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# 1 Integrative stakeholder engagement

A review and synthesis of economic, critical, and politico-ethical perspectives

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## Abstract

This chapter addresses firms' stakeholder relationships in the politicised global economy with a focus on the following two questions: what is stakeholder engagement about and what should guide corporations when they engage with their stakeholders. Answers to these questions are provided from three distinct viewpoints, namely the economic, critical, and politico-ethical perspectives, on stakeholder engagement. The main argument of the chapter is that since each of the stakeholder engagement perspectives holds a different conception of society, their definitions of and purpose ascribed to stakeholder engagement are also different. After analysing the strengths and weaknesses of each of three perspectives, the chapter develops an integrative perspective on stakeholder engagement. The chapter ends with the discussion on the implications of the new, more holistic perspective on engaging with stakeholders.

## Introduction

Contemporary business organisations operate in a dynamic and an increasingly complex environment. Such dynamism and complexity that companies face can be the central after effects of the progressively global production and consumption network. While the geographical and cultural variety in the supply of goods and services adds to the complexity of the overall organisation, the fast-paced alterations on the demand side additionally signify that constant change is a rule rather than an exception in business. Moreover, the recent phenomena of the sharing economy and collaborative consumption that blur the boundaries of production and consumption (see e.g. Belk,

2014; Binninger et al., 2015), add another layer of complexity to business activity. In that context, firms, and particularly those that operate across national borders, become embedded in a multifaceted set of constantly changing relations with not only consumers and other organisations from the international private and public sectors but also within an expanding body of individuals and groups dispersed in time and place.

These so-called stakeholders of the corporation, often defined as ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives’ (Freeman, 1984, p. 46), certainly have varying interests and needs vis-à-vis the company. The expectations of shareholders, employees, and environmental activists, for instance, are often competing and even antagonistic. Hence, the modern multinational corporation is no longer a mere producer or distributor of goods and services but a nexus for stakeholder negotiation and contestation. With a legislative status and interests of its own, the corporation is also an active participant in the societal dialogue that takes place in and around the organisation. This combined with the recent upsurge of corporate power (Anderson and Cavanagh, 2000; Vitali et al., 2011) has led to a new, political role for business.

As a further consequence, large corporations that operate in the international arena are moving outside the command and control of national laws and regulations, as well as increasingly being able to exert power on policy making through lobbying practices and production decisions. Some influential scholars even argue that many companies are already to a large extent self-regulating manufacturing processes and taking over the traditional governmental responsibilities of social and environmental regulation – and hence have begun operating as the new provider of basic rights and public goods in society (Matten and Crane, 2005; Scherer et al., 2006).

This sort of voluntary political activity and responsibility of the corporation, in which stakeholder engagement plays a central part, is found to have both intended and unintended impacts on the political governance mechanisms (Frynas and Stephens, 2015) and power relations between the corporation and its stakeholders (Banerjee, 2007). According to Scherer et al. (2012, p. 473) a significant impact in this setting is ‘the democratic deficit’ that may arise when private firms participate in public policy, either by providing basic rights and public goods or by lobbying for their interests. ‘This democratic deficit is significant, especially when multinational corporations operate in locations where national governance mechanisms are weak or even fail, where the rule of law is absent and there is a lack of democratic control. This deficit may lead to a decline in the social acceptance of the business firm and its corporate political activities and, thus, to a loss of corporate legitimacy’ (Scherer et al. 2012, p. 473).

This chapter examines the corporation–stakeholder relationship in the contemporary, increasingly global and politicised business environment. The chapter aims to develop an integrative perspective on stakeholder thinking by first reviewing and then synthesising the existing perspectives on stakeholder engagement. The focus of the chapter is to answer the following questions: (a) what is stakeholder engagement about and (b) what should guide corporations when they engage with their stakeholders. The chapter provides answers to these questions from three distinct viewpoints – namely the

*economic, critical, and politico-ethical perspectives* – and then synthesises the views under the *integrative perspective*.

By applying the Rawlsian idea that various conceptions of society suggest different divisions of responsibilities between institutions and societal actors (Rawls, 1996, p. 266-267; Scheffler, 2005; Mäkinen and Kourula, 2012), the chapter maps and reviews previous literature on stakeholder engagement. The chapter finds that since each of the stakeholder engagement perspectives holds a different conception of society, their definitions of and purpose ascribed to stakeholder engagement are also distinct. The synthesis part of the chapter discusses the strengths and weaknesses of each of the three perspectives and develops an *integrative perspective* based on them. The chapter ends with a concise discussion on the managerial and policy implications on the new, more holistic perspective on stakeholder engagement.

## **Reviewing stakeholder engagement**

The notion of the ‘stakeholder’ has enjoyed considerable attention in recent decades in the business and management literature. Stakeholders as a relevant concept for the business management, was first introduced in Northern Europe. Swedish scholar, Eric Rhenman in his book on industrial democracy (Rhenman, [1964] 1968) and a Finnish scholar Juha Näsi in his dissertation on corporate planning (Näsi, 1979) were the first people to use the notion of *stakeholder* explicitly. And then some years later, the stakeholder thinking was popularised by an American scholar Edward Freeman in his seminal book *Strategic Management: A Stakeholder Approach* (Freeman, 1984). Today, the consideration of stakeholders is a widely-accepted idea in both the theory and practice of organisations, and comes in different forms (see e.g. Philips et al., 2003; Jamali, 2008; Miles, 2017).

But who are these stakeholders? According to Miles (2012) the concept of ‘stakeholder’ classifies as an essentially contested concept, implying that a universally accepted definition will never evolve. Some scholars, however, hold that ‘stakeholders are [at least] those individuals and groups which have a valid stake in the organization’ (Carroll and Näsi, 1997, p. 47), or have a ‘claim, ownership, rights, or interests in a corporation and its activities, past, present, or future’ (Clarkson, 1995, p. 106). Freeman (1984, p. 46) again adds that a stakeholder can be ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives’. Several authors even discuss including non-human entities among the group of stakeholders, such as trees (Starik, 1995) and Nature as a whole (Laine, 2010). An inclusive definition would thus consider a stakeholder as any entity that:

- has an interest in the organisation and/or
- can be affected by the corporation and/or
- can influence the organisation

This extremely relational way of thinking about the management of an organisation extends the consideration of interests beyond the shareholder demands. Such an ‘interest or stake might be manifested as a legal or moral right, or claim, on the organization’

(Carroll and Näsi, 1997, p. 47). While the ‘legal stakes are established by the accepted legal system extant in a country, [...] [m]oral claims, by contrast, are justified based upon some ethical or moral claim on the organization’ (ibid, p. 47). According to the mainstream interpretation of the stakeholder approach (Freeman, 1984; Freeman et al., 2010), the task of the business management is then to manage the diversity of stakeholder claims by identifying and prioritising the different interests, and to take these interests into account in strategic – as well as operational – decision making.

In order for a corporation to know its stakeholders’ needs and desires, and hence to consider their interests in its business decisions, the company must *engage* with its stakeholders. In principle, this stakeholder engagement is rather straightforward: the managers ought to take into consideration any group and individual ‘who can affect or is affected by the achievement of the firm’s objectives’ (Freeman, 1984, p. 46). Practical challenges, however, start to arise immediately as soon as one tries to compile a list of the stakeholders. The realisation of the aims of multinational corporations affects millions and millions of people (as well as non-humans) both directly through their broad customer, employee, and ownership bases, and also indirectly through their suppliers and behaviour in the market place that also has a political effect. In practice, this forces corporations to select certain stakeholders from the vast mass of stakeholders. In the process of *stakeholder identification*, exclusion is unavoidable and particularly evident in the global business setting where the actions of the 100 largest multinational corporations affect almost every citizen on the planet. Unfortunately, not everyone’s stake can or will be considered. Trade-offs will always be present.

Stakeholder theory certainly always includes morals and values (Philips et al., 2003) but the kind of ethical position that emerges for the organisation depends on the stakeholders that are considered. Thus, another set of managerial challenges then appears when attempting to prioritise the interests, or stakes, of the stakeholders. To assist in identifying whose stakes matter, scholars have suggested different models and principles. For instance, the following categorisations have been employed: internal and external stakeholders (Johnson et al., 2008; Heikkurinen, 2010), salient and non-salient stakeholders (Mitchell et al., 1997), primary and secondary stakeholders (Clarkson, 1995), key and other stakeholders (Blair and Fottler, 1990; Heikkurinen, 2010), social and non-social stakeholders (Wheeler and Sillanpää, 1997), and human and non-human stakeholders (Starik, 1995). But who then are the most important stakeholders that the managerial decision making is to account for?

Building on our previous work on corporate responsibility (Heikkurinen and Mäkinen, 2016), we derive answers to these questions from three main perspectives, namely the economic, critical, and politico-ethical perspectives. As each of the perspectives on stakeholder thinking offers different descriptive explanations of what stakeholder engagement is about, they also have distinct normative suggestions on what should guide the identification and prioritisation of stakeholders (Table 1).

*Table 1.1* Three perspectives on stakeholder engagement

<i>Perspective</i>	<i>Economic</i>	<i>Critical</i>	<i>Politico-ethical</i>
What is stakeholder engagement about?	An opportunity to increase profit and competitiveness	A means to curtail the critical voices and gain power	A necessity for legitimacy and ethical conduct
What should guide stakeholder engagement?	The free market through economic instrumentalism	The democratic state through public policy and regulations	Partnerships through deliberative democracy and organisational ethics
Ideological underpinnings	Classical liberalism	Critique of classical liberalism	Republicanism and deliberative democracy
Example contributors of the perspective on stakeholder engagement	Jones (1995), Mitchell et al. (1997), Carroll and Shabana (2010)	Reed (1999), Fougère and Solitander (2009), Banerjee and Bonnefous (2011)	Scherer and Palazzo (2007), Heikkurinen and Ketola (2012), Mena and Palazzo (2012)

### The economic perspective on stakeholder engagement

The economic perspective on stakeholder engagement asserts that the corporation takes, and should take, its stakeholders' interests into consideration if, or when, stakeholder engagement is economically beneficial for the company (Jones, 1995; Mitchell et al., 1997). The stakeholder engagement is used as a means to increased profits, affluence, and economic growth. Hence, the central rationale underlying the stakeholder approach is that managing stakeholder relations is key to the survival and success of a business organisation (Freeman, 1984; Freeman et al., 2007; 2010).

In conducting the economically instrumental stakeholder analysis, that is, determining whose concerns affect the success of the firm, Mitchell et al. (1997, p. 896) coined the term **salience** and proposed three relationship attributes, namely power, legitimacy and urgency, to help distinguish salient stakeholders from non-salient groups and individuals. Hart and Sharma (2004) again argued that the remote groups at the fringe of a firm's operations, that is, the poor, weak, isolated, non-legitimate, and even non-human stakeholders also matter, as they might possess knowledge important to the organisation's success. Accordingly, the question of salience has remained contested within the approach, but there is still support for the notion that careful stakeholder analysis contributes to maximising shareholder value (Mitchell et al., 1997) and competitive imagination (Hart and Sharma, 2004), and also should do so.

Surprisingly, this economic perspective on stakeholder engagement is largely in line with what Milton Friedman considers to be task of corporate leaders. Even Freeman et al. (2010) consider Friedman to be an early stakeholder theorist despite his emphasis on shareholder (not stakeholder) wealth accumulation. The primary responsibility of business managers is to increase the wealth of the organisation's shareholders, Friedman (1970) stated in his famous essay. 'Implicit in Friedman's thesis is the Smithian

doctrine that the pursuit of profit is beneficial to society' (James and Rassekh, 2000, p. 650), as he connected the profit maximisation idea to the logic where responsibilities related to the consideration for others were not direct concerns of corporations. Instead, these social tasks were (mainly for reasons of economic efficiency, democracy and individual freedom) considered to belong to the public institutions of society. Accordingly, the main task of public institutions, state officials, and citizens becomes, according to Friedman (1962; 1970), to provide the proper rules for businesses and take care of responsibility issues, such as social fairness and the efficient use of common resources.

However, it is important to note that Friedman and Adam Smith did not call for the kind of narrow self-interest to guide business action that could be referred to selfishness (James and Rassekh, 2000). As identified by James and Rassekh (2000, p. 670), '[f]or Smith the overriding principle governing his interpretation of self-interest is justice, while for Friedman the principle is freedom (i.e., absence of coercion)'. That is, these desired ends of justice and freedom are best accomplished through the market mechanism that required self-interested action in order to work effectively. In the *Wealth of Nations*, Smith coined the idea of the *invisible hand* to describe the process where individual self-interest in the market place produces greatest utility for all – as long as markets were left to operate freely without state intervention.

Although Friedman is often seen as a strong opponent of taking the stakeholders' interests into account, his classical-liberal division of social responsibilities between the public and private sectors is also the dominant political assumption among many proponents of the stakeholder approach, particularly those who see stakeholder engagement as a business opportunity. This particular political position is underwritten by Jensen (2002; 2008) who, like Friedman, emphasises the moral significance of the strict separation between public and private interests in society. Jensen (2002) argued that the task of the public structures of society is to ensure that resources are used most efficiently, while the role of firms is to look beyond short-term profit maximisation and aim to maximise the long-term total value of the firm. Jensen's statement explicates Friedman's call for profit maximisation but with a longer time horizon and with the idea of the total value of the firm being a business managers' goal, 'which includes returns to debt holders as well as shareholders' (Jones and Felps, 2013, p. 209). However, what is important here is to note that both authors have emphasised the corporations (surrounded by stakeholders) primarily as generators of shareholder value, albeit ones proposing slightly different means and using different terminology. In fact, stakeholder analysis is often utilised as a tool to increase shareholder wealth.

The *economic perspective* thus advances the view that firms are primarily economic actors in a society but can do well by doing good, or can perform better economically by engaging with their stakeholders. The proponents of the perspective also accept the classical-liberal idea of the economic role of private enterprises in society, as well as the normative significance of the boundaries between public and private spheres of society. The notion of voluntary stakeholder engagement thus becomes particularly suitable for the liberal political ideal, as the responsibility of corporations is focused primarily on shareholders, and any consideration for other stakeholders must be justified in fiscal

terms via a business case (e.g. Scherer et al., 2006; Stefan and Lanoie, 2008; Carroll and Shabana, 2010).

### The critical perspective on stakeholder engagement

The critical perspective on stakeholder engagement again reasons that a corporation takes its stakeholders' interests into consideration to depict a responsible image and to increase its power in society (Banerjee, 2007; Banerjee and Bonnefous, 2011). Stakeholder engagement is used as a means to curtail the interests of those stakeholders that are critical of the conduct of the business (Banerjee and Bonnefous, 2011), such as environmental activists. Stakeholder engagement might alternatively be used as a way to outsource a company's ethical considerations to its external stakeholders (Heikkurinen and Ketola, 2012). Furthermore, conventional stakeholder engagements are considered inadequate as they are not fully 'developed as a theory per se (i.e., they fail to address the full range of issues involved, do not provide adequate grounding for their position, etc.) [...] and because their problems may be linked not to the thoroughness of their inquiry, but rather to the adequacy of the tradition of normative theory (e.g., utilitarianism, Kantian deontology, etc.) on which they draw to develop their position' (Reed, 1999, p. 453). Reed (1999, p. 454) claims that 'the normative theory expounded by critical theorists [...] exhibits important advantages over its rivals' and helps in overcoming the challenges of stakeholder engagement.

Within the critical perspective, scepticism that firms take stakeholder interests into consideration is rife (Banerjee, 2007; Kallio, 2007) (despite Reed (1999) only makes this point implicitly), and there is also growing empirical evidence to support this critical argument (Ho and Welford, 2006; Guidolin and La Ferrara, 2010; Banerjee and Bonnefous, 2011). The *critical perspective* challenges that there is any such thing as genuine stakeholder engagement and perceives the interaction mainly as a managerial tool and a political discourse aimed at extending the role of markets and power of the private actors in society.

The notions of politics and power are hence important starting points for the *critical perspective* on stakeholder engagement. Walters (1977) interestingly showed how both the conservative and liberal political viewpoints employ arguments for and against corporations' engaging with their stakeholders beyond economic self-interest. The conservative side largely follows the economic perspective. On the more liberal side, Hanlon and Fleming (2009, p. 937) argue that there is a strong neo-liberal tendency in the ongoing discourse and claim that it 'is one of a suite of practices that corporations are deploying as they seek to shift the nature of social regulation away from collective to more individual solutions'. While Fougère and Solitander (2009) would certainly agree with this critique, they would probably be unsure whether the possibly harmful engagement of stakeholders is a deliberate deception, or another representing a false consciousness in corporations.

In terms of the division of moral labour in a society, *critical perspective* theorists tend to perceive the self-regulatory aspects of corporations to be problematic. They could claim that over time, a close corporation–stakeholder relationship leads to a reduction in the power of democratic mechanism and thus diminishes the role of democratic structures

in society. In other words, corporations' increased engagement with stakeholders is assumed to change the duties in society. Through corporate self-regulation or governance, firms and the economic elite are able to fend off social and political pressures for restrictive business laws and regulations (Paine, 2000). It is important to note here how well suited the stakeholder engagement literature and discourse is to the ideological aims of extending the political influence of the economically privileged and the business sphere in a society unhindered by normal democratic legitimation processes (see Levitt, 1958).

### The politico-ethical perspective on stakeholder engagement

The *politico-ethical perspective* on stakeholder engagement suggests that a corporation takes its stakeholders' interests into consideration for moral reasons and regulatory vacuums in the business environment. This perspective also challenges the traditional idea of society being composed of distinct private and public spheres of action. As corporations have become powerful actors operating in an increasingly globalised world, questions of business and ethics (Freeman et al., 2010, see the separation fallacy), economics and politics (Scherer and Palazzo, 2007) or ecology (van Marrewijk, 2003; Ketola, 2008) are unavoidable and inseparable. Because of this amalgamation, business organisations need to develop a more comprehensive ethical identity and increase transparency in order to acquire legitimacy from their stakeholders. In this task, stakeholder engagement is a necessary process and an obligation or even a virtue of companies, as such stakeholder engagement is considered an apt way to bring together different expertise, reach consensus, and acquire legitimacy for corporate actions (cf. Fransen and Kolk, 2007; Rotter et al., 2012; Mena and Palazzo, 2012).

The *politico-ethical perspective* not only challenges the *economic* and *critical perspective* understandings of stakeholder engagement in political and ethical terms but also constructs a new approach. It notes importantly that the classical-liberal division of tasks between the political and economic spheres of society is no longer appropriate in a contemporary global economy (Scherer et al., 2006; Scherer and Palazzo, 2007; 2011; see also Matten and Crane, 2005), and thus, the regulatory powers of the state cannot be separated from private interests.

In the setting of a highly-globalised economy, the advocates of the *politico-ethical perspective* suggest that corporations have a new political role and assume that the business organisation can focus on the common good in the spirit of deliberative democracy (Néron, 2016) by means of stakeholder engagement. Accordingly, to avoid economic instrumentalism of the economic perspective, which is considered to be inadequate for solving either social (Scherer et al., 2006; Gond et al., 2009) or environmental problems (Heikkurinen and Bonnedahl, 2013), the *politico-ethical perspective* advocates addressing the common societal issues in deliberative spaces where private firms along with civil society actors can play a central role as free and equal participants.

To reach beyond the economic instrumentalism and the classical-liberal division of moral labour, the major advocates of the *politico-ethical perspective* (Scherer and



Palazzo, 2007; 2011; Scherer et al., 2006) turn to Habermas's political theory and the conception of deliberative democracy. Deliberative democracy is generally understood as a view 'according to which the public deliberation of free and equal citizens is the core of legitimate political decision making and self-government' (Bohman, 1998, p. 401). According to Habermas (1996, p. 107) 'just those action norms are valid to which all possibly affected persons could agree as participants in rational discourses'. According to Scherer and Palazzo (2011), Habermas's deliberative conception of democracy overcomes the traditional and old-fashioned separations between the economy and politics, as well as the division between the private-public spheres of society.

From the *politico-ethical perspective*, those corporations operating in the global setting are assumed to voluntarily self-regulate their processes, focus on the common good, and take over the traditional governmental tasks of the political and social regulation of businesses – and thus begin operating as the new provider of basic rights and public goods in society (Scherer and Palazzo, 2011; Matten and Crane, 2005; Scherer et al., 2006). It is obvious that this is not a modest responsibility. The new political role of corporations is seen to be in line with not only the deliberative democracy but also with the republican conceptions of society (Scherer et al., 2006; Scherer and Palazzo, 2007; 2011). The republican political theory focuses on the issues of political freedom and understands the notion of freedom as a state of affairs characterised by the absence of domination and arbitrary power (Pettit, 1996; Hsieh 2004). Moreover, the republican philosophy is often linked with the deliberative conception of democracy, underlining the idea of democracy as public political argumentation going beyond the vote-centric and aggregative conceptions of democracy (Kymlicka, 2002). According to Scherer et al. (2006), the republican political philosophy and the deliberative conception of democracy, unlike classical liberalism, are consistent with political systems lacking real boundaries between business and politics, as envisioned under the *politico-ethical perspective*.

## **Synthesising stakeholder engagement**

Our *integrative perspective* on stakeholder engagement is based on the idea that all three existing perspectives on stakeholder engagement (economic, critical, and politico-ethical) have both some strengths and weaknesses. The *integrative perspective* aims to outline a more holistic conception of stakeholder engagement that resolves the major conflicts between the existing perspectives, while preserving their strengths. To move towards this goal, we first offer a brief critical analysis of the existing conceptions of stakeholder engagement and set out their major weaknesses. After that, we proceed to outlining our solution in more detail.

### **Critical analysis of stakeholder engagement perspectives**

As argued earlier, the *economic perspective* sees stakeholder engagement as an economic opportunity for firms to create more economic value. This dominant conception of the corporation–stakeholder relation is based on the classical-liberal idea of society, where there are clear boundaries between the public and private spheres of

society and where firms are mainly economic actors operating within the private sphere of society. In this setting, the task of corporations is to manage their activities in an economically efficient way with the help of the instrumental stakeholder management techniques (e.g. Jones, 1995). The responsibility for social and environmental justice is placed on the public sector of society. Problematically, however, the classical-liberal public sector is based on the rather narrow interpretation of justice, in which the focus is on economic efficiency, the promotion of free competition, and securing private property rights, as well as the freedom of contracts (Friedman, 1962; Jensen, 2002).

The major weakness of the *economic perspective* on stakeholder engagement revolves around the inconsistencies of the classical-liberal political theory emphasising the significance of the separation between politics and business without robust institutions to back up this separation (Mäkinen and Kourula, 2012). As mentioned above, classical liberalism aligns with the notion of limited public sector institutions protecting the capitalist basic rights and the promotion of economic efficiency with no real redistributive functions. In this political context, there are no robust institutions to limit the concentration of economic power over time. In the global economy, classical liberalism easily produces strong private concentrations of economic power functioning within the relatively weak and economically oriented public sectors of society (as we have witnessed in recent decades). This is exactly the setting where the private power of corporations is easily transformed into political power that leads to the separation between politics and business vanishing. Then, contrary to the classical-liberal ideal, firms become major political actors in society (Mäkinen and Kasanen 2015; 2016) producing ‘freedoms for owners of wealth while allowing non-owners the semblance of an already weak political and social democracy’ (Lazzarato, 2015, p. 82).

Viewed from the *critical perspective*, extended stakeholder engagement orchestrated by firms is nothing but the part of the neo-liberal strategy that aims to justify the extension of the economic spheres of society at the expense of the public sector and democratic institutions of society (Banerjee, 2007; Banerjee and Bonnefous, 2011). From this perspective, the economically instrumental stakeholder engagement of corporations transforms the issues of social justice and democracy from matters in the public sphere of society into managerial issues addressed in corporate boardrooms, where the laws of the market and the currency of economy dominate. As a consequence, the role of democratic institutions and decision-making processes diminishes in society and the voices of the economically powerful are leveraged at the expense of the least advantaged members – be they human or non-human actors – of society and the Earth.

This *critical perspective's* deconstructive focus on the neo-liberal form of stakeholder engagement is revealing and significant. However, the *critical perspective* on stakeholder engagement does not really offer any constructive alternatives to the opposed ideological doctrine. The political theory that is implicitly favoured in the work of the critical perspective scholars builds on Marx and the critical theory. This connection, however, has been underdeveloped and implications for contemporary policy are still missing. Furthermore, within the critical discussion there is also an evident lack of practical management tools and techniques for business organisations that could be used when operating in the global economy characterised by the various

power asymmetries and injustices. Lastly, it seems that the critical perspective offers a rather cynical view on businesses and their stakeholder-related activities.

More ambitiously, the *political-ethical perspective* on stakeholder engagement aims to replace the mainstream *economic perspective* by challenging the traditional liberal idea of boundaries between politics and business and the separations between ethics and business. Perceived from this perspective, the traditional lines between different spheres of life and society are no longer so relevant in our highly interconnected and globalised world where there are no functioning public sector structures regulating and governing business practices (Scherer and Palazzo, 2007). Consequently, those scholars operating within this paradigm argue that contemporary businesses need to go beyond economic instrumentalism, focus on the common good, and take on board the traditional government responsibilities of regulating businesses and providing public goods and basic citizenship rights. Moreover, globally responsible businesses are expected to undertake new types of ethically and democratically oriented stakeholder engagement activities (that go beyond the economic rationality) in the context of different multi-stakeholder initiatives and forums (fulfilling the various governance voids in the global economy).

However, there is little empirical evidence of large-scale international business organisations operating in the ways expected or asked for by the *politico-ethical perspective* intellectuals. There seems to be a lack of empirical support for the antithesis of the *economic* and *critical perspectives* (Edward and Willmott, 2011; Moog et al., 2015). Furthermore, the empirical argumentation strategy against the political doctrine like classical liberalism and the related economic perspective on stakeholder engagement is not very strong. One might agree on the empirical issues about the amalgamated and political nature of global economy yet still argue for the stronger boundaries between business and politics from the different political perspectives, as do Mäkinen and Kasanen (2015; 2016) and Heikkurinen and Mäkinen (2016). Consequently, what is needed is a relatively convincing political argument challenging the political basis of the mainstream conception of the stakeholder engagement. The problem is that even though some influential *political-ethical perspective* scholars appeal to deliberative democracy and republican political philosophy to overcome the traditional separations between business and politics, there are some deep tensions between these philosophies and the idea of business firms being active political participants in our societies (Hussain and Moriarty, 2016; Heikkurinen and Mäkinen, 2016).

### Towards a synthetic solution

To preserve the strengths of the previous perspectives on stakeholder engagement, our synthetic conception aims to reconcile the *economic, critical, and politico-ethical perspectives* with stakeholder engagement. We argue that by making the division of moral labour in a society robust enough to ensure the public sphere can act on issues of social and environmental justice without being restricted in terms of power and legitimacy, the stakeholder engagement of firms may be economically oriented (as suggested by the economic perspective). In this way, the mainly economic motive of corporations' stakeholder engagement does not jeopardise the democratic governance of

society (as demanded by the critical perspective). Moreover, and importantly for the proponents of ethical conduct in business, the robust division of moral labour between the economically oriented businesses and the democratic public sector of society means neither the absence of deliberative political spaces nor hinders any firm going beyond economic instrumentalism and focusing on the common good in the global world (as asked for by the politico-ethical perspective), if it so wishes.

Accordingly, our synthetic suggestion for the foundations of stakeholder engagement is that clear boundaries and the robust division of moral labour between the private and public sectors of society must be in place to ensure that both the economic and democratic logics can coexist in society. These different logics may in fact prove complementary. In this manner, the different point of views of the three stakeholder engagement perspectives could also coincide. The frame for stakeholder engagement would ultimately be provided by the democratic structures of the state (as suggested by the *critical perspective*), yet would enable a private sphere of society to operate with its own logic of the market (as suggested by the *economic perspective*) within the institutional structure that secures a basic level of social and environmental justice. The separation of the public from the private sphere would also allow partnerships between these two spheres (as suggested by the *politico-ethical perspective*). Nothing needs to stop actors from cooperating with one another if they are drawn to further stakeholder engagement by means of deliberative democracy and organisational ethics.

To keep the question of social and environmental justice within the public sphere is extremely important, as we have repeatedly witnessed that ethical behaviour cannot be expected from multinational companies or contemporary consumers at large. Nevertheless, the private sphere certainly must be acknowledged for its role as an efficient place for many transactions and exchanges of goods and services to take place. The market, however, must be embedded within the public sphere in order to ensure that justice reaches all stakeholders instead of only those stakeholders who can afford justice. So, for stakeholder justice to be realised, what is needed first and foremost is a strong and democratic public sector of society to design and enforce fair institutions within which the operations of private actors can be conducted. In this manner, firms can advance their ends effectively embedded within the institutional structures provided by the democratically organised and managed public sector of society (Rawls, 1996; 2001). In other words, integrating the private sector within the public sector offers room for governments to implement democratically designed regulations to ensure social and environment justice among all stakeholders. At the same time, this type of division of moral labour and clear boundaries between business and politics provides space for firms to focus effectively on their core business issues without being overwhelmed by political tasks advocated by the diversity of different stakeholder groups and individuals.

Furthermore, seen from the *integrative perspective* on stakeholder engagement, the deliberative democratic forums and initiatives suggested by the *politico-ethical perspective* are important for regulating global businesses. However, the boundaries between public and private spheres of society and the robust division of moral labour are needed for these spaces to be in line with deliberative democracy and justice (Heikkurinen and Mäkinen, 2016; Rawls, 2001; Richardson, 2002; Crocker, 2006).

## Discussion

The power of the notion of ‘stakeholder’ is largely due to its conceptual breadth, but as noted by Philips et al. (2003), this can also become its weakness if the diverse perspectives are not grasped theoretically. When studying the corporation–stakeholder relationship, it is hence central to identify the different definitions of stakeholder engagement and the following prescriptions for the practice of engaging stakeholders, as well as to acknowledge the underlying political ideologies (see Table 1). The awareness of the distinct theoretical positions is central to moving the field forward to incorporate more descriptive relevance and normative power for social and environmental justice. With this rationale, after reviewing the three main perspectives on stakeholder engagement and analysing their potential and weaknesses, the present chapter offers a synthesis of the three main viewpoints under the *integrative perspective*.

From the *integrative perspective*, the take on the question of who a corporate stakeholder is, is inclusive. A stakeholder is any entity that has an interest in the organisation and/or; can be affected by the corporation and/or; can influence the organisation. This inclusive notion of stakeholders encompasses both salient and fringe individuals and groups, including the natural environment and other non-human actors. The consideration of stakeholders, again, can be both instrumental and intrinsic in organisations (Heikkurinen and Ketola, 2012), as demonstrated by the *economic, critical, and politico-ethical perspectives*. In other words, stakeholder engagement can be a means and/or an end for an organisation. But instead of trying to arrive at the all-encompassing map of stakeholders, and their priorities, that would make sense from all economic, critical, and politico-ethical points of view, the *integrative perspective* assigns this task to the actors in a specific situation. In this sense, while our perspective is motivated by, and geared towards, the universal idea of justice, it also seeks to be situationally more sensitive, as stakeholder expectations, demands and issues, vary so broadly in different cultural, geographical, and political settings. Moreover, the *integrative perspective* suggests that the stakeholders’ concerns are primarily addressed in the public sphere of society where the democratic logic prevails. This enables most of the stakeholders to partake in the engagement process on equal terms. Of course, the future generations and the non-human world are unable to even vote and participate in the deliberation outside the market, but hopefully their presence manifests through the values of the general public.

Once the issues related to stakeholders’ social and environmental justice are addressed in the basic structures of society, the private sphere and corporations can address additional stakeholder concerns that are relevant for their line of business. This, however, is voluntary in the sense that the corporation may further its main economic purpose, if it wishes to do so. Although markets may emerge for initiatives going beyond the level of compliance, similar problems as are found today (related to the lack of a public voice in the business) will not arise, if the market is embedded in the private sphere. As long as the corporations are operating within society, the society can steer them with its democratic mechanisms. And once the stakeholders in need have been defined in the public sphere, the corporation may proceed to define its own key stakeholders based on whatever logic it wishes to utilise. Even economic instrumentality

will not be such a huge social and environmental problem, as the state may intervene as its legitimacy is reclaimed.

The *integrative perspective*, however, does not propose the state as an overarching solution to all questions of injustice. As noted by Lazzarato (2015), there is a need for caution when assigning responsibilities to the modern state, as the contemporary state apparatus largely also operates against the vagaries of the market and is currently geared to serve the interests of the elite. However, it is worth noting that not all states are operating equally in line with global market logic. For example, the Nordic welfare state is often viewed as an example of a more balanced model that is not geared towards the elite. However, of course it is possible that the modern state might also provide the means to support the interests of the few, rather than its citizenry as a whole, as the current state-capitalist mode of governance does. It is clear that all authoritarian and high-modernist modes of governance (see Scott, 1998), be they in the public or private sphere, are something to be resisted in order to reach higher degrees of social and environmental justice. As ‘any large social progress or event will inevitably be far more complex than the schemata we can devise, prospectively or retrospectively, to map it’ (Scott, 1998, p. 309; see also Hayek, 1945), there is call for a radical stakeholder inclusion in both the public and private spheres, as well as the third sector. A broad spectrum of stakeholders involved in the decision making can certainly contribute important practical expertise and knowledge of the best means to improve social and environmental justice. ‘Without denying the incontestable benefits either of the division of labour or of hierarchical coordination of some tasks, [there is] a case for institutions that are instead multifunctional, plastic, diverse, and adaptable—in other words, institutions that are powerfully shaped by [practical knowledge]’ (Scott, 1998, p. 353). Thus, there are certainly also grounds for the deliberative democratic mechanism, in which stakeholder engagement plays a central role.

Lastly, separating the private and public spheres of society gives rise to three spheres of stakeholder engagement. The first is the public sphere, where the logic and process behind engaging is democratic (as in the case of the critical perspective). The second sphere is private, in which the private actors may use their own logics and processes to engage with their stakeholders. As said, these logics may span from economic instrumentalism (as in the case of the economic perspective) to political and ethical, even spiritual rationales (as in the case of politico-ethical perspective). And in addition to the public and private spheres where stakeholder engagement is central, the third sphere spans the common ground between the two where public and private actors can deliberate together. But what is important here is to note that the logics and processes of stakeholder engagement are all different in each sphere of society. The *integrative perspective* suggests that these spheres and their actors could coexist and even turn out to be complementary in the pursuit of just societies and organisations.

## **Conclusions**

To answer the research questions of (a) what stakeholder engagement is about and (b) what should guide corporations when they engage with their stakeholders, this chapter divided the literature on stakeholder engagement into three major perspectives, namely

the *economic*, *critical*, and *politico-ethical*. It can be concluded each perspective has varying ideological underpinnings, and hence these perspectives offer different viewpoints on stakeholder engagement and distinct normative viewpoints on how to manage stakeholder relations in a global economy.

The presented perspectives on stakeholder engagement contribute to the research task set by Philips et al. (2003, p. 135) of seeking ‘a better position to see both the power and the limitations of this [stakeholder] approach’. By means of the critical analysis of the existing approaches, the chapter developed an *integrative perspective* on stakeholder engagement. According to this perspective, the stakeholder engagement may continue to be primarily economic at the level of private firms but not at the expense of the democratic public sector of society. Furthermore, we have argued that establishing clear boundaries between the private and public sectors of society and by developing the robust division of moral labour between these sectors grants room for deliberative democratic spaces where the public and private interests can be mediated in the pursuit of a more just global economy.

As a limitation, it must be noted that many contemporary societies develop in a quite contrary direction. Business organisations are assigned increased responsibilities and consequently gaining also the power to steering societal development. The recent blurring that takes place *within* the private sphere, such as initiatives on the sharing economy and collaborative consumption, or *within* the public sphere, such as new organisational forms and multilevel governance, however, are not considered the main sources of injustice. The problem that this chapter addressed is the current development where the boundary *between* the private and public spheres continues to disappear at the expense of democratic stakeholder engagement.

Given the theoretical focus of the paper on the integrative conceptual work, the practical and methodological implications of the paper are not scrutinised in the necessary detail. Consequently, we encourage further research to examine the effectiveness of the means to re-establish this boundary between the public and private spheres, as well as the research methods most suitable to study the boundaries thereof, or the lack of them.

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