Stakeholders. How to Create Social Value

Stakeholders have more than monetary interests in a business. They are really a motley crew of people, of which shareholders are but one group – besides employees, customers, suppliers, neighbours or also the natural environment or future generations, to name but a few. While this has become a truism of sorts, and while there's certainly money at stake in many of these dealings, what's often forgotten is that a shareholder's stake in a company may just as well be more than money.

The stakeholder view of the firm is both more complex & realistic than the shareholder model.

A stakeholder perspective, obviously, tends to *complicate* things in business society relations. You could also say that it renders them *more realistic*. The shareholder model used to be based on the powerfully simple, yet unworldly argument that *the business of business is business*: a radical *reduction* of complexity, based on pure economic reasoning, and to be realized by neoliberal policies. Stakeholder reasoning, instead, reinstitutes business as a social affair – in the very context of societal changes and a new political role of corporations that the neoliberal revolution had co-created. Stakeholder management, then, is an effort to cope with this new reality – to make it manageable. This, actually, is the basic claim it makes as a strategic *management theory*.

As a management theory, it better fits a world in which companies have come to be seen as more than mere economic entities, but social institutions and political actors.

At the same time, stakeholder thinking takes a critical, *normative* stance against what the "functional fundamentalist's" view of self-contained business implies: an undue preoccupation with shareholders' interests, at the expense of others, and the view that a business is nothing but a legal-economic entity, no social responsibility added. Indeed, "stakeholderism" can be seen as an aspect of the *corporate social responsibility* movement that gained momentum with neoliberal *globalization and its discontents*. The very "disembedding" and social *irresponsibility* of business that had been observed, thus, inspired a renewed understanding of business as a socially embedded entity that had to be responsive and accountable to other social constituents as well – so much the more since the so-called "third sector" beyond business and politics (a. k. a. "stakeholder society") had been hailed to become the determining force of the 21st century information age.

From a normative perspective, the stakeholder view redefines business as a socially embedded entity that's to be accountable to a broad range of constituents.

In preceding chapters, we saw that, in this process, transnational corporations could no longer hide behind legal contracts to outsource moral responsibility for sweatshop labour (chapter 2), that empowered consumers might be at the helm of an epoch-making "moralization of markets" (chapter 3) and that, indeed, ethics, social responsibility and sustainability have already become a subject of marketing (chapter 4). All these developments suggest that, indeed, after an era that had at best worried about "moral risk" in principal-agent relationships, the "moral economy" again is about to claim its right: not only in terms of *limiting* the shareholder view, as in public *outrage* against its external effects on society, but also in terms of *extending* it, as in the renewed understanding of relationships and trust as a *resource.*

Stakeholder theory extends the view from principal-agent relations to social responsiblity, and from making money to creating social value.

This *double perspective on stakeholder management* is at stake here. It is based on both descriptive and normative tenets of the stakeholder model: that being responsive to stakeholders is not only *better and more legitimate* in ethical terms, but that it's also *better and more efficient* in economic terms. This is what today is widely referred to as the "business case" of stakeholder management and CSR. It well captures the basic tenets that companies don't act in a social vacuum, that they are entangled in various networks of relationships, and that their very success depends on whether they are able to meet these various claims and expectations – in order to attain much needed resources and remain competitive.

The stakeholder model promises to make companies more efficient & legitimate at the same time – by telling a different, more convincing & sustainable story about what business is good for.

The basic challenge for stakeholder management, then, will be to *revalue such relations* – instead of just seeing them as a source of irritation – *as a resource*, yet at the same *not* to use them only as a means to corporate ends. What's needed, thus, is an *ethically enlightened* approach to stakeholder management that does critically address, but need not contradict economic interests.

Stakeholders – Who Are They?

With the rise of "stakeholder society", the deeper meaning of "stakeholder" has somehow got lost along the way.

It may seem that the term "stakeholder" has become so much part of our vernacular and even our mindsets that there's no need to speechify. Indeed, when it is true that we live in a "stakeholder society", then we are certainly all stakeholders, *somehow* – and therefore we should know. The thing is: Just when terms have become so widely accepted and used, they sometimes get rather superficial and unspecific in the process – and may fall prey to political and corporate spin, as long as what the terms vaguely *connote* hasn't worn out yet: This holds for "stakeholders" as much as it does for the terms "sustainability" or "social responsibility", as we may see in later chapters. So, when new notions become part of colloquial speech, their original meanings are sometimes lost or obscured. That's why it might pay to look a little more closely to where they've come from.

Fundamentally, a "stake" denotes everything that may justify a legitimitate interest in something, for various reasons.

A "stake", for that matter, originally meant some kind of wooden stick, peg, pole or post – something which can be used to "stake out" one's territory or to "stake a claim": Originally and physically, this meant to declare a tenure on a "staked claim". Over time and in the figurative sense, to "stake a claim" was extended to include all kinds of vested interests, and the concept of "stake", at the same time, came to be *identified* with the claim it was supposed to represent, as a symbol. That's why, today, a "stake", figuratively, denotes one's input, involvement, investment, even one's *share*, but also one's "being affected" by some situation, action or enterprise – anything that's "*at stake*" and which may *justify a legitimate interest.*

Of Stakeholders and Stockholders Wood once formed the backbone of material culture (cf. Chapter 8). Still, it is quite remarkable that not only "stakeholders" derive their name from a piece of wood (cf. above), but also "stockholders" – the somewhat antiquated word for what today we usually refer to as "shareholders". The "stock" from which they derive their name is part of the so-called "tally" or "tally stick" (the German "Kerbholz"). Tallies (actually "split tallies", because "single tallies" served predominantly as simple mnemonic devices) were used for ages to record bilateral obligations, in a fairly tamper-proof way. To this end, a wooden stick was marked with a system of notches, which represented a certain amount of some unit (e. g. money or cattle), and then split lengthwise. One half (usually the longer one) was called "stock" and given to the donor or creditor. The other part, called "foil", remained with the receiver of the goods or money. Due basically to the natural irregularities of the wood and the unique way in which it split in half, this record of transaction was fairly safe against efforts to unilaterally forge it. Actually, such tallies were even accepted as legal proof in courts up until the 19th century. In England, for seven centuries since around 1100, the split tally was also accepted as a form of currency for the collection of taxes. When, in 1834, all remaining tallies were ordered to be burnt in a stove in the Houses of Parliament, the fire went out of control and set the building afire.

All this suggests that "stakes" are a fairly *controversial* subject – at least much more so than "stocks" (cf. the box on the story *Of Stakeholders and Stockholders*). "Stocks" – or shares, for that matter – refer to a formal, contractual agreement between donor and borrower, entailing a legally chartered and enforced right. "Stakes", on the other hand, are also meant to justify claims, yet these need to be justified as well: *To stake one's claims* at the same time means to *claim one's stakes*. It is all about justifying one's interests in an affair.

To stake one's claim usually means to claim one's stakes – other than with stocks, i.e., this is a rather controversial & complex issue. It's about stakes that are at stake.

Actually, this inherently controversial nature of stakes is quite well captured in the original notion of a "stakeholder". It actually referred to a person that was supposed to "hold a stake" – in the sense of *retaining* it – until claims over a property were settled. This, actually, is the meaning that the term still has in *legal* terminology: There, a stakeholder is basically a third party – a custodian, a garnishee or trustee – who temporarily *holds* money or property while its owner yet has to be determined.

Conventionally, however, and this is also how the term will be used throughout this text, a stakeholder is seen as someone who has a vested interest in some situation, action or enterprise – *whose stake is at stake*. In this general meaning, the term supposedly first appeared in 1963, in a paper issued by the *Stanford Research Institute (SRI)*. Already back then, the intention was to open up managers' strategic view to constituents beyond the narrow circle of stockholders. After this first sign of life, however, stakeholder thinking did not arrive in mainstream management discourse until twenty years later.

In management theory, stakeholder thinking first emerged in the 1960's.

R. Edward Freeman's 1984 landmark book *Strategic Management. A Stakeholder Approach* can be seen as the proverbial "birth certificate" (or at least the "baptismal certificate") of stakeholder management. How he defined stakeholders back then still carries some sort of "canonical authority" – and on this level of abstraction, Freeman's general definition of *what stakeholders are* still serves as a good starting point for a discussion of the matter: "(A) stakeholder is any group or individual who can affect, or is affected by, the achievement of a corporation's purpose." (Freeman 1984)

Throughout the 1980's, the Stakeholder Approach gained momentum, starting with R. Edward Freeman's seminal book.

While in the foreword to his book, Freeman had quite simply limited the notion to all "groups who can help or hurt the corporation" (ibid.: vi), the popular definition given above explicitly extends the circle of stakeholders to those that are *affected by* the company's workings. This is especially important for an ethical discussion of the matter that doesn't serve an easy exploitation for short-term strategic goals. Actually, this is where Freeman's more recent call for a "new narrative" about *the company's very purpose* is to chime in: "For whose benefit and at whose expense should the firm be managed?" (Freeman 2005)

Its fundamental aim was to create a new narrative about what the firm & the creation of value should eventually be good for.

Fundamentally, however, Freeman's layout of stakeholder theory wasn't meant as an outright opposition to shareholder-focused thinking, but it should offer a more realistic image of how the company works. The focus on stakeholder relationships, as Freeman was to write in retrospect, was supposed to present "a more useful unit of analysis for thinking about strategy" (Freeman 2004 : 229f).

Even if it wasn't intended to supersede the shareholder view, however, the spread and further development of stakeholder thinking are to be seen in close connection with the rise and fall of the shareholder value doctrine. So, even if today, it may sound technical and neutral, stakeholder management still bears significant traces of this history.

Shareholder vs. Stakeholder Capitalism

The stakeholder perspective, as we just saw, was first and foremost meant to be a *theoretical* critique of the shareholder paradigm. Still, it also lent itself to a *normative* verdict of this view. Indeed, stakeholder theory may be seen to epitomize the renunciation of an ideology that views the firm as a mere legal-economic entity designed to generate profits for those who own it – irrespective of the negative external effects this might have on people and planet.

Stakeholder theory shares with CSR its view of the firm as an entity that's embedded in & accountable to society.

It comes as no surprise, then, that the stakeholder perspective spread and developed in close connection with the "corporate social responsibility" movement. Both, *theoretically*, are based on the premise that business, however self-contained and effective its peculiar rationality may be, is still part of society, embedded in networks of social relationships, norms and expectations. Both, *ethically*, focus on the collateral damage that has arisen from an undue focus on owner's interests at the expense of all others. It is their critique of the corporation as a legally enforced "externalizing machine" that fundamentally joins stakeholder theory and CSR.

The Shareholder Model of the Corporation and its Implicit Ethics

The shareholder model has its roots in the massive post-War transformation from "owner-entrepreneurship" to "managerial" or "shareholder capitalism". The separation of management and ownership had been an occasional issue whenever there was an increased need for capital for new industries and ventures, way back into the history of capitalism. The rise of the shareholder paradigm to general dominance throughout the 1970s, however, was fueled by major transformations in the global economy (cf. also chapter 2).

The rise of the shareholder model to its dominant position in theory and practice is closely related to neoliberal globalization.

With increasing deregulation of global markets and the massive reorganization of global production in its wake, the pressure on *efficiency* – caused by foreign competition mainly and the opportunities to cut costs through global outsourcing – proved significantly higher than pressure on corporate *legitimacy* imposed by non-business interest groups. In addition to that, the privatization of formerly socialized industries and the liberalization of financial markets had made it increasingly popular and attractive t*o have your money work for you*, as the slogan went (Harvey 2007). Neoliberal reforms, in a word, significantly contributed to the rise of a "shareholder society". In this context, management's job, first and foremost, was to attract and keep investors, who had become increasingly mobile and focused on short-term gains.

Apart from these *historical* events, the *theoretical focus* on "shareholder value" was also very much an expression of the neoliberal revolution under way. The issue was to *liberate* markets, based on an utterly strict division between business and society and the idea that business would work best when *left alone*, following its own peculiar logic: *To use scarce resources in utmost efficient ways in order to increase one's private property.*

So, in this view, a company is seen basically as a hierarchical organization with shareholders – the actual owners of the company – at the top and management serving as their trustees. According to the neoliberal paradigm, therefore, as long as shareholders are happy, there's no need to encroach on the workings of the corporation – within legal limits, where they exist and are sufficiently off-putting, and of course according to legal prescriptions that assure the rights of capital owners.

For neoliberals, a company is essentially a neutral mechanism to further the economic interests of its owners, following its own, one-dimensional economic rationality – critics would rather call it an "externalizing machine".

Based on this oversimple and radical *transfer* of the formal economic principle – *rationally maximize your utility* – to the level of the corporation, and based on a strict division of labour between markets and politics, neoliberalism, thus, presents a fairly consistent – even if utterly self-contained – ethics (cf. also chapter 2). It comes as no surprise, then, that Milton S. Friedman, in a well-known, programmatic article on the issue, saw no problem with shareholder thinking and social responsibility of business. In his view, indeed, both go very well together (cf. the box on *The Neo-Liberal Verdict Against Corporate Social Responsibility*).

For orthodox neoliberals, the social responsibility of business is to increase its profits.

The Neo-Liberal Verdict Against Corporate Social Responsibility "The social responsibility of business is to increase its profits." The programmatically provocative title of Milton S. Friedman's 1970 *New York Times Magazine* article (Friedman 1970) still makes him the "Old Nick" of CSR events – be they organized by business people or their critics. Actually, Friedman's position is firmly based on classical liberal assumptions on the emancipatory and efficient workings of markets – if only they are perfectly (or at least sufficiently) competitive and free (cf. chapter 2). Based on these assumptions, his verdict against CSR is to be understood as a logical defence of private property and profits – a.k.a. freedom and utility.

Friedman's main argument is that managers have a primary responsibility towards shareholders: They are their employers and the owners of the corporation. Shareholders, according to this perspective, have an exclusive and inalienable right to dispose of their private property and everything that supposedly comes from it, such as profits. Their legitimate interest, therefore, is to maximize returns from their investment. This is what management is paid for – what it is *good* for.

What does this have to do with social responsibility? Basically, it is assumed that, by furthering the legitimate interest of shareholders to maximize returns, this would assure an efficient allocation of resources. To invest capital wherever it promises best returns would eventually not only serve the capital owners – who are supposed to get their fair share – but actually all other parties involved. This is a *positive* ethical argument for shareholder value thinking, which stresses the beneficial effects for society in terms of freedom and utility. Friedman's verdict, however, also implies a *negative* argument that is directed *against* a stakeholder view of business: not only because it would *complicate* things, but mainly because it would be illegitimate or even *immoral*: If management spent shareholders' money for "collective ends", this would be an infringement on property rights and eventually a dangerous move towards blurring the threshold between markets and politics:

- Managers don't only have no right to "tax" shareholders. They also lack a *political mandate* – and also the competence – to use this money for some "collective end".
- Businesses and markets – *economic rationality proper* – would necessarily be about furthering one's own interests. To assert anything else would either interfere with economic freedom and efficiency,
- or it would be no more than "hypocritical window-dressing", a moral "rationalization" of decisions that were really based on egoistic motives, which again would pose a threat to freedom and welfare, by eventually extending the profit motive into realms where it didn't belong.

The core ethical issue for neoliberalism is to minimize "moral risk" in principal-agent relations, to secure shareholders' interests.

The actual and primary *ethical problem,* from this neoliberal shareholder perspective, then, is the protection of the owners' vested interests – from bad, self-serving or misguided management. In a word, it's about the *problem of "moral risk"* that's involved in all transactions that are marked by an "information asymmetry" between parties. What this means in the context of a corporate entity is that management usually knows more about what's going on in a business, about its situation and direction than its owners usually do. The problem, then, is basically spelled out in the so-called "*agency dilemma*" known from *principal-agent theory: How to motivate the "agent" (= the management) to act in the best interest of the "principal" (= the shareholder)?*

The core ethical challenge, then, is to align principals' and agents' interests by way of appropriate incentives and regulations.

Indeed, as major cases of fraud (such as *Enron*, *WorldCom* and others) in the heyday of the shareholder value paradigm suggest, such risks and dilemmas do exist – and they indeed caused major harm in an environment that was obsessed with big short-term profits. The actual *ethical challenge* from this neoliberal shareholder perspective, then, is the *alignment* of managers' and owners' interests. Measures that have been taken in this direction include *incentives*, such as management bonuses, premiums and compensations linked to shareholder value, as well as *compulsory* measures of conventional "corporate governance" that were tightened in the aftermath of major cases of fraud (cf. chapter 7).

For critics, focusing on shareholder value alone would actually increase or even *constitute* the very ethical problem of neoliberal capitalism.

At the same time, these very same measures were seen by critics to actually reinforce the focus on "shareholder value" and, therefore, to further increase the pressure on short-term profitability and external costs – all of which were seen to be the *real ethical problem* with shareholder capitalism and its oversimple and narrow view of the corporation as a legal-economic entity programmed to produce profits for its owners.

The Stakeholder Model

The neoliberal revolution both necessitated and facilitated a new vision of the firm: one that was more realistic and more socially responsible at the same time.

Before we turn to the critique of the shareholder model in more detail, let's have a short look at the immediate *historical* reasons why it came under increasing pressure, as a paradigm (cf. also chapter 2). Obviously, the changes the neoliberal revolution had brought about not only necessitated, but sometimes also *facilitated* the rise of an alternative conception of the firm, such as the one proposed by the *stakeholder model*. The main aspects of this transformation of markets and businesses include the following:

- the *fundamental remake of the paradigmatic firm in terms of a network,* in the context of a new organization of global production: *Outsourcing* or *contracting out* processes and transactions to a global market became a central tenet of this new globalization.
- the *high social and environmental costs of this New International Division of Labour*, ranging from major restructuring and job losses in developed countries to exploitation of people and planet in countries of the South.
- *dramatically improved means of communication* that not only allowed for instant financial transactions, just-in-time production and the global outsourcing even of many services, but also for improved information about corporate wrongdoings and instant circulation of such news.
- the *rise of new social movements*, notably non-governmental organizations focusing on "third world", environmental, human and animal rights issues.

- the *transformation of citizens' values and consumers' preferences*, based on improvements in information, education, living standards, and on "post-materialist" attitudes (cf. chapter 3)
- the *rising importance of brand equity and corporate reputation* in this context (cf. chapters 3 and 4)

Both CSR and the stakeholder model do not mean a radical break with neoliberalism – they rather aim to re-embed business and economy into society.

Basically, it can be said that *neoliberal globalization brought about a situation which called for its reform and enabled it at the same time*. In this context, both CSR and stakeholder theory actually didn't propose a radical break with shareholder thinking, but they offered a view that's supposed to be *more realistic and more responsible to society at the same time* – a reformist *synthesis* of the old model with its critique rather than a radical alternative.

A More Realistic, Rewarding and Responsible Alternative to the Shareholder Paradigm

The most fundamental critique against shareholder value – over and above singular objections to particular, abstract premises – is actually *at the same time a theoretical and an ethical one*: It is directed against what R. Edward Freeman called "*the separation fallacy*": the presumption that – apart from the protection of liberal property rights and its efficient, even if incidental contribution to welfare – business had nothing do with ethics, that these were clearly apart, a "different kettle of fish", "a whole new ball game", as it were.

Most fundamentally, stakeholder theory renounces neoliberalists' view that economy and society, business and ethics have little to do with each other.

From such a radical perspective, business and ethics may indeed appear as the proverbial "oxymoron" that polemics and popular outrage often have them to be – and in many cases this view seems quite plausible and justified (Bakan 2005). Indeed, from such a radical perspective, social norms and values are nothing that a business can handle or understand right away – as long as they are not translated into the "language of business": which *talks money*. As we will see in the later chapter on accounting and controlling, *integrating* social norms and values into business decisions is really a basic challenge for management: What's at stake is to make them measurable (and likely also marketable) and therefore *manageable* (cf. chapter 7).

What the stakeholder perspective offers in opposition to this "false separation" of business and society is a view that economics and ethics have to be seen as merely different *aspects* of the social practice we call "business" – and that these aspects belong together. Not only is economic theory inextricably based on ethical arguments – however implicit they may be (cf. chapter 1). Management decisions always have various effects not only on capital and its owners, on those who immediately contribute to the production of goods and services, or on those who consume them, but on a much wider circle of people – people whose actions, at the same time, may themselves have various effects on the business at stake.

Stakeholder theory views business as a social practice that cannot simply blank out all "non-economic" aspects and actors.

While these two aspects – economics and ethics – are actually closely linked, it is still important to see just how stakeholder thinking sets itself apart from shareholder thinking in how it views them.

The basic ethical objection to shareholder thinking, therefore, is about the consequences it presumably has on society. A company that's seen only as a neutral "machine" used for

Ethically, stakeholder theory goes beyond maximizing owners' benefits to minimize externalized costs and immediately increase the welfare of all parties involved in the creation of value: It's about basic moral rights, justice and responsibility.

maximizing profits, based on the somewhat magical premise that this would eventually benefit all, produces many "negative external effects" that usually go unnoticed. The narrow focus on property rights, free markets and welfare completely blanks them out. So, from a stakeholder viewpoint, it is not merely "moral risk" in the relations between principals and agents – shareholders and management – that's at stake here, but rather *ethical ignorance* for all those relationships that do not show up immediately in any financial statement. That's why "stakeholder governance", for that matter, asks for more than just morally sound monetary transactions. What it calls for is transparency and accountability in social and environmental terms as well (cf. chapter 7).

Theoretically, stakeholder theory goes beyond maximizing owners' benefits to make the firm more successful and competitive: It's about a social licence to operate & relationships as productive resources.

The basic theoretical objection to the shareholder paradigm holds that its narrow perspective on owners' interests would actually be *ineffective* – and increasingly so in a "stakeholder society". The focus on making profits would yield suboptimal results, just because it ignored the fundamental "drivers" in the process of creation of value: *stakeholder relationships.* So, a shareholder-focused corporation – apart from potential damage to its reputation and brand value – would eventually miss out on new opportunities and sources for growth and innovation. It would be unable to learn and draw an unrealistic line between shareholders and other stakeholders, implying that their interests would conflict. Actually, many of these basic tenets of stakeholder thinking have been adopted into other strategic approaches, such as what Michael Porter and Steve Kramer recently coined "Creating Shared Value (CSV)" (Porter and Kramer 2011). What may distinguish these efforts from serious stakeholder management, however, is the dominance of the company's strategic interests that seem to determine *what value* is to be created and *how it is to be shared* among *which of its various stakeholders* (cf. the box on *Linking Shareholder and Stakeholder Perspectives. The "Business Case" of CSR*).

Linking Shareholder and Stakeholder Perspectives. The "Business Case" of CSR As mentioned earlier, the stakeholder perspective and CSR hadn't been introduced exactly to "overthrow" the shareholder view of the corporation. Rather, they may be seen as efforts to synthesize and, thus, "enrich" the older model with its theoretical and ethical critique, retaining the dynamic of the "capitalist spirit" while at the same time making it more accountable and better adjusted to recent societal developments (Boltanski and Chiapello 2006).

Some authors even speculate that Milton Friedman would actually espouse "that paying attention to stakeholders is important, at least instrumentally" ((Wicks et al. 2009 : 76). Indeed, recent efforts to make a business case for CSR take quite the same line. Likely the most prominent among them is Michael Porter's and Steve Kramer's approach to "strategic CSR" (Porter and Kramer 2002; 2006), which they recently renamed to "CSV" (Porter and Kramer 2011) – an acronym for "*creating shared value*": This new concept does not only drop any reference to the corporation, society and responsibility. It also epitomizes what Porter's and Kramer's self-proclaimed "new paradigm" is supposed to be all about: a strategic move to serve both the interests of business and society.

From this perspective, Porter and Kramer, too, do criticize Friedman's "false separation" of business and society, and his premise that management would neither be justified nor competent to contribute to collective ends. Instead, Porter and Kramer present a case for strategic management that looks out for mutual benefits for a company and its stakeholders alike – a "source of tremendous social progress" and profits, in their view. By investing in competitive context, corporations had the chance to improve their competitiveness – irrespective of "image" and the strategic moves of others – and at the same time to contribute to the solution of social problems, be it through investments in education or infrastructure, or by building up sustainable relationships with their suppliers, customers and neighbours.

Indeed, the concept of *CSV – Creating Shared Value* was taken up by big corporations such as *Nestlé* to inspire their dealings with society. Just how and to what extent this noble intention is actually being realized, this is still hard to see. Nestlé's *Cocoa Plan*, e. g., which is supposed to reflect the company's commitment to CSV in a particularly sensitive area, has been criticized for missing the point of the problem – unfair trade relations – and instead focusing its activities on areas such as "sensitizing" farmers for the problem of forced child labour and more efficient farming which first and foremost serve the interests of the company: to secure constant supply of quality cocoa and revamp its reputation as an agent for sustainable development. Generally, such a "business case" argument for CSR often remains aloof just when it comes to the question how it is done, who is to determine what "value" is to be created and how it is to be "shared" among which of the various constituents. In this respect, the self-proclaimed new CSV paradigm can hardly be kept apart from conventional strategic management – it seems to just call it by a new name. What's more, it certainly does not seem to catch up with the promise of the business case of CSR – or of stakeholder theory, for that matter.

What the stakeholder approach and serious CSR management have to offer instead is a *more realistic, rewarding and responsible way of doing business* – one that takes into account all the relationships that a company is in: not only as limits, but also as potential resources and partners for doing business. These three aspects relate to three different cognitive interests that have been identified with respect to stakeholder thinking (cf. Donaldson and Preston 1995):

A stakeholder approach promises to be more realistic, rewarding & responsible – for descriptive, instrumental & normative reasons.

From a strictly *descriptive* perspective, "management" involves the coordination and balancing of conflicting interests and goals. Seen this way, a company does not only *have* stakeholders, but it is actually *constituted* by networks of relationships. This changes the whole concept of what a company is supposed to be in the first place.

From an *instrumental* perspective, stakeholder management would serve to better reach conventional goals of strategic management: profitability, competitiveness, innovation and growth – it simply pays. The "business case" of stakeholder management is at least theoretically plausible (cf. the box on *Linking Shareholder and Stakeholder Perspectives. The "Business Case" of CSR*): It may reduce transaction costs, insecurity and risk. In more concrete terms, what it promises is a better sense for the firm's environment, lower risk in terms of product launches, reputation and legal challenges, higher levels of trust and loyalty, raised entry barriers for competitors, and more organizational flexibility. Eventually, even this narrow perspective could initiate a fundamental change of the company's vision in terms of systematically considering stakeholder claims in its everyday decisions.

From a *normative* perspective, finally, stakeholder management would be ethically desirable, compared to other theories of the firm – irrespective of its economic benefits. Due to their central role in society, corporations couldn't be seen just as legal entities in the service of their owners, but they should be seen as societal institutions for the creation of value. The normative perspective starts from the assumption that every stakeholder group has the moral right to be treated not just as a means, but that they have legitimate interests relating to the firm and its activities. These interests are seen to be ethically of equal value.

Managers according to this perspective attain the role of "stewards" who are supposed to balance the interests of stakeholders.

Fundamentally, stakeholder theory is to tell a different story about what a company is and what it's good for – one that better fits with society's norms and expectations.

Stakeholder theory, seen this way, is first of all about a new "narrative" of what the firm is supposed to be – knowing that all such "models" are eventually necessary efforts to reduce complexity, from a certain point of interest. The basic aim of stakeholder thinking – and of mainstream CSR as well, for that matter – is to make capitalist reasoning compatible with society's norms and expectations, under massively altered conditions.

This new narrative of social value creation makes things more complex for management – to reduce this complexity & retain its spirit is the big practical challenge for stakeholder management.

This "new narrative" is to show, basically, "how value creation deals with both economics and ethics at once, and how it takes into account all of the effects of business actions on others." (Wicks et al. 2009 : 73f) To this end, stakeholder theory aims to draw a different, more realistic picture of the corporation as a socially embedded enterprise. For management, however, this means that things are becoming more complex. The basic practical challenge for stakeholder management, therefore, is to *reduce* this complexity and make it *manageable* in ways that are more realistic, rewarding and responsible than the radical "economism" of the shareholder model.

Stakeholder Management as an Effort to Reduce Complexity Responsibly

Much has already been said on these pages about what's wrong with shareholder thinking from a stakeholder perspective. The old view, so the verdict went, doesn't come to grips with reality – and, increasingly, under such changed circumstances, it won't be able to meet shareholders' claims for efficiency, nor other stakeholders' claims for legitimacy.

For a business to secure resources and assistance from different actors and remain competitive, in an increasingly transparent and moralized environment, it would not suffice any more to just refer or retreat to shareholders' interests or legal compliance. Strategy and social responsibility from this perspective have to be actively matched in an integrative perspective.

While stakeholder theory promises to be more realistic, rewarding & responsible, it lacks the beautiful simplicity of the shareholder model.

Stakeholder theory, obviously, proposes a different view of the firm – one that maps it as being entangled in diffuse networks of relationships. This, it held, would be a more realistic model, promising to make better management decisions in terms of efficiency and legitimacy.

What's lost with this view, to be honest, is the powerful simplicity of the shareholder value model. There, as we saw, management's attention – at least in theory – was almost exclusively devoted to investors. With the stakeholder model, the situation is much more complex. Therefore, the first challenge for stakeholder management is to identify, map, classify and select the various stakeholders and their claims, based on a variety of different criteria. The second – and more difficult – challenge is to actually open up to a serious dialogue with those stakeholders that deserve it: either because they are especially influential, or because they are especially affected by the company's workings.

The basic challenge for stakeholder management is to identify, map, classify & select stakeholders – and to open up the company to discuss & act on their claims.

What managers need, in short, is "a framework that will enable them to assimilate and experience as a routine occurrence, rather than a special case, each of the demands of the diverse groups and individuals with whom they interact." (Wicks et al. 2009 : 69) They have to be able to identify, acknowledge and balance a variety of different, often conflicting interests in a way that's *at least compatible* with the achievement of the company's immediate purpose – and *ideally* “in a way that makes ethics an integral part of what they do – both to drive great performance and to keep them from getting into ethical or legal trouble” (ibid. : 77f)

The process of stakeholder management can be split in four distinct stages:

1) map stakeholder relations

2) classify stakeholder groups

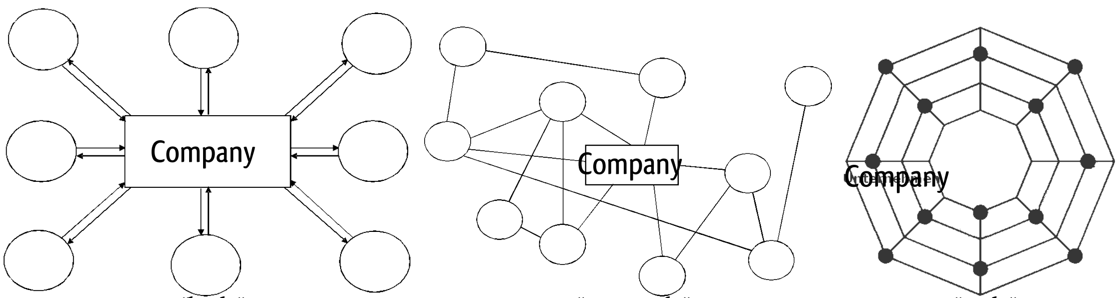
3) determine on whom to act

4) determine how to act

Mapping Stakeholder Relations

The relationships with stakeholders that constitute the firm can be mapped in very different ways. A very basic graphical representation of these relations is the “hub”, which puts the company in the centre of a number of two-way relationships with surrounding stakeholders. This model is certainly more inclusive and realistic than the conventional “input-output model”, which only maps those stakeholders immediately concerned with the process of value creation (investors, suppliers, customers). Yet, stakeholders do not only relate to the company, but they may also interact with each other, including coalitions on particular issues of concern for the company. What's more, it may be illuminating to drop the “company-centric” view altogether and place the company in an “eccentric” position inside a network that's heavily interconnected – so that changes in one part of this “web” will likely effect changes in any other (cf. the following figures).

There are various ways to map a company's relationships with its stakeholders – and they show a lot.



"hub" "network" "web"

Classifying Stakeholder Groups

In the fist place, stakeholder management has to define who should qualify as a stakeholder. *Narrow, extended and broad definitions* of stakeholders actually often correspond to *descriptive, instrumental and normative approaches* to stakeholder management (cf. page 7f).

Related to their resp. approach, companies define their stakeholders in narrow, extended or broad terms.

A *narrow* definition contains only those stakeholders that are able to actively influence decisions or activities of a firm, either because they participate in decision-making or provide monetary or other productive factors (such as investors, employees and suppliers). An *extended* definition also contains those on which the firm depends immediately, in economic terms, even though they do not contribute to the process of value creation (such as customers and government). A *broad* definition transcends the immediate economic relationships to include – in Freeman's well-known words – "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose" (cf. Above), such as NGOs, media, unions, consumer, animal or human rights groups. The broad definition adds the criterion of "being affected" to the discussion. This equally includes "representative" stakeholders (those who represent the moral claims of so-called "non-social" stakeholders that can't speak for themselves, such as "nature", "animals" or "future generations"). Obviously, this definition is based on a concept of moral rights – i. e. it is about legitimacy, not efficiency.

The broader the definition of stakeholders, including those that are solely "being affected" by the company, the more legitimate the approach will likely be.

Over and above this scheme, it is possible to distinguish stakeholder groups according to a variety of different criteria. To find out just what their stakeholders want, what they fear, what their resources and relations to others are, firms are advised to enter into a dialogue with them – or at least to open up to let their stakeholders be heard. This can be done through surveys, consultations or any other "open door" policy that invites stakeholders to make their point clear. Basically, based on this information, it is possible to distinguish

Different stakeholder groups may be distinguished by various criteria, such as their means of influence, formal affiliation, power, potential conflict and cooperation.

- *primary* stakeholders on which the firm depends heavily for its success and continuous existence. They have formal and sometimes legal claims against the company (usually based on contracts) and contribute to the process of value creation.
- *secondary* stakeholders that do not immediately contribute to the creation of value, but who may influence primary stakeholders – such as *NGOs* whose campaigns may influence investors.

According to their formal affiliation with the company,

- *internal* stakeholders (such as employees and management) may be distinguished from
- *external* stakeholders (such as suppliers, NGOs, or creditors).

According to *relationships of power*,

- *dominant* stakeholders (such as important customers and investors) may be distinguished from
- *dependent* stakeholders (such as small suppliers, future generations and neighbours).

According to the degree of potential conflict,

- *discretionary* stakeholders (such as universities and other recipients of funding) may be distinguished from
- *dissonant* stakeholders (such as activists).

According to the *degree of cooperation*,

- *supportive* stakeholders (such as governing bodies, industry and professional unions, media, some NGOs) may be distinguished from
- *non-supportive* stakeholders.

Some of these classifications may help management to better understand the general, shared characteristics of singular stakeholders groups. In order to determine on which stakeholders to act ("salience") in what ways ("strategy"), management is advised to systematically combine sets of different criteria.

Determining on Whom to Act

A quite popular model to predict stakeholder behaviour and, therefore, to determine their salience is based on criteria such as *legitimacy, urgency and power* (Mitchell, Agle & Wood 1997). Based on these criteria, several types of stakeholders and associated claims may be distinguished, such as: "long-term key stakeholders" who have power and legitimacy, but no urgent claims; "dependent stakeholders" who make legitimate and urgent claims, but have no sufficient power resources; "aggressive stakeholders" who have power and make urgent claims, but lack legitimacy. All of them – and other types of stakeholder groups – long to attain the status of "immediate core stakeholders" who possess all three attributes to a high degree (cf. the following figure).

Identifying the most salient stakeholder claims can help management to decide on whom to act (first).

"Stakeholder Salience"

Determining How to Act

After having determined the "salience" of different stakeholder groups and their claims, management has to decide just how to address these claims. A popular way to determine what strategy to use in managing stakeholder relations is based on stakeholders' potential to *threaten* or *cooperate* with a company (Savage et al. 1991). The generic strategy options open to corporations based on such an assessment of stakeholders' goals and means of power are shown in the following fourfold table (cf. the following table).

Depending on the goals & means of power of stakeholder groups, companies are advised to act on them in different ways.

		Stakeholder's potential for threat to the organization: High	Stakeholder's potential for threat to the organization: Low
Stakeholder's potential for cooperation with the organization	High	Mixed blessing stakeholder: **Collaborate**	Supportive stakeholder: **Involve**
	Low	Non-supportive stakeholder: **Defend**	Marginal stakeholder: **Monitor**

"Stakeholder Strategies"

Strategies based on similar models suggest a spectrum ranging from ignorance, information and consultation to cooperation, based on stakeholders' interests and influence (Johnson and Scholes 1993). Whatever the concrete advice: Obviously, these models are somewhat lopsided in the sense that they advise management to act only on those stakeholders that are active themselves.

A narrowly strategic approach to stakeholder management is usually defensive, selective and ignorant of legitimate yet powerless claims.

What distinguishes a more profoundly *ethical stakeholder management* from such a narrow strategic approach is its general vision of the company as a social institution to generate value for society, based not mainly on power and control, but on partnership and dialogue also with those that are only *affected by* the company.

An ethically informed stakeholder management

A narrowly strategic approach to stakeholder management may not only be lopsided, blinding out and ignoring the interests of those that are only affected by the company. It may actually imply an exploitation of the instrument. So, stakeholder management understood this way may likely mean to ignore powerless stakeholders, to lead a fake dialogue with the nasty ones, in order to keep them busy and in touch, and to cooperate with those that can really hurt the company.

An ethical approach to stakeholder management focuses on the legitimacy of stakeholder claims – its basic challenge is to assess and act upon legitimate claims in an open dialogue with stakeholders.

From an ethical perspective, fake stakeholder management that's based on defensive strategies, selective information and pure consultation without effective change needs to be replaced by true participation, involvement and dialogue. This model of stakeholder management rests on an inclusive definition of stakeholders and, accordingly, of the company.

Legitimacy of stakeholder claims – not their power or contribution to the process of value creation – is the core criterion. The main challenge, then, is to *assess* the legitimacy of claims and how they shall be compared and balanced. To this end, management is well advised to enter into an open dialogue with stakeholders that's based on ethical principles of care, fairness and a discourse among equals (cf. the box on *Stakeholder Ethics*).

Stakeholder Ethics Different ethical theories have inspired stakeholder theory: Kantian ethics, the Rawlsian theory of justice as fairness, the ethics of care, but also welfare economics (cf. chapter 1). However, it is probably "discourse ethics" that best epitomizes its ethical stance. As said earlier, discourse ethics belongs to the "interactive" type of ethics, i. e. it is not about absolute principles to be followed or goals to be reached, but about the *processes* of decision-making. Its ethical benchmark is the so-called "ideal speech situation": a dialogue among equals in which not personal characteristics, such as power, charisma or eloquence, but only the *unconstrained constraint of the better argument* is to decide what's to be done (Habermas and Luhmann 1971).

Discourse ethics, therefore, is focused on the right rules to find the "ethically right answer". It is based on a concept of "communicative reason" that's supposed to assert itself in a true dialogue. While it can be said to be overly demanding in its prerequisites and overly "cognitivistic" in its implications (that the right answer can be found by reasoned argument), discourse ethics may still serve as an ideal template against which to measure stakeholder dialogues, but also *democratic* processes and a company's CSR policy in general: The *process of legitimation* is the very essence of discourse ethics.

A serious stakeholder dialogue, therefore, involves a loss of power on the part of the company, and it is based on the following principles:

- *transparency*, in order to decrease information asymmetries and to adjust policies,
- *fairness*, in order balance opposing interests,
- *accorded rules and sanctioning mechanisms*, in order to make the dialogue calculable
- *stakeholder participation* irrespective of power.

Stakeholder dialogues may help to exchange positions, discuss interests and expectations, make claims and develop standards, based on partnership and mutual respect. Ideally, they promise a trade-off for all parties involved, and a win-win situation between strategic management and stakeholder claims. According to Kaptein and Van Tulder (2003), conventional stakeholder consultation and an ethically enlightened stakeholder dialogue, defined as ideal types, do heavily differ relating to many issues (cf. the following table).

A serious stakeholder dialogue aims to create a win-win situation for all parties involved – and it is based on various principles that distinguish it from a narrowly strategic stakeholder consultation.

Stakeholder Consultation	Stakeholder Dialogue
logic of competition ("win-loose")	logic of cooperation ("win-win")
egocentrism, seeing the other party as a potential threat that can at best be capitalized on	empathy, seeing the other party as a potential partner with legitimate interests
caginess and pretence	openness and authenticity
talk, others listen	listen, then talk
manipulate	convince
confront and expose the other's weaknesses	approach and find out other's strengths
defensive, sticking to one's convictions	open, willing to learn
take and keep	give and take
divide and conquer	share and serve
separate responsibilities	shared responsibility
Source: adapted from Ungericht 2012 : 315, Kaptein and Tulder 2003 : 210	

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