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Instrumental Stakeholder Theory Makes Ethically Based Relationship Building Palatable to Managers Focused on the Bottom Line

Jeffrey S. Harrison
University of Richmond, harrison@richmond.edu

Will Felps

Thomas M. Jones

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We appreciate the opportunity to engage in this dialogue with Weitzner and Deutsch (2019) to clarify the meaning and intent of some of the arguments found in our article, "How Applying Instrumental Stakeholder Theory Can Provide Sustainable Competitive Advantage" (Jones, Harrison, & Felps, 2018). We are grateful for the high praise from the authors regarding the rigor and logic of our applications of resource-based criteria to instrumental stakeholder theory (IST). We begin this response by highlighting a few areas of agreement, followed by some points where we disagree.

AREAS OF AGREEMENT

We agree with Weitzner and Deutsch that the reason most strategic management scholars originally did not embrace stakeholder theory was because of the perception that a higher level of morality in business would necessarily lead to lower financial performance. In fact, this belief fueled the development of IST as well as the stream of empirical research to which it relates. We also share Weitzner and Deutsch's noble goal of attempting to make the world a better place. In addition, we support an increased emphasis on studying relationships between firms and stakeholders, as well as among stakeholders, and that intrinsic relational motivations are important. Finally, we agree that it would be unfortunate if understanding IST actually discouraged managers from ethical behavior.

POINTS OF DISAGREEMENT

To begin, we review the basic logic of our article as it relates to Weitzner and Deutsch's main points (a more detailed summary can be found on page 384 of the original article). In the article we argue, among other things, that firms pursuing a communal sharing relational ethics (CSRE) strategy can form close relationships with stakeholders and that those relationships have a number of potential benefits, including improved reciprocal coordination, better knowledge sharing, attraction of stakeholders that are better able to contribute to the creation of joint value, a higher level of moral motivation, and lower transaction costs. Furthermore, for a number of reasons explained in the article, close relationship capabilities are likely to be relatively rare and difficult to imitate. Consequently, firms can enjoy a sustained competitive advantage by pursuing a CSRE strategy in the contexts we identify in which the benefits of close relationships should outweigh the incremental costs.

Weitzner and Deutsch cite the Freeman, Harrison, Wicks, Parmar, and de Colle (2010) book, which argued that stakeholder theory has been developed over the last several decades to help reconceptualize how value is or can be created and traded in a turbulent global environment, how ethical thinking and capitalism can be integrated, and how managers can address both of these issues simultaneously and effectively. Weitzner and Deutsch also suggest that our logic somehow undermines this purpose. Unsurprisingly, we believe the opposite. Our article was, among other things, a concrete and specific response to what Weitzner and Deutsch deride as "feel-good clichés" about "doing well while doing good" (2019: 697, citing Stiglitz, 2018). It affirms that some businesses have the opportunity to achieve high economic performance over a sustained period while simultaneously treating their stakeholders in an ethical manner. That is, it argues that a Pareto improvement in social welfare can be made through communal sharing relationships—shareholders and some stakeholders are better off without making any other stakeholders worse off. After all, as the authors point out, "businesses are instrumental institutions, existing to serve social purposes larger than their own perpetuation or the wealth maximization of their shareholders" (2019: 695, citing Jones & Wicks, 1999: 211).

The authors also suggest that we have taken the extreme position in our article that the only firms that will benefit from pursuing ethical strategies are those that successfully execute a CSRE strategy. While it is true that we argue that it is possible to achieve sustainable competitive advantage through successful execution of a CSRE strategy, it is not true that we claim that this is the only way to enjoy benefits from treating stakeholders ethically. Other ethical means to this worthy end are certainly possible, and IST remains a promising way to reveal them.

This dialogue provides a welcome opportunity to clarify an important point about our theory—namely, all of the concepts in our version of IST should be interpreted as continuous rather than categorical. It seems to be rhetorical convention to speak of the RBV criteria in categorical terms: a resource is valuable or it is not, it is rare or it is not, it is inimitable or it is not. In fact, these concepts are more realistically considered as continuous. Similarly, sustainable competitive advantage is simply the most positive point on a continuum, with the endpoints being (a) performs better than all competitors forever versus (b) permanently performs worse than all other competitors. The reality is that while managers can work to obtain sustainable competitive advantage, they may never be expected to reach it. In the same sense, a perfect CSRE strategy may not be obtainable, but firms pursuing this strategy may still be able to enjoy many of the benefits of close relationships in spite of imperfections. Also, although we argue in our article that firms approaching the moralist prototype are most likely to find a positive benefit/cost relationship when pursuing a CSRE strategy, it seems plausible that more modest returns can be gained from progress toward an ethical culture in other firms as well. This relationship may be linear or nonlinear. These are really empirical issues to be addressed in future research.

Moving on, Weitzner and Deutsch suggest that our gloomy and cynical theory precludes managers from attempting to build ethical relationships with their stakeholders for their own sake. The logic underlying this claim seems questionable. No other rationale for building ethical relationships with stakeholders is affected by the conclusions reached in our article. Why would a manager bent on developing close stakeholder relationships for their own sake be deterred if the financial effect of doing so is positive?

Consistent with Freeman and colleagues' argument that "stakeholder theory needs to be seen as a theory about how business actually does and can work" (2010: 3), we believe managers often do things for more than one reason. They can be motivated to pursue close stakeholder relationships for both intrinsic and extrinsic reasons (Gerhart & Fang, 2015). In many contexts identified in our article, intrinsic and extrinsic motives for developing close relationships with stakeholders are likely to be consistent and mutually supportive. This consistency makes building close relationships with stakeholders a palatable strategy even for managers who are obsessed with bottom-line performance. However, as acknowledged in the original article, there may be situations where close relationships harm firm financial performance and where they may threaten firm survival in competitive market economies. In such situations, we believe it would be irresponsible for scholars to encourage managers (or policy makers) to naively ignore this reality. Fortunately, few managers would listen to such bad advice because they are sensitive to extrinsic motives and financial performance—underscoring the practical importance of IST.

Finally, Weitzner and Deutsch argue that "if relationship building is viewed through a relational lens, then it becomes something that can truly help all managers, at all firms, address the problem of ethics . . . [and] capitalism" (2019: 696). While a purely relational lens may address many ethical issues well, we fail to understand how it addresses the objectives of capitalism, which, by definition, pertain to (at a minimum) the creation, possession, and growth of capital. In contrast to a purely relational lens, our arguments demonstrate how ethically based strategies leading to close relationships can be used to achieve growth in capital. As Weitzner and Deutsch remind us, stakeholder theory is intended to address the issue of how value is created (Freeman et al., 2010), and capital is an important part of that value.

A PARTING COMMENT

While we do not believe IST research should be retired, we recognize and support what appears to be the driving motivation of Weitzner and Deutsch—that the Academy should have more interest in the value firms create (and destroy), beyond that which is purely economic. In fact, in other work we have argued that the objective of the firm should be broadened to include elements associated with stakeholder relationships (i.e., Harrison & Wicks, 2013; Jones & Felps, 2013). So while we disagree with many of the conclusions reached by Weitzner and Deutsch and find fault in elements of their logic, we applaud their focus on stakeholder relationships.

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Jeffrey S. Harrison (harrison@richmond.edu)
University of Richmond

Will Felps (w.felps@unsw.edu.au)
University of New South Wales

Thomas M. Jones (rebozo@uwashington.edu)
University of Washington

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