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Introduction

Robert A. Phillips and R. Edward Freeman

In the last 30 years, Stakeholder Theory has become a rich area of research in a number of the business disciplines. This volume collects together some of the most important and insightful papers.[1] In trying to give the interested reader a good start on this literature, we have drawn primarily from the business ethics/corporate responsibility and strategic management/management literatures. There are additionally whole bodies of work that have been done in finance, accounting, marketing, operations, health care, education, public administration, environmental policy, and law.[2]

There are many ways to organize the literature on Stakeholder Theory. For example, we might take a disciplinary approach, showing how economists (or those trained in economics or those using concepts derived primarily from the economics literature) look at stakeholder questions. And this might be compared and contrasted with sociological, strategic, and political philosophical approaches. We might divide the research based on the original publication outlet. *Business Ethics Quarterly*, *Academy of Management Review*, and *Organization Science* have all been on the vanguard of publishing stakeholder-based research and the fruits of their publication decisions are well reflected here. Or, we might consider the variety of *questions* Stakeholder Theory has raised and group the articles by issue.

It is our considered belief, however, that a key strength of Stakeholder Theory is that it crosses, and occasionally ignores completely, such boundaries. Stakeholder Theory is, we maintain, both *managerial* and *pragmatic*. In pursuing questions, solutions, descriptions and prescriptions that are practically useful in creating and distributing value, stakeholder theory has taken the liberty of employing whatever conceptual tools are at hand – irrespective of disciplinary or ideological silos.

In this brief introduction, we seek to give the reader a broad sense of the questions posed by some of the more influential articles in the area of Stakeholder Theory from our own editorial perspective. It represents a combination of disciplines, issues, time, classrooms, and the business experience of the thousands of managers with whom we have had conversations with over the past 30 or more years.

The Early Research

The beginnings of Stakeholder Theory are usually traced to 1984 and the publication of Freeman's *Strategic Management: A Stakeholder Approach.* In reality the stakeholder concept has been a part of the business literature since the early 1960s, and the idea behind the concept is much older still. Freeman (1984; Chapter 1) traces the origins of the stakeholder concept to the Stanford Research Institute (SRI), and particularly to Eric Rhenman, Robert Stewart, and Igor Ansoff in 1963. Freeman, Harrison, Wicks, Parmar and DeColle (in press) marshal more recent scholarship and suggest that the root of the idea can be found in both Mary Parker Follett and Chester Bernard.

Much of the early work in Stakeholder Theory subsequent to 1984 was concerned with two issues. The first is the definition of 'stakeholder'. Freeman's view, coming from strategic management, was that 'any group or individual who can affect or is affected by the achievement of a company's objectives' could be called a stakeholder. This definition is a managerial one, suggesting that the main point of Stakeholder Theory is to manage effectively in a world of great change. Freeman and Evan (1990; Chapter 2) and Hill and Jones (1992) argue that Stakeholder Theory is consistent with mainstream ideas such as Transaction Cost Economics and Agency Theory.

In a groundbreaking article (still the most widely cited article on the subject), Donaldson and Preston (1995; Chapter 7) claim that the burgeoning scholarship on Stakeholder Theory can be divided into four categories: descriptive, instrumental, normative, and managerial. Most of the hundreds of references to this article, however, simply leave out the managerial. In doing so, these authors reify the positive-normative distinction. However, even the instrumental interpretation of Stakeholder Theory (i.e., if you want to maximize shareholder value or any of the standard economic objective functions, then you must satisfy stakeholders), cannot be defended as without normative content, as Jones (1995; Chapter 5), and Jones and Wicks (1999; Chapter 14) show. In addition to the arguments in these articles, the mere use of 'stake' and its playful suggestion that 'stock' or 'share' be converted to 'stake' has normative and descriptive implications. As Hilary Putnam[3] suggests, there is an 'entanglement of facts and values' that is especially evident when one sees Stakeholder Theory as inherently managerial. Freeman (1994; Chapter 3) suggested that we see Stakeholder Theory as a genre, rather than as a traditional business theory, or theory of the firm, with precise definitions and propositions that make predictions. In effect he was suggesting a 'sense making' view of Stakeholder Theory; we come to make sense of business as creating value for stakeholders. However, it was a number of years until this view became clear.[4]

The second issue that arose in the early days of Stakeholder Theory emerged out of the suggestion that Freeman's definition was too broad.[5] According to this critique, firm 'effects' can be quite wide-ranging and pervasive. If all who are affected in any way (or may someday come to be affected) by a firm's actions are to be considered stakeholders, there is no way to meaningfully isolate these groups or distinguish them from other 'non-stakeholders'. When combined with the issue of definition, we are led to a question about what kind of a theory is Stakeholder Theory. These early questions may resolve into 'theory for whom?' and 'for what uses?'

Also common in this early literature and implied by these first two issues is the question of stakeholder prioritization. In two important works, Margaret Blair (Chapters 4 and 6) raises the issue of whose interests should the corporation serve. She is mainly concerned with showing that employees have an equally legitimate stake in the firm, for many of the same reasons, as shareholders. More generally, Mitchell, Agle and Wood (1997; Chapter 8) suggested an elaborate way to prioritize stakeholders based on their managerial salience, and several other variables.

The priority issue also raised a more fundamental normative issue of how we are to understand the explicitly ethical dimension of Stakeholder Theory. Freeman (1994; Chapter 3) suggested the idea of 'normative cores' to particular applications of the stakeholder idea.

Phillips (1997; Chapter 9) revived a Rawlsian idea of fairness to determine who should benefit from voluntary arrangements.[6] Rowley (1997; Chapter 10) argued that we need to see stakeholders in the context of network theory, rather than as dyadic relationships between a company and a stakeholder. Marens and Wicks (1999; Chapter 16) argued that the idea of management bearing a fiduciary duty to all stakeholders was inherently flawed, perhaps even irrelevant to the most important questions raised by Stakeholder Theory.

More Recent Stakeholder Studies

By the mid 1990s, the publication of a number of articles in the top management journals (e.g., *Academy of Management Review*, *Academy of Management Journal*, *Organization Science*) meant that Stakeholder Theory was beginning to become a more mainstream idea. Frooman (1999; Chapter 11) claimed that we needed a more fine grained approach to how stakeholders use their influence. Coff (1999; Chapter 12) connected Stakeholder Theory to the more commonly accepted view of strategic management as a 'resource based view of the firm.' Even agency theory guru, Michael Jensen (2002; Chapter 18), got into the act arguing that while managers needed to focus on a single objective function (which he called Total Value Maximization) we cannot understand this without taking the value created for stakeholders into account. This article led to a dispute among the theorists about single valued objective functions, per Sundaram and Inkpen (2004; Chapter 26) and the reply by Freeman, Wicks, and Parmar (2004; Chapter 27).

There has always been an empirical base to Stakeholder Theory, since its inception. Rhenman, the Tavistock researchers, and Freeman all relied on a more clinical model of research. The beginnings of what now counts as 'empirical research' began to emerge around this time due, in part, to a special issue of the *Academy of Management Journal*. Berman, Wicks, Kotha, and Jones (1999; Chapter 13) examined the effects of managerial orientation toward stakeholders on firm financial performance. Ogden and Watson (1999; Chapter 15) studied how stakeholder interests were balanced in an industry in the United Kingdom. Kochan and Rubinstein (2000; Chapter 17) conducted a longitudinal study of Saturn Corporation and spun a stakeholder narrative to explain its development.

As Stakeholder Theory began to gain currency there were a number of studies which applied the idea to other areas of management. Venkataraman (2002; Chapter 19) suggested that there is a natural link between entrepreneurship theory, at least as the Austrians interpret it, and Stakeholder Theory. The role of the entrepreneur is simply to put together a deal so that customers, suppliers, and so on, all win over time, and when the deal no longer makes sense, the existence of other entrepreneurial opportunities ensures equilibration. Schneider (2002; Chapter 20) suggested that the stakeholder idea could be the basis of an understanding of how organizational leadership emerges.

Much of the work done in the development of Stakeholder Theory was done by researchers in business ethics and corporate responsibility. There is a rich literature that is still being developed here, and while we have focused more broadly in this volume on management theory, it is worth noting that many of the theoretical ideas on which the management theorists now draw, have their roots in the more normative business disciplines. Much of the recent work in normative theory is aimed at bringing together the various strands of Stakeholder

Theory and proposing new constructs that can buttress both normative and managerial theory.

Rowley and Moldoveanu (2003; Chapter 24) suggest that we add the idea of group identity to the largely 'interest-based' views of Stakeholder Theory. Phillips (2003; Chapter 25) argues that we need a better understanding of legitimacy in both moral and sociological terms. Freeman's early idea of 'managerial legitimacy' as a foundation for the 'can affect or be affected by' definition and Mitchell, Agle, and Wood's (1997; Chapter 8) interpretation of the sociological conception of legitimacy, may bear further refinement according to Phillips. Asher, Mahoney, and Mahoney (2005; Chapter 29) claim that we need a property rights foundation for Stakeholder Theory, going back to an idea that is implicit in Freeman (1984; Chapter 1) but explicit in Donaldson and Preston (1995; Chapter 7). McVea and Freeman (2005; Chapter 30) suggest that once we see stakeholders as individuals, with names and faces, we can more easily bring together work in entrepreneurship and ethics.

More recently Jones, Felps, and Bigley (2007; Chapter 32) propose the idea of 'stakeholder culture' as a way to sort out the relationship between ethics and management. In an innovative gloss on the firm's objective function and how to measure the success of stakeholder management, de Luque, Washburn, Waldman, and House (2008; Chapter 35) have tied together Stakeholder Theory, leadership and performance via the lens of subordinate perceptions. Goodstein and Wicks (2007; Chapter 33) have argued for a reciprocal notion of 'stakeholder responsibility' akin to 'corporate responsibility' asking 'what does it mean to be a responsible stakeholder?'

Summary

While there is much work to be done in the development of Stakeholder Theory, there is also controversy. Phillips, Freeman, and Wicks (2003; Chapter 23) made a number of suggestions about what Stakeholder Theory can do and not do. In a sense the old issues of definition, priorities and what kind of animal is Stakeholder Theory, have not gone away. Walsh (2005; Chapter 31) takes stock of the controversies by reviewing Freeman's 1984 book, Phillips's 2003 volume as well as Post, Preston and Sachs's (2002) book. He seems surprised by the relatively managerial nature of these works compared to the reputation the theory has as deriving from the literature on corporate social responsibility. Walsh is surely correct in his conclusion that we need more integrated approaches to Stakeholder Theory. One such approach is offered in Freeman (2007; Chapter 34) which claims that Stakeholder Theory, however it is interpreted, rests on a simple idea of responsibility.

Of course, even with the good start evidenced here, a number of scholarly challenges still remain. Among the most commonly cited challenges to Stakeholder Theory is finding a convincing, recognized metric of success. A number of studies have employed the Kinder, Lydenberg, Domini, and Company (KLD) database (e.g., Berman, *et al.*, 1999; Chapter 13), but this set of measures is not without its critics. Part of the challenge may lie in the insistence on a single metric (see Jensen, 2002; Chapter 18). Additionally, many candidate metrics of commercial success are, naturally, financial in nature. However, current systems of financial accounting are problematic at least insofar as investments in stakeholders apart from shareholders (including other financiers) are seen as expenses under current accounting methods. Payments to employees are seen as 'labor expense'; investments in product improvements are 'R&D expense' and so on. Coff (1999; Chapter 12) begins to address this challenge, but work remains.

A second broad area of research we think likely to continue to bear fruit relates prior findings about human social and psychological tendencies and the challenges of human agency in management theorizing. The subjects of Stakeholder Theory are human actors and are thus susceptible to behavior outside of merely physical reactions and interactions. Past assumptions about human behavior within systems of stakeholder cooperation have frequently been characterized by self-interest and conflict among stakeholder demands. While these assumptions hold in some circumstances, there is reason to believe that such assumptions may be overstated. Both in economic interactions in general, and in the closer, more frequent cooperation among stakeholders in particular, assumptions of reciprocity are likely to yield distinct, yet equally powerful models and predictions of behavior as have assumptions of economic self-interest. Starting from an assumption of cooperation and reciprocity is likely to produce novel and distinct insights from those emerging from past assumptions of stakeholder conflict.

Studies of 'network' organizations have borne out this prediction. Networks employ and socially reinforce moral norms such as those in evidence in strong firm/stakeholder relationships. Potential insights at the interface of networks analysis and Stakeholder Theory have been suggested (Rowley, 1997; Chapter 10), but the potential depths of the knowledge to be gained at the intersection of networks analysis – and organizational sociology more generally – have yet to be mined at the depth they may yet bear.

Similarly, the vast literature on organizational behavior remains largely untapped as a source of insights into firm/stakeholder interactions. Joshua Margolis (2009) has referred to a 'responsibility gap' between our moral prescriptions and observed human tendencies. He argues that there is often a gap between the apparent capacities of human actors and what they are expected to do in organizations. Examination of this gap between managerial and stakeholder expectations and actual human capacities should yield more realistic, prolific and beneficial relationships. For example, how realistic are stakeholders' expectations about the extent of discretion managers have to enact a given stakeholder-related initiative? How realistic are managers' own perceptions about such discretion? And how do these expectations and perceptions affect the relative levels of firm/stakeholder cooperation? Again, we have only begun to scratch the surface at the intersection of organizational behavior and Stakeholder Theory.

Finally, there is an opportunity to re-envision the broader world of political economy using something like a stakeholder perspective as a starting point. Political theory has typically taken 'the state' as its primary subject matter and the starting point for theorizing. And, like the past 100 years or so of economic science, this approach has yielded many extraordinarily useful insights. Though speculative at best, we wonder what political economic theorizing would look like if we took something like the firm as the starting point and built up from that foundation – as opposed to starting with the state and working down. There are firms today whose power (economic, social, and political) surpasses that of many sovereign nations. Indeed, the re-emergence of private security companies has begun applying pressure to the Weberian concept of the state as holding a monopoly on the legitimate use of force – private firms are [re-]entering this field here at the turn of the twenty-first century. Much as Adam Smith and John Locke did centuries ago, we expect there is a way to conceive of and re-envision a liberal, democratic society with a market-based economy that starts with a vision of the firm and its stakeholders.

As this volume amply demonstrates, the foundation for the future of Stakeholder Theory is well in place. Surely the real test of Stakeholder Theory will be the scholarship which emerges in the next 30 years and beyond. Stakeholder Theory will be judged by the practical and managerial fruit it must still bear. We hope that this volume will assist and motivate its readers in developing some passion to answer the questions that Stakeholder Theory asks and to derive new, important, but as yet unasked questions as well. It has driven our work for many years, and hopefully for many years to come.

Notes

1. We build on an earlier volume edited by Max Clarkson (*The Corporation and its Stakeholders*, Toronto: University of Toronto Press, 1998) that collected together some of the important papers of that time period. For every article that we selected there are at least five more which are worthy.
2. For a more complete bibliography see Freeman, Harrison, Wicks, Parmar, and de Colle, *Stakeholder Theory: The State of the Art*, Cambridge: Cambridge University Press, in press.
3. Putnam, *The Collapse of the Fact/Value Dichotomy*, Cambridge, MA: Harvard University Press, 2004.
4. We are grateful to Bidhan Parmar for clarifying these issues. Freeman, Harrison, and Wicks (2007) is the clearest statement of the 'business just is creating value for stakeholders' view.
5. It is often forgotten that there are two definitions in Freeman (1984; Chapter 1), the second being an ostensive definition that stakeholders just are customers, suppliers, employees, communities and financiers.
6. Phillips (2003) is a summary statement of this body of work.

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