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A Stakeholder Approach to Strategic Management

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Forthcoming in M. Hitt, E. Freeman, and J. Harrison (eds.) Handbook of Strategic Management, Oxford: Blackwell Publishing.

INTRODUCTION

The purpose of this chapter is to outline the development of the idea of "stakeholder management" as it has come to be applied in strategic management. We begin by developing a brief history of the concept. We then suggest that traditionally the stakeholder approach to strategic management has several related characteristics that serve as distinguishing features. We review recent work on stakeholder theory and suggest how stakeholder management has affected the practice of management. We end by suggesting further research questions.

A HISTORY OF A STAKEHOLDER APPROACH TO STRATEGIC MANAGEMENT

A stakeholder approach to strategy emerged in the mid-1980's. One focal point in this movement was the publication of R. Edward Freeman's Strategic Management- A Stakeholder Approach in 1984. Building on the process work of Ian Mitroff and Richard Mason, and James Emshoff [For statements of these views see Mason and Mitroff,(1982) and Emshoff (1978)]. The impetus behind stakeholder management was to try and build a framework that was responsive to the concerns of managers who were being buffeted by unprecedented levels of environmental turbulence and change. Traditional strategy frameworks were neither helping managers develop new strategic directions nor were they helping them understand how to create new opportunities in the midst of so much change. As Freeman observed "[O]ur current theories are inconsistent

with both the quantity and kinds of change that are occurring in the business environment of the 1980's…A new conceptual framework is needed."[Freeman, 1984, pg. 5] A stakeholder approach was a response to this challenge. An obvious play on the word "stockholder", the approach sought to broaden the concept of strategic management beyond its traditional economic roots, by defining stakeholders as "any group or individual who is affected by or can affect the achievement of an organization's objectives". The purpose of stakeholder management was to devise methods to manage the myriad groups and relationships that resulted in a strategic fashion. While the stakeholder framework had roots in a number of academic fields, its heart lay in the clinical studies of management practitioners that were carried out over ten years through the Busch Center, the Wharton Applied Research Center, and the Managerial and Behavioral Science Center, all at The Wharton School, University of Pennsylvania by a host of researchers.

While the 1980's provided an environment that demonstrated the power of a stakeholder approach, the idea was not entirely new. The use of the term stakeholder grew out of the pioneering work at Stanford Research Institute (now SRI International) in the 1960's. SRI's work, in turn, was heavily influenced by concepts that were developed in the planning department of Lockheed and these ideas were further developed through the work of Igor Ansoff and Robert Stewart. From the start the stakeholder approach grew out of management practice. [1]

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[1] Recently, Mr. Giles Slinger has revisited the early history of the idea of stakeholders. Through more extensive interviews, and the examination of a number of historical documents, Slinger rewrites the history as told in Freeman (1984). The essential

SRI argued that managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders and society, in order to develop objectives that stakeholders would support. This support was necessary for long term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies.

For the most part these developments had a relatively small impact on the management theories of the time. However, fragments of the stakeholder concept survived and developed within four distinct management research streams over the next twenty years. Indeed, it was by pulling together these related stakeholder concepts from the corporate planning, systems theory, corporate social responsibility and organizational theory that the stakeholder approach crystallized as a framework for strategic management in the 1980's. What follows is a brief summary of these building blocks of stakeholder theory.

The Corporate Planning Literature

The corporate planning literature incorporated a limited role for stakeholders in the development of corporate strategy. Ansoff's classic book Corporate Strategy (1965) illustrated the importance of identifying critical stakeholders. However, stakeholders

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difference is that the early use of the stakeholder idea was not particularly oriented towards the survival of the firm. Slinger's argument can be found in his doctoral dissertation, Stakeholding and Takeovers: Three Essays, University of Cambridge, forthcoming in 2001. An abridged version is in "Spanning the Gap: The Theoretical Principles Connecting Stakeholder Policies to Business Performance", Centre for Business Research, Department of Applied Economics, Working Paper, University of Cambridge, 1998.

were viewed as constraints on the main objective of the firm and Ansoff actually rejects the usefulness of the idea. Here there is a fundamental difference between the SRI approach and corporate planning. Corporate planning simply recognized that stakeholders might place limits on the action of the firm. Thus, management should understand the needs of stakeholders in order to set the bounds of operation. However, within these bounds management should develop strategies that maximize the benefits to a single stakeholder group, the shareholders. In contrast SRI saw the support of all stakeholders as central to the sucess of the firm. Therefore, successful strategies are those that integrate the interests of all stakeholders, rather than maximize the position of one group within limitations provided by the others.

The *process* of strategy development is also entirely different under these two approaches. Corporate planning has two main elements: prediction and adaptation. First, management carries out an environmental scan to identify trends that help predict the future business environment. Second, management identifies the best way for the firm to adapt to the future environment in order to maximize its position. Within corporate planning stakeholder analysis is carried out as part of the environmental scan. As such stakeholders can defined by their roles rather than as complex and multifaceted individuals. Therefore, corporate planners could carry out stakeholder analysis at a generic level, without having to develop a detailed knowledge of the actual stakeholders in the specific firm under question. This level of abstraction led to many analytical breakthroughs in strategy formulation. Both Mason and Mitroff (1982) and Emshoff (1978) produced a method called Strategic Assumptions Analysis to address these issues.

The progress that was made in strategy formulation by the corporate planning approach did however have some drawbacks. First, the generic level of analysis tended to lead to generic strategies that could be applied regardless of industry or circumstances. Second, the use of particular analytical techniques put an emphasis on measurement in purely economic terms. Strategists measured what could be measured. Thus, aspects of strategy formulation that are difficult to quantify, such as the nature of specific stakeholder relationships or tacit skills and knowledge, tend to be neglected.

Systems Theory and Organization Theory

Systems theory has complex roots, but the strand that is relevant to stakeholder theory was pioneered by Russell Ackoff and C. West Churchman (1947). These ideas were applied to organizational systems in the early 1970's (Ackoff 1970, 1974). Systems theory emphasizes the external links that are part of every organization. Thus, organizations described as 'open systems' are part of a much larger network rather than as independent self-standing entities. Identification of both the stakeholders and the interconnections between them is a critical step in this approach. From a systems perspective, problems can only be solved with the support of the all the members, or stakeholders, in the network. Systems theory emphasizes the development of collective strategies that optimize the network. Individual optimization strategies are not the focus of analysis of this type of approach. Individual strategies would simply result in sub-optimal network solutions.

Traditionally organizational theory comes from the same roots as systems theory. In the 1960's Katz and Kahn (1966) began to develop organizational frameworks that defined

the organization relative to the system that surrounded it. Thompson [1967] introduced the concept of "clientele" to take into account groups outside the traditional boundary of the firm. These approaches foreshadowed attempts to emphasize the external environment as a significant explanatory factor of the organization of the firm (Pfeffer and Salancik, 1978). The intention behind these organizational theories was to describe and explain the existence and nature of the organization. However, there was little attempt to deal with the choices and decisions that managers make, nor with prescriptive attempts to set new directions for the organization. Nevertheless, the discovery that it is difficult to describe the firm without full recognition of the relationships on which it depends, has helped underline the fundamental importance of the stakeholder concept itself.

Systems theory and organization theory suffer some limitations in its application in the world of business. First, the collectivist nature of the approach makes it difficult to incorporate the autonomy of the firm. If firms have no autonomy then it is difficult to understand either the meaning of corporate strategy or the role of management. Second, once problems have been formulated there is no obvious starting or ending point for the analysis. Thus, the value of these approaches to business strategies seems limited to monopolistic markets, such as utilities, where the objectives of the firm and the objectives of the network come into alignment. However, despite the inherent problems in applying these ideas, the approaches have been helpful in emphasizing the importance of expanding analysis of strategic problems to include all stakeholders.

The Corporate Social Responsibility Literature

This area of academic research represents a collection of approaches rather than a coherent theoretical grouping. A broad range of business and social agendas falls under this banner. However, what most of these approaches share is the inclusion of stakeholder groups that have traditionally been omitted from analysis. Indeed, many of these groups were have been ignored because they were assumed to have adversarial relationship with the firm. Thus, a major contribution of the social responsibility literature was to broaden the scope of stakeholder analysis and to impress on management the importance of building relationships with previously estranged groups. The social activist movement has demonstrated the dangers of developing strategies that ignore the influence of antagonistic groups.

Most of this stakeholder analysis has been carried out at a generic level, independent of the strategies of individual firms. However, because of the influence of several high profile cases of catastrophic damage to corporate reputations, some attempts have been made to incorporate these findings into general strategic business objectives. Many of these corporate social responsibility initiatives have simply ended up characterizing stakeholder relationships as constraints, much in the same way as the corporate planning literature. This separation effectively isolates certain (societal and environmental) stakeholder relationship from the other (business focused) stakeholder relationships. This has resulted in corporate social responsibility being seen as either an "add-on" luxury that can be only afforded by the most successful businesses, or as damage limitation insurance, rather than as a core input to corporate strategy. Additionally, there has been some confusion in the corporate responsibility literature

around the priorities of stakeholders. There is one point of view that all stakeholders are equally important, simply because all have moral standing. It is difficult to document this position in the writings of stakeholder theorists, for instance in Freeman (1984), yet this idea that all stakeholders, defined widely, are equally important has been a barrier to further development of this theory.

THE DISTINGUISHING CHARACTERISTICS OF A STAKEHOLDER APPROACH

The idea of stakeholders, or stakeholder management, or a stakeholder approach to strategic management, suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business. The central task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups in a way that ensures the long-term success of the firm. A stakeholder approach emphasizes *active* management of the business environment, relationships and the promotion of shared interests.

Insert Figure 1 About Here.

A Typical Stakeholder Map [Freeman (1984)]

A stakeholder approach suggests that we redraw our picture of the firm, along the lines of Figure 1. For good or ill, there are myriad groups who have a stake in the success of the firm. Many traditional views of strategy have ignored some stakeholders, marginalized others and consistently traded-off the interests of others against favored stakeholder groups. Such an approach may well be appropriate in relatively stable environments. However, in a world of turbulence and accelerating change the limitations of traditional approaches to strategic management become increasingly apparent. The interests of key stakeholders must be integrated into the very purpose of the firm, and stakeholder relationships must be managed in a coherent and strategic fashion. The *stakeholder approach* that was developed from this work has several distinct characteristics:

First of all, a stakeholder approach is intended to provide a *single strategic framework,* flexible enough to deal with environmental shifts without requiring managers to regularly adopt new strategic paradigms. The intention is to break the confusing circle of "environmental shift → new strategic problem →development of new strategic framework →adoption of new strategic practices→ new environmental shift→ new problem."

Second, a stakeholder approach is a *strategic management* process rather than a strategic planning process. Strategic planning focuses on trying to predict the future environment and then independently developing plans for the firm to exploit its position. In contrast, strategic management actively plots a new direction for the firm and considers how the firm can affect the environment as well as how the environment may affect the firm.

Third, the central concern of a stakeholder approach is the *survival* of the firm, seen in Freeman's words as "the achievement of an organization's objectives". To survive in a turbulent environment management must *direct a course* for the firm, not merely optimize current output. To successfully change course, management must have the *support* of those who can affect the firm and understand how the firm will affect others (as in the long run they may make a reactive response). Therefore, understanding *stakeholder relationships* is, at least, a matter of achieving the organization's objectives which is in turn a matter of survival. The stakeholder framework does not rely on a single over-riding management objective for all decisions. As such it provides no rival to the traditional aim of "maximizing shareholder wealth." To the contrary, a stakeholder approach rejects the very idea of maximizing a single objective function as a useful way of thinking about management strategy. Rather, stakeholder management is a never-ending task of balancing and integrating multiple relationships and multiple objectives.

Fourth, a stakeholder approach encourages management to develop strategies by looking out from the firm and identifying, and investing in, all the relationships that will ensure long-term success. From this perspective it becomes clear that there is a critical role for values and 'values-based-management' within business strategy. Diverse collections of stakeholders can only cooperate over the long run if, despite their differences, they share a set of core values. Thus, for a stakeholder approach to be successful it must incorporate values as a key element of the strategic managmenet process.

This characteristic helps explain the success and influence of the stakeholder concept within the fields of Business Ethics and Business and Society. Scholars in these

fields have added greatly to our understanding of how morality and ethics should play a role in the world of business and stakeholder theory has played a very significant role in this progress. However, despite its association with business ethics as a separate discipline, a stakeholder approach remains a powerful and under-exploited theory of business strategy. Good stakeholder management develops integrated business strategies that are viable for stakeholders over the long run. While individual stakeholders may lose out on some individual decisions, all stakeholders remain supporters of the firm. Moreso than in the early 1980s, when such an approach was being invented by a number of scholars, a stakeholder approach is even more appropriate to today's fast changing business environment. We propose that as the business world becomes ever more turbulent, interconnected and as the boundaries between firms, industries and our public and private lives become blurred, a stakeholder approach has more and more to tell us about both values and value creation.

Fifth, the stakeholder approach is both a *prescriptive* and *descriptive* approach, rather than purely empirical and descriptive. It calls for an approach to strategic management which integrates economic, political, and moral analysis. Such an approach has implications for research in the discipline as well as practical results for managers. The purpose of a stakeholder approach to strategic management is to actively plan a new direction for the firm. It builds on concrete facts and analysis, and thus is descriptive, but it has to go beyond such description to recommend a direction for the firm, given its stakeholder environment. Stakeholder management suggests that stakeholder relationships can be created and influenced, not just taken as given. This is not merely a process of adapting the firm to management's best guess of the future environment.

Strategic management is a process where management imaginatively plans how its actions might affect stakeholders and thus help to *create* the future environment. Stakeholder management is used to enrich management's understanding of the strategic options they can create.

Sixth, the stakeholder approach is about concrete "names and faces" for stakeholders rather than merely analyzing particular stakeholder roles. As such what is important is developing an understanding of the real, *concrete* stakeholders who are specific to the firm, and the circumstances in which it finds itself. It is only through this level of understanding that management can create options and strategies that have the support of all stakeholders. And it is only with this support that management can ensure the long-term survival of the firm. It matters less that management understands the reaction of "customers-in-general" to a price rise. It matters much more that they understand how *our actual* customers react, bearing in mind the priority they were given during last winter's snowstorm, bearing in mind that they have 'tuned' their machinery to our product's specification and bearing in mind the industry annual trade show is next month. It matters less that management understands that "shareholders-in-general" expect steady dividend growth. It matters more that we understand that our shareholders expect us to increase internal investment as fast as possible because they invested expecting us to be "first to market" with the next generation product. Good strategic management, according to this approach, emerges from the specifics rather than descending from the general and theoretical.

Finally stakeholder management calls for an *integrated* approach to strategic decision making. Rather than set strategy stakeholder by stakeholder, managers must find

ways to satisfy multiple stakeholders simultaneously. Successful strategies integrate the perspectives of all stakeholders rather than offsetting one against another. This approach does not naively suggest that, by delving into the details, management can turn all constraints and trade-offs into a series of win-win situations. All stakeholders will not benefit all the time. Obviously, even with a detailed understanding of concrete stakeholder relationships, most strategies will distribute both benefits and harms between different groups of stakeholders. Win-win situations are not guaranteed. Indeed, it is just as important for management to develop strategies that distribute harms in a way that ensures the long-term support of all the stakeholders. Yet, over time stakeholder interests must be managed in the same direction.

RECENT WORK ON STAKEHOLDER MANAGEMENT

Since 1984 academic interest in a stakeholder approach has both grown and broadened. Indeed the number of citations using the word stakeholder has increased enormously as suggested by Donaldson and Preston (1995). Most of the research on the stakeholder concept has taken place in four sub-fields:, normative theories of business; corporate governance and organizational theory; corporate social responsibility and performance; and, strategic management.

A Stakeholder Approach to Normative Theories of Business

A stakeholder approach emphasizes the importance of investing in the relationships with those who have a stake in the firm. The stability of these relationships depends on the sharing of, at least, a core of principles or values. Thus, stakeholder theory allows managers to incorporating personal values into the formulation and

implementation of strategic plans. An example of this is the concept of an enterprise strategy. An enterprise strategy [Schendel and Hofer 1979] describes the relationship between the firm and society by answering the question "What do we stand for?" In its original form a stakeholder approach emphasized the importance of developing an enterprise strategy, while leaving open the question of which type of values are the most appropriate. "It is very easy to misinterpret the foregoing analysis as yet another call for corporate social responsibility or business ethics. While these issues are important in their own right, enterprise level strategy is a differently concept. We need to worry about the enterprise level strategy for the simple fact that corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its products." [Freeman, 1984, pp. 107] However, the illustration that values are an essential ingredient to strategic management has, indeed, set in train an inquiry into the normative roots of stakeholder theory.

Donaldson and Preston [1995] argued that stakeholder theories could be categorized from descriptive, instrumental or normative points of view. A descriptive theory would simply illustrate that firms have stakeholders, an instrumental theory would show that firms who consider their stakeholders devise successful strategies; a normative theory would describe why firms *should* give consideration to their stakeholders. Thus, the search for a normative justification for stakeholder takes the theory beyond strategic issues and into the realm of philosophical foundations.

The question this research stream is trying to answer is " above and beyond the consequences of stakeholder management, is there a fundamental moral requirement to

adopt this style of management?" Various attempts have been made to ground stakeholder management in a broad range of philosophical foundations. Evan and Freeman [1993] developed a justification of a stakeholder approach based on Kantian principles. In its simplest form this approach argued that we are required to treat people "as ends unto themselves." Thus, managers should make corporate decisions respecting stakeholders' well being rather than treating them as *means to a corporate end*. This framework has been further developed by Norman Bowie (1999) into a fully fledged ethical theory of business. From a different perspective Phillips [1997] has grounded a stakeholder approach in the principle of fairness. When groups of individuals enter voluntarily into cooperative agreements they create an obligation to act fairly. As such, normal business transactions create a moral obligation for firms to treat stakeholders fairly and thus to consider their interests when making strategic decisions. Others [Wicks, Freeman and Gilbert 1994, Burton and Dunn, 1996] have tried to justify a stakeholder approach through the ethics of care. Contrasting the traditional emphasis on an individual rights-based approach to business, an ethics of care emphasizes the primacy of the network of relationships that create the business enterprise. This approach advocates the use of a stakeholder approach because of the need to formulate strategy in the context of the relationships that surround it, rather than with the firm as a lone actor. Finally, Donaldson and Dunfee [1999] have developed a justification for a stakeholder approach that is based on social contract theory.

Recently, Kochan and Rubenstein [2000] have developed a normative stakeholder theory based on an extensive study of the Saturn automotive manufacturer. In this study they try and answer the question "Why should stakeholder models be given serious

consideration at this moment in history." For Kochan and Rubenstein this is both a normative and positive inquiry "and one that requires research that both explicates the normative issues and poses the theoretical questions in ways that promote tractable empirical research". They conclude that stakeholder firms will emerge when the stakeholders hold critical assets, expose these assets to risk and have both influence and voice. However, stakeholder firms will only be sustainable when leaders' incentives encourage responsiveness to stakeholders and when stakeholder legitimacy can overcome society's skeptical ideological legacy towards stakeholder management.

A Stakeholder Approach to Corporate Governance and Organizational Theory

This stream of stakeholder research has grown out of the contrast between the traditional view that it is the fiduciary duty of management to protect the interests of the shareholder and the stakeholder view that management should make decisions for the benefit of all stakeholders. Williamson [1984] used a transaction cost framework to show that shareholders deserved special consideration over other stakeholders because of "asset specificity." He argued that a shareholder's stake was uniquely tied to the success of the firm and would have no residual value should the firm fail, unlike, for example, the labor of a worker. Freeman and Evan [1990] have argued, to the contrary, that Williamson's approach to corporate governance can indeed be used to explain all stakeholders' relationships. Many other stakeholders have stakes that are, to a degree, firm specific. Furthermore, shareholders have a more liquid market (the stock market) for exit than

most other stakeholders. Thus, asset specificity alone does not grant a prime responsibility towards stockholders at the expense of all others.

Goodpaster [1991] outlined an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account. This stakeholder paradox has been attacked by Boatright [1994] and Marens and Wicks [1999] and defended by Goodpaster and Holloran [1994]. Others have explored the legal standing of the fiduciary duty of management towards stockholders, Orts [1997], Blair [1995]. Many of these debates are on-going, with some advocating fundamental changes to corporate governance and with others rejecting the relevance of the whole debate to a stakeholder approach.

There have also been a number of attempts to expand stakeholder theory into what Jones (1995) has referred to as a 'central paradigm' that links together theories such as agency theory, transactions costs and contracts theory into a coherent whole [Jones, 1995, Clarkson, 1995]. From this perspective stakeholder theory can be used as a counterpoint to traditional shareholder-based theory. While it is generally accepted that stakeholder theory could constitute good management practice, its main value for these theorists is to expose the traditional model as being morally untenable or at least too accommodating to immoral behaviour. This literature has historically consisted of fractured collection of viewpoints that share an opposition to the dominant neoclassical positive approach to business. Because of its accommodating framework the stakeholder concept provided an opportunity to develop an overarching theory that could link together such concepts as agency theory, transactions costs, human relationships, ethics and even the environment.

More recently Jones and Wicks [1999] have explicitly tried to pull together diverging research streams in their paper " Convergent Stakeholder Theory."

A Stakeholder Approach to Social Responsibility and Social Performance

A significant area of interests for theorists of social responsibility has been the definition of legitimate stakeholders. It has been stated that "one glaring shortcoming is the problem of stakeholder identity. That is, that the theory is often unable to distinguish those individuals and groups that are stakeholders form those that are not" [Phillips and Reichart, 1998]. Mitchell, Agle and Wood addressed this issue by developing a framework for stakeholder identification. Using qualitative criteria of *power, legitimacy and urgency*, they develop what they refer to as "the principle of who and what really counts." This line of research is particularly relevant in areas such as the environment and grassroots political activism. The critical question is whether there is such a thing as an illegitimate stakeholder, and if so how legitimacy should be defined. Agle, Mitchell and Sonnenfield [2000] have taken an opposite approach. Rather than try and theoretically define stakeholder legitimacy, they have conducted an empirical study to identify which stakeholders managers actually consider to be legitimate.

A large body of research has been carried out in order to test the 'instrumental' claim that managing for stakeholders is just good management practice. This claim infers that firms that practice stakeholder management would out perform firms that do not practice stakeholder management. Wood [1995] pointed out that causality is complex, the relationship between corporate social performance (CSP) and financial performance is ambiguous, there is no comprehensive measure of CSP and that the most that can be

demonstrated with current data is that “bad social performance hurts a company financially.”

It has often been hypothesized that firms who invest in stakeholder management and improve their social performance will be penalized by investor who are only interested in financial returns. This has been referred to as 'the myopic institutions theory. 'Waddock and Graves [1990] have demonstrated the growth in importance of institutional stakeholders over the last twenty years. On further investigation they found that firms that demonstrated a high level of corporate social performance (CSP) tends to lead to an increase in the number of institutions that invest in the stock [Graves and Waddock, 1994]. This result is “consistent with a steadily accumulating body of evidence that provides little support for the myopic institutions theory [Graves and Waddock 1994].” A range of recent studies have been carried out using new data and techniques to try and shed light on the links between stakeholder management and social and financial performance [Berman, Wicks, Kotha and Jones [2000], Harrison and Fiet [1999], Luoma and Goodstein [2000]. At a more practitioner level Ogden and Watson [2000] have carried out a detailed case study into corporate and stakeholder management in the UK water industry. At present most conclusions in this area are somewhat tentative as the precision of techniques and data sources continue to be developed.

A Stakeholder Approach to Strategic Management

Harrison and St John have been the leaders in developing an integrated approach with many of the conceptual frameworks of mainstream strategy theory. In their words “ [stakeholder management] combines perspectives from other traditional models such as

industrial organization economics, resource-based view, cognitive theory, and the institutional view of the firm."

They distinguish between *stakeholder analysis* and *stakeholder management*. Stakeholder management is built on a partnering mentality that involves communicating, negotiating, contracting, managing relationships and motivating. These different aspects of stakeholder management are held together by the *enterprise strategy* which defines what the firm stands for. Ethics are a part of these processes, first, because unethical behaviour can have high costs and second, because codes of ethics provide the consistency and trust required for profitable cooperation.

Harrison and St John are able to combine traditional and stakeholder approaches because they use the stakeholder approach as an overarching framework within which traditional approaches can operate as strategic tools. For example, they divide the environment into the *operating environment* and the *broader environment*. Within the *operating environment* the 'resource based view of the firm' can operate as a useful framework to study the relationships of internal stakeholders such as management and employees. Equally Porter's five-force model [Porter, 1998] can be used to shed light on the relationships of many external stakeholders such as competitors and suppliers. However, strategic management does not stop at this analytical/ descriptive phase. Prioritizing stakeholders is more than a complex task of assessing the strength of their stake on the basis of economic or political power. "Priority is also a matter of strategic choice." [Pp. 61] The values and the enterprise strategy of a firm may dictate priorities for particular partnerships and discourage others. Thus, a stakeholder approach. allows

management to infuse traditional strategic analysis with the values and direction that are unique to that organization.

Stakeholders must not only be understood in the present, they must also be managed over the long run. Harrison and St John distinguish between two basic postures for managing stakeholders: *buffering* and *bridging*. *Buffering* is the traditional approach for most external stakeholder groups and it is aimed at containing the effects of stakeholders on the firm. It includes activities such as market research, public relations, and planning. Buffering raises the barriers between the firm and its external stakeholders. In contrast *bridging* involves forming strategic partnership. This approach requires recognizing common goals and lowering the barriers around the organization. Partnering is proactive and builds on interdependence. It is about creating and enlarging common goals rather than just adapting to stakeholder initiatives. They propose a framework for determining the importance of developing partnering tactics and when it is appropriate to rely on more traditional methods.

Insert Figures 2 and 3

Harrison and St. John

With this framework as a guide they have been able to identify a wide range of partnering tactics that can be used by management to manage their critical stakeholders and develop critical strategies.

A STAKEHOLDER APPROACH AND MANAGEMENT PRACTICE

The impact of a stakeholder approach on management practice is difficult to establish. Much of contemporary debate and commentary is trapped in the rhetoric of a 'stakeholder versus shareholder' debate. Once strategic management is divided into this false dichotomy, stakeholder theory can be mischaracterized as anti-capitalist, anti-profit and anti-business efficiency. For this reason the words 'stakeholder management' have mostly been relegated to descriptions of a small number of radical businesses that are run very differently from mainstream corporations, for example Body Shop and Ben and Jerry's. However, the premise of the stakeholder approach that it is necessary for *all firms* would suggest that we should find many firms, rather than a radical few, using a stakeholder approach. Indeed that is what we find when we examine three recent books on the practice of management

In <u>Built to Last</u> [Collins and Porras, 1994] Jim Collins and Jerry Porras put the "shareholder versus stockholder' debate in a new light. Collins and Porras attempted to explain the sustained success of firms across many industries by contrasting them with less successful peers. They proposed that a necessary condition of long-term financial success is *a strong set of core values* that permeates the organization. " Core values are like an ether that permeates an organization… you can think of it as analogous to the philosophy of life that an individual might have. Core values are analogous to a biological organism's genetic code."[pp. 29] The authors confirmed this hypothesis with a rigorous financial analysis of successful and unsuccessful firms over the last century.

Not only does “Built to Last” provide strong support for the importance of an *enterprise strategy* as proposed in a stakeholder approach, many of the *core values* identified in the research confirm the importance of basing strategy on *collaborative stakeholder relationship*s. For example 3M’s core values include “ a respect for individual initiative and personal growth”; Merck’s core values include “profits, but profit from work that benefits humanity”; Hewlett-Packard’s core values include “ respect and opportunity for HP people” and “affordable quality for HP customers” and “profit and growth as a means to make all else possible”; Marriott’s core values include “people are #1- treat them well, expect a lot, and the rest will follow’; and Walt Disney’s core values include “to bring happiness to millions, and to celebrate, nurture and promulgate wholesome American values.”

“Built to Last” tells a story of the widespread use of a stakeholder approach by dozens of successful firms that include many elite multinationals. More importantly they found that the stakeholder approach in practice predates the formal articulation of stakeholder theory in academia. Thus, Collins and Porrit provide both empirical support for the success of a stakeholder approach and they confirm that the academic theory grew out of management practice rather than vice versa.

In The Stakeholder Strategy [Svendsen, 1998] Svendsen investigates firms who are building *collaborative stakeholder relationship* as part of their business strategy. From Wal-Mart, Marks and Spencer, Saturn, BankBoston and British Telecom to BC Hydro, Motoman Inc., Stillwater Technologies, and Van City Credit Union she demonstrates how managements across the world are continuing to develop and implement their strategies by developing collaborative relationships with the stakeholders

in their firms. Svendsen concludes that in an increasingly volatile world " the ability to balance the interests of all stakeholders will be a defining characteristic of successful companies in the next decade. This is not to say that companies will be able to satisfy everyone's interests all the time. However, companies that have a strong set of values and that can communicate their business goals clearly will maintain stakeholders support when the results are not in their favor."[Pg. 188]

Wheeler and Sillanpaa [The Stakeholder Corporation, 1997] trace the use of a stakeholder approach from Robert Owen, William Morris, Thomas Watson of IBM to The Body Shop. Their research illustrates the history, the rationale and the practical implementation of stakeholder ideas. They develop, and illustrate the use of, positively reinforcing *cycles of inclusion* that help build stronger and more cooperative stakeholder relationships. They also emphasize the need to *redescribe the world of business* in ways beyond, but not necessarily in contradiction to, the profit maximization view. As Anita Roddick points out in the Foreword to the book "Some of our best companies still retreat into "shareholder value" justification for excellent community outreach programs when they should simply celebrate and say "this is what business should be about.""[Pp. Vii].

AN AGENDA FOR FUTURE RESEARCH

So what are the critical issues facing a stakeholder approach to strategic management today? There are two main theoretical issues that stand out from the rest. First of all theorists must deal with what Freeman (1994) and Wicks and Marens have called "The Separation Thesis". The Separation Thesis states that we cannot usefully analyze the world of business as if it is separate from the world of ethics or politics. Our

personal values are embedded in all our actions, therefore unless our theories take this into account, they will do a poor job of explaining our world. The separation thesis was formulated because of the widespread adoption of a stakeholder approach within business ethics and because of the continued neglect of a stakeholder approach in the area of strategic management. This distortion has resulted in stakeholder theory being seen as an ethical rather than a business theory. This categorization serves to isolate ethical issues from the mainstream business theories and to isolate a stakeholder approach from mainstream business strategy.

Second, Wicks and Freeman have recently called for a pragmatist perspective to the study of management. A stakeholder approach grew out of a practical study of management problems. A pragmatic approach to strategic management would focus academic research on the detailed study of concrete business situations. Over time general theories might emerge, but not through abstract theory development.

Those who have called for a pragmatic approach to stakeholder theory have been seeking to combine a post-modern anti-foundationalist approach to theorizing with a Rortian desire to reform and redescribe the human enterprise [Wicks and Freeman]. The post-modernist seeks to abandon the quest for Truth that began in the Enlightenment. These theorists argue that there is no truth about the world of business to be found. There are no irrefutable foundations for business theory or economics. The frameworks and laws that we use to describe business are simply ideas that have achieved a broad level of agreement among informed practitioners. To search for higher levels of abstraction, that would provide a foundation for these laws as Truth, is a distraction to the progress of business strategy. To the contrary, the priority for business theorist should be to study the

world of business and develop new ways to describe value creation and trade. New descriptions of bad or harmful business practices will inspire us to challenge existing practices, norms and attitudes. New ways of describing excellent ways of creating value will provide hope and stimulate change and innovation.

This approach to business research would challenge the idea that there is a separate world where "business is business" and where the fundamental principles, self-interest, unfettered competition and the maximizing of shareholder wealth, have already been discovered. This approach would encourage researchers to challenge the language and metaphors of existing theories of business and economics. It would challenge the accepted laws and truths about business and to abandon the search for an overarching 'true' paradigm of business. Rather, researchers should expect a multitude of theories and frameworks that describe different approaches and different aspects of business. There will still be good and bad theories of business strategy, but the value of the theory will depend on its ability to help mangers make sense of their world, rather on the basis of theoretical elegance.

What would pragmatism mean for a stakeholder approach? First, it would mean the end of separate streams of business ethics and business strategy research. Second, it would mean an end to the search for normative or foundational roots for stakeholder theory. Third, it would mean abandoning the search for absolute object definitions of such things such as stakeholder legitimacy. These issues would depend on the question at hand and on the circumstances under consideration. A stakeholder approach might consist of a collection of interacting, reinforcing and contradicting theories of business strategy. Each theory would be based on concrete studies of real business case studies.

This is not to say that we need to abandon the idea of general principles for the sake of contingent theories. At any point in time there will always be theories, based on specific examples, who's message holds true for a great many businesses and mangers. These will still be general principles of business; indeed the idea that businesses should be managed in the interests of stakeholders is one of those ideas. However these principles will, over time, be continuously under review and will eventually be replaced by a description that are more useful. The work of Kochan and Rubenstein [2000] is, in many ways, at the vanguard of this approach. As outlined above there are theoretical, epistemological and research challenges for a stakeholder approach to strategic management. The authors believe that these challenges should be met by turning our faces towards practitioners and the development of a set of narratives that illustrate the myriad ways of creating value for stakeholders.

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