Bookshelf

2019

[Introduction to] The Cambridge Handbook of Stakeholder Theory

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

Jay B. Barney

R. Edward Freeman

Robert A. Phillips
University of Richmond

Follow this and additional works at: https://scholarship.richmond.edu/bookshelf

Part of the Business Commons

NOTE: This PDF preview of [Introduction to] The Cambridge Handbook of Stakeholder Theory includes only the preface and/or introduction. To purchase the full text, please click here.

The Cambridge Handbook of Stakeholder Theory

Edited by

JEFFREY S. HARRISON
University of Richmond

JAY B. BARNEY
University of Utah

R. EDWARD FREEMAN
University of Virginia

ROBERT A. PHILLIPS
York University

CAMBRIDGE
UNIVERSITY PRESS

Chapter Summaries

Prepared by SERGIY DMTRIYEV[1]

Chapter 1

The first chapter in this *Handbook*, written by co-editors Robert Phillips, Jay Barney, Edward Freeman and Jeffrey Harrison, sets the stage for the stakeholder work to come, both in this volume and beyond. They examine some of the most important lingering questions found in the stakeholder literature. The first deals with implications regarding the boundaries of the firm. Stakeholder scholars often assume their existence, and use terms such as "internal" and "external " without really accounting for how boundaries are defined. How boundaries are conceived plays a significant, even determinative, role in what is measured and reported in accounting statements, and also have profound behavioral consequences. The role of norms, values, and ethics in stakeholder theory, as well as its pragmatic side, are also discussed. Moving forward, fruitful research topics also include stakeholder-oriented objective functions, multinational comparisons, interdisciplinary work, and integration of behavioral theory. The editors also provide advice regarding empirical stakeholder work and a list of interesting research questions.

Chapter 2

In Chapter 2, Paul Godfrey and Ben Lewis explore the moral foundations of stakeholder theory. Five main trends (or temporal phases) in the development of stakeholder theory scholarship are identified over the last thirty years. Early works tended to examine stakeholder theory from an instrumental (utilitarian) and/or normative (deontological) perspective, while the recent growing body of literature tends to look at stakeholder theory from a descriptive, practical perspective. The emphasis on descriptive stakeholder theory has its ground in the moral premises of pragmatism and pluralism. Contemporary moral philosophy challenges the presence of objective sources of morality as the world is too complex to be governed by universal moral rules, which leads to comprehending the domain of morality as intersubjective. As such, pragmatic and pluralistic perspectives on moral decision-making are the necessary underpinnings for stakeholder theory. At their very core, pragmatism and pluralism aim at achieving individual and societal flourishing, and stakeholder theory helps advance the desired outcomes by enabling constructive and sustainable relationships among stakeholders.

Chapter 3

Michelle Greenwood and Raza Mir take a critical look at stakeholder theory in Chapter 3, arguing that it has become overly conservative over the years such that it does not reflect some of the recent trends in business and society. Among other things, stakeholder theory needs to consider how race, class, culture, and gender shape individuals' decisions and behaviors. Stakeholder theory can be improved by better describing how business functions and how it interacts with our lives. Four key tenets of critical management studies are relevant: the salience of economic class, the power of non-class identity formations, the imperialist nature of global relations, and the intersubjective constituency. Although these tenets pose structuralist challenges for stakeholder theory that might prove to be insurmountable, their humanist challenges hold much promise for stakeholder theory to address many of its limitations by embracing the political and intersubjective

constitution of relationships in society. Rethinking capital and property, stakeholder identification, stakeholder engagement, stakeholder governance, and stakeholder relationships could make stakeholder theory more engaged, more analytic, and more emancipatory.

Chapter 4

In Chapter 4, Ronald Mitchell and Jae Lee argue that stakeholder identification is a key element of "stakeholder work" – a system of value creation. Five consequential phases in stakeholder work are identified: from stakeholder awareness work, to stakeholder identification, to stakeholder understanding, to stakeholder prioritization, and, as a culminating outcome of the successful accomplishment previous stages, to stakeholder engagement. The chapter explains in detail how stakeholder identification contributes to the creation of value, namely, through the consonance (mutual support) of stakeholder identification with other phases of stakeholder work. As such, value becomes created only if there are dynamic and inter-supportive interactions across all phases of stakeholder work.

Chapter 5

Chapter 5 explores the role of corporations in society. Thomas Jones and Jeffrey Harrison examine whether, and under what conditions, it might be reasonable for corporations to establish an objective that simultaneously enhances social welfare and increases shareholder wealth, thus leading to sustainable wealth creation in society. First, the origins and key pillars of instrumental stakeholder theory are examined. Then, the authors question the common assumption that corporate profit maximization inevitably leads to maximum social welfare, and demonstrate that a single-valued corporate objective (total shareholder returns) is not the right goal from a societal perspective. Furthermore, aggregate social wealth creation should prevail over shareholder returns if these two goals come into conflict. The authors also propose a solution to resolve this tension: the

corporate objective should be to increase shareholder wealth without making any other stakeholders worse off, which can be achieved by applying Kaldor improvements with compensation. In doing so, it is important to distinguish between wealth creation and wealth transfer, where the latter should either involve compensation to offset the losses of some stakeholders or be avoided.

Chapter 6

Chapter 6 is devoted to investigating the interconnection between stakeholder theory and the disciplines of law and public policy. Andrew Wicks, F. A. Elmore, and David Jonas explore opportunities to deepen and make more overt the connections with stakeholder theory in those fields, aiming to strengthen the quality of their scholarly discussion on the relevant topics, for instance, in corporate governance or government programs. Currently, the law and public policy fields stand at a crossroads and further research developments in both fields could either embrace the ideas of stakeholder theory or discourage their adoption. In their review of the law literature, the authors focus on the areas of corporate governance (including board of directors, management, fiduciary duties, and the business judgment rule), corporate constituency statues and non-shareholder rights, and benefit corporations. In the survey of the public policy scholarship, the authors pay a special attention to such areas as new governance theory, participatory democracy, and public-private partnerships.

Chapter 7

Chapter 7 provides another perspective on stakeholder theory and the law. David Rönnegard and Craig Smith discredit the common belief that shareholder primacy is a legally binding norm in the USA and UK, and suggest that managers can largely run their businesses according to the principles of stakeholder theory without significant legal constraints. At the same time, their analysis shows that corporate law favors shareholders when it

comes to corporate governance since shareholders enjoy sole voting rights on corporate boards. In practice, this makes business executives believe they are accountable mainly to shareholders. The authors also demonstrate that shareholder primacy is a strong social norm taught in business schools and popularized among managers. To correct the imbalance between shareholder interests and the interests of other stakeholders, they suggest two solutions: strive for a more inclusive governance structure by granting voting rights to other stakeholders and emphasizing that managers' fiduciary duties extend beyond shareholders, and include other stakeholders as well.

Chapter 8

Jacob Hörisch and Stefan Schaltegger apply a stakeholder perspective to an interdisciplinary body of literature dealing with natural environment and sustainability in Chapter 8. They explain why the natural environment is essential to the successful application of stakeholder theory and then they explore in detail two alternative but profoundly different possibilities for adding the natural environment to the theory. The first approach for integrating the environment into stakeholder theory is to make it an additional stakeholder. The second approach makes the environment an important shared concern among human stakeholders. They analyze pros and cons for both alternatives, bringing up supporting arguments from the literature and those of their own. This chapter also explores how a stakeholder perspective can contribute to solving environmental problems. In turn, stakeholder theory can benefit from developments in sustainability management such as understanding that business is embedded in ecological systems and putting more of an emphasis on future stakeholders.

Chapter 9

In Chapter 9, CB Bhattacharya and Daniel Korschun integrate stakeholder theory with developments in the area of marketing. They explain that the quality of engagement between employees and other stakeholders is largely dependent on the quality of the relationships between the employees and the company they work in. The key to understanding when, why, and how positive interactions between internal and external stakeholders take place lies in the nature of benefits that the company provides to its employees: transactional benefits (gaining attractive job features: role requirements, incentives, supervisor support, etc.) and ideological benefits (applying a stakeholder approach in company's marketing practices). The more prosocial motivation employees have, the more stakeholder-based ideological benefits resonate with them. Furthermore, ideological benefits play a major role in employees' willingness to exhibit cooperative behaviors toward other firm's stakeholders and a broader society.

Chapter 10

This chapter investigates the relationship between stakeholder theory and entrepreneurship. Sankaran Venkataraman argues that the fields of entrepreneurship and business ethics, though they have been developing mainly independently, have much to gain from each other. Stakeholder theory is a link that has the potential to bridge both fields. Stakeholder theory can provide a perspective of the firm as an equilibrating system by promoting fairness and efficiency. Three alternative mechanisms for doing so are the moral manager, the bargaining process, and the visible hand. Also, the entrepreneurial discovery process can help reconcile conflicting stakeholder claims. In addition, the weak and strong equilibrating forces in the marketplace are analyzed, resulting in important implications for both entrepreneurship and stakeholder theory scholarship.

Chapter 11

In Chapter 11, Samantha Miles analyzes how stakeholder theory has been used in the accounting literature, focusing on management accounting, financial accounting, and sustainability reporting. Based on the survey of twenty-eight accounting

and special issue journals, she found out that accounting is behind other fields in embracing innovative ideas of stakeholder theory. Use in accounting is mainly limited to explaining firm's voluntary disclosure and exploring how reporting can help fulfill stakeholder needs. Lack of attention to stakeholder theory may be explained by the dominance of the shareholder primacy paradigm and the sociocultural characteristics of accounting. Accounting is focused on direct business operations and mostly ignores medium- and long-term indirect impacts on various firm's stakeholders, ecosystems, and society at large. The current challenges associated with embracing the tenets of stakeholder theory in accounting represent an opportunity for much-needed scholarship in the field.

Chapter 12

In Chapter 12, Douglas Bosse and Trey Sutton describe the results of a detailed search of premier management journals to identify a representative set of research articles that address the intersection of stakeholder theory and strategic management. Seventy-one articles were divided into an organizing framework by grouping the papers based on the construct relationships each attempted to explain. Our understanding of stakeholder management has improved with the numerous recent applications of stakeholder theory to strategic management. However, there are opportunities to broaden our collective understanding in important areas. Many constructs that are found in the strategy literature have not yet been given adequate attention through a stakeholder lens, such as the nature of knowledge, firm capabilities, competitive context, organizational form and the boundaries of organizations, and institutional and legal regimes. As more strategic management scholars begin to explore the potential of stakeholder theory to address their research questions, more of these construct categories should be utilized.

Chapter 13

Chapter 13 brings stakeholder theory into the classroom. Irene Henriques explores the methods

and techniques used to teach stakeholder theory in management courses. The chapter outlines some interesting practices that stakeholder scholars have employed in management education to challenge future business leaders to develop creative solutions and understand business issues from a more holistic perspective. Teaching of stakeholder theory to business students resonates well with the concept of "stakeholder work" described in detail in Chapter 4 of this *Handbook* (e.g., stakeholder awareness, identification, understanding, prioritization, and engagement). Methods for bringing stakeholder theory to life in the classroom include video cases, stakeholder negotiation exercises, social protest novels, and issue-based stakeholder town hall exercises. Exercises can enhance learning about stakeholder theory, such as embracing our biases, broadening a notion of value, filtering large arrays of incoming information, understanding the role of social media in amplifying stakeholder influence, and dealing with conflicts between social actors and companies. The chapter also outlines support materials that could serve as helpful resources for teaching stakeholder theory to future business leaders.

Chapter 14

In Chapter 14, Johanna Kujala and Sybille Sachs investigate how the ideas of stakeholder theory are practiced in the real world by specifically looking at stakeholder engagement. The authors review and structure the recent stakeholder engagement literature, the large part of which is based on clinical (real life) case studies, by applying a general framework. The framework, developed jointly with Edward Freeman, consists of four themes: examining stakeholder relations, communicating with stakeholders, learning with and from stakeholders, and integrative stakeholder engagement. Several important issues are identified in each of the four themes. Insights are offered to help advance stakeholder engagement scholarship and identify opportunities for further research on the subject.

Chapter 15

In Chapter 15, Jonathan Bundy examines stake-holder management through topics such as human cognition, emotion, and behavior, based on the premise that all businesses are comprised of humans, and humans are complex. Stakeholder-centered research is helpful in understanding the complexity of human nature on organizational outcomes. For example, in the wake of an expectancy violation, it may be important to consider not only how stakeholders are influenced by their own expectations (based on prior perceptions and experiences with the firm), but also how they are influenced by other stakeholders' expectations (based on how other stakeholders react to the violation). Considering such factors not only extends our behavioral understanding of firm–stakeholder relationships, but also considers the role of social context. Another critical behavioral topic for researchers to consider is the role of affect and emotions in stakeholder relationships. Future research might also address how the degree of emotional arousal (so called "hot" versus "cold" emotions) influences stakeholder reactions, perhaps in response to issues of fairness and trust. In addition, research might consider how firm leaders' emotional intelligence influences the depth and breadth of their stakeholder engagement.

Chapter 16

Donal Crilly, in Chapter 16, also examines stake-holder theory through the prism of behavioral research, which aims to bring realistic assumptions about human behaviors, emotions and cognition to understanding how to manage stakeholders. Although a broad stakeholder orientation – engaging with numerous stakeholders in the social-political environment – is associated with positive outcomes for firms in the form of increased collaboration and reduced conflict with actors in their sociopolitical environments, companies are constrained with limited resources. Looking inside the firm, particularly at how interdependencies and trade-offs across stakeholders are viewed and managed, helps to explain why some firms attend

to the interests of more stakeholders than others. Also, efforts to appeal to some stakeholders often fail to create value for firms. Behavioral research in stakeholder theory can address two overarching themes: how executives interpret their environment and devise appropriate responses (thus, accounting for heterogeneity across firms) and how stakeholders make sense of corporate data and difficult-to-observe corporate practices (thus, accounting for heterogeneity across outcomes).

Chapter 17

Sinziana Dorobantu observes in Chapter 17 that, although the literature on stakeholder theory provides many innovative ideas for successful stakeholder management, advancements in stakeholder research have opened up more new questions than they have answered. Three areas provide ripe opportunities for future stakeholder theory scholarship. The first is exploring mechanisms (contractual vs. relational), arrangements (dyadic vs. collective), and time horizons for stakeholder governance. The second involves examining the stakeholder landscape in full, especially interactions among stakeholders themselves, and how their differences (e.g., in values, norms, and access to information and skills) influence stakeholder management effectiveness. The third is investigating how broader institutional and physical environments enable or constrain stakeholder interactions. There is a need for a broadening of the scope of stakeholder research beyond its traditional unit of analysis – firm–stakeholder interactions – by studying relationships among stakeholder groups themselves within a broader environment.

Chapter 18

In Chapter 18, Lite Nartey argues that rather than pursuing generalizability, stakeholder scholars may instead consider focusing on contextual richness, especially in those situations where a deeper and more nuanced understanding of stakeholders and their environments is needed. Value creation is

arguably *the* primary outcome sought from stakeholder engagement strategies by firms and a diverse set of other actors, such as governments, multilaterals, and nonprofit organizations. In addition to variation by actor type, the value created or sought by stakeholders will differ based on political, social, economic, and cultural situational and temporal factors. Value gained or created must also be shared among diverse stakeholders and how that value is shared (e.g., equitably, equally, by actor attribute) will also differ by actor type and situational and temporal factors. Value created may fundamentally change over time and the destruction of value may also depend on time and place. To develop new practice- and policy-relevant stakeholder engagement scholarly work, careful integration of contextual factors within scholarly research design is critical.

Notes

1. Sergiy Dmtriyev is a doctoral student at the Darden Graduate School of Business, University of Virginia.