The Stakeholder Approach Revisited

R. EDWARD FREEMAN[*]

The purpose of this paper is to revisit the development of the stakeholder management approach developed in "Strategic Management: A Stakeholder Approach" published by Pitman Publishing in 1984. A brief history of the development of this approach is followed by a summary and an assessment of the main arguments. The approach has been used in a number of research streams which are outlined. The paper ends with some suggestions for promising lines of inquiry.

Keywords: stakeholders; stakeholder management; business ethics; strategic management; corporate social responsibility.

1.   Introduction

The purpose of this paper is to trace the development of the idea of "stakeholders" or "stakeholder management" or "managing for stakeholders" or "stakeholder capitalism". Section II is a brief history of how I came to publish *Strategic Management: A Stakeholder Approach* in 1984 by building on the work of many others. Section III is a brief summary of that book and an assessment of its strengths and weaknesses. It also outlines the revisions I would make to that book if I were writing it today. Section IV details some of the streams of research on the stakeholder idea during the last 20 years, though it is far from complete, and offers some promising new directions for the development of stakeholder theory.

2.   Early History

After studying philosophy at Washington University I accepted an appointment on the research staff at The Wharton School, University of Pennsylvania, with a research group called the Busch Center, and then rapidly moved to a new group called the Wharton Applied Research Center (WARC). The mission of WARC under the leadership of James R. Emshoff was to serve as Wharton's "window to the world" to connect Wharton faculty with managers who had real problems to solve. We organized ourselves by project teams, much like a traditional consulting firm (Emshoff had been with McKinsey and Co.), and by "development areas" which were conceptual spaces where we wanted to develop both expertise and new clients to try out our ideas.

---

[*]   Prof. R. Edward Freeman PhD, The Darden School, University of Virginia 100 Darden BLVD. Charlottesville, Virginia, Fax: ++(1) 434 924-6378, Voice: ++(1)434 924-0935, E-Mail: freemanE@Darden.virginia.edu.

2.1 Original Papers and Teaching

I began to work on the stakeholder concept in conjunction with Emshoff at about the time that AT&T, then the Bell System, asked us to develop an executive education program that would help their "leaders of the future" understand and manage the external environment. We developed a one week module using the stakeholder idea that included two papers and several cases, as well as a "stakeholder simulation". The development of these ideas and initial piloting took place over the last half of 1977 and all of 1978. The first paper was a conceptual paper laying out the argument for why managers needed to think about stakeholders. We defined "stakeholder" in a broad strategic sense as "any group or individual that can affect or is affected by the achievement of a corporation's purpose". While this definition has been the subject of much debate in the ensuing years, the basic idea was simple. We were taking the viewpoint of senior management and our view was that if a group of individual could affect the firm (or be affected by it, and reciprocate) then managers should worry about that group in the sense that it needed an explicit strategy for dealing with the stakeholder. This executive program at AT&T led to a number of projects with the executives who attended and their teams where we developed the stakeholder approach that I outlined in *Strategic Management: A Stakeholder Approach* written in the summer of 1982 and published in 1984. I was especially concerned to show how the stakeholder idea originated – not with me and not at Wharton, but many years earlier at the Stanford Research Institute. Chapter 2 of that book tries to set out the intellectual history of the concept. Giles Slinger has redone this history in a much more complete fashion, and many scholars such as Lee Preston have pointed out the intellectual history of the concept goes far beyond the use of the word 'stakeholder'. The second paper was a set of "tools and techniques" that we believed that managers would find useful. This paper became the basis for the middle chapters of the book that focused on the techniques and applications of the stakeholder idea.

I spent most of my time from 1978 until 1983 teaching executives and working with them to develop very practical ways of understanding how they could be more effective in their relationships with key stakeholders. I knew that a concern with purpose, values, and responsibility were important ideas, but it did not occur to me that one could meaningfully talk about these ideas outside of the context of the business as a whole. Therefore, when the main academic audience for my ideas became people who taught Business and Society or Corporate Social Responsibility or Business Ethics I was surprised. I had originally thought that the main academic audience would be strategy professors. After all, the original idea behind *Strategic Management: A Stakeholder Approach* was to publish it as a textbook in strategic management.

3. The Main Logic of "Strategic Management: A Stakeholder Approach"

The point of the book was and remains very clear to me – how could executives and academics think about strategy or strategic management if they took the stakeholder concept seriously, or as the basic unit of analysis of whatever framework they applied? The basic insight was to suggest that a more useful unit of analysis for thinking about strategy was the stakeholder relationship, rather than the tasks of "formulating, implementing, evaluating, etc." or the idea of "industry", or the other myriad ideas of the

times. I took this to be a matter of common sense and practicality, rather than some deep academic insight. The executives that I was working with found thinking about stakeholder relationships very helpful for dealing with the kinds of change that was confronting their corporations.

3.1 The Basic Philosophical Approach

The approach of the book was modeled after what I took to be some of the best writing I had encountered that tried to interweave clinical cases and facts with the development of insights and ideas. So, I relied on the "clinical cases" I had worked on with a number of companies over these years, as well as my reading of the business press, case studies written by others, and my conversations with other people (experts) worried about the same phenomena. Again, I was trained as a philosopher, so what was important to me was the overall logic of the argument. I found the insistence by some colleagues on empirical methods and an obsession with "methodology" to be highly amusing and full of logic mistakes. Surely the insights of thinkers like Freud or Harry Levinson in management, or Graham Allison in politics, did not become questionable because of their methods, but because of their logic. The continued obsession with what Richard Rorty has called "methodolatry" continues even in this world of critical studies, post-modernism, pragmatism, and other assorted post-positivist justifications of intellectual activity. In a recent paper I was criticized for not having a theory that is "empirically testable", as if "theory" and "evidence" can ever be sorted into separate buckets after Quine wrote his famous "Two Dogmas of Empiricism" article in 1953. So, I confess to paying no attention to methods. Perhaps if I had kept careful notes, interview transcripts, had a panel of experts sort all of the "data", I could have gained even more insight into the phenomena of businesses trying to deal with stakeholder relationships. However, I thought that all of this stuff was just silly window dressing. I never had interest in the question, "Are you doing something that is descriptive of the way companies act, or are you prescribing how they should act, or are you suggesting that if they act in this way it will lead to these results?" Donaldson and Preston (1995) have suggested that stakeholder theory can be separated into descriptive, prescriptive, and instrumental categories. I thought I was doing all three and that any good theory or narrative ought to do all three. In short the stakeholder approach has always been what Donaldson and Preston have called "managerial". There is more than adequate philosophical justification for such an approach and Andy Wicks and I (1998) have tried to set forth such a pragmatist "methodology".

3.2 Implications, Misinterpretations, and Fixing the Major Weaknesses of the Book

3.2.1 The Basic Argument

I saw and continue to see this managerial approach to stakeholder theory as rooted in the practical concerns of managers – how could they be more effective in identifying, analyzing and negotiating with key stakeholder groups? I would summarize the book in the following logical schemata:

(1) No matter what you stand for, no matter what your ultimate purpose may be, you must take into account the effects of your actions on others, as well as their potential effects on you.

(2) Doing so means you have to understand stakeholder behaviors, values, and backgrounds/contexts including the societal context. To be successful over time it will be better to have a clear answer to the question "what do we stand for".

(3) There are some focal points that can serve as answers to the question "what do we stand for" or Enterprise Strategy. (The book laid out a typology which no one ever took seriously.)

(4) We need to understand how stakeholder relationships work at three levels of analysis: the Rational or "organization as a whole"; the Process, or standard operating procedures; and the Transactional, or day to day bargaining. (These levels are just the three levels in Graham Allison's *Missiles of October*.)

(5) We can apply these ideas to think through new structures, processes, and business functions, and we can especially rethink how the strategic planning process works to take stakeholders into account.

(6) Stakeholder interests need to be balanced over time.

3.2.2 Implications of the Basic Argument

There are a number of implications of this argument. If it is correct, then the idea of "corporate social responsibility" is probably superfluous. Since stakeholders are defined widely and their concerns are integrated into the business processes, there is simply no need for a separate CSR approach. Social Issues Management or "issue" is simply the wrong unit of analysis. Groups and individuals behave, not issues. Issues emerge through the behavior and interaction of stakeholders, therefore "stakeholders" is a more fundamental and useful unit of analysis. Finally, the major implication of this argument, which cannot be overemphasized today given the development of stakeholder theory, is that "stakeholders are about the business, and the business is about the stakeholders".

3.2.3 Misinterpretations of the Basic Argument

There have been many misinterpretations of the basic argument, many of which are due to my own shortcomings and the way that the book was written. In fact, recently Robert Phillips, Andrew Wicks and I (2003) have published a paper entitled "What Stakeholder Theory is Not" to try and address some of these misinterpretations and myths. Some of the more obvious misinterpretations are: (1) Stakeholders are critics and other non-business entities; (2) There is a conflict between shareholders, and the other stakeholders; and, (3) the stakeholder concept can and should be used to formulate a new, non-shareholder theory of the firm. Obviously (1) completely cuts against both the actual formulation of the theory and the spirit in which it was developed. Andrew Wicks, Bidhan Parmar and I (2004) have recently offered a rebuttal of (2), since shareholders are stakeholders, and the whole point is that stakeholder interests have to move in the same general direction over time. (3) is a trickier matter, and I have published a number of papers in which it seems I am claiming that there is one

univalent "stakeholder theory" that will work for all businesses. However, I believe that it is more useful to consider "stakeholder theory" as a genre (Freeman 1994). There may be many particular "stakeholder narratives", and indeed that is the original insight behind "enterprise strategy". Surely there are lots of ways to run a firm. All of these ways have to ultimately generate profits and satisfy some set of stakeholders, but context and other factors may well determine which kind of narrative works best.

3.3 Major Weaknesses of the Book

While I believe that much of the basic logic of the book is still valid, especially if the misinterpretations are clarified, there are several obvious weaknesses of the book. First of all much of the language of the book is couched in the idiom of strategic planning in general, and Lorange and Vancil's version of strategic planning in particular. Lorange was at Wharton at the time and I was heavily influenced by his ideas. Therefore, there is far too much "process-speak" and far too much "consultant-speak", both of which have served as a barrier to understanding the basic idea. Second, the book was overly analytical. Henry Mintzberg seems never to tire of repeating the criticism that I seem to believe that if we draw the stakeholder maps accurately enough and model and predict their behavior; we can cast out uncertainty from the strategic thinking process. While this was never my aim, I do understand how Mintzberg and others read this into the work. I simply wanted to suggest that we could think about stakeholders systematically. Obviously there are limits to our ability to analyze, and just as obviously we can use analysis to hide behind, rather than going out and actively creating capabilities for dealing with stakeholders. Again, part of this weakness, I believe, comes from the reliance on the strategic planning literature of the time. Third, there is a tension in the writing of the book between "managerial thinking" and "academic thinking". I believe that chapter 2 could only be interesting to academics, and that chapters 5 and 6 could only be interesting to executives who were trying to "do it". I'm afraid that this tension served neither audience very well. Fourth, I have come to believe that questions of purpose, values, ethics, and other elements of which I crudely following Drucker called "enterprise strategy" are far more important than I originally anticipated. Strategic management as a field universally ignored these issues for years, and many continue to do so today. Once I came to see this as perhaps the most important part of the book, I undertook to write what I hoped was a sequel to the book with Daniel R. Gilbert, Jr., entitled *Corporate Strategy and the Search for Ethics*. Unfortunately almost no one reads or refers to that book today. Fifth, there was a missing level of analysis. I said virtually nothing about how business or capitalism would look if we began to understand it as consisting of "creating value for stakeholders". A number of papers with sociologist, William Evan, began to explore these issues, but they had a rather Kantian turn that I have now gladly forsaken. Sixth, there is too much concern with structure in the book. While I still find some of the insights about corporate governance interesting, the chapters on recasting the functions of business along stakeholder lines were misguided. The underlying issue is the separation of business and ethics in the foundational disciplines of business, not the practical organization and working of these disciplines. I'm certain there are even more flaws,

bad writing, mistakes, and bad ideas in the book, but these are at least some of the major weaknesses from my point of view.

3.4 Fixing the Weaknesses

Since I am currently engaged in the process of rewriting *Strategic Management: A Stakeholder Approach*, I want to suggest what my current thinking is, and how I'm going about this new project. First of all there will be two books, both of them will be written by a team consisting of Freeman, Jeffrey Harrison, Robert Phillips, and Andrew Wicks. The initial book is tentatively titled, *Managing For Stakeholders: Business in the 21st Century*. It is written purely for managers and executives. There will be no academic arguments, not much discussion of the finer points of how stakeholders are defined, and no mention of most of the literature and debates that has developed over the last 20 years. The basic argument remains intact except that given the changes wrought by globalization, information technology, and the recent ethics related scandals, there is more urgency in adopting a stakeholder approach to value creation and trade (our name for "business"). We spend a fair amount of time laying out the argument that concern for stakeholders is just what the business is about. We suggest that there is a "stakeholder mindset" that consists of a number of key principles that more clearly guide the implementation of stakeholder thinking. We connect the stakeholder idea to ethics and values, very explicitly by suggesting that one of the key questions of enterprise strategy is how does your firm make each stakeholder better off, and what are you doing to improve any tradeoffs that may exist between stakeholders. We distill the process and techniques of the earlier book and our experiences over the last 20 years, into 8 techniques for creating value for stakeholders. Then we end with an explicit call for "ethical leadership" that is required by the stakeholder mindset. We are hoping to include an appendix with FAQs that will prevent a number of the misinterpretations of the first book. The second book is tentatively titled, *Stakeholder Theory: The State of the Art*. We plan for this book to be "everything a doctoral student ever wants to know about stakeholder theory". We will cover a number of disciplines, from law to marketing, including some outside the mainstream of business such as healthcare and public administration. We plan to both summarize and evaluate the research that has been done, and to suggest what some interesting avenues of research might be. I want to emphasize, as I tried to do in my earlier book, that the thinking on which these books are based has been done by many people, academics and executives alike, over many years. What we are trying to do is to distill this thinking into a useful form, and in doing so continue in the spirit of the early founders of the idea. With that in mind I want to set forth some of the developments by a host of scholars who have taken the stakeholder concept and placed it squarely in the mainstream of management thinking, though I want to caution that this section is very abbreviated and incomplete.

4. Stakeholder Theory Since 1984

Since 1984 academic interest in a stakeholder approach has both grown and broadened. Indeed the number of citations using the word stakeholder has increased enormously as suggested by Donaldson and Preston (1995). Most of the research on the stakeholder concept has taken place in four sub-fields: normative theories of business;

corporate governance and organizational theory; corporate social responsibility and performance; and, strategic management.[1]

4.1 A stakeholder approach to normative theories of business

A stakeholder approach emphasizes the importance of investing in the relationships with those who have a stake in the firm. The stability of these relationships depends on the sharing of, at least, a core of principles or values. Thus, stakeholder theory allows managers to incorporate personal values into the formulation and implementation of strategic plans. An example of this is the concept of an enterprise strategy. An enterprise strategy (Schendel/Hofer 1979, building on Drucker) describes the relationship between the firm and society by answering the question "What do we stand for?" In its original form a stakeholder approach emphasized the importance of developing an enterprise strategy, while leaving open the question of which type of values are the most appropriate. "It is very easy to misinterpret the foregoing analysis as yet another call for corporate social responsibility or business ethics. While these issues are important in their own right, enterprise level strategy is a different concept. We need to worry about the enterprise level strategy for the simple fact that corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its products." (Freeman 1984: 107) However, the illustration that values are an essential ingredient to strategic management has, indeed, set in train an inquiry into the normative roots of stakeholder theory.

Donaldson and Preston (1995) argued that stakeholder theories could be categorized from descriptive, instrumental or normative points of view. A descriptive theory would simply illustrate that firms have stakeholders, an instrumental theory would show that firms who consider their stakeholders devise successful strategies; a normative theory would describe why firms should give consideration to their stakeholders. Thus, the search for a normative justification for stakeholder takes the theory beyond strategic issues and into the realm of philosophical foundations.

The question this research stream is trying to answer is "above and beyond the consequences of stakeholder management, is there a fundamental moral requirement to adopt this style of management?" Various attempts have been made to ground stakeholder management in a broad range of philosophical foundations. Evan and Freeman (1993) developed a justification of a stakeholder approach based on Kantian principles. In its simplest form this approach argued that we are required to treat people "as ends unto themselves." Thus, managers should make corporate decisions respecting stakeholders' well being rather than treating them as *means to a corporate end*. This framework has been further developed by Norman Bowie (1999) into a fully fledged ethical theory of business. From a different perspective Phillips (1997) has grounded a stakeholder approach in the principle of fairness. When groups of individuals enter

voluntarily into cooperative agreements they create an obligation to act fairly. As such, normal business transactions create a moral obligation for firms to treat stakeholders fairly and thus to consider their interests when making strategic decisions. Others (Wicks/Freeman/Gilbert 1994; Burton/Dunn 1996) have tried to justify a stakeholder approach through the ethics of care. Contrasting the traditional emphasis on an individual rights-based approach to business, an ethics of care emphasizes the primacy of the network of relationships that create the business enterprise. This approach advocates the use of a stakeholder approach because of the need to formulate strategy in the context of the relationships that surround it, rather than with the firm as a lone actor. Finally, Donaldson and Dunfee (1999) have developed a justification for a stakeholder approach that is based on social contract theory.

Recently, Kochan and Rubenstein (2000) have developed a normative stakeholder theory based on an extensive study of the Saturn automotive manufacturer. In this study they try and answer the question "Why should stakeholder models be given serious consideration at this moment in history." For Kochan and Rubenstein this is both a normative and positive inquiry "and one that requires research that both explicates the normative issues and poses the theoretical questions in ways that promote tractable empirical research" (2000). They conclude that stakeholder firms will emerge when the stakeholders hold critical assets, expose these assets to risk and have both influence and voice. However, stakeholder firms will only be sustainable when leaders' incentives encourage responsiveness to stakeholders and when stakeholder legitimacy can overcome society's skeptical ideological legacy towards stakeholder management.

4.2 A stakeholder approach to corporate governance and organizational theory

This stream of stakeholder research has grown out of the contrast between the traditional view that it is the fiduciary duty of management to protect the interests of the shareholder and the stakeholder view that management should make decisions for the benefit of all stakeholders. Williamson (1984) used a transaction cost framework to show that shareholders deserved special consideration over other stakeholders because of "asset specificity." He argued that a shareholder's stake was uniquely tied to the success of the firm and would have no residual value should the firm fail, unlike, for example, the labor of a worker. Freeman and Evan (1990) have argued, to the contrary, that Williamson's approach to corporate governance can indeed be used to explain all stakeholders' relationships. Many other stakeholders have stakes that are, to a degree, firm specific. Furthermore, shareholders have a more liquid market (the stock market) for exit than most other stakeholders. Thus, asset specificity alone does not grant a prime responsibility towards stockholders at the expense of all others.

Goodpaster (1991) outlined an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account. This stakeholder paradox has been attacked by Boatright (1994) and Marens and Wicks (1999) and defended by Goodpaster and Holloran (1994). Others have explored the legal standing of the fiduciary duty of management towards stockholders, Orts (1997), Blair (1995). Many of these debates are on-going, with some advocating fundamental changes to corporate govern-

ance and with others rejecting the relevance of the whole debate to a stakeholder approach.

There have also been a number of attempts to expand stakeholder theory into what Jones (1995) has referred to as a 'central paradigm' that links together theories such as agency theory, transactions costs and contracts theory into a coherent whole (Jones 1995; Clarkson 1995). From this perspective stakeholder theory can be used as a counterpoint to traditional shareholder-based theory. While it is generally accepted that stakeholder theory could constitute good management practice, its main value for these theorists is to expose the traditional model as being morally untenable or at least too accommodating to immoral behaviour. This literature has historically consisted of fractured collection of viewpoints that share an opposition to the dominant neoclassical positive approach to business. Because of its accommodating framework the stakeholder concept provided an opportunity to develop an overarching theory that could link together such concepts as agency theory, transactions costs, human relationships, ethics and even the environment. More recently Jones and Wicks (1999) have explicitly tried to pull together diverging research streams in their paper "Convergent Stakeholder Theory."

4.3 A stakeholder approach to social responsibility and social performance

A significant area of interests for theorists of social responsibility has been the definition of legitimate stakeholders. It has been stated that "one glaring shortcoming is the problem of stakeholder identity. That is, that the theory is often unable to distinguish those individuals and groups that are stakeholders form those that are not" (Phillips/Reichart 1998). Mitchell, Agle and Wood addressed this issue by developing a framework for stakeholder identification. Using qualitative criteria of power, legitimacy and urgency, they develop what they refer to as "the principle of who and what really counts." This line of research is particularly relevant in areas such as the environment and grassroots political activism. The critical question is whether there is such a thing as an illegitimate stakeholder, and if so how legitimacy should be defined. Agle, Mitchell and Sonnenfield (2000) have taken an opposite approach. Rather than try and theoretically define stakeholder legitimacy, they have conducted an empirical study to identify which stakeholders managers actually consider to be legitimate.

A large body of research has been carried out in order to test the 'instrumental' claim that managing for stakeholders is just good management practice. This claim infers that firms that practice stakeholder management would out perform firms that do not practice stakeholder management. Wood (1995) pointed out that causality is complex, the relationship between corporate social performance (CSP) and financial performance is ambiguous, there is no comprehensive measure of CSP and that the most that can be demonstrated with current data is that "bad social performance hurts a company financially."

It has often been hypothesized that firms who invest in stakeholder management and improve their social performance will be penalized by investors who are only interested in financial returns. This has been referred to as 'the myopic institutions theory.' Graves and Waddock (1990) have demonstrated the growth in importance of institutional stakeholders over the last twenty years. On further investigation they found that firms

236

that demonstrated a high level of corporate social performance (CSP) tends to lead to an increase in the number of institutions that invest in the stock (Graves/Waddock 1994). This result is "consistent with a steadily accumulating body of evidence that provides little support for the myopic institutions theory" (Graves/Waddock 1994).

A range of recent studies have been carried out using new data and techniques to try and shed light on the links between stakeholder management and social and financial performance (Berman/Wicks/Kotha/Jones 1999; Harrison/Fiet 1999; Luoma/ Goodstein 1999). At a more practitioner level Ogden and Watson (1999) have carried out a detailed case study into corporate and stakeholder management in the UK water industry. At present most conclusions in this area are somewhat tentative as the precision of techniques and data sources continue to be developed.

4.4 A stakeholder approach to strategic management

Harrison and St John (1994) have been the leaders in developing an integrated approach with many of the conceptual frameworks of mainstream strategy theory. In their words "[stakeholder management] combines perspectives from other traditional models such as industrial organization economics, resource-based view, cognitive theory, and the institutional view of the firm."

They distinguish between stakeholder analysis and stakeholder management. Stakeholder management is built on a partnering mentality that involves communicating, negotiating, contracting, managing relationships and motivating. These different aspects of stakeholder management are held together by the enterprise strategy which defines what the firm stands for. Ethics are a part of these processes, first, because unethical behavior can have high costs and second, because codes of ethics provide the consistency and trust required for profitable cooperation.

Harrison and St John are able to combine traditional and stakeholder approaches because they use the stakeholder approach as an overarching framework within which traditional approaches can operate as strategic tools. For example, they divide the environment into the operating environment and the broader environment. Within the operating environment the 'resource based view of the firm' can operate as a useful framework to study the relationships of internal stakeholders such as management and employees. Equally Porter's five-force model (Porter 1998) can be used to shed light on the relationships of many external stakeholders such as competitors and suppliers. However, strategic management does not stop at this analytical/ descriptive phase. Prioritizing stakeholders is more than a complex task of assessing the strength of their stake on the basis of economic or political power. The values and the enterprise strategy of a firm may dictate priorities for particular partnerships and discourage others. Thus, a stakeholder approach allows management to infuse traditional strategic analysis with the values and direction that are unique to that organization.

4.5 Some Promising Future Developments

There are many promising developments in stakeholder theory. The purpose of this section is to set forth a few of these ideas and point the reader to this emerging literature. Sandra Waddock and a number of colleagues have used the stakeholder idea as

one of the conceptual centerpieces for their work on corporate citizenship, and have been involved with a number of NGOs, such as the United Nations, to develop a consensus around a set of stakeholder principles that corporations could adopt voluntarily. A compendium of essays, *Understanding Stakeholder Thinking* (Andriof/Waddock/ Husted/Rahman 2002) is a good starting point for this very promising work. Jeanne Liedtka, Laura Dunham and I have suggested that citizenship may well be a problematic concept if it is restricted to an analysis of the "community" stakeholder, and Waddock may well offer a way out of this morass. "Community" may well by the "soft underbelly" of stakeholder theory since it is very difficult to pin down a meaning in today's world which is nearly absent of a "sense of place" (Liedtka/Dunham/Freeman 2004).

Andrew Wicks and Bidhan Parmar have suggested that one of the central tasks of both stakeholder theory and business ethics is to put "business" and "ethics" together in a coherent and practical way (Wicks/Freeman/Parmar 2004). Kirsten Martin has suggested that the separation of business and ethics which is so central to the stakeholder debate needs to be expanded to take the role of technology into account in an explicit manner (Martin/Freeman, forthcoming). Venkataraman (2002) has argued that thinking about entrepreneurship would hasten this combination, strengthening both stakeholder theory and entrepreneurship as important fields of inquiry.

Open questions remain. For instance:

(1) Is there a useful typology of enterprise strategy or answers to questions of purpose?

(2) How can we understand the relationship between fine-grained narratives of how firms create value for stakeholders, and the idea of stakeholder theory as a genre or set of loosely connected narratives?

(3) If we understand business, broadly, as "creating value for stakeholders" what are the appropriate background disciplines? And, in particular what the connections between the traditional "social sciences" and "humanities"?

(4) How can the traditional disciplines of business such as marketing and finance develop conceptual schemes that do not separate "business" from "ethics" and can the stakeholder concept be useful in developing these schemes?

(5) If we understand "business", broadly, as "creating value for stakeholders", under what conditions is value creation stable over time?

(6) Can we take as the foundational question of political philosophy, "how is value creation and trade sustainable over time" rather than "how is the state justified"?

I am certain that there are many additional research questions, and many more people working on these questions than I have mentioned here. I hope this paper has clarified some of my own writing in the stakeholder area, and provoked others to respond.

References

Andriof, J./Waddock, S./Husted, B./Rahman S. (eds.) (2002): Unfolding stakeholder thinking. Sheffield, UK. Greenleaf Publishing Limited.

Berman, S./Wicks, A./Kotha, S./Jones, T. (1999): Does stakeholder orientation matter: The relationship between stakeholder management models and firm financial performance, in: Academy of Management Journal, 42/5, 488-506.

Blair, M. (1995): Whose interests should be served?, in: Clarkson, Max. Ownership and control: rethinking corporate governance for the twenty first century, Washington, DC: The Brookings Institution, 202-234.

Boatright, J. (1994): Fiduciary duties and the shareholder-management relation: Or, what's so special about shareholders?, in: Business Ethics Quarterly, 4, 393-407.

Bowie, N. (1999): Business ethics: a kantian perspective. Oxford: Blackwell's.

Burton, B./Dunn, C. (1996): Collaborative control and the commons: Safeguarding employee rights, in: Business Ethics Quarterly, 6, 277-288.

Clarkson, M. (1995): A stakeholder framework for analyzing and evaluating corporate social performance, in: Academy of Management Review, 20/1, 92-117.

Donaldson, T./Dunfee, T. (1999): Ties that bind: a social contracts approach to business ethics, Boston: Harvard Business School Press.

Donaldson, T./Preston, L. (1995): The stakeholder theory of the corporation: concepts, evidence, and implications, in: Academy of Management Review, 20/1, 65-91.

Drucker, P. (1980): Managing in turbulent times, New York: Harper and Row.

Dunham, L./Liedtka, J./Freeman R. E. (Forthcoming): Enhancing stakeholder practice: a particularized exploration of community, Darden School Working Paper.

Emshoff, J. (1978): Managerial breakthroughs, New York: AMACOM.

Freeman, R. E./Evan, W. (1990): Corporate governance: a stakeholder interpretation. In: The Journal of Behavioral Economics, 19/4, 337-59.

Evan, W./Freeman, R. E. (1993): A stakeholder theory of the modern corporation: kantian capitalism, in: Beauchamp, T. & Bowie, N.: Ethical theory and business, 5th edition, Englewood Cliffs: Prentice Hall.

Freeman, R. E. (1984): Strategic management: a stakeholder approach, Boston: Pitman.

Freeman, R. E./Gilbert, D. (1988): Corporate Strategy and the search for Ethics, Englewood Cliffs, New Jersey: Prentice Hall Inc.

Goodpaster, K. (1991): Business ethics and stakeholder analysis, in: Business Ethics Quarterly, 1, 53-73.

Goodpaster, K./Holloran, T. (1994): In defense of a paradox, in: Business Ethics Quarterly, 4, 423-430.

Graves, S./Waddock S. (1990): Institutional ownership and control: implications for long-term corporate performance, in: Academy of Management Executive, Vol. 37, 1034-46.

Graves, S./Waddock, S. (1994): Institutional owners and corporate social performance, in: Academy of Management Journal, 37/4: 1034.

Harrison, J./Fiet, J. (1999): New CEOs pursue their own self-interests by sacrificing stakeholder values, in: Journal of Business Ethics, 19: 301-308.

Harrison J. S./St John C. H. (1994): Strategic management of organizations and stakeholders, St. Paul: West Publishing Company.

Jones, T. (1995): Instrumental stakeholder theory: a synthesis of ethics and economics, in: Academy of Management Review, 20, 92-117.

Jones, T./Wicks, A. (1999): Convergent stakeholder theory, in: Academy of Management Review, 24, 206-221.

Kochan, T./Rubenstein (2000): Towards a stakeholder theory of the firm: The Saturn Partnership, in: Organizational Science, 11/4, 367-386.

Lorange, P. (1983): Strategic Control, in Lamb, R. (ed.): Latest Advances in Strategic Management: A new view of Business policy and planning, Boston: Little Brown and Co., 226-241.

Luoma, P./Goodstein, J. (1999): Stakeholders and corporate boards: institutional influences on board composition and structure, in: Academy of Management Journal, 42, 553-563.

Marens/Wicks, A. (1999): Getting real: stakeholder theory, managerial practice, and the general irrelevance of fiduciary duties owed to shareholders, in: Business Ethics Quarterly, 2, 273-293.

Mintzberg, H. (1994): The rise and fall of strategic planning: reconceiving roles for planning, plans, and planners, New York: The Free Press.

Mitchell, R./Agle, B./Wood D. (1997): Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts, in: Academy of Management Review, 22, 853-886.

Ogden, S./Watson, R. (1999): Corporate performance and stakeholder management: balancing shareholder and customer interests in the U.K. privatized water industry, in: Academy of Management Journal, 42, 526-538.

Orts, E. (1997): A north american legal perspective on stakeholder management theory, in: Patfield, F. (ed.): Perspectives on company law, 2, 165-179.

Phillips, R. (1997): Stakeholder theory and a principle of fairness, in: Business Ethics Quarterly, 7, 51-66.

Phillips, R./Reichart, J. (1998): The environment as a stakeholder: a fairness-based approach, in: Journal of Business Ethics, 23(2), 185-197.

Phillips, R./Freeman, R. E./Wicks, A. (2003): What stakeholder theory is not, in: Business Ethics Quarterly, 4, 479-502.

Porter, M. (1998): Competitive advantage, New York: The Free Press.

Preston, L. (1986): Social issues and public policy in business and management: retrospect and prospect, College Park: University of Maryland College of Business and Management, 3-4.

Schendel, D./Hofer, C. (eds.) (1979): Strategic management: A new view of business policy and planning, Boston: Little Brown.

Quine. W. V. O. (1953): Two dogmas of empiricism, in: From a Logical Point of View, Cambridge, MA, Harvard University Press, 20-46.

Slinger, G. (1998): Spanning the gap: the theoretical principles connecting stakeholder policies to business performance. Centre for Business Research, Department of Applied Economics, Working Paper, University of Cambridge.

Slinger, G. (2001): Stakeholding and takeovers: three essays, University of Cambridge Doctoral Thesis, Department of Applied Economics.

Wicks, A./Freeman, R. E./Gilbert, D. (1994): A feminist reinterpretation of the stakeholder concept, in: Business Ethics Quarterly, 4, 475-497.

Wicks A./Freeman R. E. (1998): Organization studies and the new pragmatism: positivism, anti-positivism, and the search for ethics, in: Organization Science, 9(2), 123-140.

Wicks, A./Freeman, R. E./Parmar, B. (2004): The corporate objective revisited, in: Organization Science, 15(3), 364-369.

Wicks, A./Freeman, R. E./Parmar, B. (forthcoming): Business ethics in an era of corporate crisis, Darden School Working paper.

Venkataraman, S. (2002): Stakeholder equilibration and the entrepreneurial process, in: Freeman, R. E./Venkataraman, S. (eds.): The Ruffin Series 3, Ethics and Entrepreneurship, Philosophy Documentation Center. Charlottesville, VA, 45-57.

Williamson, O. (1984): The economic institutions of capitalism. New York: Free Press.

Wood, D. (1995): The fortune database as a CSP measure, in: Business and Society, 24(2), 197-198.

Stakeholder Theory between general and contextual approaches – A German view

URSULA HANSEN, MATTHIAS BODE UND DIRK MOOSMAYER[*]

Korreferat zum Beitrag von R. Edward Freeman

1. Introduction

Management theory authors have earned an infamous reputation for working on an endless output of concepts that progress through a life cycle of introduction, growth, maturity, decline, and cessation. In the literature about management fads, "Business Reengineering" or "Lean Management" are discussed as potentially on the decline (see Williams 2004; Collins 2000; Abrahamson/Fairchild 1999). The stakeholder approach, however, defies this trend and is still alive and kicking, even though it is older than these theories. Acceptance in academia and corporate practice has grown steadily. The stakeholder literature has become voluminous, Tony Blair and other politicians proclaim the goal of a stakeholder economy, and organisations as diverse as the World Bank and The Green 9 (nine of the largest European environmental organisations/networks) are pushing towards (more or less) balanced multi-stakeholder involvements.

It might be argued that the socio-cultural, political, and economic context that ultimately needs and rewards a stakeholder strategy has only fully developed since the 1990s. When Freeman wrote his initial book on the stakeholder approach in 1984, the *Zeitgeist* of "Reaganomics" and "Thatcherism" favoured more a narrow-minded pursuit of profit (see Hansen/Bode 1999: 397f.). Still, in this context, Freeman popularised the idea that companies have a responsibility to their stakeholders and that values are a fundamental part of daily business. Meanwhile, the structural problems of morally unsatisfying market results are well known. Power agglomeration, the increasing complexity of doing business in a risk society (Beck 1986), external effects, and accelerating dynamics highlight the importance of a moral and strategic discussion of the relationship between business and society. At the same time, the public increasingly expects from companies a contribution to solving economic, social and environmental conflicts in society. In light of current conditions, the question is not so much why the stakeholder approach is discussed today but how it could prevail?

Referring to the Donaldson and Preston (1995) tripartite aspects, the benefits of the stakeholder approach are its descriptive accuracy, its instrumental power, or its normative validity of "doing good". We think the most significant aspect lies in the 4th as-

---

[*] Prof. Dr. Dr. h.c., Hansen, Ursula/Dr. Bode, Matthias/lic. oec. HSG Moosmayer, Dirk, Lehrstuhl Marketing und Konsum, Universität Hannover, Königsworther Platz 1, D-30167 Hannover, Tel.: 0511 762 5613, Fax: 0511 762 5630, E-Mail: uh@marketing.uni-hannover.de, Forschungsschwerpunkte: Handels- und Dienstleistungsmarketing, Relationship Marketing, Marketingethik, Ökologisches Marketing, Verbraucherpolitik.

pect, proposed by Freeman (1995: 45) himself: the "metaphorical or narrative quali-ties". He developed a "good story" in which it was possible to comprise diverse narra-tive threads about the inseparability of business and ethics. So he prudently does not talk about "THE one stakeholder theory" (Freeman 1995: 35), but about a genre of theories (Freeman 2004: 232). Therefore, criticism of a lack of explicit theoretical formulations of the theory or the "blurred character" (Donaldson/Preston 1995: 66) of the concepts misses the point. Instead, this is Freeman's specific accomplishment: the connectivity of his stakeholder frame with diverse theories and paradigms and the potential of ethical plurality. This makes his ideas productive and fertile for diverse theoretical approaches.

The other major advancement was the rejection of the "separation thesis" (Freeman 1994), that assumes first the potentiality and second the necessity of separating the business from the ethics discourse. Instead, the stakeholder approach started with the assumption that doing business always incorporates a moral perspective. A theoretical analysis that excludes the ethical component is, therefore, not value-free, but ethics done badly (Wicks/Freeman 1998: 124). So, he positioned his ideas not as a special case of morally infused business, but as a better, more helpful general managerial ap-proach.

This approach came with a downside that Freeman acknowledges. His work devel-oped inductively out of American business cases without focusing too much on scien-tific criteria of theory development and acceptance. He acknowledges his lack of methodological concern but dismisses methodological rigor as "silly window dressing" (Freeman 2004: 230). Furthermore, he constructs false dichotomies such as "useful or theoretical" in an assumingly anti-theoretical manner. What might look like casually shrugging off scientific standards unnecessarily obscures the viewer from Freeman's thorough philosophical, methodological and meta-theoretical clarifications of his stakeholder approach. Not without its own dead ends and ruptures, he and his col-laborators finally arrived at a pragmatist methodological foundation (Wicks/Freeman 1998). While blaming positivism for the marginalisation of ethics in business studies, he favours anti-positivist approaches in their emphasis on culture and meaning. Then he criticises anti-positivist approaches in their moral relativism. In his view, only pragmatism incorporates criticism of the positivist paradigm and allows a certain moral position. With this paradigmatic framing, he is able to clarify the essential crite-ria for adopting the stakeholder approach. The formerly ambiguous term of "useful-ness", oscillating between strategic success and prescriptive value, is now defined as "useful in the sense of helping people to better cope with the world or to create better organisations" (Wicks/Freeman 1998: 129). Avoiding prescribing certain fixed values, he refers the specification of values to the interactions of communities, specifically the negotiation "within the community of stakeholders who constitutes a given corpora-tion" (Wicks/Freeman 1998: 131).

This perspective, resembling the discourse ethics of Habermas (1991) and the trans-formation into stakeholder-dialogues, has two important implications for the evalua-tion and further advancement of the stakeholder project.

(1) There is still ambiguity regarding the goal of Freeman's stakeholder approach. Does he want to develop the stakeholder approach into an elaborating theory of

its own or to advance the function of a theory genre, a frame for connecting the diverse approaches world wide with similar ideas? He cannot have it both ways, especially when he highlights the severe difficulties of "building bridges" between certain paradigms. Nevertheless, he refers favourably to one, central paradigm for stakeholder theory, incorporating diverse concepts such as agency theory, transaction costs, human relationships, ethics, and the environment (Freeman 2004: 236).

(2) There is a tension between the way the phenomena of stakeholder approaches are analysed and the status of the approach itself. On the one hand, Freeman emphasises the importance of specific cultural values, historically developed patterns of business interactions and negotiation practices for the concrete realisation of stakeholder relationships and their moral specifications. Yet, his stakeholder approach, developed in an American context, based on American business cases, and fostered by American pragmatism, claims universal applicability.

To exemplify the ambiguity and tension in Freeman's approach, the adoption of the stakeholder approach in the context of German markets and German-language[1] academic literature is described. Our hypothesis is that the stakeholder approach can be advanced most productively by cross-fertilisation when contextual differences in certain countries are acknowledged on the phenomena and theory level.

2. Development of the stakeholder approach in the German-language business administration discussion

As pointed out by Freeman (2004: 229), the stakeholder approach was first received (contrary to his expectations) in the US in the field of business ethics and then in the field of strategic management. In the following section, we show the development of the stakeholder idea in the German-language business administration literature in the fields of strategic management and business ethics. Similar to the US situation, in Germany, the stakeholder approach was first discussed in these areas.

2.1 Development in the field of strategic management

Precursors of the stakeholder approach in Germany were systems theory and coalition theory, which developed in the 1960s. Systems theory entered management discussion with a view of companies not as autonomous entities but as complex socio-technological organisms with structural design needs. It considered enterprises as operating in a specific, dynamic environment with many interest groups, and that enterprise system design should include the active involvement of the interest groups. The interest groups concept was well developed in the German-language literature and the list of interest groups was similar to Freeman's concept (Ulrich 1970: 183).

The second stream of stakeholder ideas in the German-language management literature is coalition theory. It addresses the entities involved in the decision-making processes while system theory addresses system elements. In the decision-oriented approach, coalition theory states that all entities involved in the goal development proc-

---

[1] We use the term "German-language" to explicitly indicate that the German-language community of business administration scholars transcend the German borders.

ess have their own goals or involvement interests that they may reach only by jointly building coalitions (Heinen 1978: 24f.). A company can thus be seen as a coalition, and the coalition partners are the company's members: for example, employees, management, etc.

The integration of the two concepts, interest group and coalition theory, lead to the description of enterprises as coalitions of stakeholders (using the German equivalent "Anspruchsgruppe"). Thus, the only way the coalition can be successful is if each stakeholder fulfils their respective, goal related duties. This approach assigns management the key tasks of balancing different stakeholder interests and actively involving stakeholders. Dyllick (1984) gives a concise, applicable description of resulting management tasks in a six-step approach to identifying the relevant stakeholders, analysing their claims and answering them appropriately.

We have depicted the development of thoughts around the stakeholder ideas in the German-language strategic management discussion from its debut in the 1960s to 1984, when Freeman's *Strategic Management* was published. To understand the scientific discussion in Germany thereafter, we conducted an analysis of the three leading journals of business administration[2] published in German from 1984 to the present[3]. The results of this analysis may be summarised as follows:

- Only 12 articles published between 1994 and 2000[4] included ideas explicitly described as stakeholder ideas. The stakeholder discussion in the journals was rather subdued.

- Only one out of these twelve articles explicitly referred to Freeman (Hansen/Hennig-Thurau/Langer 2000). This supports the hypothesis that there had been a rather independent development of stakeholder approaches in German-speaking countries.

- The discussion started in "Die Betriebswirtschaft" with articles on stakeholders as a relevant variable in public relations (Haedrich/Jeschke 1994 and Haedrich/Jenner/Olavarria/Possekel 1995).

- Shareholder discussion precedes stakeholder discussion. For each of the journals, the first article on stakeholder approaches was published at least two years after the first contribution to shareholder approaches.

- An intense debate on shareholder vs. stakeholder took place from 1997 to 2000 (see Speckbacher 1997, Backes-Gellner/Pull 1999, Wentges 2000), which sup-

---

2 The German term „Allgemeine Betriebswirtschaftslehre" is here translated as business administration. The regarded journals deal with general issues of business administration from all business areas and functions.

3 We evaluated the appearance of the terms stakeholder ("Stakeholder", "Anspruchsgruppe", "Interessengruppe") and shareholder ("Shareholder") in the titles mentioned in the index of contents and in the key word index of the three German business administration journals "Die Betriebswirtschaft" (DBW), "Zeitschrift für Betriebswirtschaft" (ZfB) and "Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung" (ZfbF) including "Schmalenbach Business Review" from 1984 until 2004 (for 2004 first six months only).

4 The first mentioning in 1989 was a short reply in the different context of information asymmetries.

ports the hypothesis that stakeholder discussion in Germany has largely been a reaction to the shareholder value debate.

- The most recent articles on stakeholder ideas were published in 2000. One could infer that the discussion has diminished and that the stakeholder approach disappeared from German management theory. However, it is more likely that other concepts such as Corporate Social Responsibility, Corporate Citizenship and Corporate Governance have accepted the stakeholder approach, and that it is represented in these discussions.

This journal analysis is an important indicator of the status of the stakeholder discussion in German-language business administration literature, but it does not cover every instance of the discussion. Thus, the identified research streams also found responses in other journals and monographs (for stakeholder – shareholder discussion see, e.g., Janisch 1993, Figge/Schaltegger 1999, Gomez/Wunderlin 2000, Baden 2001). Furthermore, approaches considering stakeholders as relevant groups were presented in contributions on general management theory (see Steinmann/Schreyögg 1991: 65f., Bleicher 1994, Pfriem 1995). Overall, we have the impression that stakeholder ideas are less established as a theory in the German-language business administration literature than in the US.

2.2 Reception in the field of business ethics

So far, we have analysed the discussion of stakeholder issues in strategic management. Now, we will proceed to the second relevant stream, business ethics. Three relevant business ethics approaches are discussed in the German-language business ethics community. The most typical approach is the institution and order ethics ("Institutionen- und Ordnungsethik") that considers the legal and political frame as the systematic place of morals in a market economy (Homann/Blome-Drees 1992: 35). In this perspective, market actions are systematically dispensed from "ostensible" individual moral requirements (Pies/Blome-Drees 1993: 752). Thus, stakeholders are pushed back to the strategic management level, where the enterprise should use them as a means of profit maximisation.

Two further streams in business ethics evolved by applying discourse ethics from philosophy (Apel 1973, Habermas 1991) to the relationship between business and its environment. This lead to the view that dialogues between companies and their stakeholders are a central tool of ethical business practice. The debate continues regarding to *which cases* the idea of discourse should be applied.

The first discourse ethics approach is conflict ethics ("Konfliktethik"). Conflict ethics understands societal peace as the key goal of any (corporate) citizen's activity and discourse as the regulative idea for achieving societal peace. Due to the imperfection of the institutional frame (Steinmann/Löhr 1995: 144) in which an enterprise operates, conflicts may arise. In this situation, companies have the responsibility of making peace. This is achieved by using the entrepreneurial action scope, i.e. involving stakeholders in a dialogue aimed towards the goal of societal peace. Business ethics in this context can be understood as the self-commitment of a company to a set of norms that is justifiable through dialogical agreement with affected stakeholders. This set of

norms should aim to reduce conflict-relevant impacts of the profit principle (Steinmann/Oppenrieder 1985: 174). The stakeholder dialogue in this approach is understood as a situational corrective. In case of conflicts, a compromise that is acceptable for all stakeholders should be jointly developed. This approach clearly separates the economic and ethical view by taking the latter into account only when the former is about to fail.

The limitations of this established two-world-view have been addressed in a rational ethics ("Vernunftethik") of business (Ulrich 1997), which joins both concepts - business and ethics - in a dialogue aimed at an integrated business ethical view. In this view, business legitimacy is not achieved by profit generation but through a dialogue among all stakeholders that constitutes the ethical foundation of business operation. Ulrich (1987), taking an ethical perspective by explicitly denying a harmonistic ethic economical view, mentions two concepts answering the question of which stakeholders should be considered: a strategic concept and a normative-critical concept. The first defines stakeholders as groups that can affect an organisation, i.e. who have power to affect or influence the company's financial results. In this context Ulrich explicitly discusses Freeman's approach and identifies, agreeing with Goodpaster (1991: 59), this perception of stakeholders as narrowed (Ulrich 1997: 444). While Goodpaster (1991: 59) sticks to the profit maximisation principle, Ulrich (1997: 442) sees the normative-critical concept as ethical, considering all groups that have legitimate stakes as stakeholders, be their concern contractual rights or general moral rights.

The theoretical discussion of stakeholder dialogues is strongly shaped by the analysis of practical cases. The conflict ethical approach was very much enhanced by the cases of Siemens (Steinmann/Schreyögg 1982) and Nestlé (Steinmann/Oppenrieder 1985). A non-conflict based dialogue approach was analysed in the case of Procter & Gamble, who conducted extensive stakeholder dialogue programs in Germany to evaluate stakeholders' relevance in skin and health care, without any immediate issues to resolve (see Hansen/Schoenheit 1994). The differentiation of monological and dialogical approaches was developed in the case of Daimler Chrysler Aerospace Airbus (Roloff 2002). A theoretical evaluation of dialogue approaches applied in Germany was presented by Rettberg (1999).

In the German-language business management literature, as in the US, there have been two quite similar research streams integrating stakeholder ideas. Nevertheless, three major differences can be identified:

(1) The discussion has altogether been less extensive in the German context than in the US.

(2) The distance between business and ethics is even larger in Germany.

(3) The discussions in the German context highlight other aspects and make connections with different research approaches.

To understand better the differences between the development of stakeholder theory in the German-language literature and the US, and to evaluate which of them could augment the international stakeholder discussion, we will look at the context in which the theories developed.

2.3 Interpreting the results: An analysis of different contexts

As indicated by Freeman (Wicks/Freeman 1998: 137), specific cultural values and historically developed patterns of business interactions and negotiation practices are highly relevant for the concrete realisation of stakeholder relationships. Since these relationships affect theory development, one can deduce that cultural values and practices are important for development of stakeholder theory. Therefore, in the following section, we discuss some specifics that might have influenced the development of stakeholder theory in the German-language business administration literature. Starting with the values view, we elaborate on the practical perspective for taking an academic perspective thereafter.

Through analysing the basic values of the German and US economy, it is possible to relate the specific connection of business and ethics to the respective religious traditions. In the US, the dominant puritan work ethic, which promotes the assumption of maximised private wealth used for doing God's work on earth, eases a favourable relationship between business and ethics (Palazzo 2002: 200). In German society, success in business and profit are not seen as proof of closeness to God but as malicious. Therefore, the relation between ethics and business is often even seen unfavourably. This difference in the basic value system strongly influences the stakeholder relationships via the legal framework.

Based on religious foundations as well as historical developments, in the US there is a deep belief in the self-regulation and the self-responsibility of business. Therefore, government regulation and power is restricted in favour of business freedom (Dyllick 1989: 103), expecting businesses to use the freedom positively, for increasing private profit and thereby common wealth. This includes the assumption that the participation of stakeholders is necessary for companies to create profit and that this participation results in economic advantages.

In Germany, conversely, a stronger demand for an external entity balancing the social differences in society restricts companies' action scope. The regulating entity is expected to be the government, which, as a democratically authorised entity, is supposed to intervene on behalf of the people. For example, in Germany, some critics considered the Davos manifesto undemocratic and diluting the civil liberal order due to the corporate power and responsibilities given to large enterprises (Steinmann 1973). In Germany, the state rather than the manager is considered responsible for assuring justice in the company-stakeholder relationship. This aspect strongly supports the institution and order ethical approach. From a company perspective, this approach makes pro-active stakeholder thinking less necessary.

One example of that development is the corporate governance structure of listed joint-stock companies, which is different in the US and Germany. In Germany, the legal requirement of considering more interests than just the shareowners tends to result in a stronger stakeholder-orientation per se than in Anglo-Saxon countries (Blair 1995: 107ff.). Employee representatives are mandatory in the German supervisory board. Taking up stakeholder thinking explicitly in strategic management is less important since stakeholder involvement is considered a given for practice and research.

248

Because law requires regulation, the evaluation of dialogues and self-regulation between business and stakeholders is less emphasised as a management task in business operations. For a long time, this was also the case for stakeholders such as unions, consumer organisations and environmental groups in Germany. In their opinion, the government sets norms in a rather narrow frame. These stakeholders tend to use their countervailing power (Galbraith 1967) by defending the little remaining action scopes in hard fights. This results in stakeholder relationships that are more oriented to conflict than dialog. In the US, the limited reach of government legislation and the larger action scope of companies tend to constitute a precondition that supports dialogical communication between stakeholders and companies. German stakeholder organisations mainly understood their countervailing function in terms of criticism, opposition, and prevention rather than in dialogue, compromise and agreement. These organisations rejected offers of a dialogical communication since this was (not always erroneously) understood as "pure PR" without serious societal concern on the company side. This perspective was supported by scientific research that evaluated the stakeholder perspective of PR, as found in the above stated journal analysis. The debate on this issue continues. Nevertheless, more and more stakeholder organisations tend to understand the positive function of stakeholder dialogues. Currently, this turn is also supported by the current socio-economic situation in Germany. High unemployment rates, the reduction of social services through federal laws as well as the debate around the worsening competitive position of Germany as business location not only represent societal conflicts but also reduce the power of most stakeholder groups (except owners and management) and thereby increase their readiness to enter into a dialogue. This increases the possibility of constructively integrating stakeholders into dialogues aiming for peace by consensus as depicted in the conflict ethical approach.

Differences between the academic systems of the US and Germany represent a second stream of arguments that could have relevance for a diverging discussion of stakeholder approaches in both countries. US researchers tend to have a more pragmatic approach to analysing problems than their German colleagues, whose academic culture requires a more rigid theoretical foundation based on a methodologically approved approach. This seems most evident for the rational ethics approach that does not try to improve incrementally the current business landscape but rather aims to redesign the way business operates through a dialogue between all possible stakeholders.

Despite Freeman's criticism of the separation thesis, in Germany the distance in academic treatment of business and ethics is even larger than in the US, a fact that is supported by the already described set of underlying values. Although in the 1920s business administration approaches with a normative foundation were quite prominent in Germany and often included stakeholder interests by proclaiming public welfare as a goal of business administration (e.g. Nicklisch 1933), their easy ideological utilisation by the Nazi Government deeply discredited normative approaches. Therefore, Gutenberg, one of the founding fathers of modern business administration in post-war Germany, became prominent by establishing the "value-free" conception of the corporation as an autonomous, profit-oriented entity detached from society. To-

gether with his microeconomic theory of the firm, the "value-free" approach was the dominant theory in the German-language business administration context for a long time. On the meta-theoretical level, this theory was flanked by Max Weber's (1951/1904: 151) notion of a science free from value-judgements. This established in Germany a theory of business administration that defends its scientific status by equating objectivity with non-normativity. Concerning the development of the stakeholder approach in the German-language literature, we think that its normative connotation and its diction of contradicting the profit principle limit the extent of its discussion in the same context as the freedom of value-judgement paradigm. Freeman (Werhane/Freeman, 1999: 7) states that the stakeholder approach per se questions the separation thesis and undercuts the "normative-descriptive" distinction. The development of German-language academic literature exemplified developmental roads different from Freeman's: in addition to ignoring the stakeholder approach, it is characterised by:

(1) discussing the stakeholder approach within a separation thesis context (e.g. within the conflict ethics approach) and

(2) even criticising the stakeholder approach for still incorporating notions of the separation thesis (e.g. within the rational ethics approach).

3. Conclusions

The old saying ascribed to Sir Isaac Newton that seeing further by standing on the shoulders of giants addresses a fundamental principle of scientific progress. It is by exchanging ideas and by further elaborating already existing ideas that science can be advanced. Freeman did not start from scratch, and in the German-language literature, the stakeholder approach also proceeded through connecting ideas to existing concepts. We outlined some of the basic differences, which influenced the integration of Freeman's stakeholder ideas into the German contexts of practice and theory. In Germany, a stakeholder orientation was primarily adopted by companies due to government regulations, often with a more confrontational tendency. Based on different historical and religious backgrounds, the stakeholder orientation of US companies developed more out of the companies themselves, whose ethics were already more tightly intertwined with the business sphere than in Germany. Both contextual differences, the main background and the company experiences, also influenced academic reception in the German-language business administration literature. Freeman initially criticised the separation of business and ethics in the American context. But this separation was (and often still is) much more established in the German context. This separation was perpetuated largely by the strong meta-theoretical domination of the so-called "positivist" paradigm[5] in the German context.

If the stakeholder approach does not function as one grand theory but as an open frame, connecting different threads into a better story, then the differences can be

---

[5] The historical philosophical position of positivism has long been abandoned. In the meta-theoretical debate, the term "positivism" is therefore often seen as a straw man argument. In the German context it is more appropriate to speak of a "critical rationalism" based on Karl Popper.

transformed through productive cross-fertilisation. In this way, understanding experiences of existing stakeholder relationships in different contexts can further enrich a stakeholder approach acknowledging different stakeholder groups, different power relations between companies and stakeholders, and different regulative frames. This research can contribute to the still underdeveloped dynamic stakeholder behaviour model and to the depiction of changing stakeholder-company relations over time.

On an academic level, a contextualised approach to a stakeholder frame can acknowledge the different perspectives and traditions without notions of a "take over" emerging[6]. This could possibly be counter-productive, as the European perspective can be especially valuable when looking at the relationship between Corporate Social Responsibility (CSR) and the stakeholder approach. This is important because CSR is an emerging topic in practice, especially since globalisation causes severe problems of injustice and social disadvantages and raises concern for companies' action scope.

CSR implies that companies take responsibility for their actions by considering the consequences for others who are affected, i.e. for stakeholders. Stakeholder theory is, therefore, an implicit part of CSR and is reasonably integrated via multi-stakeholder dialogues (EU commission 2003). Still, CSR has two facets: normative and strategic. The strategic facet understands CSR as a business case. This is based on the notion that socially responsible behaviour results in a positive return on investment, at least in the long-run (Habisch 2003). The second facet, the normative view of CSR, demands responsible behaviour beyond the business case, i.e. also in times of crises and argues for responsible behaviour even if it is not profitable (Hansen/Schrader 2004).

Freeman claims that stakeholder theory makes "the idea of 'corporate social responsibility' […] probably superfluous" (2004: 231). We, however, are convinced that the CSR concept goes beyond the stakeholder approach. Furthermore, we believe that the US discussion of the stakeholder approach could benefit from considering three of the most important levels of the European discussion. First, the scope of the CSR and stakeholder concepts is different. CSR explicitly includes regional aspects as well as temporal aspects. Thus, topics such as the north-south conflict or responsibility for future generations become part of the concept. As a result, a new quality is added: while Freeman's stakeholder approach is primarily limited to existing stakeholders who can express their opinion, the notion of CSR includes societal responsibilities that are not claimed by any interest group. This especially supports the sustainability idea as expressed by the World Commission on Environment and Development (WCED 1987). Second, the CSR concept includes a goal system that provides the so-called triple bottom line connecting economic success, social justice and ecological compatibility (Enquete Kommission 1998) as a structure. Goals that are more detailed are made concrete on the lower levels of the CSR goal system. The triple bottom line in the CSR concept corresponds with the sustainability approach. In this respect, the German-language research output can be considered advanced. Third, the level of

---

[6] Sometimes in the German-speaking community of scholars, who developed similar ideas independent of Freeman's stakeholder approach, a feeling of uneasiness about a possible replacement by the imported stakeholder approach is articulated (see e.g. Ulrich 1999: 37 or for the Scandinavian context Näsi 1995).

elaboration of the CSR concept goes far beyond that of the stakeholder dialogue. The elaboration includes methods and instruments (e.g. Sustainability Reporting, Labelling, Life Cycle Analysis), as well as norms and values (e.g. SA 8000, GRI-Guidelines, ISO 14000 ff.).

Acknowledging different traditions and realisations of stakeholder approaches means accepting that scholars in the US and in the German-language context stand on the shoulders of partly different giants, with dissimilar views. Freeman himself acknowledges the significance of multiple interpretations. Openness to different versions of stakeholder approaches can also, in the end, serve even better his pragmatist criterion for the stakeholder idea: fulfilling "human aspirations and the desire to live better lives in community with others" (Wicks/Freeman 1998: 130).

References

Abrahamson, E./Fairchild, G. (1999): Management fashion lifecycles, triggers and collective learning processes, in: Administrative Science Quarterly, Vol. 44, No. 4, 708-740.

Apel, K.-O. (1973): Transformation der Philosophie, 2. Bde., Frankfurt a. M., Suhrkamp.

Backes-Gellner, U./Pull, K. (1999): Betriebliche Sozialpolitik und Maximierung des Shareholder Value: ein Widerspruch?, in: Zeitschrift für Betriebswirtschaft, Jg. 69, Heft 1, 51-70.

Baden, A. (2001): Shareholder Value- oder Stakeholder-Ansatz? Zur Vorteilhaftigkeit der beiden Konzepte, in: Wirtschaftswissenschaftliches Studium, Jg. 30, Heft 8, 398-403.

Beck, U. (1986): Risikogesellschaft, Frankfurt a. M., Suhrkamp.

Blair, M. (1995): Ownership and control – rethinking corporate governance for the twenty-first century, Washington, Brookings Inst.

Bleicher, K. (1994): Normatives Management. Politik, Verfassung und Philosophie des Unternehmens, Frankfurt a. M. et al., Campus-Verlag.

Collins, D. (2000): Management fads and buzzwords. Critical-practical perspectives, London et al., Routledge.

Donaldson, T./Preston, L. (1995): The stakeholder theory of the corporation. Concepts, evidence, and implications, in: Academy of Management Review, Vol. 20, No. 1, 65-91.

Dyllick, T. (1984): Das Anspruchsgruppen-Konzept. Eine Methodik zum Erfassen der Umweltbeziehungen der Unternehmung, in: Management-Zeitschrift io, Jg. 53, Heft 2, 74-78.

Dyllick, T. (1989): Management der Umweltbeziehungen. Öffentliche Auseinandersetzungen als Herausforderung, Wiesbaden, Gabler.

Enquete-Kommission (1998): Konzept Nachhaltigkeit. Vom Leitbild zur Umsetzung. Abschlussbericht der Enquete-Kommission „Schutz des Menschen und der Umwelt: Ziele und Rahmenbedingungen einer nachhaltig zukunftsverträglichen Entwicklung" des 13. Deutschen Bundestages, Bonn, Deutscher Bundestag.

EU commission (2003): EU multi stakeholder forum on corporate social responsibility, Luxembourg, Office for Official Publication of the European Communities.

Figge, F./Schaltegger, S. (1999): Was ist „stakeholder value"?: Vom Schlagwort zur Messung, Lüneburg, Universität Lüneburg.

Freeman, R. E. (1994): The politics of stakeholder theory, in: Business Ethics Quarterly, Vol. 4, No. 4, 409-421.

Freeman, R. E. (1995): Stakeholder thinking: the state of the art, in: Näsi, J. (ed.): Understanding stakeholder thinking, Helsinki, LSR-Publications, 35-46.

Freeman, R. E. (2004): The stakeholder approach revisited, in: Zeitschrift für Wirtschafts- und Unternehmensethik, Jg. 5, Heft 3, 228-241.

Galbraith, J. K. (1967): The concept of countervailing power, in: Mallen, B.E. (ed.): The marketing channel. A conceptual viewpoint, New York et al., John Wiley & Sons, Inc., 119-123.

Gomez, P./Wunderlin, G. (2000): Stakeholder Value-orientierte Unternehmensführung. Das Konzept des Performance Management, in: Hinterhuber H.H., et al.(Hg.) (2000): Das neue strategische Management. Perspektiven und Elemente einer zeitgemäßen Unternehmensführung, 2. Aufl., Wiesbaden, Gabler.

Goodpaster, K. E. (1991): Business ethics and stakeholder analysis, in: Business Ethics Quarterly, Vol. 1, No. 1, 53-73.

Habermas, J. (1991): Erläuterungen zur Diskursethik, Frankfurt a. M., Suhrkamp.

Habisch, A. (2003): Corporate Citizenship. Gesellschaftliches Engagement von Unternehmen in Deutschland, Berlin et al., Springer.

Haedrich, G./Jenner, T./Olavarria, M./Possekel, S. (1995): Zur Situation der Öffentlichkeitsarbeit in deutschen Unternehmen im Jahre 1993, in: Die Betriebswirtschaft, Jg. 55, Heft 5, 615-626.

Haedrich, G./Jeschke, B.G. (1994): Zum Management des Unternehmensimages, in: Die Betriebswirtschaft, Jg. 54, Heft 2, 211-220.

Hansen U./Schrader U. (2004): Corporate Social Responsibility als aktuelles Thema der Betriebswirtschaftslehre, in: Die Betriebswirtschaftslehre, under review.

Hansen, U./Bode, M. (1999): Marketing & Konsum. Theorie und Praxis von der Industrialisierung bis ins 21. Jahrhundert, München, Vahlen.

Hansen, U./Hennig-Thurau T./Langer, M.F. (2000): Qualitätsmanagement von Hochschulen: FACULTY-Q als Erweiterung von TEACH-Q, in: Die Betriebswirtschaft, Jg. 60, Heft 1, 23-38.

Hansen, U./Schoenheit, I. (Hrsg.) (1994): HAGE - Haarpflege und Gesundheit - ein haariges Thema? Grundlagen und Ergebnisse eines Dialogprogramms, Hannover, Fackelträger.

Heinen, E. (1978): Betriebswirtschaftliche Führungslehre. Ein entscheidungsorientierter Ansatz, Wiesbaden, Gabler.

Homann, K./Blome-Drees, F. (1992): Wirtschafts- und Unternehmensethik, Göttingen, Vandenhoeck & Ruprecht.

Janisch, M. (1993): Das strategische Anspruchsgruppenmanagement. Vom Shareholder Value zum Stakeholder Value, Bern et al., Haupt.

Näsi, J. (1995). What is stakeholder thinking? A snapshot of a social theory of the firm, in: Näsi, J. (ed.): Understanding stakeholder thinking, Helsinki, LSR-Publications, 19-32.

Nicklisch, H. (1933): Neue deutsche Wirtschaftsführung, Stuttgart, Poeschel.

Palazzo, B. (2002): U.S.-American and German business ethics: an intercultural comparison, in: Journal of Business Ethics, Vol. 41, No. 3, 195-216.

Pfriem, R. (1995): Unternehmenspolitik in sozialökologischen Perspektiven, Marburg, Metropolis.

Pies, I./Blome-Dress, F. (1993): Was leistet die Unternehmensethik? - Zur Kontroverse um die Unternehmensethik als wissenschaftliche Disziplin, in: Schmalenbachs Zeitschrift für Betriebswirtschaftliche Forschung, Jg. 45, Heft 9, 748-768.

Rettberg, B. (1999): Der Unternehmensdialog als Instrument einer gesellschaftsorientierten Unternehmensführung. Theoretische Fundierung, empirische Untersuchung und Handlungsempfehlungen, Frankfurt a. M. et al., Lang.

Roloff, J. (2002): Stakeholdermanagement. Ein monologisches oder dialogisches Verfahren?, in: Zeitschrift für Wirtschafts- und Unternehmensethik, Jg. 3, Heft 1, 77-95.

Speckbacher, G. (1997): Shareholder Value und Stakeholder Ansatz, in: Die Betriebswirtschaft, Jg. 57, Heft 5, 630-639.

Steinmann, H. (1973): Zur Lehre von der „Gesellschaftlichen Verantwortung der Unternehmensführung". Zugleich eine Kritik des Davoser Manifests, in: Wirtschaftswissenschaftliches Studium, Jg. 2, Heft 10, 467-473.

Steinmann, H./Oppenrieder, B. (1985): Brauchen wir eine Unternehmensethik?, in: Die Betriebswirtschaft, Jg. 45, Heft 2, 170-183.

Steinmann, H./Löhr, A. (1995): Unternehmensethik als Ordnungselement in der Marktwirtschaft, in: Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung, Jg. 47, Heft 2, 143-174.

Steinmann, H./Schreyögg. G. (1982): Großunternehmung und gesellschaftliche Verantwortung. Der Fall Cabora Bassa, in: Die Betriebswirtschaft, Jg. 42, Heft 4, 515-531.

Steinmann, H./Schreyögg. G. (1991): Management. Grundlagen der Unternehmensführung. Konzepte, Funktionen und Praxisfälle, 2. Aufl., Wiesbaden, Gabler.

Ulrich, H. (1970): Die Unternehmung als produktives soziales System. Grundlagen der allgemeinen Unternehmungslehre, 2. Aufl., Bern/Stuttgart, Haupt.

Ulrich, P. (1987): Transformation der ökonomischen Vernunft. Fortschrittsperspektiven der modernen Industriegesellschaft, 2. Aufl., Bern/Stuttgart, Haupt.

Ulrich, P. (1997): Integrative Wirtschaftsethik. Grundlagen einer lebensdienlichen Ökonomie, Bern et al., Haupt.

Ulrich, P. (1999): Was ist „gute" Unternehmensführung? Zur normativen Dimension der Shareholder-Stakeholder-Debatte, in: Kumar, B.N./Osterloh, M./Schreyögg, G. (Hg.): Unternehmensethik und die Transformation des Wettbewerbs. Shareholder-Value - Globalisierung - Hyperwettbewerb. Festschrift für Professor Dr. Dr. h.c. Horst Steinmann zum 65. Geburtstag, Stuttgart, Schäffer-Poeschel, 27-52.

WCED (1987): Our common future, Oxford, University Press.

Weber, M. (1951): Die „Objektivität" sozialwissenschaftlicher und sozialpolitischer Erkenntnis (1904), in: Weber, M.: Gesammelte Aufsätze zur Wissenschaftslehre. Tübingen, Mohr, 146-213.

Wentges, P. (2000): Eine Stakeholder-orientierte Analyse der Berücksichtigung des Risikos im Rahmen des Shareholder Value-Konzeptes, in: Die Betriebswirtschaft, Jg. 60, Heft 2, 199-209.

Werhane, P.H./Freeman, R.E. (1999): Business ethics: the state of the art, in: International Journal of Management Reviews, Vol. 1, No. 1, 1-16.

Wicks, A.C./Freeman, R.E. (1998): Organization studies and the new pragmatism. Positivism, anti-positivism, and the search for ethics, in: Organization Science, Vol. 9, No. 2, 123-140.

Williams, R. (2004): Management fashions and fads. Understanding the role of consultants and managers in the evolution of ideas, in: Management Decision, Vol. 42, No. 6, 769-780.