We have a lot to look forward to in the Stakeholder Strategy IG – not the least of which is beautiful Madrid in the fall! But before addressing our IG’s recent accomplishments and trajectory for the future, I would be remiss not to give my deepest thanks to Jeff Harrison for the role he has played in getting us to where we are today. Jeff has been central to the SSIG since its founding – in fact, he developed the initial proposal for the SSIG to SMS, together with Ed Freeman and Maurizio Zollo, and last fall Jeff’s work as Chairperson came to fruition when the self-study he led resulted in our IG being accepted as a permanent part of SMS. Way to go, Jeff! More personally, I am deeply grateful to Jeff for the willing help he has given me as I have moved through the leadership cycle. Jeff always was available to me, for both in-depth scholarly discussions and for questions about “how the sausage really gets made” at SMS. I know that Jeff will continue to be an active (and leading) member of our IG.

The SSIG has had many accomplishments in the past year. For example: our membership has continued to grow, we participated as a major sponsor of the SMS Special Conference in Glasgow, Scotland, and we had vibrant and provocative programming at the 33rd SMS International Conference in Atlanta. Perhaps most noteworthy, however, are the recognitions our research received from our SMS colleagues. SSIG members received the award for best conference paper in Glasgow, plus the best conference paper and best student paper awards in Atlanta. These accolades reflect the maturity and high quality of the research performed by our members, and I expect that maturity and quality to continue in the years to come.

Turning to the future, I foresee stimulating sessions at the 34th SMS International Conference in Madrid this fall, ably organized by SSIG Program Chair Sybille Sachs and Associate Program Chair Doug Bosse. Further, I foresee more
cross-IG sessions, fostered by the opening of several new IGs with scopes that relate well with our scope. In sum, our intellectual activities will continue to grow in breadth and depth.

My deep appreciation and congratulations to those who have joined our leadership team: Doug as Associate Program Chair, along with Irene Henriques, Heather Elms and Daniel Arenas as Representatives at Large. I know the SSIG will be well-served by this fine group. Plus, I offer many thanks to all who ran in the SSIG elections for their willingness to serve. Next up, on to Madrid. Tapas anyone?

Warm wishes, Richard

Sybille

SSIG Pre-conference Program

Associate Program Chair, Doug Bosse

The Stakeholder Strategy IG is sponsoring three sessions for the Sunday pre-conference on September 21st in Madrid. Our sessions are:

Session 1: The Questions Stakeholder Theory Does or Could Answer Best

Panelists

Jay Barney (University of Utah)
Richard Priem (Texas Christian U.)
Heli Wang (Singapore Management U.)
Tim Devinney (University of Leeds)

Each panelist will briefly share his/her ideas regarding the important research questions stakeholder theory is best suited to address, and then engage with the audience in a discussion about additional ideas that may be additive, complementary, and/or contradictory. A moderator will direct the flow and keep the conversation moving.

Some examples of broad questions that might be best addressed with stakeholder theory include:

- How do people create value for one another?
- How does competition in factor markets differ from competition in product markets?
- How can firms create different types of value for different stakeholders?
- What are the best ways to measure managerial performance?

SSIG Participation in the

SMS Conference in Madrid

Program Chair, Sybille Sachs

The 34rd SMS International Conference will be held in Madrid, Spain from September 20-23, 2014. The theme is Strategies in a World of Networks which should be a great topic for those of us working in stakeholder strategy. The conference link is http://madrid.strategicmanagement.net/. We received many fine submissions and the choices for including papers in the program were exceptionally difficult. Many thanks to all the reviewers who helped in this process and, especially, to the authors who sent their important work to the SSIG. It is an honor to serve as SSIG program chair for the Madrid meeting. My deep thanks to everyone who has helped (and will help) to make the SSIG track special!
What vital societal functions are served by business? What is the institutional role of business in society?

Beyond the firm-level (e.g., financials) and transaction-level (e.g., transaction cost efficiency), what units of analysis are appropriate to the study of firm performance?

What is the role of values and other normative beliefs – things not explained by accommodations such as bounded rationality, pure self-interest, and uncertainty – in explaining the outcomes created by firms?

How will/does innovative technology (e.g., robots) change the nature of managerial discretion?

What changes will/does technology force on cross-border and global businesses?

What should we be doing differently to prepare future business leaders and why?

Session 2: Global Stakeholder Networks
Co-sponsorship with the Global Strategy IG

Moderator and Panelist
Jonathan Doh (Villanova University)

Panelists
Jennifer Oetzel (American University)
Ans Kolks (University of Amsterdam)
Maurizio Zollo (Bocconi University)

The social and political environment in which MNCs and representatives of civil society organizations interact has become increasingly complex. As MNCs develop more concerted and strategic approaches to their stakeholders, they are confronted by a broad diversity of civil society actors that span geographic and temporal space, but are often linked together in overlapping networks of interest, issues and firm targets. Building on the conference theme of “Strategies in a Networked World”, and specifically the theme track of “multi-level governance relationships in a networked environment”, this panel seeks to explore the emergence, dynamics, and impact of global stakeholder networks. According to the call for papers under the multi-level governance relationships in a networked environment theme, “There is a need to better understand the multilevel governance relationships of multinational and not-for-profit firms.” We intend for this panel to respond specifically to that call.

As MNCs with substantial investment and presence locate, operate, and seek legitimacy and a license to operate in these various geographies, they are confronted by a constellation of local, regional, and global stakeholders, often working independently but just as often, in consort. Moreover, a given stakeholder – say an NGO – may interact with an MNC in multiple locations concurrently, often with different partners that represent interests at multiple levels. These interests may vary based on the project or activity in question, as well as myriad other considerations, such as culture, institutional development and ideology of the local government(s), and firm and stakeholder characteristics.

Session 3: Applying Stakeholder Analysis in the Classroom
Co-sponsorship with the Teaching Community (TC)

Session Chair
Doug Bosse (University of Richmond)
Panelists

Kerstin Neumann (Bocconi University) — Sustainability in Strategic Management

David King (Iowa State University) — Merger Negotiation

Jonathan Doh (Villanova University) — Global Corporate Responsibility

Julia Hartmann (EBS University of Business and Law) — Supply Chain Management

Porter’s five forces industry analysis and SWOT analysis are the strategy tools most often taught; however, there is a need to analyze information from different perspectives (Wright, Paroutis & Blettner, 2013). Stakeholder analysis has the advantage of being designed to identify and consider the concerns of different groups, as well as begin to consider implementation of developed strategy (Kachra and Schnietz, 2008; Mitchell, Agle & Wood, 1997). This suggests that stakeholder analysis may be one of the more relevant tools available to managers, but that it may not be consistently taught.

The need to consider stakeholder perspectives is increasingly recognized across strategic management with researchers highlighting its relevance to entrepreneurship (e.g., Dess, et al., 2003; Kuratko, Hornsby & Goldsby, 2007), environmental sustainability (e.g., Flammer, 2013); merger and acquisition (e.g., King, 2013; Lane, Cannella & Lubatkin, 1998; Ragozzino & Reuer, 2007); organizational politics (e.g., Butcher & Clarke, 2003; Kuhn, 2008); among others. For example, CEO of Proctor and Gamble, A.G. Lafley, stressed the need to consider stakeholders because politics can be stronger than economics (Dillon, 2011). Additionally, considering stakeholders offers firms the advantages of less price pressure, and improved innovation and response to change.

Given recognition of the increased importance of stakeholder analysis, an important question is how to integrate it into what is taught. This interdisciplinary session draws on the knowledge of scholars and educators that share how they approach that question. As a panel session, a dialogue of how to approach teaching stakeholder analysis can begin and extended to sharing approaches and materials.

We are looking forward to seeing you at these Sunday sessions in Madrid!

Doug

The Practitioner’s View

By: Jeff Harrison and Andy Wicks

Tom Watjen
President and CEO, Unum Group

Joe Foley
Senior Vice President of Marketing and Public Relations, Unum Group

MOTIVATION

We live in an era when many people, including some of its most ardent advocates, are asking fundamental questions about capitalism and what it means to run a great company. In a recently published paper, we examine some important questions: “What does it mean for a company to create value, what kinds of value should we be measuring, and how do we know a great company when we see one?” Traditional views of business suggest the primary, if not sole, measure of performance is financial – spe-
cifically making profits. Our argument is that while profits are vital and an important part of firm performance, we need a broader conception of value – one that recognizes the importance of stakeholder participation to make firms sustainable, and to help managers appreciate the value stakeholders seek. In the paper we write about a variety of types of “value” that stakeholders seek, both to draw our attention to the ways firms do good things – but also as a way for firms and managers to appreciate the variety of ways they can get and sustain support from groups like customers, employees, financiers, suppliers, and the local community. While all these groups want financial returns and “stuff”, they also want many other things as well – and sometimes if these other things are provided, stakeholders may not seek (or expect) as much in the way of financial returns or “stuff”.

While our paper was addressed primarily to academics and drew from the academic literature to provide support, it is a paper that was designed to engage the manager and the marketplace. Our claims have strong support, but they naturally draw us to look at real firms to better understand both what current firms are doing – and to explore ways in which these ideas may lead to further innovations by companies and executives. If our ideas are reasonable, or at least headed in the right direction, then we expect to see some non-traditional approaches to managing that put value creation for stakeholders in the forefront. We do not envision a “one-size-fits-all” set of practices, particularly since different stakeholders may seek different things – and different firms exist to provide different kinds of value. Part of what is interesting is to better understand the variety in value and how firms can create more of it by making value-creation, broadly defined, a salient and intentional focus.

Part of our inspiration was looking at real firms – companies like Whole Foods, Southwest Airlines, Google, and others who go out of their way to provide value that goes beyond traditional measures and to make stakeholders central to what they do and how they do it. We also saw a movement away from traditional views of capitalism from some of its most ardent advocates, including Michael Jensen, Jack Welch, and Alan Greenspan. Together, these sources reinforced our view that we need to explore different ways of thinking about what stakeholders seek and how firms can provide it over time.

Another part of our motivation for this paper was to note, but get beyond, the existing clash between stakeholder theorists and shareholder theorists. Understanding why firms exist and who they serve is important – do all stakeholders who are part of the value-chain deserve primary consideration, or only shareholders? – but that conversation has largely been driven by academics. We wanted to get past the focus on the academic disputes and see what real firms and real managers are doing, particularly as it relates to creating value and measuring it as part of their operations.

To explore those intuitions further, we aim to see how our ideas are connected to real managers in real companies. We wanted to speak to a range of executives and see what they thought of the article and how it fit with their experience in business – both within their firm and their sense of the larger business environment. Below we report two interviews with executives of Unum Group: Tom Watjen and Joe Foley.

We suggest you read the full paper, called “Stakeholder Theory, Value and Firm Perfor-
performance,” published in January 2013 in Business Ethics Quarterly. The abstract of the paper is as follows:

This paper argues that the notion of value has been overly simplified and narrowed to focus on economic returns. Stakeholder theory provides an appropriate lens for considering a more complex perspective of the value that stakeholders seek as well as new ways to measure it. We develop a four-factor perspective for defining value that includes, but extends beyond, the economic value stakeholders seek. To highlight its distinctiveness, we compare this perspective to three other popular performance perspectives. Recommendations are made regarding performance measurement for both academic researchers and practitioners. The stakeholder perspective on value offered in this paper draws attention to those factors that are most closely associated with building more value for stakeholders, and in so doing, allows academics to better measure it and enhances managerial ability to create it.

Just in case you don’t have access to the full article, the four factors we associated with the utility (value) stakeholders receive from their interactions with firms are: 1) the tangible benefits created for stakeholders associated with the products and services of the firm, 2) the intangible benefits stakeholders enjoy based on just and fair treatment, and 3) the benefits of affiliating with particular organizations and, embedded within each of these other three factors, 4) the notion of opportunity costs. As we see it, utility is based on perception, and perception is influenced by whether stakeholders believe they are getting a good deal from the organization compared with what they might expect to receive through interactions with other firms that serve similar purposes.

OVERALL REACTIONS

Wicks: What are your initial reactions to paper? Are the ideas compelling? Do the ideas fit with your experience?

Watjen: The business concepts are ones we believe very strongly in. If I can put them in my own words, we look at this as really a question of defining the brand. We define the brand in a very holistic way meaning that, frankly, there’s a whole series of stakeholders that are important to us as a public company and they range from shareholders to customers, brokers, employees, communities, regulators, rating agencies, and I can go on. We think it is incredibly important that we understand each of them, understand what we need to do to support some of the issues that are important to them, and be sure that we reinforce and measure that inside the company. So, again, from this point of view, I think we very much support the concept of multiple stakeholders and the growing importance of those stakeholders and, frankly, it defines the brand of this company.

Foley: What we’ve learned is that there’s an interconnectedness to these stakeholders, and I think that really speaks to the importance of operating and providing value and effectiveness to all of these different stakeholders because they do influence each other. That is why you can’t just focus on shareholders, for instance, and say, well, we’re just going to deliver value for shareholders -- because if you’re not delivering value to your customers, or you’re not providing value for your employees, you’re not...
going to deliver value for your shareholders. I think that’s the interrelationship here.

STRENGTHS OF THE PAPER

Wicks: Anything particular that you liked about the paper? Specific ideas?

Foley: It’s been a long time since I’ve been in a classroom. I actually found the science and the rigor of it to be impressive. The theory and what you’ve laid out in a very academic fashion is obviously very close to what we’re trying to execute in a non-academic way in the business world. The parallels are pretty impressive.

Watjen: I think one of the great challenges for us is, how do you take this concept of the interworkings of stakeholders and value, and distill it down to something that’s very easy for a lot of different people to understand, including our employees and the role that they play in it. That’s the key for us as practitioners - making it all very practical. Frankly, the issues that we’re trying to manage for each stakeholder are actually pretty simple at the end of the day. There may be things that one or two people can’t do alone, and we’re a company of 10,000 people so everybody plays a role.

Foley: I did find interesting the discussion around conflicts and tensions amongst stakeholders. There’s a perception that maybe that is out there and, interestingly, in our practical experience I would argue that there isn’t that much tension or not as much tension as what maybe an outsider would think. Actually, there is value creation as you deal with each of your stakeholders, so that point kind of hit home to me.

WEAKNESSES OF THE PAPER

Wicks: Major weaknesses? Something the paper didn’t discuss?

Watjen: I think any time you write a paper, it sets a tone for the topic. The way we would look at these issues in our business under our circumstances would be very different from how a manufacturing company might look at them. Some of the issues are the same, but when you start to think about our stakeholders, for example, we’re in a very regulated business so that actually adds a different dimension. The manufacturing sector doesn’t have quite the same degree of regulatory involvement in their business.

The key is obviously getting to that next level because the solutions and how you think about strategy related to those different stakeholders will differ based on your circumstances.

As an aside, it might be these are the kinds of things that lend themselves not just to a paper, but then a case study just to see how they translate into a real life situation.

ARE FIRMS MOVING IN THE DIRECTION THE PAPER DESCRIBES?

Wicks: Do you think firms in general are moving in the direction that the paper describes? Not?

Watjen: I’d say it’s mixed. Think about it - you’ve got multiple stakeholders and realize that you sort of move to the squeaky wheel, which oftentimes can be a shareholder who doesn’t like the returns or the quarter or whatever, and so I think there’s still a ways to go. There’s a big gap between understanding the issues and actually doing something about it. I think the stakeholder perspective actually may
have been increased by the financial crisis and some of the things that certain segments have been through, where they’ve been under the spotlight obviously for concerns about how they managed the business for the long term, or how they managed their relationships with customers and consumers and regulators. So I think this period we’ve been through has helped raise the visibility of this perspective. I suspect we still have some work to do as an economy and as a broader business community.

Foley: I would agree. In our business, the products we sell are through employers and so we have an awful lot of interaction with employers, both large and small. My experience in those interactions is that employers are kind of all over the place. Some have a culture and a focus that is very consistent with this stakeholder theory, and then others are pretty narrow and only focused on profit or expenses or something like that, so I think we see it all.

**IS YOUR FIRM MEASURING PERFORMANCE MORE BROADLY?**

Wicks: Talk about your firm and specific things around measurement . . . moving in the direction of measuring firm performance more broadly. **Specific things?**

Watjen: Five or six years ago, we began this process of re-establishing the way we think about the brand and how we want be viewed by all of our key stakeholders. If you were to look at our balanced business scorecard, you’d see the usual stuff with sales and profits and returns and customer retention. But you’d also see measurements around corporate governance, average learning hours per employee, volunteerism, work environment, talent retention, and I could go on.

The point is there’s a whole series of measurements that are embedded in our balanced business scorecard that puts some clarity on what kind of things we value. This very much is how I think we assure that this isn’t just a conversation, that people right down to frontline employees can see the sorts of things they can do that ultimately affect our ability to serve all those different stakeholders.

Foley: Initially some people struggle with, well, how measurable are some of these elements, whether it’s your community relations activities or some of your human resource activities. I think we’ve learned that they’re all measurable in different ways and we’ve built up those measures over time and we use them. We report them regularly to our board of directors and it’s very much a part of who we are.

Watjen: What’s happened over time as we’ve continued to emphasize these areas is that there’s a series of external validations, too, whether it’s being recognized by *Newsweek* as a top green company or by *Forbes* as one of the most reputable companies or by a whole series of groups as the best place to work. Those are also good things that I think just validate the sorts of things we’re doing inside the company.

Wicks: Are those important measuring sticks? How do you think about that, to be recognized as a great place to work, to be seen as a green company?

Foley: Let me start by saying we don’t aspire to win those. That’s not what we set out to do. We want to be a quality company with our employees, we want to be a quality company in terms of how we interact with our communities. These are very, very important to us and so we operate, we believe, in a way that results in that
quality. If we get recognized from the outside for that, that’s a nice validation..

Watjen: We start with a set of things that we’re just trying to do to, again, address the different stakeholders and be sure that we’re thinking holistically about the brand. If we get a recognition, that’s a nice byproduct, I must say, because employees take pride in it. I’m always surprised how frequently they get referenced in employee meetings and things like that. They have a lot of pride in seeing that broad acknowledgement.

HOW WOULD YOU HAVE WRITTEN THE ARTICLE DIFFERENTLY?

Wicks: How would you have written the article differently? How would you have encouraged us to write the article differently? What did we miss that you think is important for understanding business?

Foley: I think the content and theory and everything is fine. Maybe a few more practical examples that you could’ve pointed to in the business world where you saw this play out or you didn’t see it play out. That would’ve been my only thought.

Watjen: The more you can put it in context the better. There are lots of real-time examples today, as you know, where companies are finding themselves behind in this area and it hurts them in terms of their public impression and the visibility they’re being given on some pretty negative things. I think you can paint an interesting environment with a just a few practical examples.

OTHER INSIGHTS DURING INTERVIEW

Wicks: Beyond your company, who are some of the companies we could highlight in an article for practitioners?

Foley: I think if you look at the companies that are often on the “best” lists, you always see common themes. Companies like Ernst & Young, a great example. They happen to be our auditing firm. Deloitte would be another one. Right, wrong or indifferent, they get a lot of recognition for how they think about their stakeholders and for things like creating appropriate work environments for the five generations of employees in the workplace today.

IBM also tends to be a company that thinks holistically about some of these things, but there are obviously many more out there.

Wicks: Anything else?

Watjen: Not everybody thinks this way within the business community, and the more we can begin to sprinkle seeds out there for people to think holistically, the better. This is important for all of us, actually. We stand ready to do what we can do to be helpful.
Early Stage Academics

Updates from a selection of future leaders in stakeholder theory

Ryan A. Krause, Ph.D.
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My research generally focuses on strategic leadership, or the issues pertaining to top organizational decision-makers. The primary focus of my work so far has been boards of directors, and specifically board leadership structure. In a study recently published in the *Academy of Management Journal*, my co-author and I developed theory regarding the three types of CEO-board chair separation, which we named apprentice, departure, and demotion. Prior to this work, CEO-board chair separation had been thought of as a binary construct. This project yielded a follow-on paper in which we examined the determinants of each type of separation. This paper is appearing this spring in an issue of *Strategic Management Journal*.

The more I research corporate governance, however, the more I have come to realize the importance of understanding stakeholder perceptions and evaluations of corporate governance phenomena. As such, I’ve recently pursued research questions related to the effects that corporate governance has on the views and actions of various stakeholders. In a paper that recently appeared in the *Academy of Management Journal*, my co-authors and I conducted lab experiments in which we simulated shareholder votes on CEO pay. We found that shareholders vote down CEO pay when they find themselves in a loss position, but register no reaction from a gain or a neutral position. In a different paper presented at last year’s annual Strategic Management Society conference, my co-authors and I used a combination of lab experiments and archival data to determine what, if any, effect CEO duality (i.e. the CEO simultaneously serving as board chair) has on securities analysts’ recommendations about a stock. We found that analysts only seem to focus on CEO duality, a frequently studied governance phenomenon, when firm performance is poor. When firm performance is strong, analysts do not seem to devote much attention to this issue.

In addition to expanding my own knowledge of the relationship between corporate governance and stakeholder perceptions and actions, these two studies have convinced me of the benefits that stakeholder strategy scholars can gain from lab experiments and collection of primary data. In particular, the last study, in which we corroborated our findings in the lab with data from actual analyst recommendations, suggests that investigating stakeholders’ cognitive decision-making as a precursor to observable action is advisable if we as a scholarly community are to better understand the relationship between the firm and the external parties with which it interacts.
Understanding weak firm-stakeholder relationships

Under what conditions is it likely that firms’ relationships with “weak” stakeholders (i.e., stakeholders with low influence and power over the firm) have an influence on firms’ strategic decisions especially in terms of their corporate social responsibility (CSR)? I am specifically interested in examining firms’ relationships with individual stakeholders, with the following overarching question. What factors are important in prompting firms to pay attention to weak stakeholder groups? That is, what factors influence the power unbalance between firms and weak stakeholder groups?

More specifically, I am interested in examining how and to what extent the increased importance of individual stakeholders’ voice through social media might influence firms’ strategic decisions, especially in regards to their CSR decisions and the beneficiaries of such decisions. With the emergence of various social media platforms, individuals are able to easily make their voice heard to a broader audience. This enables individual stakeholders to put pressure on a firm by gaining attention and support in regards to the concerns and complaints they post on social media about a firm. In addition to concerns and complaints, individual users can easily convey messages of what they expect of the firm, such as, what kind of societal issues that they believe should be of importance to a firm.

Beneficiaries of a firm’s philanthropic donations and CSR activities are likely to have low influence and power over firms, similarly to individual stakeholders. There could be various factors that influence a firm in choosing the recipient of their CSR activities, such as alignment with a firm’s mission and values, and the industry which it is in. In addition to firm-specific characteristics, I am interested in examining how external pressures coming from firms’ relationships with weak stakeholder groups might influence such decisions that could be otherwise. For example, could individuals’ concern and expectations that is conveyed in social media influence the firms to make CSR decisions in a direction that is significantly different from its past behavior? I will examine the proposed questions through detailed data on the philanthropic and socially responsible activities of South Korean firms and their beneficiaries, and the content of their social media accounts.

Demystifying “Value” as Stakeholder Capability Changes

It is commonly understood that entrepreneurs need to create value for different stakeholders for their ventures to be successful in the long run. However, if we were to ask what is this “value”? there would hardly be a satisfactory answer. For some, value is profits for share-
holders, for some others – it is an intangible benefit that cannot be measured, and is only in the eye of the beholder. This project demystifies “value” by empirically examining value creation/destruction in 11 entrepreneurial ventures including 6 Inc. 500 companies and 5 B-Corporations. It unearths from these cases, five different capability dimensions of value (economic, psychological, social, intellectual and physiological) within 96 observations. These include both financial and non-financial impacts on different stakeholders. This project argues that value creation or destruction should be described and measured in terms of stakeholders’ capability changes.

Ishrat’s work was motivated by the search for a more complete performance measure for entrepreneurial activity. Most current academic studies in entrepreneurship focus on financial or economic performance. When an entrepreneurial entity is financially viable scholarly articles tend to call it a success. But this view is partial as it highlights impact or consequence for only a subset of stakeholders, the stakeholders that have financed the project. Entrepreneurial activity touches many other stakeholders and it should be feasible to consider a more appropriate assessment that incorporates impact on all the stakeholders including customers, employees, shareholders, suppliers and community. The process view of entrepreneurship combined with the two foundational movements of “Stakeholder Theory” and “Human Development and Capability Approach” from welfare economics, provide the theoretical bases for his work. While the former leads toward answering the question “for whom is value created by entrepreneurial activities the latter tackles the question “to what consequences and how?”

The project was part of Ishrat’s dissertation at University of Virginia where he worked with Ed Freeman, Saras Sarasvathy, Venkat Venkataraman and Per Davidsson. Multiple papers have been presented from this project at Academy of Management and Babson Entrepreneurship Research Conference. Currently manuscripts are under preparation for submission to relevant journals.

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Behavioral Stakeholder Theory

Behavioral research is playing an increasingly important role in strategic management theory, as evidenced by the recent addition of the Behavioral Strategy Interest Group. To date, most behavioral research in strategy focuses on manager decision-making, drawing attention to the influence of cognitive biases on manager and board decisions. Clearly, manager decision-making is an important part of the firm performance equation. But the manager perspective by itself is incomplete. As stakeholder theory argues, firm performance is a function of both managers and stakeholders; stakeholder behaviors have an enormous impact on firm-level outcomes, including financial and operational performance.

In my research I am interested in understanding what motivates stakeholder behaviors, particularly those that contribute to or detract from firm performance outcomes. Firms provide a range of valuable resources to stakeholders,
including but not limited to economic rewards. However we don’t know much about how the various forms of value compare in practice. Do stakeholders tend to value economic value over other forms of value? What conditions might influence the relationships between the forms of value? Given that managers have influence over what stakeholders receive from businesses, clarifying the things that matter to stakeholders, and the behaviors that tend follow under various conditions, should produce interesting new insights into management theory and practice.

In my dissertation, “Behavioral Stakeholder Theory,” I develop theory informed by current conversations in behavioral disciplines (such as psychology, behavioral economics, anthropology, sociology, and behavioral ethics) and I explore a relevant set of empirical questions related to stakeholder behaviors and firm performance. My dissertation committee consists of Andy Wicks (chair), Ed Freeman, and Tom Jones. In the dissertation I examine four categories of value – economic, social/relational, structural, and ethical – and explore how these compare to each other in terms of motivating stakeholder behaviors that contribute to firm performance outcomes (e.g. effort, commitment, loyalty). I find that while the economic factors matter, they are less closely associated with these positive behaviors than other factors are – particularly values alignment. This relationship holds under a variety of firm, individual and industry-level conditions, suggesting some interesting questions for future research.

Broadly, my research takes a behavioral approach to strategic management and focuses on the social and cognitive forces that shape how stakeholders and managers perceive, understand and interact with each other. I am specifically interested in firm reputation and status, crisis and impression management, stakeholder management, and corporate governance. Within these areas, I draw from established strategic management and organizational theories—including stakeholder theory, institutional theory, and agency theory—and from theories in social psychology to frame my research questions.

My dissertation provides an example of my research focus. Academic interest in firm reputation has been increasing over the last three decades and much is known about the positive benefits of a good reputation and about the different processes related to reputation development and formation. However, less attention has been paid to the processes associated with how a firm attempts to protect and repair its reputation in response to a negative event, such as a scandal, crisis, or misdeed. Additionally, research investigating reputation repair is just beginning to recognize one of the larger debates in reputation scholarship: that a firm may have multiple and perhaps conflicting reputations. To better understand these processes, my dissertation research investigates how a firm’s multiple reputations influence managers’ and stakeholders’ reactions to a negative event. Drawing from research in impression management and social cognition, I find that a firm’s strategic response to a negative event differentially influences its multiple reputations—including reputations for social and financial performance, as well as an overall “general” reputation—and, in some instances,
the actions taken to protect and repair one reputation actually serve to damage another reputation. I believe that the study sheds theoretical and empirical light on many of the important questions associated with the complex nature of a firm’s reputational structure and the sociocognitive process of reputation repair.

In related research I also focus on how social status and media narratives influence scandal processes, how managers perceive and react to salient stakeholder issues, the role of social identity in firm-stakeholder relationships, and the role of director election policies in corporate governance. It is my hope that by investigating the processes associated with how firms and stakeholders understand each other, my research should ultimately allow for improved firm-stakeholder relationships over time.

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Corporate activities are increasingly contested, delayed, and even blocked by social and political stakeholders challenging firms’ propositions for value generation and distribution. Using data on more than 57,000 stakeholder interactions at 26 gold mines around the world that were reported in the media over more than 20 years, as well as financial disclosure documents and data from the Toronto Stock Exchange, my co-authors, Witold Henisz and Lite Nartey, and I demonstrated that mining companies’ relationships with stakeholders are a critical determinant of their market capitalization. In our paper Spinning Gold: The Financial Returns of Stakeholder Engagement, which is forthcoming in the Strategic Management Journal, we show that by incorporating an index of the degree of stakeholder cooperation/conflict into a market capitalization analysis, we reduced the discount placed by financial markets on the net present value of the physical assets controlled by these firms from 72 percent to between 37 and 13 percent. In related work, we show that this relationship is particularly strong when companies are under attack by stakeholders.

We further analyze the factors that contribute to building up positive relationships with stakeholders and highlight the importance of proactive direct engagement by the mining company. We also examine the form of that direct engagement and show in a paper that won the Best Paper Award at the 2013 Strategic Management Society Annual Meeting that joint activities have a greater impact than meetings and financial contributions. An important challenge in pursuing such direct engagement, however, is that forming ties with high status, highly liked stakeholders who allow the firm to span structural holes while also helping it overcome altercentric and egocentric uncertainty and facilitating new tie formation, also creates asymmetry in the stakeholder network which can enhance conflict with existing stakeholders.

**Abstract:** Does consistency (or lack thereof) between a firm’s practices (what it does) towards its employees and its espoused employee-oriented values (what it says) make a difference in terms of the productivity level of employees? Does this sort of consistency vis-à-vis a firm’s customers also influence employee productivity? We empirically investigate the influence of organizational authenticity—defined as consistency between a firm’s espoused values and realized practices—in the context of a merger, and specifically during post-merger integration. This is a time when a firm is making changes and the need for employee trust and cooperation is increased. Our empirical method essentially lays a firm’s behaviors on top of its espoused values to measure its authenticity. Our findings show that a lack of organizational authenticity in terms of both under-promising and over-promising related to both employees and customers are associated with lower productivity, which in turn is related to long-term merger performance, thus affecting outcomes for shareholders. These findings support the importance of authenticity and should therefore be of interest to executives responsible for ensuring the consistency between what a firm says and what it does, as well as those who participate in and study the merger process. The results of this study also provide important evidence in support of generalized exchange, the concept that how a firm treats one group of stakeholders influences how other stakeholders respond.


**Abstract:** Accumulation of knowledge and understanding is the goal of scientific research. Such accumulation requires that areas of interest be approached with a theoretical base and replicable processes and methodologies. Recent reviews of stakeholder theory (Laplume, Sonpar and Litz, 2008; Mainardes, Alves and Raposo, 2011) have delineated a number of issues in this area of study. In particular, they identify that if this area of research is to move toward deeper understanding, then areas of interest need to be studied in different contexts and with validated measurement instruments. This paper provides an example of a replication and methods development of stakeholder orientation from the manager’s perspective.

**Abstract:** This study examines whether shareholders are sensitive to corporations' environmental footprint. Specifically, I conduct an event study around the announcement of corporate news related to environment for all US publicly traded companies from 1980 to 2009. In keeping with the view that environmental corporate social responsibility (CSR) generates new and competitive resources for firms, I find that companies reported to behave responsibly toward the environment experience a significant stock price increase, whereas firms that behave irresponsibly face a significant decrease. Extending this view of "environment-as-a-resource," I posit that the value of environmental CSR depends on external and internal moderators. First, I argue that external pressure to behave responsibly towards the environment—which has increased dramatically over recent decades—exacerbates the punishment for eco-harmful behavior and reduces the reward for eco-friendly initiatives. This argument is supported by the data: over time, the negative stock market reaction to eco-harmful behavior has increased, while the positive reaction to eco-friendly initiatives has decreased. Second, I argue that environmental CSR is a resource with decreasing marginal returns and insurance-like features. In keeping with this view, I find that the positive (negative) stock market reaction to eco-friendly (-harmful) events is smaller for companies with higher levels of environmental CSR.


**Abstract:** This special issue of *Business & Society* explores how institutions and actors influence organizational choices regarding Corporate Responsibility (CR) *initiatives* and *mechanisms*. Assuming CR reflects strategic choices made by firms, we seek to move discussions from *why* aspects to aligning the *why* with the *what/how* aspects of CR. The articles in this special issue examine CR initiatives at multiple levels (the firm, industry, national, and global) as well as CR mechanisms ranging from ‘go-it-alone’ unilateral activities to collaborative partnerships. Our goals are two-fold. First, we focus on firms’ attempt to create and manage a portfolio of corporate responsibilities – social, political, environmental, and economic. These involve relationships with a range of stakeholders (investors, employees, consumers, suppliers, distributors as well as its multiple communities), often simultaneously, and recognizing that the corporation can devote limited resources to manage stakeholder expectations in this regard. Second, we seek to understand how institutional and competitive contexts matter in shaping specific CR choices to provide tangible evidence of managing responsibly. We suggest that consciously aligning CR initiatives (*what*) with appropriate mechanisms (*how*) will allow the corporations to efficiently and effectively pursue their CR objectives and arguably create sustained impact.

Abstract: At the 2013 Annual Symposium of the Oxford University Centre of Corporate Reputation, a roundtable was convened to discuss the reputational dynamics surrounding corporations engaged in ethical ‘grey areas’, where actions are likely to be deemed as being socially irresponsible and often later result in public scandal. The presenters wrote up their comments in the form of short essays which are collected together in this forum. The introductory piece by Jackson and Brammer challenges the conventional wisdom that irresponsible behaviour by corporations is associated with strong reputational penalties. In various ways, the Discussion Forum contributors explore why this link may be weak or highly contingent, focusing on dynamics at different levels of analysis. Karpoff identifies grey areas of firm behaviour characterized by market failures around both negative and positive externalities, and reviews evidence showing prospects and limits of reputation in this context. The next two contributions by Lange and Zavyalova address problems with the social attribution of irresponsible behaviour at a micro level of analysis. Harrington shows further how micro-level attributions are shaped by wider historical and institutional contexts by presenting evidence on how individual investors responded to the widespread fraud in wake of financial crises in the USA. Partnoy and King stress the role of public and private forms of regulation, stressing the role of macro-level institutions in defining legitimate behaviour and framing expectations about what is responsible or irresponsible. Applying these various concepts, Deephouse reconstructs the history of Apple’s encounters with grey areas and the reputational consequences thereof.


Abstract: This post outlines five questions managers should ask to identify key stakeholders. It describes the situation that arises when a group of managers and staff members set out to determine who their organization’s key stakeholders are. This task is important because with limited resources an organization can’t do everything for everyone. By answering these five questions about each contender that managers may have identified in their brainstorming session, they’ll be better able to direct their organization’s energy and resources to the right relationships and activities. The questions and examples are drawn from years of experience working with a large variety of organizations and management teams.


Abstract: This study examines how chief executive officer (CEO) compensation decisions may be influenced by a major group decision-making tendency referred to as group polarization among outside directors. I start by explaining why outside directors on average tend to support relatively high (low) CEO compensation when they previously witnessed relatively high (low) CEO compensation across different boards. Group po-
larization theory then suggests that when outside directors on average tend to support relatively high (low) CEO compensation prior to board discussions, they will support even higher (lower) focal CEO compensation after the discussions. In addition, this study proposes three important moderators of the group polarization effect. Specifically, (1) demographic homogeneity among outside directors and (2) the similarity of the minority’s prior decision context are proposed to weaken the group polarization effect, whereas (3) outside directors’ power relative to inside directors is predicted to strengthen it. Longitudinal analyses (1995–2006) of Fortune 500 CEOs’ compensation provide support for these theoretical predictions. This study contributes to corporate governance research on CEO compensation by advancing a novel group decision-making approach to examining this important decision.


Abstract: This study contributes to organization research by advancing a recategorization perspective to explain how an increasing number of directors have successfully obtained major board appointments and played important roles on boards despite their demographic differences from incumbent directors. We theorize and show that existing directors tend to select a demographically different new director who can be recategorized as an in-group member based on his or her similarities to them along other shared demographic characteristics. We further explain how a new director’s prior social ties to existing directors strengthen this recategorization process. We then posit that recategorization increases demographically different directors’ tenures and likelihood of becoming board committee members and chairs. Results from analyses of Fortune 500 boards from 1994 to 2006 provide strong support for our theory. This study suggests that increased board diversity along some demographic characteristics is associated with increased homogeneity and reduced diversity along others. It also contributes to recategorization research by examining the relative salience of different characteristics in the recategorization process. Our theory and supportive findings suggest that, for example, gender and ethnicity would be more salient during the recategorization process than other characteristics. As a result, female and ethnic minority directors would need to be more similar to incumbents along shared dimensions than other demographically different directors (such as a young director) for them to be recategorized as acceptable in-group members.


Abstract: Some companies are pursuing initiatives that aim to synergistically create value both for the company and society. But these initiatives follow a different development process than traditional corporate products. Based on in-depth case studies of four leading global corporations from different
industries (BMW, Nestlé, P&G, and Vanke), the researchers from the Center for Organizational Excellence (CORE) identify distinct organizational solutions and best practices to support such initiatives in different stages of the new business development process. 
http://sloanreview.mit.edu/x/55310

**Announcements**

The 6th International CSR Conference will be held in Berlin @ Humboldt University on 8/9 October 2014. A Doctoral Workshop will precede the conference. The Theme of this year’s conference is “Innovating for Sustainability” — with the goal of linking work by those addressing innovation issues with those doing work on sustainability.

Although the theme of the conference is “Innovating for Sustainability” we invite submissions which contribute to advanced knowledge creation in the diverse area of CSR from a scientific, practical and/or political point of view. We encourage submissions from sociologists, psychologists, philosophers, political scientists, legal scholars, economists, management scholars and others who want to bring the logic and empirical techniques of their science to bear on issues of CSR.

Information on the conference is given at http://www.csr-hu-berlin.org/. Submission to the conference is via a proposal (one-page) that will be reviewed by the conference committee.

In addition to the conference there is a doctoral workshop prior to the conference:


As well as a special issue of Long Range Planning that is being edited by T. Devinney, J. Schwalbach & D. Siegel:

http://www.journals.elsevier.com/long-range-planning/call-for-papers/special-issue-on-innovation-and-sustainability/

Submission to the LRP special issue is separate from the conference but the theme is linked and there is value to presenting at the conference should you be thinking about submitting to the special issue.

Some of this year’s conference Keynote speakers include Tima Bansal (Ivey), Timothy Devinney (Leeds), Robert Eccles (Harvard), John Elkington (SustainAbility), and Edward Freeman (Virginia).

THE PROGRAM COMMITTEE:

Joachim Schwalbach (Humboldt-Universität zu Berlin), Chairman
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Wanjun Jiang (Peking University Business School)
Gregory Jackson (Free University Berlin)
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Tanji Tanimoto (Waseda University, Tokyo)
Sandra Waddock (Boston College)

We hope to see you there.