
INTRODUCTION

For more than a century the business corporation has been a successful and widely adopted institutional arrangement for creating and distributing wealth. But the power and purpose of corporations and of the entire corporate system has been continuously questioned and debated. The interaction between global economic growth and global social challenge has led to changes in the character and behavior of corporations and in public expectations about the role and responsibility of corporations within society. We believe these evolutionary developments have gone so far that a redefinition of the corporation is required, along with a reexamination of the means by which the benefits of corporate activity should be generated and distributed in the 21st century.

In this book we present the corporation as a collaboration of multiple and diverse constituencies and interests, referred to as *stakeholders*. Our *stakeholder view* of the corporation integrates stakeholder relationships within the firm's resource base, industry setting, and sociopolitical arena into a single analytical framework. Our central proposition is that *organizational wealth* can be created (or destroyed) through relationships with stakeholders of all kind—resource providers, customers and suppliers, social and political actors. Therefore, effective *stakeholder management*—that is, managing relationships with stakeholders for mutual benefit—is a critical requirement for corporate success. Progressive corporate leaders have long understood the value of listening

and responding to the concerns of their constituents and of the general public in order to take advantage of new opportunities and to anticipate and deal with problems before they become critical. Such activities are often described in terms of “enlightened self-interest.” Our analysis goes beyond this, however, to argue that specific stakeholder relationships are central to the creation (or destruction) of organizational wealth, and hence to the core purposes and operations of the corporation. Indeed, much of the focus among professional managers on “customer relationship management,” “supply chain management,” “intangible assets,” “balanced scorecards,” and so on rests explicitly on the proposition that the corporation is a network of interdependent people, organizations, and interests.

Our redefinition of the corporation rests on the maxim that “Corporations ARE what they DO.” In this book, we discuss three major companies that apparently developed a stakeholder perspective through their strategies, structures, and policies over the long term. Our aim is not to generalize from these field studies, but to examine the concept of stakeholder management through these particular experiences. We use the studies to show how some firms have evolved and implemented the stakeholder view to achieve financial and market success. The experiences of Cummins, Motorola, and Shell, considered over several decades, enable us to show where and how stakeholder management (or its absence) makes a difference in the business and institutional evolution of these firms.

This book is intended for scholars, students concerned with the role of business in society, and executives and management professionals concerned with the larger questions of corporate purpose and its contribution to society. We recognize that various readers will differ in their level of interest in parts of the text. But we believe the combination of theoretical analysis and empirical evidence is mutually reinforcing. We describe the three companies *only* as particular examples of the kinds of stakeholder relationships that arise in the actual practice of management. We believe that these examples substantiate our general conception of the stakeholder view.

In Chapter 1, we frame the debate about the definition of the corporation in its historical and current context. The modern case for redefinition of the

corporation rests, in part, on the inadequacy of the conventional “ownership” concept of the corporation, and the complexity—as well as the generality—of the relationships between corporations and their stakeholders. Chapter 2 analyzes the sources of organizational wealth, especially intangible assets and stakeholder relationships, and the critical role of trust in modern organizations. In addition, the “stakeholder view” is formally compared with the conventional resource-based and industry structure theoretical explanations for the relative success or failure of the firm. Chapter 3 introduces the three companies to which we have applied these conceptual lenses and describes the critical stakeholder relationships and issues that evolved in each of them over the past quarter century. The deeper analysis of these companies begins in Chapter 4 with a focus on the strategic role of values at Motorola and Cummins. The importance of developing and engaging stakeholders in response to competitive challenges is examined in Chapter 5. Chapter 6 focuses on Shell’s responses to societal challenges, particularly its experiences with the disposal of the Brent Spar oil storage facility and with political conflict in Nigeria. Chapter 7 examines how companies address stakeholder issues within the process of globalization through an analysis of corporate activity in China, currently one of the world’s most complex, challenging, and important business environments.

In Chapter 8, we examine the adaptive and transformational learning processes of the focal companies as they addressed stakeholder relationships and issues. Chapter 9 draws the analysis to conclusion, highlighting the “stakeholder journeys” of each company over several decades, and summarizing our conceptual and empirical conclusions. The book ends with our speculations about the relevance of the stakeholder view to the evolution of the so-called “new economy.”

We stress that this book is *not* about the political concept of a “stakeholder society” that has been the focus of discussion in the United Kingdom for some years, nor about the wealth redistribution proposal of the same name that has appeared in the United States (Ackerman and Alstott, 1999). These macro-level political and social analyses lie far beyond the scope of our work. Our analysis focuses exclusively on the characteristics and management of business

enterprises, particularly the large multinational firms that play a dominant role in the global economy. We believe that the ideas presented here are appropriate to firms operating in any democratic political system and under a wide range of ownership and taxation arrangements. Examples of the disastrous disregard of stakeholder interests by state-owned enterprises around the world (often within undemocratic political settings) suggests that new approaches to management are as necessary there as in investor-owned corporations.

The concept we present here is also different than the so-called “Asian management model” that attracted considerable attention in Western countries in the 1980s and 1990s. After much discussion in the management literature, it now appears that there is no single, generally accepted Asian management model. The turmoil in Asian economies during the late 1990s put an end to any notion that the practices of Asian corporations might insulate individual firms and entire economies from the instabilities and pressures of global competition. The idea that all corporations—especially global corporations—are converging toward common “best practices” in response to competitive and cyclical pressures, irrespective of their cultural heritage, is under active study and debate. We believe that practices that serve to enhance wealth *and* preserve legitimacy are likely to be adopted by corporations in the twenty-first century. In this context, the concept of *kyosei*—“working together for the common good”—developed by Ryuzabura Kaku, president and chairman of Canon, is broadly consistent with a stakeholder view of the corporation (Kaku, 1997). The *kyosei* concept does not appear to have been widely adopted by many other firms, Asian or otherwise, but it points to broadly consistent premises about stakeholder management.

SLOAN FOUNDATION PROJECT

This book is part of a larger project involving several hundred scholars from all over the world over a five-year period (1995–2000). The “Redefining the Corporation Project,” supported by a grant from the Alfred P. Sloan Foundation, focused on the stakeholder model of the corporation and its implications for management theory and teaching, empirical research, and business practice. The present volume is the final publication to emerge from this project.

The Clarkson Centre for Business Ethics, part of the Rotman School of Management at the University of Toronto, maintained the project's website and electronic communications network and served as its center of operations. The project conducted several invitational conferences and seminars, both in Toronto and elsewhere, and arranged and presented several programs at annual meetings of the Academy of Management, International Association for Business and Society, and Society for Business Ethics. The project also made a series of small research grants to individual researchers and small teams to encourage empirical work related to stakeholder analysis and management issues; many of these people were invited to make presentations relating to their work. The overall guideline for the project was the idea that the nature of the corporation should be discovered through observation of its characteristics and behaviors, rather than through abstract legal, economic, or philosophical reasoning.

The late Max B. E. Clarkson, founder and director of the Clarkson Centre, was one of the original partners in this project, along with Lee E. Preston and Thomas Donaldson. His rich experience as a highly successful entrepreneur and business leader, along with his keen intellect and broad academic background, shaped the project from the beginning and had a powerful influence on our research plan and on the present book. This book is dedicated to Max in recognition of his profound impact on the development of stakeholder research in both theory and practice, and on our own evolving views.

In addition to the current book, the project has produced four other publications:

Max B. E. Clarkson, ed. 1998. *The Corporation and Its Stakeholders*, University of Toronto Press. A collection of the most important previously published articles dealing with the stakeholder concept, as selected by the participating scholars.

Principles of Stakeholder Management. 1999. Clarkson Centre for Business Ethics, University of Toronto. This document includes a formal statement of seven key stakeholder management principles, with rationale and discussion, accompanied by two supporting essays.

Jeanne M. Logsdon, Donna J. Wood, and Lee E. Benson, eds., 2000.

Research in Stakeholder Theory 1997–1998. This publication contains a collection of reports on studies sponsored by minigrants from the project.

Business Ethics Quarterly, Vol. 12, No. 2, April 2002. A special issue devoted to Principles of Stakeholder Management and the Sloan Foundation project, edited by Thomas Donaldson.