# Stakeholder Theory at the Crossroads

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# STAKEHOLDER THEORY AT THE CROSSROADS

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## BIOGRAPHICAL STATEMENTS

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**Abstract**

The stakeholder perspective has provided a rich forum for a variety of debates at the intersection of business and society. Scholars gathered for two consecutive years, first in North American, and then in Europe, to discuss the major issues surrounding what has come to be known as stakeholder theory, to attempt to find common ground, and to uncover areas in need of further inquiry. Those meetings led to a list of "tensions" and a call for papers for this special issue to help address them. In this article we introduce the resulting articles and provide some brief commentary on their importance. We end with a few of our own observations about the stakeholder perspective and stakeholder research.

**Keywords**

Stakeholder theory, stakeholder management, stakeholder power, trust, new venture formation, performance measurement, vertical supply chain

A stakeholder perspective of the firm has existed in the modern business literature for about half a Century (Freeman, Harrison, Wicks, Parmar & de Colle, 2010). Although it has been used to guide both public policy and business decisions, there is no consensus about its general applicability. Some hold the view that stakeholder theory has addressed most of its critical issues and can be used to inform business decision making, is being used to inform business decision making, and should be used to inform business decision making. Others hold the view that, at the least, some important issues within the stakeholder perspective are not yet resolved, and that these issues limit its usefulness. Still others hold the view that, even if all these issues were resolved, the general application of a stakeholder perspective would still not be a good thing. All sides of this multi-dimensional debate already understand most of the essential arguments mustered by those in opposition.

In October of 2015 a group of scholars with varied disciplinary backgrounds but a common interest in the stakeholder perspective met in stunning Zion National Park in the US for an unusual 3-day retreat to attempt to find common ground and to look for fruitful ways forward. The workshop, held in conjunction with the annual meeting of the Strategic Management Society, was unusual in that it was not organized around papers. In fact, there were no PowerPoint presentations until the final summary session of the workshop. Instead, experts on particular stakeholder-related research topics led group discussions with the purpose of advancing thinking on their topics. One of the first things we realized was that there was very little consensus on anything. Even some of the fundamental stakeholder ideas resulted in debate rather than consensus. We did agree that stakeholder theory is not one theory, but a genre of theories with some common themes.

In the final session of the Zion meeting, Bob Hoskisson and Maurizio Zollo led a discussion to identify the "tensions" that were discovered during the sessions. The list of tensions, edited slightly for the purpose of this special issue, follows:

1. Is "stakeholder theory" really a theory or is it merely a perspective? If it is a theory, what are its essential arguments? If it is not a theory, then what is it and which problems does it/can it address?
2. Is the primary role of stakeholder management one of satisfying stakeholders or is it seeing them as joint partners in co-production?
3. Is stakeholder theory primarily aimed at creating value for all involved or at creating value for the firm?
4. From a firm value creation perspective, is it really optimal to treat *all* essential stakeholders unusually well (within rational limits)? If, on the other hand, a firm focuses on a narrower group of stakeholders, to what extent are the benefits of generalized exchange lost?
5. To what extent are essential property decision rights allocated to stakeholders ex ante vs. do they tend to evolve as stakeholders are enrolled in co-production over time?
6. Are decision rights primarily a function of cash flow consideration or are they implicit for stakeholders that do not have explicit rights but are still critical to the creation of value?
7. To what extent does stakeholder theory focus on achieving commitment from stakeholders through procedural and distributional justice vs. a focus on instrumentality in the name of efficiency?
8. Is stakeholder theory a theory of ethical decision-making or does it simply promote moral minimums in managerial decisions?

9. Does a stakeholder approach promote primarily cost minimization or opportunity maximization? Which factors create tradeoffs between these two perspectives?
10. Can firms find common ground among stakeholders with competing interests vs. do such competing interests make finding common ground unlikely?
11. Does stakeholder-based management always lead to greater value creation vs. what are the essential moderators in this relationship?
12. Stakeholder theory and the resource-based view contradict each other vs. these two theories are complementary in some important ways.

One of the direct outcomes from this first meeting was a call for papers for a *Business & Society* special issue to attract papers that promote the building of a new common ground for stakeholder theory by addressing some of these tensions. Also, a second meeting of scholars, some from the Zion workshop and some new faces, met in a two-day Strategic Management Society conference extension in Zürich, Switzerland in September of 2016. The extension was hosted by Sybille Sachs at the University of Applied Sciences in Business Administration (HWZ) with the joint purposes of exposing participants to the tensions and discussing ways to address the tensions in research, either through improving an existing research paper or developing a plan for tackling a tension in a new research project. In addition, a special session at the 2017 International Association for Business and Society Annual Meeting in Amsterdam was devoted to helping scholars further develop their papers for this special issue. Several of the authors of articles included in this special issue benefitted from these meetings.

**Articles in This Special Issue**

This group of articles provides a richness and diversity of topics and approaches that are a reflection of the stakeholder domain itself. The first article contains a commentary on the list of tensions by three intellectual leaders on the stakeholder perspective. In "Tensions in Stakeholder Theory," Edward Freeman, Robert Phillips and Rajendra Sisodia (2019, this issue) explain why they believe that most of the tensions identified by scholars in the meetings mentioned previously are more a function of differing perspectives resulting from divergent intellectual paths in the strategy and stakeholder domains as opposed to genuinely competing propositions that need to be reconciled. They point out that tension relies on at least one fixed point against which something else is pulling, and that several of the fixed points are simply assumptions designed for specific theoretical purposes.

On the subject of whether the stakeholder perspective is a theory, Freeman and colleagues suggest that the term "theory" is simply used to elevate a set of ideas to a privileged position. They go on to identify the distinctive elements of stakeholder "theory" as 1) describing human actors cooperatively engaged in value creation, 2) aligning values, norms and ethics as mechanisms to produce both efficient and effective flourishing within and among organizations, 3) encompassing a worldview of business that reflects a higher state of consciousness about its short- and long-term role in and impact on society. It seems to us to be very helpful to have these three leaders so succinctly define some of the key elements of the field to which they have been contributing for so long.

The three authors end by bringing us back to what they call the "real world" by noting that stakeholder theory was developed based on direct observations of how the business world and the process of value creation actually function. They point out that the most useful unit of analysis for stakeholder theory is the stakeholder relationship, while the most common unit of analysis is the economic transaction. But, they argue, stakeholder relationships are not the summation of a group of economic transactions. They leave us with some important challenges that need to be addressed through additional research.

In the second article, called “When Do Powerful Stakeholders Give Managers the Latitude to Balance All Stakeholders’ Interests?”, Flore Bridoux and Pushpika Vishwanathan (2019, this issue) directly address the tension that often exists between powerful stakeholders and managers. For example, managers may desire to focus more attention on the needs of a broader group of stakeholders, but feel constrained from doing so because of the demands of powerful stakeholders. Their article challenges the assumption inherent in a lot of the stakeholder literature that managers can merely select a broad stakeholder strategy for their firms if it is their desire to do so. They point out that powerful stakeholders have the ability to constrain the firm’s choice of a stakeholder orientation. For example, they can use their power to disproportionally appropriate as much value for themselves as possible; however, they may refrain from doing so to some extent because they realize that greater allocations to other stakeholders can have long-term benefits. They may also be ready to sacrifice some of their material outcomes to fulfill human needs such as providing a positive social identity. As powerful stakeholders refrain from exercise their bargaining power to the greatest extent, managers have more latitude in terms of establishing a stakeholder management strategy. Because their ideas address a tension that is so evident in practice, we believe they will encourage further development and empirical testing.

Trust is one of the most important constructs in the stakeholder literature, and in the third article, called “Revisiting Who, When and Why Stakeholders Matter: Trust and Stakeholder Connectedness,” Bret Crane (2019, this issue) provides a meaningful extension to this literature by discussing how the actions of a firm towards one or a small group of stakeholders can influence the extent to which other stakeholders are willing to make themselves vulnerable to the firm and engage in future exchange relationships. He builds on a perspective of the firm as an ecosystem of stakeholders characterized by interconnected networks of relationships such that firm actions have both direct and indirect consequences. These indirect or "cascading" influences might also be described as generalized exchange effects. Crane's practical argument is that focusing on trust as a fundamental need of all stakeholders empowers mutually beneficial and productive relationships that facilitate the creation of value. One of the questions that came out of the tensions identified for this special issue was whether stakeholder-based management will always lead to greater value creation or if there are essential moderators of this relationship. Crane's work suggests that trust may be one of these essential moderators, a notion that is empirically testable.

The next two articles in the special issue are bold in their methodological approaches, demonstrating what can be accomplished when researchers are willing to step out of the intellectual straightjackets that sometimes constrain our efforts. The first of these is a rich and comprehensive case study called "Creating the World's Deadliest Catch: The Process of Enrolling Stakeholders in an Uncertain Endeavor," by Sharon Alvarez, Susan Young and Jennifer Woolley (2019, this issue). It contains the fascinating story of how Wakefield Seafoods basically created a whole new industry segment around king crabs. It addresses the tension that exists between risk aversion and the desire to co-create value as stakeholders consider whether to engage with an entrepreneur in a new venture. Overcoming this tension in favor of enrolling stakeholders is perhaps the greatest challenge an entrepreneur faces.

Alvarez and colleagues find evidence that when the usefulness of current knowledge about a venture is unpredictable, factors that facilitate successful enrollment include building trusting relationships, using human capital flexibly, bootstrapping techniques that make use of an entrepreneur's network of family and friends, and forming a collective view of the venture. However, the factors are different depending on which stakeholder group the firm is attempting to enlist. We believe this article will serve as an effective stimulus for research on engaging new stakeholders, an important area in the stakeholder literature that has been largely neglected. We should add that because stakeholder models, by virtue of their inclusion of multiple stakeholders, tend to be more complex than some other types of business models, carefully conducted case studies like this one have great potential for shedding light on some of the tensions highlighted by this special issue and other issues of importance to the area.

In the next article, "Reimagining Profits and Stakeholder Capital to Address Tensions among Stakeholders," David Hatherly, Ronald Mitchell, Robert Mitchell, and Jae Hwan Lee (2019, this issue) utilize a meditative thought experiment to shed light on the tension between people and profits. They break away from conventional logic about accounting for profits and capital through a series of "what if" propositions.  Specifically, they reimagine how the firm can benefit stakeholders and society without dropping a focus on profits and the accumulation of capital within corporations. Their two mechanisms for achieving this purpose involve changes in the way profits are accounted for and changes in the way capital is recognized. They argue that both of their mechanisms can incentivize managers to make decisions that are of greater benefit to the firm, its value-creating stakeholders, and ultimately to society. The revised accounting for profits and capital would discourage both management and shareholders from seeking compensation as a result of what they call "artificial" profits garnered through transfers from other stakeholders, and focus attention instead on real profit and wealth creation. We recognize, as they do, that the changes they advocate are unlikely to occur in the near future, but their reasoning may provide a sort of launching pad for genuinely rethinking conventional accounting. In this sense, it is a another step towards addressing one of the major challenges identified by Freeman, et al. (2019, this issue) in their article in this special issue – the challenge of accounting for stakeholders.

Finally, in “The Influence of External and Internal Stakeholder Pressures on the Implementation of Upstream Environmental Supply Chain Practices,” Stephanie Graham (2019, this issue) examines environmental supply chain practices in the UK food industry. She finds that a proactive environmental strategy has a large impact on upstream environmental practices and that competitive pressure influences both the adoption of a proactive environmental strategy and upstream practices. Particularly interesting, she finds support for some mediating effects that suggest that internal environmental strategy plays an important role in translating external pressures into practical environmental responses. Graham’s work is a nice extension of existing research on the influence of stakeholders on firm environmental practices, an area of importance in the business and society literature. It also fits nicely into this special issue in that it addresses the tension that sometimes exists between internal and external stakeholders.

**Finding a Way Forward**

Our discussions over the past few years beginning with the Zion meeting have been rich, thoughtful, and have involved dozens of brilliant scholars. The diversity of topics and perspectives are reflected also in this special issue. It seems that the genre of theories we call stakeholder theory contain many questions, challenges, and competing perspectives, with few answers. In other words, it is an area full of opportunities for further inquiry. It is also a topic that is gaining momentum in a wide variety of disciplines (Freeman, et al., 2010).

A stakeholder approach is, by its nature, very complex and comprehensive. But as Freeman, et al. (2019, this issue) said, stakeholder theory cannot be a theory of everything. For example, stakeholder theory is not the same as corporate social responsibility, which often focuses on social causes such as the environment or whether a firm invests in industries (i.e., gambling, time share) or countries (i.e., Cuba, Venezuela) that are offensive to some groups in society. The environment is not human, and society, although composed of a lot of humans, is at a level of analysis that is more appropriate for sociologists. This is not to say that firms that "manage for stakeholders" are likely to ignore the environment. In fact, Graham (2019, this issue) suggests the opposite. A term that better fits stakeholder theory is "corporate responsibility," and a firm demonstrates this sort of responsibility through its decisions and actions with respect to its stakeholders (Freeman, et al., 2010). A corporation that provides an excellent and safe product at a fair price, pays its suppliers fairly and on time, treats its employees well, is respectful to the local communities in which it operates, pays its financiers as promised, provides a reasonable return to its shareholders, obeys applicable laws, and exhibits trustworthy behavior in its interactions with all its stakeholders is responsible.

Also, as editors or reviewers we frequently get articles that purport to be about stakeholder theory because they use as building blocks some of the same theories, books and articles used in the stakeholder literature. However, upon inspection, they pertain to only one stakeholder group. For example, the most common of these types of papers focuses on employees. The paper may use concepts such as trustworthiness, reciprocity, or organizational justice as a foundation for their propositions or hypotheses, but their only subject group is employees. Stakeholder theory pertains to relationships with multiple stakeholders (Freeman, 1984; Freeman, et al., 2007). A paper that focuses on employees exclusively, even if it uses stakeholder theory to build out its arguments, would fall into an area like organizational behavior, human capital or human resources strategy. Similarly, a paper that focuses exclusively on customers is better classified as marketing.

In addition to being human and multi-stakeholder focused, stakeholder theory as we understand it is primarily about value co-creation with stakeholders (Freeman, et al., 2007). It provides an appropriate lens for examining not only how that value is co-created through relationships with stakeholders (see Freeman, et al., 2019, this issue), but how it is ultimately distributed (see Bridoux & Vishwanathan, 2019, this issue), and how its distribution also influences value creation. We acknowledge also that moral dimensions have been inseparable from stakeholder theory since its inception (Freeman, et al., 2010; Freeman, et al., 2019, this issue). Because of its comprehensive nature, stakeholder theory, much like strategic management, can benefit from drawing in theories and perspectives from multiple disciplines.

These sorts of articles often end with a list of research questions or high-potential research topics. However, the authors have already provided these. We will simply mention here those we feel are most promising. As mentioned previously, Freeman et al. (2019, this issue) and Hatherly et al. (2019, this issue) both suggest that adjusting accounting methods to make them more stakeholder oriented is a subject of great importance. Freeman et al. also suggest focusing on the human elements of stakeholder theory (echoed also in Bridoux & Vishwanathan, 2019, this issue) and on the linkages between the firm and other societal elements such as public policy. Bridoux and Vishwanathan and Alvarez et al. (2019, this issue) argue that there is a need for further research on stakeholders that are not yet stakeholders but are considering engaging with the firm. Crane's (2019, this issue) work further accentuates the importance of the generalized exchange, or the influence of a firm's relationship with one stakeholder on its relationships with other stakeholders. To some extent, Graham's work does also, as she discovers mimetic pressure among competitors and describes its influence on firm behavior. In addition, Graham's study suggests that more work is needed that explores the extent to which firms are self-directive in spite of external pressures (see also Bridoux & Vishwanathan, 2019, this issue).

In addition, the list contained at the beginning of this introduction is worthy of further examination and investigation. Whether the tensions are largely perspectival (as Freeman, et al., 2019, this issue, suggest) or real, they still exist in the minds of people who are interested in the stakeholder perspective. As these tensions are further explored, we would warn about avoiding quibbles over terminology and encourage research that focuses instead on constructs and relationships among them.

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