primarily concerned with distribution of financial outputs (Marcoux, 2000). This view depicts stakeholder theory as primarily about who receives the resources of the organization, and poses a stark and inherent conflict between shareholders and other stakeholders in terms of who gets what. If one begins with the idea of the firm as having a fixed pie of surplus (i.e., profits) to distribute, and views stakeholder theory and shareholder theory as providing different schemes for distributing that wealth, then the contrast between them appears to be sharp and stark. Phillips and colleagues (2003) claim that distribution is only part of the story—namely, that a critical part of stakeholder theory is about process and procedural justice: that stakeholders deserve a say in how resources are allocated, that such involvement affects how they view the distribution of resources, and that their involvement can also create new opportunities for value creation (i.e., enlarging the pie). They cite research which shows that stakeholders are more accepting of outcomes when they perceive the process as fair. They also mention that distribution involves more than just financial resources—that information is something which can be shared among stakeholders and does not pit shareholders against other stakeholders.

All stakeholders must be treated equally (Gioia, 1999; Marcoux, 2000; Sternberg, 2000). Though several versions of what it means to treat stakeholders

equally (e.g., egalitarianism; equalitarianism) are offered, the core point is that critics have focused on the notion of treating stakeholders equally, particularly around the language of balance that has been prominent in discussions of what it means to manage for stakeholders. Phillips and colleagues (2003) also claim that one can use forms of meritocracy (e.g., using Phillips' notion of fairness in benefits given being in proportion to those received); that meaningful distinctions among stakeholders can be made by theorists (see above discussion of Legitimacy and Normative Cores); and that each firm may handle this issue differently, depending on its own particular version of stakeholder theory. This criticism also compounds the mistake of confusing stakeholder theory as primarily/exclusively about distribution of financial outputs rather than as about process and consideration in decision making.

Stakeholder theory requires changes to current law (Hendry, 2001a, 2001b; Van Buren, 2001). Some have argued that the law needs to be changed, either to overcome the concern that doing anything other than shareholder management is illegal or to make it easier to practice stakeholder theory (i.e., making it more transparent than using stakeholder theory to manage does not violate core principles of business law). For example, Humber (2002, p. 208) takes the view that Freeman seems to advocate passage of enabling legislation that will force corporations to be managed in the interests of stakeholders. The core reply offered is that while there may be reasons to consider various changes to the legal system, stakeholder theory contains no requirement that the law be changed to allow firms to practise it. Marens and Wicks (1999) show that the business judgment rule allows firms to use stakeholder theory without fear of running afoul of the theory or practice of the law. Enacting specific changes in the law that force management to consider stakeholders (e.g., corporate constituency statutes) may prove useful, but they are not to be confused with the core of what constitutes stakeholder theory or to be seen as essential concomitants to embracing the theory.

Stakeholder theory is socialism and refers to the entire economy (Barnett, 1997; Hutton, 1995; Rustin, 1997). In parts of the U.K. and in other parts of Europe, there is talk of a stakeholder economy (the term was used, for example, by British Prime Minister Tony Blair). Phillips and colleagues (2003) argue that stakeholder theory is first and foremost a theory of organizations, not a theory of political economy. In addition, while there may be some merit in drawing from stakeholder theory to discussions of economies within a political context, doing so makes truly problematic the concerns raised about the breadth of the theory and for what purposes it is being used (Phillips et al., 2003, pp. 491–492). Stakeholder theory has been developed as a system of voluntary exchange for individuals within a capitalist economy. It is decidedly not a form of socialism or a set of social policies to be enforced by the state.

Stakeholder theory is a comprehensive moral doctrine (Orts & Strudler, 2002). In his discussion of what constitutes a comprehensive moral doctrine, John

Rawls (1993) claims that it is a theory which can address the full array of moral questions that arise without reference to any other theory. According to Phillips and colleagues (2003), stakeholder theory is not a comprehensive doctrine. Rather, it is a theory of organizations that does not even cover all the moral questions relevant to a business context, let alone the rest of the moral world.

Stakeholder theory, like most theories, is a tool to better describe the world and foster better action. Tools have better and worse applications. In our view, stakeholder theory is best used to make sense of issues revolving around the three problems we outlined in the previous section. Scholars from a variety of disciplines have picked up stakeholder theory to better address the issues that the three problems have created in their own respective areas. We now turn to detailing how stakeholder theory has been used and how it might be used more effectively in the future.

Application of Stakeholder Theory to Business Ethics

The description of business that stakeholder theory offers has been readily accepted in the field of business ethics. This is true despite the fact that Walsh (2005) is correct in his argument that Freeman (1984) says very little about the connection between stakeholder theory and business ethics. In this section, we review several key themes in this field which involve stakeholder theory. We begin by outlining the underlying ethical foundations of the theory.

Normative Core of Stakeholder Theory

One way to think about the work developed under the banner of stakeholder theory is to see it as providing a normative justification for the theory and its associated activities. Such an activity is usually thought of as the domain of philosophers, who seek to develop complex and sophisticated arguments to show how a given idea or activity can be defended using normative reasons— notions of what should be the case.

Stakeholder theory is a genre of theories capable of encompassing a variety of normative cores. Normative cores are an explicit effort to answer two questions facing all corporations. First, what is the purpose of the firm? And second, to whom does management have an obligation? These questions may be answered by stakeholder theory through a number of different lenses:

- **Kantian Capitalism:** Provides an ends–means argument for stakeholder interests based on the philosophy of Immanuel Kant (Evan & Freeman, 1988).
- **Doctrine of Fair Contracts:** Draws on Rawls to map principles for normative core. Stakeholder theory is extended to a genre (Freeman, 1994).
- **Convergent Stakeholder Theory:** Asserts common ground between normative core and instrumental justification of stakeholder theory (Jones & Wicks, 1999).

- Fairness: Asserts a cooperative scheme wherein participants are obliged through the taking and giving of benefits (Phillips, 1997).
- Libertarian Stakeholder Theory: Uses five libertarian principles to underpin a stakeholder view of value creation and trade (Freeman & Phillips, 2002).
- Community: Notions of common good and the good life used in the context of the corporation (Argandona, 1998; Hartman, 1996).
- Integrative Social Contracts Theory: Describes the moral substructure of economic life related to stakeholder theory (Donaldson & Dunfee, 1999).
- Feminist Theory: Emphasis on interrelatedness of individuals as basis for management (Wicks, Gilbert, & Freeman, 1994; Burton & Dunn, 1996).
- Critical Theory and Habermas: Distinguishes three types of stakes—legitimacy, morality and ethics with guidance for priority (Reed, 1999).
- Personal Projects: Human-centric view of enterprise management (Freeman & Gilbert, 1988).

Some researchers view stakeholder theory as primarily or exclusively a moral theory; that is, they seek a moral basis to support the theory and to show its superiority to a management preoccupation with shareholder wealth (Donaldson & Preston, 1995; Goodpaster, 1991; Boatright, 1994).⁴ Although such an approach may be appealing to an ethics scholar, it is weak in that it separates moral concerns from business concerns. As first articulated by Freeman (1994), the Separation Thesis posits that the “discourse of business and the discourse of ethics can be separated so that sentences like ‘*x* is a business decision’ have no moral content, and ‘*x* is a moral decision’ have no business content” (p. 412). Wicks (1996) extended Freeman’s argument and demonstrated how deeply embedded the assumptions of the Separation Thesis were within the business ethics and management literatures.

For Jones and Wicks (1999), stakeholder theory represents a bridge between the normative analysis of the philosopher and the empirical/instrumental investigation of the management scholar. By being at once explicitly moral and requiring support from instrumental analysis, stakeholder theory offers a new way to think about management theory. To provide a defensible normative core, researchers need to be able to show that it is simultaneously defensible in terms of moral norms and principles as well as in terms such that enacting these norms and principles is likely to help the firm generate economic value to remain a sustainably profitable enterprise. Such an agenda gives researchers on both sides of the ethics/social science divide an important role in the future development of stakeholder theory. This focus also addresses the concern that existing management theory is amoral and provides little room for ethics to become integral to the conversation. From this perspective, stakeholder theory is part of management theory and should explicitly draw upon management theory and methods, but is equally a part of ethics and moral theory.

The Parts of Stakeholder Theory

In the evolution of stakeholder theory, some work has suggested a distinction between various parts of stakeholder theory and how they may fit together (or fail to fit together) to contribute to the literature. Donaldson and Preston (1995) explicitly acknowledge and systematically discuss the notion that stakeholder theory has four distinct parts: descriptive (e.g., research that makes factual claims about what managers and companies actually do), instrumental (e.g., research that looks at the outcomes of specific managerial behavior), normative (e.g., research that asks what managers or corporations should do), and managerial (e.g., the research that speaks to the needs of practitioners). They argue that all four play an important part in the theory, but each has its own particular role and methodology. The first two strands of stakeholder theory are explicitly part of the social sciences and involve matters of fact. The third, the normative dimension, is explicitly moral and is the domain of ethicists. Donaldson and Preston (1995) claim that the normative branch of stakeholder theory is the central core and that the other parts of the theory play a subordinate role. They argue that stakeholder theory is first, and most fundamentally, a moral theory that specifies the obligations that companies have to their stakeholders.

In contrast, Jones and Wicks (1999) explicitly claim that there are important connections among the parts of stakeholder theory and that the differences are not as sharp and categorical as Donaldson and Preston (1995) suggest. Similarly, Freeman (1999) explicitly rejects the idea that we can sharply distinguish between the three branches of stakeholder theory. He argues that all these forms of inquiry are forms of story-telling and that all three branches have elements of the others embedded within them. He further argues that there is no value-free language, nor is there epistemological privilege for social science inquiry. At best, we can make pragmatic distinctions among the parts of stakeholder theory. The focus of theorizing needs to be about how to tell better stories that enable people to cooperate and create more value through their activities at the corporation. Creating compelling stories involves all three elements of stakeholder theory. In pragmatic terms, a good theory has to help managers create value for stakeholders and enable them to live better lives in the real world. The simplest example is the very use of the term “stakeholder.” By substituting “stake” for “share,” the very idea of non-shareholders having a “stake” does normative work, calling shareholder theory into question by its very framing.

Stakeholder Legitimacy

Another important ethics question deals with which stakeholders are legitimate from the firm’s perspective. It is a common misconception that stakeholder theory casts a very large net in terms of who is considered a legitimate stakeholder (Phillips et al., 2003). Freeman defines a stakeholder as “any

group or individual who can affect or is affected by the achievement of the organization's objectives" (1984, p. 46). The notion of legitimacy, following Ackoff (1974), is further clarified by the definition that a stakeholder represents a "group that the firm needs in order to exist, specifically customers, suppliers, employees, financiers, and communities" (Dunham, Freeman, & Liedtka, 2006, p. 25).

Others have differentiated between primary and secondary stakeholders. Primary refers to groups whose support is necessary for the firm to exist, and to whom the firm may have special duties towards. Secondary stakeholders have no formal claim on the firm, and management has no special duties pertaining to them; nevertheless, the firm may have regular moral duties, such as not doing them harm (e.g., Carroll & Bucholtz, 1993; Gibson, 2000). How stakeholder status becomes negotiated with a particular company is an open and interesting question for further exploration. Rather than seeing the definitional problem as a singular and fixed, admitting of only one answer, we instead can see different definitions serving different purposes. Thus, what might make one a (legitimate) stakeholder for one company, or for a given research agenda, may vary.

Corporate Social Responsibility (CSR)

A final area of some importance in the ethics literature pertaining to stakeholder theory is CSR. A variety of concepts fall under the CSR umbrella: corporate social performance (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991), corporate social responsiveness (Ackerman, 1975; Ackerman & Bauer, 1976; Sethi, 1975), corporate citizenship (Wood & Logsdon, 2001; Waddock, 2004), corporate governance (Jones, 1980; Freeman & Evan, 1990; Sacconi, 2006), corporate accountability (Zadek, Pruzan & Evans, 1997), sustainability and the triple bottom line (Elkington, 1997), and corporate social entrepreneurship (Austin, Stevenson, & Wei-Skillern, 2006). Each of these concepts shares a common aim in the attempt to broaden the obligations of firms to include more than financial considerations. This literature wrestles with and around questions of the broader purpose of the firm and how it can deliver on those goals.

Stakeholder language has been critical to helping CSR scholars identify and specify the "social" obligations of business, both conceptually (Davis, 1960, 1967, 1973; Frederick, 1994; Post, 1978, 1981) and empirically (Ackerman, 1975; Ackerman & Bauer, 1976; Carroll, 1979, 1991; Epstein, 1987; Frederick, 1978, 1987, 1998; Sethi, 1975; Ullman, 1985; Wartick & Cochran, 1985; Wood, 1991). Nevertheless, the concept and capabilities of CSR, which rely on a separation between business and societal interests, and also a separation of business and ethics, fall short in addressing the three problems that stakeholder theory aims to solve. The problem of value creation and trade does not fall into the scope of CSR, unless the way in which a company creates value

effects society negatively. CSR has little to say about how value is created because ethics is cast as an afterthought to the value creation process or, alternatively, is considered the all important criterion that supersedes profits.

By adding a social responsibility to the existing financial responsibilities of the firm, CSR actually exacerbates the problem of capitalism and ethics. The recent financial crises show the consequences of separating ethics from capitalism. The large banks and financial services firms all had CSR policies and programs, but because they did not see ethics as connected to what they do—to how they create value—they were unable to fulfill their basic responsibilities to their stakeholders and ended up destroying value for the entire economy.

A variety of studies have aimed to examine the empirical link between corporate social performance and corporate financial performance (Ackerman, 1975; Barnett, 2007; Waddock & Graves, 1997).⁵ Margolis and Walsh (2001) provide an impressive and valuable analysis of this research stream. They analyze 95 empirical studies that examine the relationship between corporate social performance (CSP) and corporate financial performance (CFP), concluding that the positive relationship claimed in over 50% of CSP-CFP studies is questionable at best. They claim that this instability in the results is due to a variance in the way these studies were conducted, specifically variance in the samples of firms used by researchers, the operationalization of CSP and CFP, and in control measures.

Consequently, they also set a new agenda for CSR research (Margolis & Walsh, 2003). Their view, as we understand it, is as follows: There are significant social problems in the world that need attention. According to an economic logic, firms need to maximize their profits, therefore attempts to legitimize corporate social activities have tried to appease this economic logic by (1) discovering an empirical relationship between CSP and CFP, and (2) retaining an instrumentalist logic. The tension between financial and normative/social demands on the firm is real and needs to be examined in greater detail.

In the process, Margolis and Walsh depict stakeholder theory as preoccupied with consequences—financial consequences in particular. They claim that this instrumentalist logic obscures stakeholders who are not salient or whose contributions or treatment is less clear, and therefore normative reasons are required for firms to engage in socially responsible actions. They argue (Margolis & Walsh, 2003, p. 280):

A preoccupation with instrumental consequences renders a theory that accommodates economic premises yet sidesteps the underlying tensions between social and economic imperatives that confront organizations. Such a theory risks omitting the pressing descriptive and normative questions raised by these tensions, which, when explored, might hold

great promise for new theory, and even for addressing practical management challenges.

We think that any set of actions, for any stakeholder, has a blend of financial and moral consequences. One can increase wealth for shareholders or serve the community out of instrumental *and* normative reasons. So the issue is not just when purely “financial” and purely “social” tensions conflict, but when specific stakeholder conceptions, which have both financial and social dimensions, conflict with each other. Therefore it makes little sense to us to separate out social from financial concerns.

Margolis and Walsh’s deeper point is about the distinction between instrumental versus normative logic, and their perception that stakeholder theory is more instrumental than normative. We are more cautious of drawing such a hard line between instrumental and normative claims and only selecting one of the two for companies to use. When following any principle, one can always ask: Why are you following this principle and not others? And usually, the answer to this question depends on the consequences that following that particular principle creates in the world and on one’s character. Similarly, when applying an instrumental logic, one can ask: Why did you assign this or that value to a certain outcome or action? That answer is usually tied to a set of values or principles. Therefore it is hard to separate out instrumental from normative logic, and our view has always been that firms need to think through both in order to craft better responses.

While Margolis and Walsh would like to carve out a separate niche for examining the tradeoffs between financial and social concerns, we interpret this as an interesting and useful branch of stakeholder research to pursue, rather than as a new logic for CSR. Margolis and Walsh cast themselves in the tradition of CSR when they look for a one-size-fits-all approach to CSR to remedy the ills of an instrumental shareholder-based theory— particularly when they say, “The goal is to craft a purpose and role for the firm that builds internal coherence among competing and incommensurable objectives, duties, and concerns (Richardson, 1997)” (Margolis & Walsh, 2003, p. 284). We see this as the exact role of managers who are engaged in balancing stakeholder interests.

Future Directions for Stakeholder Theory in Business Ethics

We have only scratched the surface of a diverse array of literature on stakeholder theory within business ethics. Given the larger objective of thinking about how ethics and business are connected in a systematic way, stakeholder theory has become a powerful vehicle to think about how ethics becomes central to the core operations of the firm and how managing is a morally laden activity rather than a strictly formalistic and amoral quest for economic gain.

The business ethics literature has focused squarely on the Problem of the Ethics of Capitalism, but it has focused little attention on the Problem of

Value Creation and Trade. In fact it has accepted the idea of the separation of “good ethics” from “good business.” Stakeholder theory aims to connect a concern for moral conduct with the process of value creation. While business ethicists have made important contributions and clarifications to stakeholder theory, they have yet to embrace the core managerial issues faced by practitioners.

In our view, business ethics as a discipline faces a crossroads. In one scenario, business ethicists continue to pronounce judgments about whether or not particular business decisions or institutions are ethically right or wrong. Ethicists can offer their expert opinions grounded in the traditions of moral theory from Plato to Kant, but mostly ignorant of the actual practice and history of how human beings create value and trade with each other. We believe that such a scenario will lead to an increasing irrelevance of “business ethics,” and perhaps even to the moral decline of capitalism itself.

In a more optimistic scenario, business ethicists join forces with management thinkers to begin to pay attention to the actual practice of business. We need to understand how the vocabulary of business and the business disciplines can be framed via a “thick” conception of ethical concepts, rather than “thin” judgments from afar (Walzer, 1994). For instance, in marketing, we need to see how brands are like promises. In finance, we need to understand the moral nature of exchange. In operations, we need to see the humanness of “human resources.” In short, to make theorizing in business ethics more practically relevant, ethicists will need to grapple with the core functions of business and understand in more depth how they shape sense-making about both business and ethics. Business ethicists will need to rediscover business. This work has already begun, as many scholars have applied stakeholder theory in their own business disciplines. We will begin our examination of these applications in the business disciplines with the field of strategic management.

Application of Stakeholder Theory in Strategic Management

In this section, we will examine themes that relate stakeholder theory to strategic management, beginning with a discussion of the economic justification for a stakeholder approach to strategic management and ending with some challenges for stakeholder-oriented research in strategic management. While stakeholder theory encompasses both “economic” and “social” aspects of business (indeed, it casts doubt on the very usefulness of the “economic vs. social” distinction), the field of strategic management has often relegated stakeholder theory to “non economic” or “social,” ignoring the implications of the theory for how to deal with customers, suppliers, and shareholders (traditionally “economic” stakeholders) and neglecting many of the economic ramifications of dealing effectively with communities and other secondary stakeholders.

Economic Justifications for Stakeholder Theory

The primary dependent variable in strategic management is economic performance, manifest through such variables as shareholder returns or return on assets. The very popular resource-based approach to strategic management (Barney, 1991), with its emphasis on developing competitive advantage to enhance the creation of economic rents, has reinforced this obsession. Consequently, to gain wide acceptance in the strategic management field, stakeholder theory requires justification in economic terms (Clarke, 1998; Harrison, Bosse, & Phillips, 2010). Fortunately, many reasons exist to explain why stakeholder management should be associated with higher financial performance (Jones, 1995). For instance:

- Mutually beneficial stakeholder relationships can enhance the wealth-creating capacity of the corporation, while failure to do so limits capacity for future wealth generation (Post, Preston, & Sachs, 2002b).
- Avoidance of negative outcomes/risk reduction creates more predictably stable returns (Fama, 1970; Graves & Waddock, 1994).
- Enhanced adaptability through effective management of multilateral contracts (Freeman & Evan, 1990).
- Greater organizational flexibility (Harrison & St. John, 1996).
- Extension of agency theory from stockholders to stakeholders motivates managers to draw together stakeholders in efficient manner to achieve financial objectives (Hill & Jones, 1992).
- Excellent reputations are more attractive in the marketplace to potential business partners, employees and customers (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008).
- Facilitates the formation of alliances, long-term contracts and joint ventures (Barringer & Harrison, 2000; Harrison & St. John, 1996).
- Source of competitive advantage, as the firm is presented with a larger number of better business opportunities from which to select (Harrison et al., 2010).
- Increased trust leads to fewer transactions costs (Williamson, 1975) by reducing the resources needed to create and enforce contracts and by eliminating the need for elaborate safeguards and contingencies that require detailed monitoring (Post et al., 2002b).
- Stakeholders are more likely to reveal valuable information that can lead to greater efficiency and innovation (Harrison et al., 2010).

Some fairly impressive empirical research supports the notion that business organizations can and should serve the interests of multiple stakeholders (Preston & Sapienza, 1990) and that such service is associated with higher financial performance (Sisodia et al., 2007), reputation (Fombrun & Shanley, 1990), and organizational performance (Greenley & Foxall, 1997). Perhaps the

strongest economic justification to date is found in a study by Choi and Wang (2009), who discovered not only that good stakeholder relations enable a firm to enjoy superior financial performance over a longer period of time, but that they also help poorly performing firms to improve their performance more quickly. Nevertheless, some studies find conflicting results between social orientation and firm performance (Agle, Mitchell, & Sonnenfeld, 1999; Aupperle, Carroll, & Hatfield, 1985), and social orientation is often taken as emblematic of “stakeholder orientation.” We suggest that future studies should focus on the strategies employed for addressing a broad range of stakeholder interests, rather than defining some stakeholders as non-economic and others as economic.

Stakeholder Influence on Firm Strategies

From its inception, the stakeholder perspective has envisioned the firm and its stakeholders in two-way relationships. While much of the attention in the literature has been directed towards a firm’s management of its stakeholders, some scholars have focused specifically on the influence stakeholders have on the firm and its strategies. More recent literature recognizes how the influence of external stakeholders on a firm’s strategies has dramatically increased (Rodgers & Gago, 2004; Scholes & Clutterbuck, 1998; Sharma & Henriques, 2005; Wright & Ferris, 1997).

Early stakeholder theorists such as Dill (1975) and Freeman and Reed (1983) examined the ability of stakeholders to influence the firm in terms of the nature of their stakes and the source of their power. Later, Mitchell, Agle and Wood (1997) identified urgency, power, and legitimacy as factors that determine how much attention management will give to various stakeholders. Another approach is found in Frooman (1999), who uses resource dependence theory (Pfeffer & Salancik, 1978) to identify four types of stakeholder influence strategies: withholding, usage, direct, and indirect. Frooman also develops theory to predict which strategy stakeholders will use, based on the two-way dependence relationships that exist between and the firm and its stakeholders. Along this same line of reasoning, Coff (1999) examines the extent to which stakeholders are able to extract economic rents from the firm. Murillo-Luna, Garcés-Ayerbe and Rivera-Torres (2008) also provided empirical evidence regarding the ability of stakeholders to influence firm decisions.

Future Directions for Stakeholder Theory in Strategic Management

From the genesis of strategic management scholarship, mainstream literature incorporated stakeholder concepts but developed its own terminology of “external contributors,” “resources,” “interest groups,” or “inputs” to place a firm at the center of a network of constituencies. The different terminology invented to represent the same concept underscores the widely held belief that

there is a conflict between serving shareholders and serving a broad group of stakeholders (Argenti, 1997) as well as a misconception that stakeholder theory advocates equal treatment of all stakeholders (Gioia, 1999). There is evidence that this formerly held divide between the strategic management literature and stakeholder theory is eroding for a variety of reasons.

As the strategic management field moves more towards stakeholder theory, an important part of this process will be direct integration of stakeholder theory into other mainstream theories. Resource dependence theory (Pfeffer & Salancik, 1978) provides one such bridge between the stakeholder theory and established theories in the field, as noted by Freeman (1984) and reinforced by Walsh (2005). Stakeholder theory augments resource based theory by addressing two common criticisms: providing guidance with regard to *how* firms should manage resources to achieve competitive advantage (Priem & Butler, 2001) and embedding the question of how economic rents are/should be distributed once they are created (Barney & Arkan, 2001) into a particular network of stakeholder relations.

To address the Problem of Value Creation and Trade, it may be more useful to think about stakeholder relationships as a primary unit of analysis. Furthermore, the focus on “competitive advantage” may well be too narrow to be useful in the current business environment. The metaphor of competition captures only a partial view of business. Capitalism is ultimately a scheme for social cooperation. Surely firms are sometimes engaged in the competition for resources, but they are also engaged in a cooperative exercise to jointly create value for their stakeholders. Putting together something like the resource-based view with the relational view of the firm (Dyer & Singh, 1998) may yield a theory that looks much like the work done by stakeholder theorists. Stakeholder theory provides a reasoned perspective for the way firms should manage their relationships with stakeholders to facilitate the development of competitive resources, and attain the larger idea of sustainable success. The stakeholder perspective also explains how a firm’s stakeholder network can itself be a source of sustainable competitive advantage (Harrison et al., 2010). In addition, stakeholder-based reasoning provides a practical motivation for firms to act responsibly with regard to stakeholder interests, including fair distribution of economic rents (Bosse, Phillips, & Harrison, 2009), thereby addressing both the Problem of Value Creation and Trade and the Problem of the Ethics of Capitalism.

Yet another area to address the commonality of these two problems in strategic management is the notion of sustainability. Sustainability is a multidimensional construct that involves all of the key stakeholders, as well as the environment and society at large. Sustainability has already received a considerable amount of attention in the strategic management literature (Bansal, 2005; Boutillier, 2007; Frost & Mensik, 1991; Kolk & Pinkse, 2007; Sharma & Henriques, 2005).

We need more fine-grained conceptual models for the idea of creating as much value as possible without resorting to tradeoffs. Bosse and colleagues (2009) moved in this direction by defining stakeholder treatment in terms of distributive, procedural and interactional justice. Harrison and co-investigators (2010) extended this thinking to demonstrate how such treatment can lead to superior information from stakeholders that can be used to achieve competitive advantage. One challenge to this work is how the stakeholder perspective envisions competitors alongside other types of stakeholders (Freeman, 1984; Harrison & St. John, 1994, 1998). From a strategic management perspective, a more useful conceptualization would be competing networks of stakeholders, where one competitor's network is in competition with the others. The friction of merging models will inform both fields' conceptualization of economic efficiency, multiplicities of stakeholder roles, and competing networks of stakeholders.

We have argued that some of the most common tenets of stakeholder theory have been a part of mainstream strategy literature since its inception, although sometimes disguised with other labels. Going forward, stakeholder theory is well-placed to contribute to the future strength of strategic management concepts and equally benefit from the conversation.

Application of Stakeholder Theory in Finance

This section will argue that the field of finance has come to appreciate a practical view of the stakeholder thinking, while not fully embracing the core concept of balancing or harmonizing the interests of a broad group of stakeholders. Although finance scholars traditionally ignore the moral foundation of stakeholder theory, as well as the moral foundations of their own shareholder-oriented theory, some now recognize the importance of stakeholders in explaining high financial returns, at least in the sense of an instrumental stakeholder perspective (Jones, 1995). We will begin with a review of work that establishes the place of stakeholder theory in the finance literature. We will then review the debate concerning shareholder wealth versus stakeholder welfare from the finance perspective.

A Foundation for Stakeholder Theory in Finance

Stakeholder thinking has been brought to bear on some of the foundational questions in finance. For example, Cornell and Shapiro (1987) carefully examined how implicit claims differ from explicit contracts with stakeholders and how both types of claims influence financial policy. Explicit claims come from legally binding contracts with stakeholders, whereas implicit claims come from expectations of stakeholders that result from vague promises or past experiences with the firm. They argue that since a firm's implicit claims are an embedded feature of the firm (e.g., cannot be separated and sold independently of the firm), the market value of the firm is dependent on how

information provided to the market influences the value of both its implicit and explicit claims.

Over a decade after Cornell and Shapiro (1987) published their foundational paper, Zingales (2000) provided another strong rationale for a stakeholder perspective in finance research. He argued that corporate finance theory is deeply rooted in an outdated theory of the firm, and explicated a model describing the firm as a web of specific investments built around a valuable resource, which may be a physical or alienable asset or even human capital (Zingales, 2000)—a view consistent with the fundamental ideas of stakeholder theory.

A growing body of research in finance is supportive of the positions advanced by Zingales (2000) and Cornell and Shapiro (1987). For instance, finance scholars have found that nonfinancial stakeholders influence the debt structure of firms (Istaitieh & Rodriguez-Fernandez, 2006). Titman (1984) found evidence that firms that produce durable or unique goods are more likely to have low debt levels because their customers may not be willing to do business with a firm that appears likely to experience financial problems, thus cutting off supply of a needed product. In contrast, firms that produce nondurable goods or services that are widely available can have high debt levels and still be attractive as suppliers, because if they go out of business the firms they are supplying should still be able to get what they need from another source (see also Barton, Hill, & Sundaram, 1989; Kale & Shahrur, 2008; Maksimovic & Titman, 1991).

We find evidence in studies above that there is a foundation for stakeholder theory in the finance literature. A central issue in this literature is whether managing for stakeholders improves profits (Allen, 2003; Smith, 2003). The debate is frequently examined in terms of shareholders versus stakeholders, based on the assumption that satisfying a broad group of stakeholders is inconsistent with the idea of shareholder wealth maximization.

Shareholders versus Stakeholders from a Finance Perspective

Financial economists tend to give shareholder interests a pre-eminent position over the interests of other firm stakeholders. From the finance perspective, the primary responsibility of managers is to maximize shareholder value (Friedman, 1962; Rappaport, 1986; Wallace, 2003). Agency theory reinforces this idea by envisioning managers primarily as agents for the shareholders, with the responsibility of looking after their interests (Fama, 1980; Jensen & Meckling, 1976).

Michael Jensen is a vocal champion of the shareholder wealth maximization perspective. According to Jensen (1989), wealth maximization does not mean that firms should completely neglect stakeholders. However, Jensen warns against allowing managers too much discretion with regard to allocating resources to satisfy a broad group of stakeholders. His admonition stems

from a mistrust of managers and their propensity to allocate resources according to their own desires at the expense of efficiency. He also argues that shareholders should be given the most importance in managerial decisions because they “are the only constituency of the corporation with a long-term interest in its survival” (1989, p. 187). It is easy to see the fallacy of this latter argument, as shareholders can easily sell their stock at any time and reinvest in another company. In contrast, employees would find it relatively more difficult to change employers, customers could lose an essential source of supply, and certainly local communities are hurt if an organization ceases to exist. Furthermore, Cloninger (1995, p. 50) pointed out: “In the presence of asymmetric information, the avid pursuit of share price maximization may lead managers to violate certain stakeholder interests and employ business practices that are unethical, immoral, or illegal.” Recently, Jensen (2000, p. 245) has come to see the value of stakeholder thinking to managers:

We can learn from the stakeholder theorists how to lead managers and participants in an organization to think more generally and creatively about how the organization’s policies treat all important constituencies of the firm. This includes not just financial markets, but employees, customers, suppliers, the community in which the organization exists, and so on.

Future Directions for Stakeholder Theory in Finance

One of the most confining assumptions found in the finance literature on stakeholder theory is that stakeholder relationships are a “zero-sum game” (Smith, 2003). In other words, a firm that allocates resources to one stakeholder group is taking those resources away from another. In the immediate term, and from a purely mathematical perspective, this may be easy to demonstrate. However, over any term longer than the immediate term, the reasoning becomes more suspect. A more useful perspective, and one that could unlock the potential of stakeholder theory to explain financial phenomena, is that stakeholder relationships are a mutually reinforcing, interactive network (Post et al., 2002a). If financial theorists accept this alternative view, then they could devote energy to determining how to maximize total network value. The question is: What is the total value created for the network from a particular firm tactic or decision? Once the long-term value of a particular tactic or decision is determined, then the firm’s share of that value can likewise be determined.

Options analysis could also add credence to this discussion. An option gives a firm the right, but not the obligation, to take a particular action in the future (Trigeorgis, 1993, 1997). Options analysis provides a firm with the opportunity to reduce its downside risk while also assessing the upside potential from a particular course of action (Reuer & Leiblein, 2001). Basically, the

concept of an option opens the door to more fully evaluating the longer-term implications from short-term actions that result from balancing stakeholder interests.

Finance scholars have barely tapped the potential of the stakeholder perspective in improving financial decisions. Financial market participants clearly are not the only stakeholders that influence financial outcomes. A broadened perspective of stakeholder influences could help finance researchers better explain phenomena such as why some initial public offerings are more successful than others, why two firms with a very similar financial structure get a different interest rate from the same bank, or how residual returns are influenced by stakeholder bargaining power. While it seems unlikely that finance scholars will soon abandon their singular obsession with maximizing the financial value of the firm in favor of a broader perspective on firm performance, the stakeholder dialogue is increasing and researchers are beginning to apply a stakeholder perspective to a fairly wide range of finance-related questions.

Finance theory surely plays an important role in understanding how to solve the Problem of Value Creation and Trade; however, its language and metaphors are not the only ones that are relevant. For instance, the idea of “markets” is surely important to the understanding of any business in a turbulent field. Nevertheless, it is not the only relevant idea. For instance, how human beings, employees, respond to conditions of turbulence may be far removed from our understanding of how markets operate. Understanding how psychological constructs such as “contagion” work may well produce a completely new understanding of both markets and finance theory. And, surely the recent Global Financial Crisis (GFC) has called the question about the Problem of the Ethics of Capitalism. Finance theorists need to deal with the subsidiary problem of the Ethics of Finance Theory, especially in terms of what we teach business students. We argue that thinking about a broad range of stakeholder interests would be useful to finance theorists as they begin to deal with these issues.

Application of Stakeholder Theory in Accounting

Stakeholder theory has begun to contribute to the accounting literature as the discipline has evolved in the past half-century. For example, Schreuder and Ramanathan (1984) argued that market failures and incomplete contracting are just as applicable to other stakeholders as they are to shareholders. Another relatively early contribution to the accounting literature came from Dermer (1990), who described the organization as an ecosystem to demonstrate the significance of accounting to strategy. In his view, organizations are held together by a desire to survive, and stakeholders compete for control of firm strategy. In this context, accounting data and accounting systems take on unanticipated roles. For instance, accounting becomes a tool used by

stakeholders to construct reality and ultimately to assess the risks of “associating their stakes” with a particular firm.

Meek and Gray (1988) discussed issues surrounding the inclusion of a value added statement in the annual reports of U.S. corporations. They argued that these statements are useful in focusing attention on a wider group of stakeholders, while still allowing the firm to maintain its primary orientation on shareholders.

We will begin this section with a discussion of the influence of stakeholder theory on corporate social reporting, as found in the accounting literature. We will then examine the influence of stakeholders on other accounting practices such as earnings reports and accounting methods. Finally, we will provide an analysis of use of stakeholder theory in the accounting literature and provide some recommendations for future research.

Accounting for Firm Influence on Stakeholders and Society

Accountants have been debating issues surrounding social reporting since at least the 1970s (Gray, Kouhy, & Lavers, 1995). Roberts (1992) used stakeholder theory to predict levels of corporate social disclosure. Specifically, he discovered that stakeholder power, strategic posture and economic performance are all related to the amount of disclosure. Around the same time, research in environmental and sustainability reporting began to rely on a stakeholder approach (Ilinitch, Soderstrom, & Thomas, 1998; Rubenstein, 1992).

In recent studies, Campbell, Moore and Shrides (2006) found that community disclosures are a function of the information needs of stakeholders; and Boesso and Kumar (2007) demonstrated that social disclosure in general is influenced by the information needs of investors, the emphasis in the company on stakeholder management, the relevance of intangible assets, and market complexity. Wood and Ross (2006) found that stakeholder opinion is more influential in influencing manager attitude towards environmental social controls than subsidization, regulatory cost, or mandatory disclosure. One of the conclusions that can be drawn from the literature above on stakeholder influence on social reporting is that reporting is a function of multiple influences, and that these influences are interconnected.

Stakeholder Influence on other Accounting Practices

Social reporting is not the only accounting area that is influenced by stakeholders. In this section, we will examine some of the other accounting phenomena that researchers have speculated might be subject to stakeholder influence. Some studies have investigated how stakeholders influence reporting of financial information such as the timing of earning announcements (Bowman, Johnson, Shevlin, & Shores, 1992), earnings management (Burgstahler & Dichev, 1997; Richardson, 2000), financial reporting methods (Scott, McKinnon, & Harrison, 2003), and “creative accounting” practices (Shaw, 1995).

Reporting is not the only accounting phenomenon that has been linked to stakeholder influence. Winston and Sharp (2005) studied the influence of stakeholder groups on the setting of international accounting standards. Previously, Nobes (1992) identified stakeholders that influenced the creation of the goodwill standard in the U.K. Finally, Ashbaugh and Warfield (2003) found that multiple stakeholders influence the selection of a firm auditor and Chen, Carson and Simnett (2007) found that particular stakeholder characteristics influence the voluntary dissemination of interim financial information.

Stakeholder concepts and ideas have also been used to better understand the relationship between governance and accounting practices (Ghonkrokta & Lather, 2007; Keasey & Wright, 1993; Richard-Baker & Owsen, 2002; Seal, 2006). Joseph (2007) extended ideas found in the corporate governance literature to corporate reporting practices and developed a “normative stakeholder view of corporate reporting” based on responsibility to multiple stakeholders. In doing so, he hoped (2007, p. 51) to

...reveal moral blind spots within the prevailing accounting worldview that fails to acknowledge the impact of the corporation on multiple stakeholders and thereby harness the intellectual and creative potential contained in accounting to address the larger issues that affect the public interest.

CEO compensation, which is tied to the governance literature, has also been addressed. Arora and Alam (2005) found that changes in CEO compensation are significantly tied to the interests of diverse stakeholder groups, including customers, suppliers and employees. Similarly, Coombs and Gilley (2005) discovered that stakeholder management influences CEO salaries, bonuses, stock options, and total compensation.

Future Directions for Stakeholder Theory in Accounting

Much of the application of the stakeholder perspective in the accounting literature has occurred since 2002. It is probably not a coincidence that this date coincides with passage of the Sarbanes–Oxley Act, which extended the regulatory powers of the U.S. Securities and Exchange Commission (SEC) regarding corporate governance procedures. In general, this legislation adopts a stakeholder perspective only in that it increases the accountability of an organization to a broader group of stakeholders (although shareholders are still the primary beneficiary).

There is, of course, some question as to whether the accounting profession is genuinely interested in increasing its responsibility to a wider range of stakeholders. Reports commissioned in the U.S. and the U.K. in the 1970s to identify the needs of users of financial statements still resulted in a focus on shareholders. Even if the accounting profession as a whole becomes more stakeholder-focused, it may be difficult to change the behavior of auditors

because of the difficulty of measuring phenomena that are important to stakeholders. One study demonstrated that auditors spend a relatively long time checking, and devote considerable energy to, things that can be satisfactorily verified, but not to other things that they knew were important to stakeholders (Ohman, Hackner, Jansson, & Tshudi, 2006). One way to see this development is as a partial solution to the Problem of Value Creation and Trade: we legislate certain reporting requirements that will better enable firms to create value for their stakeholders.

Another indication of the interest of accountants in stakeholder theory is use of the stakeholder perspective in accounting education. Stout and West (2004) reported on a stakeholder-based approach to substantially revising an accounting program. However, stakeholder theory is only beginning to have an impact in accounting education and thus, the Problem of Managerial Mindsets.

Finally, there are great opportunities for accounting researchers who would like to tackle some of the most difficult issues associated with stakeholder accounting. These are, of course, measurement issues involving nonfinancial measures of performance. Better measures need to be developed to gauge the performance of organizations relative to the implicit and explicit claims of employees, managers, communities, suppliers, and customers, for a start.

Applications of Stakeholder Theory in Marketing

By definition, the marketing discipline is focused primarily on the relationship between a firm and its customers, although there is also broad acknowledgment that firms have a primary responsibility to generate high returns for shareholders (Bhattacharya & Korschun, 2008). Marketing also has much to say about the interface between society and the firm. There is an increasing interest in marketing in developing marketing theory and practice along stakeholder theory lines.

Frequently applications of stakeholder theory in the marketing literature serve as a warning that too much emphasis on one or a very small set of stakeholders is no longer appropriate (Bhattacharya and Korschun, 2008; Jackson, 2001; Kotler, 2005). For example, Philip Kotler, an acknowledged leader in marketing education, made the following statement: "Companies can no longer operate as self-contained, fully capable units without dedicated partners... Companies are becoming increasingly dependent on their employees, their suppliers, their distributors and dealers, and their advertising agency" (2005, p. 119).

Core Stakeholder Concepts in Marketing

Several marketing scholars have either advocated for or included a broad group of stakeholders in their research. Miller and Lewis (1991) were taking a

much broader approach and introduced the stakeholder concept as a way to help identify all of the firm's important constituencies, both internal and external. Similarly, Christopher, Payne, and Ballantyne (1991) developed what is referred to as the "six markets" model to define relationships with traditional stakeholders. Greenley and Foxall (1996) found that the orientations of firms towards these groups were interrelated, and that consumer orientation was a good predictor of a firm's attitudes towards both competitors and employees.

Polonsky, Suchard and Scott (1999) explained that marketing theory tends to view the external environment as an uncontrollable and fixed constraint. However, the firm and its environment are actually very interdependent, and many elements of the external environment are subject to influence from the firm. Given this situation, they argued that firms should use stakeholder theory to integrate a wider set of relationships into a model of marketing interactions, resulting in more options for the firm and thus greater opportunities to create value. Podnar and Jancic (2006) also examined stakeholder groups based on their power in relation to a company, especially as that power relates to communications and transactions between firms and stakeholders.

Marketing scholars also have made use of systems for measuring multiple stakeholder outcomes. For instance, Kotler (2005) advocated what he called a "stakeholder-performance scorecard," in which companies track the satisfaction of key stakeholders, including employees, suppliers, banks, stockholders, retailers, and distributors.

Roper and Davies (2007) argued that the emotional responses of all stakeholders toward the corporate brand should be considered, and not just the customer. They applied their arguments to a study of key stakeholder groups of a business school. Gregory (2007) observed that stakeholders typically are regarded as the targets of corporate branding rather than as partners.

Future Directions for Stakeholder Theory in Marketing

Marketing as a discipline tends to be more outwardly focused than the financial or behavioral management areas. Consequently, marketing is in a strong position to work on problems associated with monitoring and communicating with external stakeholders. Marketing scholars could also help with developing measures of stakeholder orientation, or how companies proactively work with stakeholders.

Marketing executives face the brunt of the Problem of Value Creation and Trade, as the emergence of fast-changing global markets has revolutionized our understanding of what is effective marketing. However, there has been relatively little progress on the related problem of the integration of ethics into the business disciplines. There is room for much work related to understanding the key concepts in the marketing literature in both stakeholder and ethical language. For instance, if we segment customers into market segments,

the very framing of these segments has both business and ethical implications. Researchers might explore questions like: What moral issues are involved in targeting particular ethnic or gender oriented groups? Does such targeting reinforce stereotypes? How are we to understand the moral role of brands? Are brands to be interpreted as promises? If brands are laden with values, what is the connection between brand values and overall corporate values that may be held by a multiplicity of stakeholders? These questions and others should bear fruitful research for the foreseeable future, as marketing scholars cope with a fast-changing world where values play an important role, as well as wondering how to prepare their students for such a world.

Applications of Stakeholder Theory in Management

Management includes behavioral areas such as organizational behavior, organizational theory and human resource management as well as management science, manufacturing and operations management. We now examine contributions in each of these areas, followed by suggestions for future research.

The Stakeholder Perspective in the “Soft” Side of Management

One of the early applications of the stakeholder perspective in the management literature was by Sturdivant (1979). He examined the attitude gaps that exist between managers and activist group members. He also advanced the idea that managers should seek cooperation among their entire system of stakeholders. Mitroff (1983) was also a pioneer in the study of management issues through a stakeholder lens. He synthesized phenomenological, ethnomethodological, and social action theory to examine the complex ways in which humans develop images of themselves, their organizations, and their environments.

Since these early contributions, the organizational behavior topic that has been influenced the most by stakeholder theory is probably leadership. The stakeholder concept has been used to study leadership in turbulent times (Taylor, 1995), executive succession processes (Friedman & Olk, 1995), developing leadership skills (Nwankwo & Richardson, 1996), and leader power-sharing (Heller, 1997). de Luque, Washburn, Waldman, and House (2008) demonstrate how a stakeholder orientation in CEOs, rather than an economic focus, leads to a perception of visionary leadership and thus increased effort from followers. They also show how this increased effort leads to better overall firm performance.

In addition to leadership applications, a stakeholder approach has also been used to help assess organizational effectiveness. Cameron (1980, 1984) described four different ways to assess effectiveness. One of his approaches, the strategic constituencies approach, is based on at least minimally satisfying the demands and expectations of key stakeholders. Daft (2001), on the other

hand, used a stakeholder approach to integrate goal, resource-based and internal process approaches to measuring organizational effectiveness. Closely related to organizational effectiveness, goal-setting also has made use of a stakeholder approach (Gregory & Keeney, 1994; Hellriegel, Slocum, & Woodman, 2001; Kumar & Subramanian, 1998).

Human resource management has also been influenced by stakeholder theory. This influence is at least partially a result of the perspective that firms that practise effective and trustworthy stakeholder management are better able to attract a high-quality workforce (Albinger & Freeman, 2000; Greening & Turban, 2000; McNerney, 1994). Of course, human resources scholars also recognize that human resources systems must be able to cope with the constant and ever-changing competing interests of organizational stakeholders (Beer, Spector, Lawrence, Quinn Mills, & Walton, 1984; Vickers, 2005).

Stakeholder theory has also proven helpful in creating strategic human resource development systems (Garavan, 1995; Stewart, 1984), in managing change (Hussain & Hafeez, 2008; Kochan & Dyer, 1993; Lamberg, Pajunen, Parvinen, & Savage, 2008), in handling crises (Ulmer, 2001), in managing downsizing (Guild, 2002; Labib & Appelbaum, 1993; Tsai, Yeh, Wu & Huang, 2005), and in assessing the effectiveness of HR systems (Ulrich, 1989).

The Stakeholder Perspective in the “Hard” Sciences of Management

The “hard” sciences of management are so called because they tend to deal with physical processes and/or mathematical or computer-based management models. Although these processes and models obviously are not disconnected from people, they typically are not founded on a human behavior approach. Since stakeholder theory is about people and groups of people, it serves to integrate human elements into what might otherwise be pure quantitatively based management science models. For instance, in an early application of stakeholder theory in this literature, Nunamaker, Applegate and Konsynski (1988) used stakeholder identification and assumption surfacing in the development of a group decision support system. Similarly, Keeney (1988) developed a problem-solving procedure to constructively involve stakeholders in analyzing problems of public interest. The central topics of our discussion include project management, manufacturing management, process improvement, problem-solving, decision support, and information systems management.

Jones (1990) examined the political context of project management from the perspective of CEOs of aerospace companies. He discovered that factors such as the degree of stakeholder representation in the structure of goals and the level of participation in decision-making significantly influenced the level of internal politics. Additionally, stakeholder thinking has been applied to topics such as international project selection (Oral, Kettani, & Cinar, 2001), the project management process (Cleland & Ireland, 2002; Karlsen, 2002), and global project management (Aaltonen, Jaakko, & Tuomas, 2008). Achterkamp

and Vos (2008), after conducting a meta-analysis of the project management research, recognized that the importance of effective stakeholder management to project management success is commonly accepted in the field.

Stakeholder theory has been applied to manufacturing from two perspectives: the influence of manufacturing on stakeholders, and the influence of stakeholders on manufacturing. Representing the former perspective, Steadman, Albright, and Dunn (1996) used stakeholder theory to explain the complex relationships among the firm and its various stakeholders in the context of the adoption of new manufacturing technologies such as flexible manufacturing systems or computer-integrated manufacturing. The influence of stakeholders on manufacturing is represented in studies by Foster and Jonker (2003) in the context of quality management, and by Riis, Dukovska-Popovska, and Johansen (2006) for strategic manufacturing development. Similarly, stakeholder thinking has been adopted to better explain the implementation process of computer-aided production manufacturing (Maull, Hughes, Childe, Weston, Tranfield, & Smith, 1990), implementation of operational efficiencies (Sachdeva, Williams, & Quigley, 2007).

A stakeholder perspective has also found its way into research on new product and service development. McQuater et al. (1998) used a stakeholder approach to identify issues affecting the management of new product development. Similarly, Elias, Cavana, and Jackson (2002) used stakeholder analysis to improve research and development projects. Their methodology included rational, process, and transactional levels of analysis (Freeman, 1984), combined with Mitchell, Agle and Wood's (1997) approach to analyzing stakeholder dynamics. In addition, Krucken and Meroni (2006) argued that building stakeholder networks is an important part of creating complex product-service systems. They applied their arguments to a research project funded by the European Commission.

Future Directions for Stakeholder Theory in Management

From one perspective, stakeholder management *is* management. As management theory has struggled with the three problems outlined earlier, stakeholder theorists have developed their ideas to deal with these issues. Consequently, this review, although useful for the purposes of analysis, may appear to some to create an artificial division between core stakeholder theory and other management theories. This is not our intent. We are simply demonstrating that stakeholder theory can be applied easily to a wide variety of management topics.

Numerous opportunities exist for future scholarly activity. Institutional theory examines the influence of institutional environments on organizations, with an emphasis on organizational conformance due to social norms and expectations (DiMaggio & Powell, 1983; Baum & Oliver, 1991). In spite of the conceptual similarities of stakeholder theory to institutional theory,

institutional theorists have practically ignored it. This neglect creates an opportunity for increased cross-fertilization and integration. Specifically, stakeholder theory can help address why organizations in similar institutional environments may be structured differently, or have different systems and processes. Stakeholder theory foregrounds how managers across firms differentially interpret the role of the same institutions (e.g., government, NGOs, consumer groups) and thus create different roles for them in the value creation process.

Dipboye's (2007) call for a more scientific approach to research in human resource management highlights another opportunity. He specifically mentioned that a multiple stakeholder perspective could help to strengthen the research. Opportunities exist to more fully examine the way human resource systems influence and are influenced by various stakeholder groups. For example, different approaches to hiring, selection, and promotion can privilege certain stakeholder groups, both within and outside the company. By understanding these effects, research in human resource management might be better able to explain why some human resource management strategies work better than others.

Operations researchers and other management scientists may be in a good position to develop tools to measure inputs and outcomes associated with stakeholders. Some researchers have already taken first steps in this direction. For instance, Dey, Hariharan, and Clegg (2006) developed a performance measurement model that involves affected stakeholders. They applied their model in the intensive care units of three hospitals. Similarly, Fredricksen and Mathiasen (2005) involved stakeholders in the development of software metrics programs. On the soft side of management, Kaptien (2008) developed a stakeholder-based measure of unethical behavior in the workplace that is much more comprehensive than previous measures found in the management literature.

The Problem of Value Creation and Trade is partially fueled by rapid advances in technology and increasing globalization, which have created highly complex decision-making environments that a multiple stakeholder approach can help to address (Liebl, 2002). As Walker, Bourne, and Shelley (2008) point out, currently there are few tools available to managers who want to improve their stakeholder management skills. In addition, increasing ethical sensitivity must be addressed even in areas like operations research (Theys & Kunsch, 2004).

Management as a discipline has begun to grapple with the Problem of the Ethics of Capitalism as management scholars think more carefully about what they teach. Many of the critics of business schools are from within the discipline of management. Bennis and O'Toole (2005), Ghosal (2005), Khurana (2007), Mintzberg (2004), Pfeffer and Fong (2002), Starkey, Hatchuel, and Tempest (2004), and others have delivered compelling critiques of business schools, that are at least partially ethical critiques. Serving shareholders only is

not the essence of business, and we should no longer teach this idea as either science or ideology. While there are many calls for reform, most include broadening the concept of the scope of business theory along similar lines, to include the idea that managers should serve some version of stakeholders. Management theory then must develop along these lines as well. Stakeholder theorists have begun this work, but there is much more to be done.

Key Questions Moving Forward

The preceding sections have demonstrated that the body of work that we have called stakeholder theory can be seen as articulating a practically useful and morally rich way to think about the disciplines of business. Whether or not stakeholder theory really has an impact on those disciplines will be determined more by the work of the next 30 years than by work that has already been done. Therefore, we want to briefly set forth a set of research questions and themes that point stakeholder theory and the researchers who work in this area towards what we see as some fruitful areas of inquiry. We do this in the pragmatist spirit of experimentalism.⁶

The format we are going to use is to simply set out a number of questions within a theme. Each of these questions and their answers allow us to better solve the three problems that stakeholder theory was designed to tackle. The next wave of research in stakeholder theory will better integrate how value is created, how managers think about ethics, and the larger narrative of capitalism. These ideas are at the early inception stage; so we leave them open to interpretation, to increase the potential that our research colleagues will ask even better and deeper questions than the ones we have presented.

The first set of questions has to do with describing better how firms manage their relationships with stakeholders. The management and marketing disciplines have been the focal point of research on this topic to date, but there is much work to be done:

- What are some industry best practices that illustrate stakeholder management? Can we build theory around these practices to show how and why they create value, specifically connecting purposes and values to specific practices?
- How and why do these stakeholder engagement strategies change over time?
- Can we tell some interesting stories from the company and stakeholders' points of view?

Other important questions deal with the nature of relationships between firms and stakeholders and their combined or divergent interests. Organizational behavior scholars may currently have the best set of tools to work with in examining these questions, although the answers are important to all areas:

- What are the key dimensions of each stakeholder relationship and how do we observe them? Some useful starting-points may be: transaction costs,

interaction frequency, interaction quality, interaction quantity, relevance to value proposition, generation of value creation possibilities, and degree of shared values and assumptions. How do these dimensions change over time, and what are the effects of these changes?

- What are some common disruptions in stakeholder relationships, and how can those disruptions be minimized?
- How do managers think about appropriate metrics for stakeholder relationships? How do they and should they design metrics to foster the robust value proposition of the firm? What are the challenges and opportunities to doing this?
- How do we conceptualize the interaction effects of stakeholders—the jointness of stakeholder interests?

Accountability also surfaced as a key issue to address, especially in light of societal demands for more business accountability. Environmental protection reflected in the “greening” of business and the popularity of sustainability reporting, as well as political and legal trends towards higher levels of oversight and regulation, make this issue very important:

- In today’s business climate, firms can be held accountable for their stakeholders’ actions. How do companies find responsible investors, or get existing stakeholders to act responsibly?

Value is another topic that came up repeatedly in our review of the strategic management, business, and related disciplines. If, in fact, the superordinate goal of stakeholder theory is to explain value creation, then there are a number of questions on this topic that need to be addressed:

- What does “value” mean for a particular group of stakeholders, and how do firms create these different types of “value” for stakeholders?
- In what contexts do firms and communities need a single generalizable metric, and where do they need multiple stakeholder specific metrics?

Finally, we need a richer description of one of the most fundamental topics in the stakeholder literature: identification of stakeholders and their interests. These questions have been explored since the inception of the stakeholder discussion, but there is much work yet to be done:

- How do executives make sense of who is or is not a stakeholder?
- What are the relevant categories of stakeholders that managers use, and what happens when the common categories of customer, supplier, shareholder, etc. break down?
- What does it mean to balance stakeholder interests? Are there different types of balance and compromise? Which types are best for which circumstances?

- How do stakeholders make sense of equity and fairness?

Conclusion

We have argued that the three problems outlined in section one can best be solved by moving stakeholder theory to the center of our thinking about business and management. We need to see value creation and trade, first and foremost, as creating value for stakeholders. Understanding the economics of markets is important, but at the center of starting, managing, and leading a business is a set of stakeholder relationships that define the business. We have detailed how the scholars working in the disciplines of business can and are redefining Value Creation and Trade within their disciplines in terms of stakeholder theory. By appealing to some principle of responsibility, eschewing the separation fallacy, and simply realizing that stakeholders and business people share a common humanity, we can build more effective methods of value creation that forge a conceptual and practical link between capitalism and ethics.

It is presumptuous to write a conclusion. Stakeholder theory is a living “Wiki” constantly evolving, as stakeholder theorists attempt to invent more useful ways to describe, re-describe, and relate our multiple conceptions of ourselves and our institutions such as business. As pragmatists, we believe in encouraging a diversity of ideas. Some of them will undoubtedly lead to dead ends, but many will bear fruit.

The challenges before us are large. Yet the progress made by an increasingly large group of researchers and business thinkers is quite real. We can be the generation that remakes business and capitalism, putting ethics at the center of business, and business at the center of ethics, creating a way to understand business in the global world of the twenty-first century. Surely this is a task that is worth our effort.

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Endnotes

1. Throughout this article, we use the terms “stakeholder theory,” “stakeholder management,” and “stakeholder perspective” interchangeably.
2. See Freeman and colleagues (2010) for a detailed history of the stakeholder idea.
3. These relationships can be framed in a variety of ways: unilateral, bilateral or even multiparty. Each of these framings will be more or less useful for certain purposes.

4. A vast secondary literature has emerged on the search for the normative foundation of stakeholder theory led by philosophers in the *Journal of Business Ethics*.
5. See Orlitzky, Schmidt, and Rynes (2003) for a meta-analysis of the literature on the link between corporate social performance and corporate financial performance.
6. For more on what we mean by “the pragmatic spirit of experimentalism,” see Freeman and colleagues (2010), ch. 3, where we explain our pragmatic approach to theory in detail.

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