Stakeholders Matter

A New Paradigm for Strategy in Society

SYBILLE SACHS and EDWIN RÜHLI



Contents

List of figures	page xii
List of tables	xiv
Foreword by R. Edward Freeman	xv
Acknowledgments	xvii
· ·	
1 Challenges for a new paradigm in strategic managem. The future of business in society: social and	nent 1
economic changes	1
Requirements for a new paradigm in strategic	
management	3
Historic nature of paradigms	3
Origin of the economic paradigm	4
Post-Enlightenment Capitalism	4
Multi-paradigm concepts to reflect reality	6
Our contribution to the stakeholder paradigm	6
Path toward a new stakeholder paradigm	8
Part I Development of the basic assumptions of a n	iew
stakeholder paradigm	11
2 The economic paradigm and its basic assumptions	13
The economic paradigm of the theory of the firm	13
What is the purpose of the firm and its underlying	
principle of value creation?	14
Who are the actors and who are the owners?	15
What are the main attributes of actors and their behavi	ior? 15
What are the conditions of the environment?	16
Final remarks	16
The strategy theory: general remarks	18
The strategy theory: the "Industry Structure View	
of Strategy" (ISV)	19

viii Contents

	What is the purpose of the firm and its underlying principle	
	of value creation?	20
	Who are the actors and who are the owners?	21
	What are the main attributes of actors and their behavior?	22
	What are the conditions of the environment?	23
	Final remarks on the ISV	24
	The strategy theory: the "Resource-based View	
	of Strategy" (RbV)	26
	What is the purpose of the firm and its underlying	
	principle of value creation?	27
	Who are the actors and who are the owners?	29
	What are the main attributes of actors and their behavior?	29
	What are the conditions of the environment?	30
	Final remarks on the RbV	30
	The economic paradigm revisited	32
3	Contribution of stakeholder theory to our understanding	
	of the stakeholder paradigm	35
	Descriptive dimension	35
	Who are the stakeholders?	35
	What is the interaction between the firm	00
	and its stakeholders?	38
	Our understanding from a descriptive perspective	40
	Instrumental dimension	41
	Stakeholders impact value creation	42
	Stakeholders create competitive advantage	42
	Stakeholder relations pay off	42
	Our understanding from an instrumental perspective	43
	Normative stakeholder dimension	43
	Economic normative foundation	44
	Social/philosophical, normative foundation	45
	Our understanding from a normative perspective	45
	Final remarks	46
4	The stakeholder paradigm	48
	The stakeholder theory of the firm	48
	What is the purpose of the firm and its underlying principles	
	of value creation?	48
	Who are the actors and who are the owners?	50
	What are the main attributes of actors and their behavior?	51
	What are the conditions of the environment?	52
	Final remarks	53

Contents

	Stakeholder Capitalism	53
	What is the purpose of the firm and its underlying principles	
	of value creation?	54
	Who are the actors and who are the owners?	54
	What are the main attributes of actors and their behavior?	55
	What are the conditions of the environment?	56
	Final remarks	56
	The basic assumptions for our understanding of the	
	stakeholder paradigm	57
	What is the purpose of the firm and its underlying	
	principles of value creation?	57
	Who are the actors and who are the owners?	59
	What are the main attributes of actors and their behavior?	60
	What are the conditions of the environment?	62
	The assumptions of different paradigms	63
	Part II Our understanding of the stakeholder paradigm	
	and its operationalization	71
5	Our understanding of the stakeholder paradigm	
_	operationalized in the three licenses	73
	Our claim for the stakeholder paradigm	73
	The economic paradigm in an endless series of constraints	73
	Challenging the dominance of self-interest	74
	The fundamental shift to mutuality in a network view	74
	Putting the paradigm into operation: the three licenses	76
	License as entitlement	76
	Licenses stimulate value creation	78
	Take another look at the Matterhorn	78
	Embeddedness in networks	82
	Stakeholder licenses	86
	Multiple roles of stakeholders	88
	Common dimensions of the three licenses	88
	Content of the licenses	89
	The cast of relevant stakeholders	89
	Contributions to value creation	89
	Value distribution	90
	Firm and stakeholder strategies	90
	Evaluation of mutual value creation	91
6	License to operate	95
,	The content of the license to operate	95

	The cast of stakeholders: society as an end and value	
	contributor, not as a constraint	98
	Mutual value creation with and for social and political	
	stakeholders	102
	Corporation perspective	102
	Stakeholder perspective	104
	Important benefit and risk potentials from the perspective	
	of the license to operate	105
	Value distribution to social and political stakeholders	109
	Strategies from the perspective of the license to operate	110
	Evaluation from the perspective of the license to operate	111
	Concluding remarks to the license to operate	113
7	License to innovate	114
	The content of the license to innovate	114
	The cast of stakeholders: from the resource-based view	
	to the resource owner view	115
	Stakeholders as resource contributors	115
	Stakeholders as providers of non-limited resources	118
	Stakeholders as direct and indirect resource contributors	120
	Stakeholders as voluntary and involuntary resource	
	contributors	121
	Mutual value creation	123
	The motivation of stakeholders to contribute resources	123
	The dynamics of resource contribution	125
	Value distribution to stakeholders from the perspective of	
	the license to innovate	128
	Strategy and core competencies from the perspective of the	
	license to innovate	129
	Evaluation from the perspective of the license to innovate	130
	Concluding remarks to the license to innovate	131
8	License to compete	133
	Content of the license to compete	133
	The cast of stakeholders: from the industry structure view	
	to the dynamic network structure view	133
	The nature of stakeholder networks	133
	The attractiveness of stakeholder networks	135
	Dynamics of stakeholder networks	138
	Mutual value creation: positioning in and among stakeholder	
	networks	139
	Forms of positioning	139

Contents xi

Benefit and risk potentials in stakeholder networks	140
Multiple roles of stakeholders	141
Positioning on the continuum between cooperation	
and confrontation	144
Value distribution to stakeholders from the perspective	
of the license to compete	145
Generic strategies from the perspective of the license	
to compete	147
Evaluation from the perspective of the license to compete	149
Concluding remarks on the license to compete	151
9 Challenges resulting from a paradigm shift	154
What are the main challenges for the required change?	154
What are basic change patterns and processes?	155
General principle of change	155
Gradual change	156
Fundamental changes	157
Three basic learning processes	158
Economic impacts	162
Requirements in the perspective of the license to operate	162
Requirements in the perspective of the license to innovate	163
Requirements in the perspective of the license to compete	163
Cultural impacts	164
Different levels of culture	165
Role of leaders	167
Structural and legal impacts	171
Structures and processes of firms and stakeholders	171
Distinctiveness and complexity of network structures	172
Governance systems and legal impacts	173
Epilogue	179
Appendix: Methodological considerations	181
Glossary	194
Notes	201
Bibliography	224
Index	269

Figures

All figures and tables in this book are our own illustrations, except where stated otherwise.

1.1	Structure of the current book	page 9
2.1	The firm and its environment	14
4.1	Perceptions of firms and stakeholders	62
5.1	Comparison of the economic and the stakeholder	
	paradigm	76
5.2	The Swiss view of the Matterhorn	79
5.3	The Italian view of the Matterhorn	80
5.4	The three licenses to analyze mutual value creation	83
5.5	Stakeholder networks	84
5.6	Evaluation concept	92
5.7	Key elements of the three licenses	93
6.1	Types of social and political stakeholders' contributions	105
6.2	Expected benefit and risk resulting from stakeholder	
	interactions	106
7.1	Benefit and risk potentials as perceived by managers	116
7.2	Types of stakeholder contributions	117
7.3	Possible contributions by stakeholders to core	
	competencies	131
7.4	Comparison between traditional RbV and the license	
	to innovate	132
8.1	Types of stakeholder contributions	143
8.2	Three generic strategies	147
8.3	The stakeholder network of Suva's New Case	
	Management	149
8.4	Stakeholder network of microfinance institutions (MFIs)	150
8.5	Focus on stakeholders in mutual value creation	150
8.6	Comparison between traditional ISV and the license	
	to compete	152

List of figures		xiii
9.1	Impacts of change processes	155
9.2	Structural differentiation in a stakeholder network	173
E.1	Mutual value creation in networks	180
A.1	Overview of the research process	186
A.2	Action research process: steps 1 to 5	188

Tables

2.1	Main theories of the firm	page 17
3.1	The most important stakeholders	36
4.1	Overview of the assumptions of the most	
	important paradigms and theories	64
6.1	Most important social and political stakeholders	101
6.2	Strategic activities based on similarities and differences	
	of stakeholder and firm perception of an issue	111
8.1	Benefit and risk potentials	142
9.1	Different leadership types in firms	168
9.2	The stakeholder paradigm and different	
	levels of governance	177