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STAKEHOLDER MANAGEMENT: A MANAGERIAL PERSPECTIVE

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ABSTRACT

Scholars and practitioners have acknowledged the practical relevance of stakeholder theory as it has been applied to management. This chapter provides a brief foundation for understanding the basic principles of stakeholder management and some of its best known tools, including the development of an enterprise strategy, identification and prioritization of stakeholders, and measurement of the value firms create with and for stakeholders. We then share insights about implementation of stakeholder management based on interviews with high-level executives from a variety of well-known companies. We found that stakeholder principles have been applied in a variety of ways and under various labels. The chapter ends with a list of eight important questions to advance research on stakeholder management.

The stakeholder perspective has achieved a prominent position across a variety of disciplines since Freeman published his classic *Strategic Management: A Stakeholder Approach* in 1984. During the early years after publication many business scholars and managers equated stakeholder theory with corporate social responsibility, which gave them license to pigeon hole it as a theory with business ethics implications but limited relevance to management, strategic or otherwise (Harrison, 2011). This perception was reinforced by the wide adoption of stakeholder theory by business ethics and CSR scholars (Lapume, Sonpar, & Litz, 2008). However, as we neared the turn of the Century more and more scholars and managers acknowledged its practical relevance as a management theory (Freeman, et al., 2010). Indeed, the term "stakeholder" is now widely used even in the popular press, books, television, by politicians, in court proceedings and by the general public. This is not to suggest that it means the same thing to all these parties. But the concept that groups and individuals have a stake in some organizations seems now to be embedded into the mainstream of society.

This handbook is about the varied psychological and organizational perspectives on CSR, and although stakeholder theory is not the same as CSR, the two areas have a lot in common. Importantly, both fields are built on a moral foundation, with the overarching principle of responsibility, although we are more comfortable with the concept of "corporate responsibility" rather than "social responsibility." In our minds, a firm that practices ethical principles in the management of its customers, employees, suppliers, financiers, and the communities in which it operates is acting responsibly, whether or not it is active in currently popular social causes. Also, a firm that manages for stakeholders is likely to engage in positive and avoid harmful activities because its stakeholders care about the things it does. So a firm that manages for stakeholders will end up having a great deal in common with a firm that has high corporate social performance (CSP).

At this point, much has been written about stakeholder management, and we have only one chapter to examine the topic. Furthermore, we would like to add to the dialogue rather than simply review its main points. Since this is a handbook, we feel compelled to provide a brief foundation for stakeholder management, especially for those who may not be very familiar with the theory. Our focus for this foundation will be on stakeholder management in practice, including the basic principles upon which the underlying theory is based and a few of the management activities that form the core for an organization that is interested in managing for stakeholders. We will then share with you some things we heard in interviews with corporate executives about the way they measure the value they provide to stakeholders. The chapter ends with a few thoughts about what we need to know to advance the practice of stakeholder management in the future. Let us say from the beginning that we are leaving out of this chapter more than we are putting in. To fill in more of the details on stakeholder management we recommend Freeman (1984), Freeman, Harrison and Wicks (2007), Post, Preston, and Sachs (2002), Friedman and Miles (2006), and Sisodia, Wolfe, and Sheth (2007). For a detailed review of the academic literature on stakeholder theory we recommend Freeman, Harrison, Wicks, Parmar, and de Colle (2010).

BASIC PRINCIPLES OF STAKEHOLDER MANAGEMENT

For our purposes, a stakeholder is a group or individual that has a legitimate interest in the activities and outcomes of the organization and upon which the organization depends to achieve its goals. This is a fairly narrow definition, in that it excludes potential stakeholders that are not a part of the value creating processes of the firm. We do not mean to suggest that other stakeholders (sometimes called secondary stakeholders) are not important and should be ignored. However, as we mentioned in the introduction, our focus is practical, and a firm's primary, joint value creating stakeholders should occupy a prominent position in management planning, decisions and activities (Phillips, 2003).

Firms that manage for stakeholders operate on a moral foundation, which includes values such as a respect for human rights, fairness, honesty, freedom to choose, integrity, trust, loyalty, and responsibility (Freeman, 1984; Hendry, 2001; 2004; Jones, 1995). They tend also to be generous with their stakeholders with regard to time, attention, information, tangible assets, and other resources (Harrison, Bosse, & Phillips, 2010). This generosity, combined with the trust that results from genuine adherence to moral principles, can result in numerous positives for stakeholder organizations. For example, stakeholders who are thusly treated often reciprocate (Bosse, Phillips, & Harrison, 2009). Employees may work harder or be more loyal, customers may share valuable information with the firm about their needs, suppliers may provide the best products to the firm, or communities may build infrastructure or provide special services to such firms. Feelings of affiliation are fostered (Harrison & Wicks, 2013). Such a company may also enjoy efficiency from more efficient contracting (Jones, 1995). In addition, a strong reputation as a stakeholder company can attract new stakeholders, which provides the added benefit of giving the firm more flexibility in contracting, and a broader group of stakeholders from which to choose as partners, customers or employees (Barringer & Harrison, 2000; Fombrun, 2001; Turban & Greening, 1996).

Of course, managing for stakeholders can be expensive (Harrison & Bosse, 2013; Garcia-Castro & Francoeur, 2016). It is not uncommon for stakeholder companies to provide higher salaries and more benefits to their employees, better terms to suppliers, and a better value proposition to customers (Sisodia, Wolfe, & Sheth, 2007). These sorts of companies may also give back to the communities in which they operate through volunteer programs and charitable donations. This sort of management is defensible based on the principle of fairness, which suggests that the firm should give back value to the stakeholders that helped to create it (Phillips, 1997). However, from a purely instrumental economic perspective, the question becomes whether these sorts of companies create enough additional value such that they can be generous with stakeholders and still remain viable. Sisodia, et al. (2007) asked just such a question as they assembled a large team of researchers to search the world for companies that were good to all their primary stakeholders. They managed to find a few dozen of these companies, and also found that they were not only on par financially with other companies, but outperformed them on the basis of a number of important metrics.

On the surface, it is illogical to expect companies that give away more of the value they produce to also make more money on the bottom line. The theory that supports this phenomenon is that the benefits delineated previously produce more incremental value for the firm than the additional value allocated to stakeholders. Marginal benefits exceed marginal costs. Profits are a smaller slice of a bigger pie. Empirical research on the relationship between managing for stakeholders and financial performance is generally supportive of a positive relationship (Choi & Wang, 2009; Hillman & Keim, 2001; Berman, Wicks, Kotha & Jones, 1999; du Luque, Washburn, Waldman, & House, 2008; Henisz, Dorobantu, & Nartey, 2014; Hillman & Keim, 2001).

If we consider value more broadly it is even easier to understand how firms that manage for stakeholders create more value. Value is more than just economic in nature (Harrison & Wicks, 2013; Jones & Felps, 2013). Stakeholder utility functions include non-economic factors as well, such as satisfaction from affiliation, human development and enrichment, feelings of security, and happiness. A firm that manages for stakeholders provides this sort of value in addition to economic value, so we would argue that even if a stakeholder firm does not have higher profits, it may still be providing more total value to stakeholders. Also, if an astute manager is able to find common interests among stakeholders, it is possible to make decisions that provide utility to multiple stakeholders simultaneously. Tantalo and Priem (2016) call this stakeholder synergy.

The next section elaborates on three important stakeholder management tools, all of which are based on the stakeholder principles outlined in this section. They form a starting point for firms that are serious about managing for stakeholders.

STAKEHOLDER MANAGEMENT TOOLS

Many stakeholder management tools have been described in the literature. Here we briefly describe three that have stood the test of time, such that they might be called foundational to the topic area. First, a firm that manages for stakeholders has a strong sense of purpose, or enterprise strategy. Furthermore, it is well aware of the stakeholders that are most important to achievement of its goals, and is adept at managing relationships with them. Finally, such a firm establishes ways of measuring the utility provided to stakeholders, and its evaluation systems are based on these measures. These tools are interconnected, and we make no effort to try to artificially separate them. They are also connected to the interviews we conducted with executives to ascertain whether they are applying stakeholder principles within their organizations.

Enterprise Strategy

Establishment of a firm's purpose, its enterprise strategy, is fundamental not only to stakeholder management, but to all management (Freeman & Gilbert, 1988). It establishes a meaning for the things the firm does. It provides direction upon which managers make decisions. It helps send signals to external stakeholders about what the firm values. Throughout the last Century the most widely prescribed purpose for a firm was to maximize shareholder wealth (Berle & Means, 1932; Rappaport, 1986; Jensen, 2001; Sundaram & Inkpen, 2004; Stout, 2012). The popularity of this perspective was confirmed in a study of law and business curricula by Darrell West (2011), director of Governance Studies and a senior fellow at Brookings. He found that in classes that deal with the purpose of the corporation, the focus is typically on maximizing shareholder value. He also found that graduates consider shareholder value as the most important objective of the corporation.

The focus on shareholder returns, or more broadly financial profits, has led to short-term thinking, as managers made decisions that would lead to short-term increases in profits at the expense of the long-term health of the business. For example, Harrison and Fiet (1999) found reductions in R&D spending in firms with newly appointed CEOs. They reasoned that these CEOs were seeking a short-term bump in profits so they would look good, even though such a move would be expected to hurt the firm over the longer-term. Arguably major ethical breaches such as the Enron debacle or, more recently, the Wells Fargo incident, are also attributable to an effort to maximize short-term profits. In spite of the popularity of the shareholder primacy perspective, some scholars have argued 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 (Atkinson, Waterhouse & Wells, 1997; Chakravarthy, 1986; Kaplan and Norton, 1996; Mendelow, 1983; Stout, 2012).

Unlike other types of firm strategies – corporate, business, marketing, operational – the enterprise strategy is overarching (Freeman, Harrison, & Wicks, 2007). It defines why all of the other strategies even exist. It answers the question regarding why, fundamentally, a firm does what it does. A part of the enterprise strategy is the firm's values, such as those mentioned in the last section. The firm's values describe what really counts in the organization and what it stands for.

A firm's purpose should also be defined in terms of what a firm intends to do for its stakeholders (Freeman, et al., 2007). There is nothing wrong with stating that a firm intends to provide strong financial returns for shareholders unless that becomes the sole purpose for which the firm exists. There will be no strong returns to anyone unless the other stakeholders are taken care of, a point acknowledged even by one of the most vocal proponents of shareholder primacy (Jensen, 1989). So other examples of purpose could include statements such as, "We will help our employees develop to their full potential," "We will treat our suppliers as we would like to be treated," or "We will give back to the communities in which we operate through allowing our employees to volunteer some of their work time in local efforts that enhance the community." Stakeholder-focused companies are very explicit in defining what they will do for a broad range of stakeholders

(Freeman, et al., 2007). Consequently, essential to enterprise strategy is a group of managers in the firm, especially top executives, that are committed to ethical leadership, are willing to articulate the firm's enterprise strategy, and also take actions to implement and reinforce it (du Luque, et al., 2008). Grass roots efforts in these areas can be helpful (Sonenshein, 2016), but without commitment from the top of the organization it is unlikely that a widely-adopted enterprise strategy can be established (du Luque, et al., 2008).

Enterprise strategies are also a function of societal expectations (Freeman, et al., 2007). The sustainability movement is global, and society is holding businesses more accountable for what they do (Harrison & Van der Laan Smith, 2015). A firm should consider societal trends when establishing its enterprise strategy. In this sense, managers should ask what it is that society expects of the firm now, and is likely to expect of the firm over the next five or ten years. Firms that anticipate societal trends are less likely to have problems in the future that could hurt their reputations or lead to legal suits, walkouts, boycotts, or similar actions by stakeholders (Spicer, 1978).

Identification of Stakeholders

Manager time is a finite resource, and although we acknowledge that all stakeholders have intrinsic worth, managers must decide how to allocate their time effectively. In other words, although we do not like to use a term like priority, we recognize that managers must make some decisions regarding which stakeholders, from among so many, are to be given the most attention.

One of the most cited articles on stakeholder theory deals with the factors that make a stakeholder salient to managers (Mitchell, Agle and Wood, 1997). Power deals with the extent to which a stakeholder has the ability to impose its will on the firm. Legitimacy comes from the accepted social structure. That is, a stakeholder is salient if society deems it to be. Finally, urgency comes from an issue that is critical to a stakeholder and time sensitive. In other words, a stakeholder that may not normally be particularly salient to management could become salient if there is an urgent need of great importance to the stakeholder.

Much earlier, Freeman (1984) created a matrix that displayed on one axis three things that give a stakeholder the ability to influence firm behavior. Formal (contractual or regulatory) power occurs when stakeholders have a legal or contractual right to make decisions that impact some part of the organization. Economic power comes from the ability to provide or withhold services, products, revenues or transactions that the firm values. Political power comes from the ability to persuade lawmakers, society or regulatory agencies to influence firm behavior. In general, more powerful stakeholders should be given more attention in the organizational planning process (Harrison, 2003).

Similarly, Harrison and St. John (1996) developed a model to help managers determine which external stakeholders are worthy of the most managerial attention. They suggested that the influence a stakeholder has on the environmental uncertainty facing the firm is a key factor in determining the level of attention. Specifically, stakeholders that have a lot of economic or political power have more influence on outcomes the firm may face and its ability to succeed. In addition, a stakeholder that possesses network centrality, a central position in a network of companies to which the firm belongs, is more important (Harrison & St. John, 2014). Strategic choice is also an important factor in determining importance (Harrison & St. John, 1996). For example, a supplier that provides a needed technology is more important if that technology is an important part of the firm's business strategy, or financiers become more important if the firm is pursuing an aggressive growth strategy.

Assuming that a firm is able to identify which stakeholders are worthy of increased attention, the question then becomes what to do with this information. Harrison and St. John (1996) argue that high importance stakeholders should be sought out as strategic partners. Examples include inviting stakeholders to join design teams, putting a representative on the board of directors, integrating information systems with them, or joint ventures to produce new goods or services. Stakeholders of lesser importance should not be ignored, but can be managed with more traditional tactics such as monitoring, research, communication, donations (for community), or contracting.

It is possible, of course, that a firm is over- or under-allocating either tangible or intangible (e.g., time) resources to a particular stakeholder. Harrison and Bosse (2013) provide tools for helping managers determine whether either situation exists. When a stakeholder believes it is getting less value through interactions with a firm than it would get through interacting with a different firm (opportunity cost), then negative reciprocity can play a factor, leading to low levels of motivation and other negative behaviors, including termination of the relationship. A firm that is allocating too much value to one or more stakeholders will enjoy positive reciprocity, but is also likely to experience less ability to sustain its operations through needed investments in maintenance or assets associated with future growth. Harrison and Bosse (2013) suggest that the optimal level of allocation of value to a stakeholder is at a just noticeable level above that stakeholder's opportunity cost. They also provide a model to help managers determine which stakeholders are likely to fall into one of the suboptimal categories, based on the importance of each stakeholder to the strategy of the firm and its power.

Measuring Value Provided to Stakeholders

A firm that uses the first two tools has defined its purpose and has a strong sense of the value-creating stakeholders that should be given the most managerial attention. However, making sure that the firm is true to its purpose and genuinely takes care of its primary stakeholders is still a challenging task. One of the most effective tools for implementing a stakeholder-based management approach is to measure stakeholder outcomes, or the value stakeholders receive through relations and interactions with the firm.

What does it mean for a company to create value, what kinds of value should be measured, and how do we know a great company when we see one? Harrison and Wicks (2013) described a variety of types of "value" stakeholders seek, both to draw 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 these groups may want financial returns and/or products and services, they tend to seek other things as well, such as voice, fair treatment, respect, affiliation, and in the case of employees, secure employment, promotion and development opportunities (Harrison, Bosse & Phillips, 2010).

While Harrison and Wicks (2013) was addressed primarily to academics and drew largely from the academic literature, it was also designed to engage the manager and the marketplace. Although the arguments contained in that paper may have had sufficient conceptual support to allow acceptance in an academic journal, sometimes such efforts are just that – academic. If the ideas in the paper are reasonable, or at least headed in the right direction, and given the groundswell of interest among corporations and society in sustainability and social responsibility, then one might expect to find in business organizations some non-traditional approaches to measuring performance – approaches that give value creation for stakeholders a high priority. This does not imply a "one-size-fits-all" set of practices, particularly since various stakeholders may seek different things, and firms provide different kinds of value. Part of what is interesting in this conversation is the variety in value and how firms can create more of it by making value-creation, broadly defined, a salient and intentional focus.

Business academics frequently discuss the need to engage managers in their discussions and activities, but to date there has been limited engagement. Our purpose for engaging in conversations with some high level executives in large companies was to present them with an academic article on measuring performance more broadly, seek their honest reactions to the article, and surmise the extent to which their firms are engaging in the types of measurement activities contained therein. An investigation of this sort can help guide research in the area of performance measurement, to the extent that scholars are willing to listen. We believe this kind of activity can also stimulate further interest in stakeholder theory as a useful tool in moving organizations towards the creation of more value, broadly defined.

Another part of our motivation for our interviews was to note, and attempt to get beyond, the existing clash between stakeholder theorists and shareholder theorists (Argenti, 1999; Campbell, 1999; Freeman, et al., 2010; Smith, 2003). Debates about why firms exist and who they serve is important, 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 related to creating value and measuring it.

THE INTERVIEWS

The Harrison and Wicks (2013) paper shared with executives is called "Stakeholder Theory, Value and Firm Performance." 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.

The four factors Harrison and Wicks associate 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 they explained in the paper, 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. As the abstract suggests, the four-factor model was compared to other perspectives on firm performance, including shareholder primacy, the Balanced Scorecard, the Triple Bottom Line, and corporate social performance (CSP) in general. Harrison and Wicks also proposed that much of the value a firm creates might be measured, at least in part, by the happiness of the firm's key stakeholders, individually and collectively (Blanchflower & Oswald, 2011). They provided a table with numerous examples of happiness-based performance measures, as well as potential proxies for these measures that might be useful to researchers.

The Executives and Companies

We asked executives from six major companies from a variety of industries to read and then respond to the article. Note that the industries we selected are intentionally very different from each other, from an aggregates manufacturer to a bank to a retailer to a consulting firm. We started with a list of questions, but then we also asked follow-up questions and allowed executives to expand on topics in which they were particularly interested. The full interviews are found at http://scholarship.richmond.edu/management-faculty-publications/52/ (they are listed along the right column). The participating companies and the executives interviewed are as follows:

> **Unum Group**, an Employee benefits insurance company with over 10,000 employees and over $10 billion in sales in the U.S. and Europe; part of the S&P 500. Executives were Tom Watjen, President and CEO, with responsibility for all aspects of the company and working with the board, and Joe Foley, Senior Vice President of Marketing and Public Relations, with responsibility for brand advertising, image, public relations, and corporate strategy.
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> **The Home Depot, Inc.**, The world's largest home improvement specialty retailer, with more than 2,200 retail stores in the U.S., Puerto Rico, the Virgin Islands, Guam, Canada, and Mexico. The executive was Hal Laughton, Senior Vice President of Merchandising, with profit and loss responsibility for $23 billion in sales covering tools, hardware, outdoor living, outdoor garden, and cleaning businesses.
>
> **Luck Companies**, the leading mid-Atlantic (USA) supplier of high quality crushed stone, sand, gravel, architectural stone, clay tennis courts, and high-end real estate construction. The executive was Mark Fernandes, Chief Leadership Officer, with responsibility for strategic direction for the enterprise mission. He is also a thought

leader for development of Luck's Values Based Leadership (VBL) ideology and model.

McKinsey & Company, LLC, a global management consulting firm. The executive was Elie Maalouf, Senior Advisor. Formerly he was President and CEO of HMSHost Corporation, with approximately $3 billion in sales and 34,000 employees in 14 countries.

MeadWestvaco, a global leader in packaging and packaging solutions; the company also has businesses in specialty chemicals, community development and land management. Executive was Mark Watkins, Senior Vice-President of Technology and Forestry. nResponsibilities include manufacturing technology, forestry operations and research, corporate engineering, safety, health, environment, and sustainability.

SunTrust Banks, Inc. operates as the holding company for SunTrust Bank and various other subsidiaries that provide various financial services in the United States. The company operates in three major segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking. The executive was Rilla Delorier, Executive Vice President, Chief Marketing and Client Experience Officer.

Below you will find some of the many interesting responses to questions we asked, and various approaches to how their own firms think about – and measure – value creation for stakeholders. We edited the interviews somewhat to correct minor linguistic errors, provide clarifications, and eliminate material unrelated to the topic. The executives were also allowed to edit their answers for the purpose of clarity. We provide only very brief commentary on the responses. The real value to the reader is found in the richness and variety of the responses themselves, even in such a small sample of companies.

Initial Reactions to the Paper

As we asked the executives for their initial reactions to the paper, we found a broad range of responses from defense of a more shareholder-based approach to measuring value to "betting the farm" on a stakeholder-based approach.

Unum Group: "…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."

Home Depot: "We've never gone through a process of saying, hey, let's really in a very analytical way, let's go though and do a stakeholder theory assessment and a set of actions against those and that sort of thing. It's really more – a lot of the things that are in here make a ton of sense and we do them just as a matter of course every single day. It's more embedded in our culture. We're a 35-year-old business, one CEO removed from our founders, and so much of the culture they created is very much pervasive in the business."

McKenzie: "I have, maybe, a slightly different view in the sense that I do believe that putting shareholders first is necessary in for-profit organizations. If you're a not-for-profit or governmental organization, that's a different game altogether. I do believe it's necessary and unavoidable. You may try not to, but it will get you eventually. The capital markets have changed. Ownership structures have changed significantly over the last 20 years; unless there's a family that owns 50.1%, sooner or later the capital markets, through activists, hedge funds, and others, will bring the pressure to put the shareholders first. But there are different ways to put shareholders first, and I could still agree with most of your argument that taking care of other constituents is part of putting shareholders first because long-term, it enables you to survive and succeed in your industry and to create more shareholder value."

Luck Companies: "What we said is we're going to bet the farm on an idea that doing good, positively impacting the lives of our associates, customers, and communities, is the best path to doing well, making money… We are betting the farm on stakeholder theory, betting the farm on it."

Mead Westvaco: I agree that there is a value to the concept of the triple bottom line. There are other important measures in addition to financial return. I found the nature of what you are talking about consistent with what we see in business.

SunTrust: "We agree that value creation for a firm extends beyond the traditional focus on shareholder return determined by quarterly financial results. It is important for companies to take a wider view of the stakeholders that they serve in order to predict the longer-term health of the company and its ability to deliver sustained value."

Strengths of the Paper

Unum Group: "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."

SunTrust: "The paper delves into the value that is created through the activities that firms pursue. SunTrust's purpose-driven strategy probably relates most to the categories discussed in the paper of stakeholder utility associated with organizational justice and stakeholder utility from affiliation."

MeadWestvaco: "I haven't seen anybody write about the dimension of happiness in business. I think it's a rare concept in business thinking but one that I find interesting to explore."

Home Depot: "…our actions certainly reinforce the belief that if you engage with and build relationships with community stakeholders, suppliers, customers, and do those in an emotional investing-like way, that it will pay dividends for you in sales and profit over the long run. We don't do a kind of a calculated return on investment because we do it each and every day."

McKenzie: "I like the identification of those four or five areas—employees, customers, suppliers, shareholders, community. I think these apply to different degrees in different industries, and I think shareholders are always there. Employees are generally there, although there are some industries where employees matter a whole lot less, such as industries that are very automated, for example.

Luck Companies: "I believe you can measure this stuff. I don't know that it's an exact science, and I think that you also have to look at the data that you're given and think about it logically, too."

The strengths these executives found in the paper were fairly consistent with their initial reactions. However, we did find that our McKenzie executive, while supportive of a shareholder focus overall, found the concept of measuring performance across stakeholders appealing.

Weaknesses of the Paper

Home Depot: "I do think that folks do it with the expectation that there's a payback on the investment and that they really want to measure it and I think that it has a tendency to come off fake to the stakeholders. I think it's very important for a business to execute in a way that's real."

Unum Group: "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."

Luck Companies: "You've got to help us figure out how to measure it (stakeholder performance) even more."

McKenzie: "I'd go back to say that I maintain that shareholders need to come first and then there are building blocks towards that. I think that organizations that lose that focus are really miscommunicating to the other constituents – the employees, the customers, the suppliers, the communities. They may actually believe what you're saying – hey, we're all on equal footing here – and start to demand and require a different outcome, a different share of the pie, as you call it, because they see themselves on equal footing. That's not sustainable, and the system will just collapse. The market won't support that position, and then you're not taking care of anybody in the end."

Mead Westvaco: "I don't think that I saw any weaknesses. I was smiling at one point while reading it. It made me recall that years ago I had a conversation with my boss, trying to convince him of the importance of happiness in business. I don't think I changed his mind at the time. So, I was thinking I ought to send him a copy of this paper in which you explore happiness as a performance measure. Perhaps I'd be vindicated. I haven't seen anybody write about the dimension of happiness in business. I think it's a rare concept in business thinking but one that I find interesting to explore.

SunTrust: "No weaknesses specifically, but SunTrust has started with the premise that our overreaching purpose should be the driver that ultimately impacts the factors that are discussed in the paper. Start with a sound purpose for what you do and communicate it consistently. Understanding the purpose can translate into and create positive value for any of the stakeholder groups referenced in the paper; i.e. a good purpose is the starting point for driving value across all constituency groups and can offset perceived or real areas of other weaknesses.

Among the most interesting responses regarding weaknesses was the comment from our Home Depot executive about authenticity, and specifically that sometimes organizations do things like measure the value provided to stakeholders for purely instrumental reasons. That is, they expect a payback. We also found a callout for more assistance in measurement from a company that is already engaged in measuring stakeholder value very broadly.

Are Firms Moving in the Direction the Paper Describes?

McKenzie: "No, I think it's moving in the opposite direction."

Home Depot: "…I'd say they're doing it where they have to, probably more so than before."

MeadWestvaco: "…I would say that the general trend over the last 10 years has been that more firms paying attention to these issues."

SunTrust: "We do observe that firms in general are starting to look more holistically at the stakeholders they serve and their impact on society."

Unum Group: "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."

Luck Companies: "A small number but it's growing. But, I'll tell you what - they are really interested. That's why I'm really optimistic. We have a leadership crisis right now everywhere. Everyone knows it."

We found about as much variance as possible in responses to this question. We agree with our Unum executive that the financial crisis has put more attention on a broader set of stakeholder concerns and we also agree with our Luck Companies executive about the leadership crisis in which we find ourselves. However, we openly acknowledge that not all companies are moving in the same direction, and that shareholder primacy is a very strong trend, as indicated by the research we cited previously.

Is Your Firm Measuring Performance More Broadly?

Luck Companies: "We have now identified five competencies with 15 attributes that we say make up a good values based leader…Every year we have a 360 assessment that all officers do. We get about 14 people…to say, 'How am I walking against the competencies? How am I doing? Am I showing up in alignment?' …We have many more nonfinancial measures than we do financial… We track our clout score. We track our community…."

Home Depot: "We have a saying inside the company that you get what you measure… There are ways people can manipulate the system and so I think we do things to try to ensure that we're just doing the right thing without trying to drive system manipulation."

"We do an employee survey. We measure participation in that as well as the actual raw metrics across a number of questions and then look at that in a longitudinal way over time and then look at variances across different parts of the country, different types of associates, tenure levels, that kind of thing. We also have a voice of customer survey that we do each and every day and look at that longitudinally as well as in various other formats, such as geography, etc. From time-to-time we will do a survey of our suppliers and get feedback and get scores. We don't really have anything that we measure per se that I'm aware of on shareholders, except our returns – ROI, EPS, PE, that kind of stuff."

Unum Group: "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."

SunTrust: "We currently track performance in four areas: 1) Deepest client relationships, measured by client loyalty surveys and the number of needs we meet for each of our clients; 2) most productive teammates, measured by teammate engagement and revenue per teammate; 3) top financial performance, measured by net income and efficiency ratio; and 4) leading a movement for financial well-being, measured through client surveys, teammate volunteer hours, and foundation activities."

MeadWestvaco: "Yes we are. We're exploring how we want to measure employee satisfaction and organizational effectiveness. We're doing some work on that right now."

MacKenzie: "I think they spend a tremendous amount of time measuring the progress and success and quality of their employees, which are their key resource. They have very close relationships with their customers and make sure that they're delivering value to their customers. [McKinsey] really doesn't have suppliers. Their suppliers are their employees."

In many ways, this is the bottom line. All of the companies are measuring performance on multiple dimensions of relevance to stakeholders beyond the shareholders.

How Would You Have Written the Article Differently?

Luck Companies: "We're talking about stakeholder theory, and what I'm interested in is does stakeholder theory actually validate or give corporate responsibility teeth or actually help it matter versus it just being a sustainability report that I do every year?"

SunTrust: "The paper focuses more on tactical application versus the more qualitative question of "what is the value your company provides to the world, and what does it take to be able to deliver on this purpose?" Results come from more than measurement programs.   The purpose of the company (Why are you here?) needs to be aligned with the culture of a company or the guiding principles (How will you operate?), and the values of the company (What defines our people?). Once all of these elements are in place, the measurement system can be aligned to see if you are in fact winning in the game you have set out to play."

MeadWestvaco: "Regarding the presentation, perhaps try to make the writing a little more understandable for us non-academics."

Home Depot: "I think the only thing I would say is that businesses are under pretty extreme pressure right now for profitability and for growth and you've got a lower GDP growth rate".

Luck Companies: "I was wondering about the outside-the-work piece… I just don't think that you can ignore that. I think you're going to start seeing more about the need to allow people to bring home to work also. Because there are a lot of head and heart things that go on. They don't disappear. We're always worried about people bringing work home. Well, it's also they bring home to work."

McKenzie: "We're not in a world anymore where people want to read 30 pages to get the bottom of something. I think some examples would be powerful. It's very hard today to make a point without some real life examples. It's a much better made point when someone can say, "here's an organization that did it this way, and managed to succeed, and here's an organization that didn't and didn't succeed, and we think these are representative of our argument."

Unum Group: "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."

There is nothing particularly surprising in these final comments. Our executives are successful managers, and they are calling for a more practical (less academic) discussion with examples to help illustrate the main points. We appreciate this perspective.

A Brief Commentary on the Interviews

We live in an era when many people are asking fundamental questions about capitalism and what it means to run a great company. As academics, we spend much of time in the world of ideas and books, thinking through the intellectual and historical foundations of business – a vital resource for understanding business and what it can become. There is ample reason in this literature to underscore value creation for stakeholders as a critical part of what capitalism is about and what makes it "work" over time. Indeed, many existing theories of business tend to obscure this basic insight and direct our attention away from it (Harrison and Wicks, 2013).

As we talked to executives about these ideas and heard what their businesses are doing, we found an array of views – some of which were emphatically supportive of creating value for stakeholders as a primary and dominant view, and others that were more reluctant or critical. All our interviewees saw the ideas as important and interesting. Some saw them as integral to how their business operates on a daily basis. Others saw them more as a luxury that was noble to try, but difficult to do and sustain given the "realities" of business.

Part of what was most compelling for us was not just these reactions to our paper, but to hearing more about what companies are actually doing – and how much is already going on in some firms. Without necessarily thinking about themselves as "stakeholder companies," some of the firms we included are undertaking a variety of innovative steps to capture, measure, and emphasize value creation for stakeholders on a variety of dimensions. Looking at the conversations, it is equally interesting to see why these managers and firms believe this measurement is important and how it fits with the larger priorities of the company. If we delight our customers or keep employees engaged, how exactly does this help us as a firm? What kinds of results create concern and lead us to take action to remedy it, even if it requires extensive resources to do so?

As academics, we believe we can learn a lot from managers and firms about this topic. Stakeholder theory is a "managerial theory" (Freeman, 1984), and therefore we should care about what the core ideas mean in practice, how they work, and what types of things are possible. Business is, in some sense, a laboratory for ideas that should help us understand what works and what doesn't – as well as why. And, if business isn't a static idea, but one tied to context, purpose, and human cooperation, then the ideas we start with may play a significant role in determining their fate. New ideas open up new possibilities. Looking at practice helps us see what is possible and allows us to get away from stale academic conversations.

If the ideas proposed in Harrison and Wicks (2013) and similar works are valid, then managers and firms need to become more creative and more intentional about value creation for stakeholders. They need to better understand what stakeholders seek, how they can provide it, ways in which stakeholder interests overlap within the context of the firm, and how they can deliver more value over time. Traditional financial metrics matter, and stakeholder theory gives us additional reasons to see why – beyond survival, managers have a moral duty to stakeholders to generate profits – but that is only the beginning. Numerous sources tell us that what stakeholders seek is far more complex than just money and "stuff". They care about being treated fairly, living out their values, being associated with firms they respect, feeling like the work they do matters, and so forth. Many of these additional forms of value are hard to create and sustain, but at some level they are also almost "costless" (i.e. don't require specific expenditures of capital) and additive. Rather than taking value away from a given stakeholder to give it to another, value creation on these dimensions is additive and tends to make all stakeholders better off.

FUTURE WORK ON STAKEHOLDER MANAGEMENT

This chapter has been intentionally practical in its focus. We do not apologize for our focus because stakeholder management is inherently practical, even though it is built on a strong normative base (Freeman, 1984; Freeman, Harrison & Wicks, 2007). Arguably one of our primary objectives is to stimulate more interest among scholars in the practical applications of stakeholder theory in real firms. Consequently, after describing three practical stakeholder management tools that have stood the test of time, we also interviewed executives to determine the extent to which stakeholder theory is actually creeping into business practice. We found that it is, under a number of labels and in a variety of ways. We continue our practical focus here by providing a list of 8 important questions, some of which came out in the interviews, that can guide stakeholder researchers in producing knowledge that will be useful to managers. The questions are in no particular order of importance.

1. What are the best practices for measuring the value provided to a broad range of stakeholders?
2. How can organizations best use information about the value they provide to stakeholders in guiding their strategies?
3. What conditions inside a firm are associated with the transition to a managing-for-stakeholders approach? How can managers create these conditions?
4. How can enterprise strategy (purpose and values) be more closely linked to what the firm measures?
5. What can external stakeholders do to encourage a firm to manage for stakeholders?

6. What are the costs associated with managing for stakeholders?

7. In which contexts are the benefits of a managing-for-stakeholders approach likely to exceed the incremental costs?

8. How can a firm deal effectively with another firm (i.e., competitor, supplier) that exhibits a tendency towards ignoring the needs of particular stakeholders?

A great deal has been written about stakeholder theory. We hope the interest continues to grow and expand throughout the academy. However, we believe that for stakeholder theory to truly evolve and become a richer theory, we need more intentional connection to the manager and to real firms as part of the dialogue. We hope future work builds on this step and finds other ways to enrich the discussion.

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