

Stakeholders

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Introduction

Stakeholders are groups and individuals that have an interest in the actions and outcomes of an organization and upon whom the organization relies to achieve its own objectives. Note in this definition that there is a two-way interdependent relationship. It is not enough for a particular group or individual to claim a “stake” in the firm, such as suppliers, financiers, customers, shareholders and communities. Genuine stakeholders are those that either contribute to or have the ability to undermine the productive activities of an organization. Because of its breadth, there are multiple interpretations of stakeholder theory, but at its heart the theory suggests that firms that take excellent care of a broad group of these stakeholders (as opposed to focusing on one group, such as shareholders or customers) will gain benefits that are not available to other organizations. For example, employees are expected to work harder, customers to buy more, suppliers to provide the best resources and terms, financiers to offer the best interest rates, and so forth. These sorts of benefits lead an organization to create more value, which is then distributed back to the stakeholders that helped to create it. In spite of what many scholars and practitioners might think, this theory is not the same as corporate social responsibility (CSR), which tends to focus on social issues such as the environment or sustainability. While it may be true that firms that take exceptionally good care of their stakeholders may also be good corporate citizens, the objective behind stakeholder theory is effective and efficient management in an increasingly turbulent business environment rather than pursuing social welfare for its own sake.

Comprehensive Books

These are the classic books on the topic of stakeholder theory. Freeman 1984 provides a foundational overview upon which most of the scholarship on stakeholder theory rests. Freeman, Harrison and Wicks 2007 provide an update to the 1984 classic. Freeman,

Harrison, Wicks, Parmar and de Colle 2010 conduct a thorough review of the entire body of stakeholder literature through 2009. Friedman and Miles 2006 provide a less comprehensive but meaningful review of that same body of literature up to about 2005, emphasizing the practical implications of the work. Phillips 2011 collected original papers from some of the most prolific authors on stakeholder theory on topics that are critical to the advancement of the stakeholder concept. Phillips and Freeman 2010 compiled many of the most important previously published papers into one volume. Phillips 2003 examines and develops the relationship between stakeholder theory and ethics. Finally, Post, Preston and Sachs 2002 demonstrate the efficacy of a stakeholder management approach to the modern corporation.

Freeman, R. Edward. *Strategic Management: A Stakeholder Approach*. Boston: Pitman, 1984. Now published by Cambridge University Press.

This is the most important and foundational work on the topic. It argues that a turbulent and complex business environment requires a new management approach. It outlines the basic tools for determining the power and influence of particular stakeholders, and provides several chapters on how to manage stakeholders (and the firm) effectively. Everyone who wants to do any work on stakeholder theory should feel obligated to read it.

Freeman, R. Edward, Jeffrey S. Harrison and Andrew C. Wicks. *Managing for Stakeholders: Survival, Reputation, and Success*. New Haven, CT: Yale University Press, 2007

This book was written by Ed Freeman and his colleagues as an update to the Freeman 1984 classic. It is a practical guide intended to help practitioners as well as academics. It contains numerous exhibits and is written in a very accessible style.

Freeman, R. Edward, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan Parmar and Simone de Colle. *Stakeholder Theory: The State of the Art*. Cambridge: Cambridge University Press, 2010.

This book contains a summary of practically all of the important work on stakeholder theory up to 2009 across disciplines as diverse as business ethics, strategic management, economics, operations, marketing, finance, accounting, public administration, and law. This book provides an encyclopedia of information to the reader, as well as helpful critiques and commentaries. In addition, there is an important chapter on stakeholder capitalism.

Friedman, Andrew L. and Samantha Miles. *Stakeholders: Theory and Practice*. Oxford, New York: Oxford University Press, 2006.

The authors provide an overview of work on stakeholder theory up to the date of publication. The book connects theory with practice. Central ideas are supported by their philosophical underpinnings. Policy implications are also discussed.

Phillips, Robert A., Ed. *Stakeholder Theory: Impact and Prospects*, Cheltenham, UK: Edward Elgar, 2011

This book contains original articles written by some of the major scholars on stakeholder theory, collected and edited by Phillips, himself a very important

scholar. They both critique the theory and advance it. Topics include managerial discretion, the common good, firm-stakeholder relationships, social welfare, mental models, globalization and pluralism.

Phillips, Robert A. and R. Edward Freeman. Stakeholders. Cheltenham, UK: Edward Elgar, 2010.

For this book, the authors collected some of the most influential and important papers published on stakeholder theory. Almost all of these papers are also described in this bibliography, so this book can provide a reader with a very solid foundation on stakeholder theory from which to build, without having to track down the individual articles.

Phillips, Robert Stakeholder Theory and Organizational Ethics. Berrett-Koehler Publishers, Inc. San Francisco, 2003

Stakeholder theory is built on an ethical foundation, and this book does an excellent job of connecting stakeholder theory with ethics. Especially important are Phillips' ideas regarding how to categorize stakeholders, and the implications of those categories for theory and practice.

Post, James E., Lee E. Preston and Sybille Sachs. Redefining the Corporation: Stakeholder Management and Organizational Wealth. Stanford, CA: Stanford University Press, 2002.

The legitimacy of the modern corporation is examined in this book. Stakeholder theory is promoted as a viable foundation for organizing and managing corporations. Also included are case studies of three major corporations: Cummins Engine, Motorola, and Royal Dutch/Shell Group.

Smaller Foundational Works

In addition to the classic books on stakeholder theory, there are several very strong articles that provide a foundation for understanding the topic. The Clarkson Centre for Business Ethics 1999 published a set a stakeholder principles that were argued to represent a consensus view of scholars in the field. Donaldson and Preston 1995 discuss stakeholder theory from a descriptive, instrumental and normative perspective. Hill and Jones 1992 expand agency theory to include all of a firm's important stakeholders. Jones 1995 explains why treating stakeholders well can lead to competitive advantage. Jones and Wicks 1999 integrate social science with ethics to further examine stakeholder theory. Parmar, Freeman, Harrison, Wicks, Purnell and de Colle 2010 demonstrate how stakeholder theory can be used to address three interconnected business problems. Phillips, Freeman and Wicks 2003 refute some of the most common criticisms of stakeholder theory. Finally, Walsh 2005 examines the importance of three important stakeholder books.

Clarkson Centre for Business Ethics. 1999. Principles of Stakeholder Management. Toronto: University of Toronto. Reproduced in 2002, Business Ethics Quarterly, 12 (1): 256-64.

These principles were published at the culmination of four conferences held at the Centre for Corporate Social Performance and Ethics (now called the Clarkson Centre

for Business Ethics & Board Effectiveness). Although the principles represent a good faith effort to reflect the consensus perspective of scholars in the field, they are not universally accepted nor are they frequently cited. However, every scholar studying stakeholder theory should be aware of them.

Donaldson, Thomas and Lee E. Preston. "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications." *Academy of Management Review* 20 (1995): 65-91.

In this much debated and often cited classic article, the authors argue that stakeholder theory has three distinct aspects: descriptive, instrumental (leads to achievement of objectives such as profit), and normative (moral/ethical). They elaborate on these three perspectives and connect them to their relevant literatures. The source of debate in the field is whether the theory can be divided into these aspects, or whether they are inseparably connected.

Hill, Charles W. L. and Thomas M. Jones. "Stakeholder-agency Theory." *Journal of Management Studies* 29 (1992): 131-154.

Agency theory supports the notion that top executives are agents for the shareholders. In this article, the authors blend agency theory with stakeholder theory to support the idea that top executives are also agents for the firm's other important stakeholders. Implications for governance and contracting are explored.

Jones, Thomas M. "Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics." *Academy of Management Review* 20 (1995): 404-437.

The core theory in this article is that application of ethical principles to management can result in significant competitive advantages. The article explains how this happens, and positions stakeholder theory as an integrator of the core ideas in the business and society field.

Jones, Thomas M. and Andrew C. Wicks. "Convergent Stakeholder Theory." *Academy of Management Review* 24 (1999): 206-221.

This article integrates the social science approach to stakeholder theory, which is descriptive and instrumental, with the normative or ethical approach to stakeholder theory. The authors propose that neither approach is complete without the other. It is worth noting that there are several reactions to this article by prominent scholars in this same issue of *Academy of Management Review*. The reactions are also worth reading.

Parmar, Bidhan L., R. Edward Freeman, Jeffrey S. Harrison, Andrew C. Wicks, Lauren Purnell and Simone de Colle. "Stakeholder Theory: The State of the Art." *Academy of Management Annals*, 3 (2010): 403-445.

The authors discuss the three interconnected business problems stakeholder theory addresses—the problem of understanding how value is created and traded, the problem of connecting ethics with capitalism, and the problem of advising managers in such a way that the first two problems are addressed. This article also discusses how stakeholder theory has been adopted across a wide variety of academic disciplines both within and without the field of business.

Phillips, Robert, R. Edward Freeman and Andrew C. Wicks. "What Stakeholder Theory is Not." *Business Ethics Quarterly* 13 (2003): 479-502.

In what is arguably one of the best articles ever written on stakeholder theory, the authors tackle the major criticisms of stakeholder theory, as well as dispelling some of the myths surrounding it. In addition to describing what stakeholder theory is not, they also explain what it is. These are three of the top scholars in this field, and they do not often work together as a threesome. This is a must read article for anyone interested in stakeholder theory.

Walsh, James P. "Taking Stock of Stakeholder Management." *Academy of Management Review* 30 (2005): 426-452.

Although this article was written as a review of Freeman's classic 1984 book (see "Comprehensive Books") and two others, it is actually an evaluation of the relevance of stakeholder theory as a whole. Walsh establishes the importance of stakeholder theory in our modern world, and then he examines some of the important topics found in Freeman 1984, Post, Preston and Sachs 2002 and Phillips 2003 books (see "Comprehensive Books"). He finishes by summarizing some of the major contributions and boundaries of stakeholder theory.

Who Is Or Is Not A Stakeholder

One of the first stakeholder-oriented tasks a firm or a researcher must tackle is determining who is a stakeholder of the organization. Listed below are a few excellent articles that address this issue. Agle, Mitchell and Sonnenfeld (1999) provide an empirical test of what causes a stakeholder to be salient in the eyes of business executives. Bundy, Shrophshire and Buchholtz 2013 argue that the salience of an issue is just as important as the salience of a stakeholder in terms of influencing manager decisions. Henriques and Sadorsky 1999 empirically demonstrate that stakeholders perceived as important to executive can influence environmental conscientiousness. Finally, in the most important piece of literature in this research stream, Mitchell, Agle and Wood define what gives a stakeholder salience to business managers.

Agle, Bradley R., Ronald K. Mitchell, and Jeffrey A. Sonnenfeld. "Who Matters to CEOs? An Investigation of Stakeholder Attributes and Salience, Corporate Performance, and CEO Values." *Academy of Management Journal* 42 (1999): 507-525.

This article contains an empirical test of the concept of stakeholder salience. The researchers found strong support that the hypothesized attributes of legitimacy, power and agency make a stakeholder salient to an organization, and also found links between top manager values, stakeholder salience and corporate social responsibility. They did not find support that these relationships influence financial performance.

Bundy, Jonathan, Christine Shrophshire, and Ann K. Buchholtz. "Strategic Cognition and Issue Salience: Toward an Explanation of Firm Responsiveness To Stakeholder Concerns." *Strategic Management Journal*, 38 (2013): 352-376.

As an alternative to the idea that the salience of a stakeholder is of paramount importance in determining firm behavior, this article presents a perspective that “issue” salience is critical. Issue salience is based on cognitive process used by managers to interpret, understand, and ultimately to react to an issue under consideration.

Henriques, Irene and Perry Sadorsky, “The Relationship Between Environmental Commitment and Managerial Perceptions of Stakeholder Importance.” *Academy of Management Journal* 42 (1999): 87-99.

The authors examine the perceived importance of various stakeholders and whether differences in importance across these stakeholders influence a firm’s commitment to environmental conscientiousness. They find that it does, and they also use cluster analysis to identify four types of firms based on the way they treat the environment.

Mitchell, Ronald K., Bradley R. Agle and Donna J. Wood. “Toward a Theory of Stakeholder Identification and Salience: Defining the Principles of Who and What Really Counts.” *Academy of Management Review* 22 (1997): 853-886.

In this article, the authors propose a model for identifying and prioritizing stakeholders based on their possession of three attributes: legitimacy, power and agency. This article is frequently cited and has prompted numerous theoretical advancements and empirical assessments.

Stakeholders Vs. Shareholders

From the beginning of the advancement of stakeholder theory, some theorists and practicing managers have been demoting it on the basis that taking above normal care of stakeholders dilutes profits that rightfully belong to shareholders. Proponents argue that there is no conflict because firms that take great care of their stakeholders enjoy higher profits anyway. Below are some articles and a book that outline both sides of the argument. Boatright 1994 questions whether corporations really have special fiduciary duties to shareholders. Danielson, Heck and Shaffer 2008 questions, from a financial economic perspective, whether shareholder wealth maximization is really the optimal objective function for corporations. Jensen 1989 expresses mistrust of managers that invest in social causes without any expectation of financial returns. Jensen 2002 argues that firms cannot maximize firm performance across multiple objectives and should therefore focus on firm market value. Marens and Wicks 1999 explain that the fiduciary duties of directors to their shareholders are equally as applicable to other stakeholders. Marcoux 2003, on the other hand, argues that shareholders have a special moral status and should therefore be given special attention by directors. Smith 2003 points out that corporate scandals demonstrate one of the downfalls of an obsession on shareholder wealth maximization. Stout 2012 reviews all of the essential arguments in this research stream from a moral, practical, and legal perspective. Stout 2012. is also very inexpensive and easy to obtain.

Boatright, John R. “Fiduciary Duties and the Shareholder-management Relation: Or, What’s So Special About Shareholders?” *Business Ethics Quarterly* 4 (1994): 393-407.

The idea that managers have a fiduciary duty to shareholders to run the corporation in their interests is supported by the idea that shareholders are the owners of the corporation and that they have a contract or agency relationship with management. However, these arguments are shown to be inadequate. Instead, the basis is found in considerations of public policy.

Danielson, Morris G., Jean L. Heck and David R. Shaffer. "Shareholder Theory—How Opponents and Proponents Both Get It Wrong." *Journal of Applied Finance*, 18 (2008): 62-66.

The authors point out that most financial economists accept the notion that shareholder wealth maximization is the best possible objective for financial decision-making. However, maximizing the share price is not the appropriate metric because it is subject to short-term manipulations. The main prescription of shareholder theory is that managers should invest in all projects with positive net present value. This prescription is beneficial not only to shareholders, but to other stakeholders such as employees and customers.

Jensen, Michael C. "The Evidence Speaks Loud and Clear." *Harvard Business Review* 67(6)(1989): 186-188.

In this short but powerful commentary, one of the preeminent scholars advancing the notion of stockholder supremacy clarifies that running the corporation in the interests of shareholders does not mean ignoring other stakeholders. He also states that if stakeholder advocates argue that firms should invest in social causes without any expectation of future returns then they are wasting firm resources.

Jensen, Michael C. 2002. "Maximization, Stakeholder Theory and the Corporate Objective." *European Financial Management* 7 (2001): 297-317.

The author, one of the pioneers in the notion that shareholders should be given highest priority in executive decisions, argues that since it is logically impossible to maximize firm performance in more than one dimension, firms should focus on a singular objective function. In this case he argues that the objective function should be total firm market value.

Marens, Richard and Andrew C. Wicks. "Getting Real: Stakeholder Theory, Managerial Practice, and the General Irrelevance of Fiduciary Duties Owed to Shareholders." *Business Ethics Quarterly* 9 (1999): 272-293.

The fiduciary duties directors owe to shareholders include care, honesty, and loyalty with regard to their financial interests. However, these duties are equally applicable to other stakeholders. The authors use theory and legal precedent to make their case.

Marcoux, Alexei M. "A Fiduciary Argument Against Stakeholder Theory." *Business Ethics Quarterly* 13 (2003): 1-24.

This article advances arguments that demonstrate the special moral status of shareholders, in contrast to stakeholder theorists that argue the opposite. The basis of the arguments is that managers exercise a great deal of control over the interests

of the shareholders, that managers have privileged information about the affairs of shareholders, which makes them vulnerable, and that there is no way for shareholders to make themselves less vulnerable.

Smith, H. Jeff. "The Shareholders vs. Stakeholders Debate." MIT Sloan Management Review 44 (4)(2003): 85-90.

The author points out that corporate scandals serve as evidence that an obsession with shareholder returns may not be promoting the kind of corporate behavior that society finds acceptable. Stakeholder theory asserts that managers have a responsibility to both shareholders and other stakeholders. If managers are only using stakeholders as a means to an end (profits) then they are actually following a shareholder returns philosophy.

Stout, Lynn. *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations and the Public*. San Francisco, CA: Berrett-Kohler Publishers, 2012.

This book tackles the myth that top executives have a special legal responsibility to shareholders. As a law professor at Cornell University, Stout has spent much of her career researching this and related issues. In this volume, she shares the findings from her research, and also advances compelling arguments that demonstrate how an obsession with maximizing shareholder returns has actually destroyed value in corporations.

Practical Foundations For Stakeholder Theory

Stakeholder theory was developed as a practical theory, in response to an increasingly complex and ever changing business environment. The following articles elaborate on the practicality of the stakeholder approach when managing a business. Barringer and Harrison 2000 tie stakeholder theory into the alliance literature. Blair 1998 argues that stakeholders should be fairly compensated for the risk they assume when they make firm specific investments. Bosse, Phillips and Harrison 2009 demonstrate that the reciprocity manifest by well-treated stakeholders can lead to competitive advantage and higher firm performance. Clarke 1998 provides a means of resolving the situation in which shareholders grow rich at the expense of other stakeholders. Ekeh 1974 explains generalized exchange, a concept that is vital to why stakeholder management works to provide advantages to firms. Finally, Harrison, Bosse and Phillips 2010 argue that trust, fairness and reciprocity lead stakeholders to provide valuable information to firms that might otherwise not be available.

Barringer, Bruce R. and Jeffrey S. Harrison. "Walking a Tightrope: Creating Value Through Interorganizational Relationships." *Journal of Management* 26 (2000): 367-404.

Interorganizational relationships have become critical to success in the business world. In this article, the authors outline a variety of different types of interorganizational relationships, and the theories upon which they are founded. Stakeholder theory is provided as a rationale for alliance formation, in that organizations are vehicles for coordinating stakeholder interests.

Blair, Margaret M. "For Whom Should Corporations Be Run? An Economic Rationale for Stakeholder Management." *Long Range Planning* 31 (1998): 195-200.

The author argues that many stakeholders have made firm specific investments that are at risk. Consequently, they should receive a return for those investments. In this sense, they are residual claimants, just like shareholders.

Bosse, Douglas A., Robert A. Phillips and Jeffrey S. Harrison. "Stakeholders, Reciprocity and Firm Performance." *Strategic Management Journal*, 30 (2009): 447-456.

Reciprocity is a universal phenomenon. In an organizational setting, stakeholders can be expected to reciprocate positively when they are treated positively and negatively when they perceive they are being mistreated. The implications of this phenomenon for organizational performance are examined in this article.

Clarke, Thomas. "The Stakeholder Corporation: A Business Philosophy for the Information Age." *Long Range Planning* 31 (1998): 182-194.

From a practical perspective, it is easy to find examples of firms in which shareholders grow rich at the expense of other stakeholders. This article offers a stakeholder approach to resolving this dilemma.

Ekeh, Peter P. *Social Exchange Theory*. Cambridge, MA: Harvard University Press, 1974.

One of the most important foundations for stakeholder theory is generalized exchange, the idea that how a firm treats one stakeholder influences the behavior of other stakeholders. Were it not for this effect, then stakeholder theory would be no more than a combination of theories from other disciplines. In this book, the author lays out the fundamentals of generalized exchange.

Harrison, Jeffrey S., Douglas A. Bosse and Robert A. Phillips. "Managing for Stakeholders, Stakeholder Utility Functions and Competitive Advantage." *Strategic Management Journal* 31 (2010): 58-74.

This article lays a foundation for understanding how excellent treatment of a broad group of stakeholders leads to high firm performance across a number of dimensions. In addition to reviewing the work of others in this regard, the authors explain that excellent treatment of stakeholders leads them to trust the firm and reveal to the firm their utility functions. This information can lead to both innovation and efficiency.

Normative Foundations For Stakeholder Theory

Although stakeholder theory is practical, it is based on a strong moral foundation. Listed here are some of the articles that best establish this normative foundation. Argandoña 1998 defends stakeholder theory from the perspective of the common good. Evan and Freeman 1993 explain stakeholder theory from a Kantian perspective. Freeman 1994 supports stakeholder theory using the doctrine of fair contracts, while Freeman and Phillips 2002 examine the libertarian roots of the theory. Phillips 2003 applies the principle of fairness to stakeholder theory. Wicks, Gilbert and Freeman 1994 use feminist

thought to reinterpret stakeholder theory. Finally, Wicks and Freeman 1998 discuss stakeholder theory from a pragmatic perspective.

Argandoña, Antonio. "The Stakeholder Theory and the Common Good." *Journal of Business Ethics* 17 (1998): 1093-102.

This article defends stakeholder theory as advancing the common good. The author explains the foundations of the theory of the common good, and then applies the theory to stakeholder theory.

Evan, William M. and R. Edward Freeman. "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism." In *Ethical Theory and Business*, T.L. Beauchamp and N.E. Bowie (eds.): 97-106. Englewood Cliffs, N.J.: Prentice-Hall, 1993.

The authors defend stakeholder theory on the basis of Kant's teaching that the rightness or wrongness of actions does not depend on their consequences, but on whether actions fulfill our duty. This view treats stakeholders as ends rather than means.

Freeman, R. Edward. "The Politics of Stakeholder Theory." *Business Ethics Quarterly* 4 (1994): 409-21.

In this article, the author supports stakeholder theory based on the doctrine of fair contracts. This doctrine states that a contract is fair if parties to the contract would accept it even if they did not understand their actual stakes. In other words, each party would be willing to turn the tables and accept the other side.

Freeman, R. Edward and Robert A. Philips. "Stakeholder Theory: A Libertarian Defense." *Business Ethics Quarterly* 12 (2002): 331-350.

This article examines the roots of stakeholder theory and libertarianism, and then demonstrates that there are libertarian arguments for both instrumental and normative views on stakeholder theory. They then advocate for what they call "stakeholder capitalism," based on libertarian ideals.

Phillips, Robert. "Stakeholder Legitimacy." *Business Ethics Quarterly* 13 (2003): 25-41.

The principle of fairness is applied to stakeholder theory. The author distinguishes between stakeholder legitimacy based on direct moral obligation vs. legitimacy based on the ability of the stakeholder to help or harm the organization. He concludes that stakeholders with the ability to affect the organization are legitimate, but that this legitimacy is derived from moral obligations to other stakeholders.

Wicks, Andrew C., Daniel R. Gilbert, and R. Edward Freeman. A feminist reinterpretation of the stakeholder concept. *Business Ethics Quarterly* 4 (1994): 475-497.

The authors argue that stakeholder theory has retained certain masculine assumptions from the wider business literature, and that these assumptions limit its usefulness. They then use feminist thought as a means of reinterpreting the stakeholder concept.

Wicks, Andrew C. and R. Edward Freeman. "Organization Studies and the New Pragmatism: Positivism, Anti-positivism, and the Search for Ethics." *Organization Science* 9 (1998): 123-140.

The authors discuss pragmatism in terms of the moral dimensions of how firms organize. Pragmatism also helps avoid entrenched epistemological distinctions that reduce the importance of ethics and the value of research. In addition, pragmatism allows researchers to develop research that focuses on serving human purposes, in that it is both morally rich and useful to organizations. Stakeholder theory is a pragmatic approach to organizations.

Stakeholder Management

Several authors have provided models and theories regarding how stakeholders can or should be managed in order to achieve particular objectives, among them corporate social responsibility, higher profitability, or stakeholder satisfaction. These articles provide a small sample of some interesting work on stakeholder management practices. Carroll 1991 defines four morality-based responsibilities of managers as they manage stakeholder interests. Freeman and Gilbert 1998 describe enterprise strategy, which sits at the intersection of strategy and ethics. Friedman and Miles 2002 provide a model to help firms understand their relationships with stakeholders and how those relationships are likely to change over time. Goodpaster 1991 provides an ethical approach to stakeholder analysis. Harrison and Bosse 2013 provide some limits firms should consider as they generously allocate resources to their stakeholders. Harrison and St. John 1996 provide some guidelines for managers that help them understand which stakeholders should have highest priority for forming new partnerships. Hart and Shama 2004 demonstrate how firms can benefit through engagements with stakeholders that may not typically be considered strategically important. Kochan and Rubenstein 2000 provide a case example of a firm they believe was formed based on several stakeholder principles. Finally, Savage, Nix, Whitehead and Blair 1991 provide tools for assessing and managing relationships with stakeholders.

Carroll, Archie B. "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders." *Business Horizons* 34 (4)(1991): 39-48.

The morality of firms is dependent on the morality of their managers. As firms manage stakeholder interests, they need to be aware of four types of responsibility: economic, legal, ethical and philanthropic.

Freeman, R. Edward and Daniel R. Gilbert. *Corporate Strategy and the Search for Ethics*. Englewood Cliffs, New Jersey: Prentice Hall Inc., 1988.

This book describes the notion of enterprise strategy, which defines a firm's core purpose or reason for existence. A firm's enterprise strategy sits at the intersection of strategy and ethics. The authors provide a very practical approach to developing an enterprise strategy and also offer guidance on how to carry it out.

Friedman, Andrew L. and Samantha Miles. "Developing Stakeholder Theory." *Journal of Management Studies* 39 (2002): 1-21.

The authors present a model that combines stakeholder theory with a realist theory of social change and differentiation. They demonstrate how the model can help firms analyze their relationships with stakeholders. The model also helps explain how relationships with stakeholders are likely to change over time.

Goodpaster, Kenneth E. "Business Ethics and Stakeholder Analysis." *Business Ethics Quarterly* 1 (1991): 53-73.

Stakeholder analysis is central to the application of stakeholder theory within organizations. This article provides an approach to stakeholder analysis that clarifies for managers the legitimate role of ethical considerations in decision-making.

Harrison, Jeffrey S., and Douglas A. Bosse. "How Much is Too Much? The Limits to Generous Treatment of Stakeholders." *Business Horizons*, 56 (3)(2013): 313-322.

One of the common criticisms of stakeholder theory is that there are no limits to firm generosity towards stakeholders. Presumably firms could "give back" so much that they go out of business. This article addresses this criticism by suggesting how to determine logical limits to outstanding treatment of stakeholders.

Harrison, Jeffrey S. and Caron H. St. John. "Managing and Partnering with External Stakeholders." *Academy of Management Executive* 10(2)(1996): 46-60.

Stakeholder theory promotes partnerships with stakeholders. This article outlines some of the most important partnering strategies, and also provides a model that helps firms determine which stakeholders have high enough priority that they are likely candidates for partnerships.

Hart, Stuart L. and Sanjay Sharma. "Engaging Fringe Stakeholders for Competitive Imagination." *Academy of Management Executive* 18 (1)(2004): 7-18.

High priority stakeholders such as customers and employees receive most of the attention in the stakeholder literature. However, firms can learn from the lower priority or "fringe" stakeholders as well. This article advances the idea that interactions with fringe stakeholders can lead to innovation within firms by identifying opportunities that would not typically be identified through typical interactions with stakeholders.

Kochan, Thomas A. and Saul A. Rubenstein. "Toward a Stakeholder Theory of the Firm: The Saturn Partnership." *Organization Science*, 11 (2000): 367-386.

The authors examine the role of the corporation in American society through presentation and analysis of a case of the Saturn partnership. They ask why stakeholder models should be given consideration in the modern business environment and whether a stakeholder based organizational form is likely to be more widely adopted in the future. Another factor that makes this article interesting is that General Motors decided to liquidate the Saturn division in some later restructuring.

Savage, Grant T., Timothy W. Nix, Carlton J. Whitehead and John D. Blair. "Strategies for Assessing and Managing Organizational Stakeholders." *Academy of Management Executive* 5 (2)(1991).

The stakeholder approach integrates manager's concerns about firm strategy with the organization's interests in a variety of functional areas, including human resource management, marketing, politics, public relations and corporate responsibility. The authors discuss the potential of particular stakeholders to threaten or to cooperate with the firm, using a strike at Eastern Airlines for illustration purposes.

Empirical Evidence On Stakeholder Management And Firm Performance

Scores of studies purport to examine the relationship between stakeholder management and firm performance, usually measured in financial terms. However, many of these studies are actually about the relationship between corporate social responsibility (CSR) and firm performance. The results of these studies, as a whole, demonstrate a very small positive relationship between CSR and performance. However, there are a few well-done studies that really do examine stakeholder management and performance, and the results of these studies are much stronger, providing fairly convincing evidence that firms that take great care of their stakeholders consistently achieve higher financial performance. Some of the best of these studies are listed below. Berman, Wicks, Kotha and Jones 1999 find empirical support for the notion that firms with excellent stakeholder relationships enjoy tangible benefits from those relationships. Choi and Wang 2009 demonstrate that such relationships lead to persistently higher financial performance. Cording, Harrison, Hoskisson and Jonsen 2014 find empirical support for generalized exchange, the notion that the way a firm treats one stakeholder influences the way other stakeholders behave. du Luque, Washburn, Walburn and House 2008 also provide findings that support generalized exchange. Harrison and Freeman 1999 describe multiple studies that empirically validate stakeholder theory. Henisz, Dorobantu and Nartey 2014 provide empirical support of the financial effectiveness of stakeholder management in the gold mining industry. Hillman and Keim 2001 find that firms that invest in their stakeholders as opposed to social issues have higher financial performance. Ogden and Watson 1999 find empirical support for stakeholder theory in the newly privatized UK water industry. Finally, Preston and Sapienza 1990 found that most of their measures of stakeholder performance were positively associated with financial performance.

Berman, Shawn L., Andrew C. Wicks, Suresh Kotha and Thomass M. Jones. "Does Stakeholder Orientation Matter? The Relationship Between Stakeholder Management Models and Firm Financial Performance." *Academy of Management Journal* 42 (1999): 488-506.

The authors examine the effects of two different stakeholder management models on firm financial performance. The first model, strategic stakeholder management, is based on the notion that excellent relationships with stakeholders hold instrumental value for firms, in that they enjoy tangible benefits from those relationships. In the second model, intrinsic stakeholder commitment, relationships with stakeholders are based on moral commitment. Support is found for the

strategic stakeholder management model but not for the intrinsic stakeholder commitment model.

Choi, Jaepil and Heli Wang. "Stakeholder Relations and the Persistence of Corporate Financial Performance. *Strategic Management Journal* 30 (2009): 895-907.

In this article the authors examine the relationship between excellent relationships with stakeholders and the persistence of financial performance for firms with both superior and inferior performance. They find that firms with excellent stakeholder relationships have persistently higher financial performance and that firms with low financial performance can increase it if they have excellent stakeholder relationships.

Cording, Margaret, Jeffrey S. Harrison, Robert E. Hoskisson and Karsten Jonsen. "Walking the Talk: A Multi-stakeholder Exploration of Organizational Authenticity, Employee Productivity and Post-merger Performance." *Academy of Management Perspectives* 28 (1)(2014): 38-56.

This study directly tests the notion of generalized exchange, which is that the way a firm treats a stakeholder influences the behavior of other stakeholders. It also tests and finds support for the economic influence of authenticity, the notion that firms and their managers exhibit behavior that is consistent with the values they espouse.

de Luque, Mary S., Nathan T. Washburn, David A. Waldman and Robert J. House. "Unrequited Profit: How Stakeholder and Economic Values Relate to Subordinate Perceptions of Leadership and Firm Performance." *Administrative Science Quarterly* 53 (2008): 626-654.

In this study the authors empirically demonstrate that if a chief executive officer puts emphasis on economic factors her subordinates will perceive her as autocratic, whereas an emphasis on stakeholder values leads to a perception of visionary leadership. Also, a perception of visionary leadership means that subordinates will put forth extra effort, and this effort is associated with higher firm performance. These findings support the notion of generalized exchange.

Harrison, Jeffrey S. and R. Edward Freeman. "Stakeholders, Social Responsibility and Performance: Empirical Evidence and Theoretical Perspectives." *Academy of Management Journal* 42 (1999): 479-485.

This article was the introduction to a special journal issue on stakeholders, social responsibility and performance. The authors introduce the other articles in the special issue, but they also discuss some of the major research issues associated with examining this topic.

Henisz, Witold J., Sinziana Dorobantu, and Lite J. Nartey. "Spinning Gold: The Financial Returns to Stakeholder Management." *Strategic Management Journal*, 35 (2014): 1727-1748.

Direct empirical evidence is provided in this article for the hypothesis that increased stakeholder support is associated with higher firm performance, as measured by firm value, and after controlling for the value of the physical assets under firm

control. The study is conducted in the gold mining industry and is based on a large database of stakeholder-oriented events for 26 gold mines owned by 19 publicly traded firms over nearly two decades.

Hillman, Amy J. and Gerald D. Keim. "Shareholder Value, Stakeholder Management, and Social Issues: What's the Bottom Line?" *Strategic Management Journal* 22 (2001): 125-139.

In this article, the authors empirically test whether firms that engage in promotion of social issues or firms that focus more on developing excellent relationships with their stakeholders have higher financial performance, as indicated by shareholder value. They find support for the latter relationship, and no support for the former. This article is especially important because it directly differentiates between corporate social responsibility (CSR) and stakeholder management.

Ogden, Stuart and Robert Watson. "Corporate Performance and Stakeholder Management: Balancing Shareholder and Customer Interests in the U.K. Privatized Water Industry." *Academy of Management Journal* 42 (1999): 526-536.

The researchers examine the ability of U.K. water companies to balance customer and stockholder interests. They find that increasing customer service levels is linked to increases in market value, which is an indication of long-term investors' ability to ascertain the financial benefits that come from exceptional customer service.

Preston, Lee E. and Harry J. Sapienza. "Stakeholder Management and Corporate Performance." *Journal of Behavioral Economics*, 19 (1990): 361-375.

This is one of the earliest attempts to empirically validate the stakeholder management/performance relationship, as opposed to many other studies that have focused on corporate social responsibility (CSR) and firm performance. The authors acknowledge that they applied some rather unsophisticated methods for measurement and testing, and suggested that their results were preliminary. Nonetheless, they found that most of their measures of stakeholder performance were associated with growth and profitability.

Stakeholder Approaches To Measuring Firm Performance

The business world seems obsessed with profitability as the primary or even sole objective of the firm. However, if profits are the only thing a firm focuses on, it is less likely to achieve other important objectives for its stakeholders. The articles included in this section provide a broader perspective on measuring firm performance. Atkinson, Waterhouse and Wells 1997 provide a tool for monitoring explicit and implicit contracts with stakeholders. Chakravarthy 1986 argues that satisfying stakeholders is a viable way to measure firm performance. Finally, Harrison and Wicks 2013 propose a broad conceptualization of firm performance based on stakeholder utility the firm provides.

Atkinson, Anthony A., John H. Waterhouse and Robert B. Wells. "A Stakeholder Approach to Strategic Performance Measurement." *Sloan Management Review* 38 (3)(1997): 25-37.

Performance measurement helps all stakeholders understand and evaluate their contributions to the firm and what they might expect to receive in return. In this

article, the authors provide a tool for monitoring explicit and implicit contracts with stakeholders, as a means to achieving primary objectives such as profit.

Chakravarthy, Balaji S. "Measuring Strategic Performance." *Strategic Management Journal* 7 (1986): 437-458.

This article examines a number of ways to measure firm performance. The author presents satisfying multiple stakeholders as a viable alternative to maximizing shareholder returns.

Harrison, Jeffrey S. and Andrew C. Wicks. "Stakeholder Theory, Value and Firm Performance." *Business Ethics Quarterly* 23 (2013): 97-125.

In this article, the authors criticize shareholder-based performance measurement systems using both philosophical and practical arguments. They propose a broader conceptualization of performance based on multiple stakeholders and the utility they receive from the organization. They also argue that stakeholder happiness is one way to conceptualize the amount of utility stakeholders receive.

Stakeholder Influence

A lot of the work in the stakeholder field examines how firms can or should behave with regard to their stakeholders. This section includes articles that take the opposite perspective and explore the behavior and influence of stakeholders towards the firms in which they have a stake. Buyesse and Verbeke 2003 examine the influence of stakeholder management on a firm's environmental strategy. Coff 1999 explains that stakeholders with significant bargaining power can extract a lot of the profit that might otherwise go to a firm's other stakeholders. Frooman 1999 outlines the strategies stakeholders have available to them to influence firm behavior. Rodgers and Gago 2004 show how stakeholders can influence corporate reporting. Rowley explains how a firm's social network is likely to influence firm behavior. Sharma and Henriques 2005 demonstrate that stakeholders can influence sustainability practices in firms.

Buyesse, Kristel and Alain Verbeke. "Proactive Environmental Strategies: A Stakeholder Management Perspective." *Strategic Management Journal* 24 (2003): 453-470.

In this study, the researchers examine whether stakeholder management makes Belgian firms more environmentally proactive. Overall, they find this relationship more limited than expected. They propose that country specific characteristic may account for their results.

Coff, Russel W. "When Competitive Advantage Doesn't Lead to Performance: The Resource-based View and Stakeholder Bargaining Power." *Organization Science* 10 (1999): 119-133.

Even if an organization has competitively superior resources, it may not manifest the resulting advantages through higher performance. This is likely to happen when stakeholders have significant bargaining power, in that they extract a lot of the profits as they exercise their power during interactions with the firm.

Frooman, Jeff. "Stakeholder Influence Strategies." *Academy of Management Review* 24 (1999): 191-205.

In this article, the author uses resource dependence theory to outline the types of strategies stakeholders have available to them to influence organizational decision-making. He outlines both direct and indirect influence strategies and provides numerous examples.

Rodgers, Waymond and Susana Gago. "Stakeholder Influence on Corporate Strategies Over Time." *Journal of Business Ethics* 52 (2004): 349-363.

This study uses resource dependence theory to explain the changing positions of stakeholders with regard to the way companies report information internally and externally. They identify six dominant philosophical theories that have driven reporting over a period of 75 years.

Rowley, Timothy J. "Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences." *Academy of Management Review* 22 (1997): 897-910.

Although stakeholder theory is inherently network based, most researchers tend to focus on dyadic relationships between firms and stakeholders. This article uses social network analysis to develop a theory of stakeholder influences that accommodates multiple, interdependent stakeholder demands and predicts firm responses to those influences.

Sharma, Sanjay and Irene Henriques. "Stakeholder Influences on Sustainability Practices in the Canadian Forest Products Industry." *Strategic Management Journal* 26 (2005): 159-180.

The authors examine how manager perceptions of various types of stakeholder influences are related to sustainability practices in their firms. Both the withholding of resources and the direct use of firm resources by stakeholders are found to influence those practices.

Practical Books

Several authors have written practical books on stakeholder theory for general managers, top executives, and business students. Listed are some of the best of these books that have not already been listed in this bibliography. It is also worthwhile to note that some of the foundational works listed in the first section of this bibliography (even Freeman, 1984) had business managers as a primary target audience. Stakeholder theory is, after all, a practical management theory. Harrison and St. John build a strategic management process around stakeholder principles and practices. Harrison and Thompson 2015 provide a stakeholder-based strategic management process tailored specifically to the healthcare industry. Kenny 2001 provides a wealth of advice to practicing managers who want to apply stakeholder theory to strategic planning. Mackey and Sisodia use Whole Foods to demonstrate the efficacy of a stakeholder approach to management. Sisodia, Wolfe and Sheth 2007 provide numerous examples of how international companies have applied stakeholder management principles to achieve success. Finally, Wheeler and Sillanpää use the Body Shop to demonstrate how firms can apply ethics to management decisions.

Harrison, Jeffrey S. and Caron H. St. John. *Strategic Management of Organizations and Stakeholders: Concepts and Cases*, 2nd Ed., Cincinnati, OH: South-Western Publishing, 1998.

This book was the first strategic management textbook built on a stakeholder foundation. Because it laid new ground, the book is also frequently used and cited by academic scholars. The book provides a step-by-step strategic management process firms can use in a variety of industries and competitive situations.

Harrison, Jeffrey S. and Steven M. Thompson. *Strategic Management of Healthcare Organizations: A Stakeholder Management Approach*. New York: Business Expert Press, 2015.

If there is any one industry that needs help, it is the healthcare industry. The authors combine strategic management, stakeholder theory, and decades of practical and consulting experience in healthcare and other industries to provide a practical approach to addressing the critical issues in healthcare.

Kenny, Graham K. *Strategic Factors*. Mosman, Australia: President Press, 2001.

Graham is a professional consultant and the CEO of a well-established consulting and executive training firm that does everything based on a stakeholder foundation. Graham has also had a long affiliation with the Strategic Management Society, where he has served on panels and in workshops with a stakeholder theme. This book provides comprehensive and practical advice for managers to use in designing and executing a strategic plan.

Mackey, John and Rajendra Sisodia. *Conscious Capitalism: Liberating the Heroic Spirit of Business*. Cambridge: Harvard Business School Press, 2013.

The CEO of whole foods teamed up with one of the leaders of the stakeholder movement to write this book, which argues for the inherent good found in both business and capitalism. The book is full of practical examples.

Sisodia, Rajendra S., David B. Wolfe and Jagdish N. Sheth, J. *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*. Upper Saddle River, NJ: Wharton School Publishing, 2007

This book resulted from a massive, world-wide effort to identify companies that are taking especially good care of a broad group of stakeholders. The authors express surprise that these companies also have higher financial performance because taking great care of stakeholders is expensive. The book is full of hundreds of examples of stakeholder management from numerous firms based in a variety of countries and industries.

Wheeler, David and Maria Sillanpää. *The Stakeholder Corporation: A Blueprint for Maximizing Stakeholder Value*. London: FT Pitman, 1997.

The Body Shop gained a reputation for treating its stakeholder well while also pursuing a successful business idea. In this book, the authors examine the Body

Shop approach to business, and make a strong case for an ethical approach to management.