

**A DYNAMIC MODEL OF STAKEHOLDER MANAGEMENT**

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### **ABSTRACT**

Firms and their stakeholders interact in ways that can change significantly over time. Existing descriptions of firm-stakeholder interactions account only partially for these dynamics. In this paper, we offer a multidimensional perspective on stakeholder management, outline four stakeholder management profiles, and explain why firms might shift from one profile to another. Propositions center on those external and internal forces that affect the speed and direction of a firm's evolving approach to stakeholder management.

Keywords: stakeholder management; task environment; multi-dimensional constructs

## A DYNAMIC MODEL OF STAKEHOLDER MANAGEMENT

*Stakeholder management* refers to the processes and behaviors by which a firm influences its relationships with its multiple stakeholders—constituents that affect and are affected by the achievement of its goals (Freeman, 1984). By studying the instrumental effects of these processes, we know a great deal about how different approaches to stakeholder management affect a firm's financial performance (Jones, 1995; Margolis & Walsh, 2003), and by studying the characteristics of stakeholder groups themselves, we have growing insights into the external forces that shape a firm's approach to stakeholder management (Mitchell, Agle, & Wood, 1997; Rowley, 1997). Despite these advances, however, we know little about how and why firms change their approach to stakeholder management over time. While many researchers have remarked on our need to understand firm-stakeholder interactions in dynamic terms, most have tended to treat stakeholder management itself as a static construct. We know intuitively that firm-stakeholder relationships evolve over time, and the approaches taken by firms in managing these relationships can change significantly. Sometimes, these changes are dramatic, as when a firm known for maintaining distant, even combative, relations with stakeholder groups suddenly attempts to engage actively with them and satisfy their interests. Other changes are incremental, as when a firm known for proactive stakeholder management gradually scales back its commitments. Slow or fast, these dynamics can have significant effects on a firm's viability. It is essential that we understand these dynamics more fully.

Two challenges have hindered efforts to explore the dynamic nature of stakeholder management. First, there is little consensus about what constitutes stakeholder management. More than twenty years after Freeman's (1984) seminal work on the subject, the programmatic statements of social science-based stakeholder research are clear: (a) that all firms have stakeholders; (b) that firms vary in the way they manage these relationships; and (c) that if firms manage these relationships well, they will outperform firms that do not (Brenner & Cochran, 1991; Jones & Wicks, 1999). Yet, the natural follow-on question remains largely unanswered: What does it mean to manage stakeholder relationships well? Researchers advise firms to

monitor stakeholder interests and communicate with them (Freeman, 1984), engage them in dialogue (Payne & Calton, 2003), and avoid opportunistic behavior toward them (Jones, 1995). More recent efforts to articulate the nature of stakeholder management offer a more extensive list of practices (Andriof, Waddock, Rahman, & Husted, 2003; Post, Preston, & Sachs, 2002; *Clarkson Center*, 1999). These revisions are a necessary step beyond canonical statements. However, the field still lacks a comprehensive model of what stakeholder management entails and what kinds of stakeholder management different firms employ in practice. Absent such a model, the few attempts that have been made to explain how these approaches change have rested on partial notions of stakeholder management (e.g., Jawahar & MacLaughlin, 2001).

A second challenge is the inferior role that research on the antecedents of stakeholder management has taken, when compared to other areas of inquiry in this domain. Of the three streams of stakeholder research identified by Donaldson & Preston (1995)—descriptive-empirical, instrumental, and normative—the first stream has received the least sustained attention, beyond the handful of articles that have attempted to explain how and why firms manage stakeholder relationships in particular ways (e.g., Rowley, 1997; 2000; Agle, Mitchell, & Sonnenfeld, 1999; Mitchell, Agle, & Wood, 1997). These authors point to a mix of structural and cultural factors that shape how managers think about stakeholder relationships. However, relative to the volume of research on stakeholder management's effects on firm performance (for a review, see Orlitzsky, et al., 2003), this stream remains underdeveloped. Existing work hints at the possibility that firms might change their approach to stakeholder management over time. After all, networks, resource imbalances, and even institutions change, and such changes can create unforeseen environmental jolts, which force firms and stakeholders to renegotiate the terms of their relationships (Meyer, 1982). To date, however, few efforts have been made to explain the external conditions under which such changes occur. The challenge remains, then, for stakeholder research to explore not only the antecedents of firm action toward stakeholders but also the patterns by which actions unfold over time.

In this paper, we address each of these challenges in turn, and in doing so, we extend descriptive-empirical stakeholder research by offering a dynamic model to account for how and why firms change their approaches to managing stakeholders. We devote the first two sections of the paper to exploring the nature of the stakeholder management construct and to building a more comprehensive typology of approaches. In the first, we identify four main dimensions along which these approaches vary, and in the second, we identify four ideal-type profiles engendered by variation along the four dimensions. In the third and fourth sections, we turn to the dynamic nature of firm-stakeholder interactions. We offer propositions explaining how and why firms shift from one profile to another. In particular, we attend both to the direction of these changes (i.e., which profiles naturally follow from others) and the speed with which firms cycle through them. We conclude with a discussion of the implications of our argument.

### **DIMENSIONS OF STAKEHOLDER MANAGEMENT**

Firm-stakeholder relationships are complex. It is no easy task to describe the disparate processes involved in managing the many relationships to which the firm is a party. To account for these processes under the cover of a single comprehensive concept, such as stakeholder management, is more challenging still. There can be little doubt that such a description, to be at all meaningful, must be a multidimensional construct, an abstraction tying together the several attributes which distinguish differing stakeholder management approaches (Law, Wong, & Mobley, 1998). Traditionally, at least in research on corporate social performance, the dimensions of stakeholder management have coincided with stakeholder groups themselves (Carroll, 1979; Waddock & Graves, 1997). A firm is said to manage its employees, suppliers, customers, and investors well or poorly (or proactively rather than reactively), and stakeholder management is the aggregate of how well a firm manages each relationship. In their comprehensive meta-analysis, Orlitzsky, Schmidt & Rynes (2003) identify this form of aggregation across stakeholder groups as the most common strategy for conceptualizing corporate social performance. Unsurprisingly, this approach also corresponds with the

categories of heavily used data sources, such as the Kinder, Lydenborg, & Domini ratings (Mattingly & Berman, in press). The breakdown is familiar, intuitive, and convenient.

We contend, however, that thinking of stakeholder management as the accumulation of separate relationships offers little theoretical sophistication. Treating each stakeholder as a dimension of the construct obscures the ways in which processes that firms undertake in managing a given relationship entail qualitatively different behaviors. Defining dimensions by group yields strange collections of activities all having the same subject (the firm), the same object (the stakeholder), but no unifying quality (Rowley & Berman, 2000). Firms that make unsafe products are lumped with those with poor customer service or unfavorable return policies as underperforming on the “customer” dimension. On the “employee” dimension, firms refusing to downsize employees during difficult economic periods differ only in the magnitude of their effect from the firm which publishes a particularly good employee newsletter. As problematic as aggregating such different behaviors along one dimension may seem, this approach also stumbles by ignoring those aspects of stakeholder management that affect multiple stakeholder relationships simultaneously. For example, while it is possible to identify communication strategies within different stakeholder relationships, there is no way to treat a firm’s approach to balancing conflicting stakeholder demands as existing within a given relationship rather than across multiple relationships (Johnson-Cramer, Berman, & Post, 2003). Ultimately, thinking of stakeholder management as the aggregate of relationships overemphasizes differences among stakeholders and oversimplifies what management of these relationships entails.

One alternative to treating stakeholders as distinct dimensions of the construct is to conceive of stakeholder management in behavioral rather than relational terms. Such an approach would focus on those behaviors that occur to varying degrees within or across a firm’s relationships. Thus, the behaviors themselves become the relevant attributes of a firm’s stakeholder management approach. For example, a firm that monitors its shareholders’ views through its investor relations office and frequently surveys customers about product performance clearly exhibits a high degree of sensitivity to or awareness of stakeholder interests. While firms

may engage in these behaviors to different degrees from stakeholder to stakeholder, the aggregate level of each behavior across stakeholder relationships is more theoretically meaningful in explaining many of the outcomes to which stakeholder management ostensibly relates. This behavioral approach has two additional advantages. It allows researchers to incorporate behaviors that affect multiple stakeholders simultaneously, and it encourages researchers to generate a comprehensive model rather than substituting the part (i.e. individual stakeholder management elements such as communication or honesty or equity) for the whole. There is a need for a more comprehensive typology of stakeholder management approaches that combine these many behaviors, and the extant literature offers many candidates. Based on our review of the literature, we suggest that approaches to stakeholder management vary along four behavioral dimensions. While we do not imagine that these are the only behavioral dimensions of stakeholder management, each has deep roots in existing research.

### **Engagement**

Firms vary in the degree to which their managers engage with stakeholders. Highly engaged firms monitor stakeholder concerns and communicate their own positions clearly. This idea of engagement has been at the center of the stakeholder management concept from the outset (Freeman, 1984), and recent studies continue to emphasize the use of formal and informal communication channels—the avenues by which firms engage with their stakeholders—as an important predictor of the quality of firm-stakeholder relationships (Lawrence, 2002; Morris, 1997; Rowley, 1997). The range of individual indicators of engagement in stakeholder relationships is enormous: newsletters, employee works councils, customer focus groups, community town meetings, active public affairs officers. In total, these mechanisms of engagement represent a firm's attempts to connect with important stakeholder groups, to insinuate the firm into denser networks with its constituencies, and along these connections flow opportunities to share information and engage in mutual influence (Rowley, 1997).

There also is reason to believe that firms will exhibit relatively similar levels of engagement in their various stakeholder relationships. Organizations differ significantly in their

cultural predispositions to adopt either internal or external orientations (Quinn, 1988). In stakeholder terms, this suggests that firms will tend either to focus their attention outwardly toward various stakeholder groups or to maintain an internal orientation focused on operations and internal politics. Some evidence for this sort of uniformity exists in the recent advances in corporate social reporting, where some firms have started to develop mechanisms for communicating information to external constituencies. From firm to firm, social reporting tends to be “all or nothing”, meaning that most firms will either target several constituencies at once (i.e., customers, employees, suppliers, and local communities) or ignore the practice altogether in favor of traditional financial reporting. A second trend supporting the tendency to adopt uniform levels of engagement is the convergence of information gathering and engagement strategies across stakeholder relationships. Companies today often apply formal market research approaches to the study of employee attitudes, and they extend familiar “town meeting” formats, so popular as an employee communication device, to external constituencies. Indeed, popular management practices such as the “balanced scorecard” approach urge managers to attend to multiple constituencies and to adopt similar measurement strategies across these relationships (Kaplan & Norton, 1996). This convergence of techniques and strategies makes it natural for those firms which were already highly engaged externally to increase their stakeholder engagement while firms without experience with these techniques to remain disengaged.

### **Contest**

Firms vary in the degree to which managers deliberate and consider various stakeholder claims when formulating policies and making decisions. Unlike engagement, which describes the quality of firm-stakeholder interactions, contest concerns how managers interact with each other, and it focuses attention on the procedures by which firms integrate the various claims on a firm. In his study of firm policy-making concerning pension rights, Johnson-Cramer (2003) described high contest companies as exhibiting more representation of multiple stakeholder interests and freer expression of pro-stakeholder opinions in their decision-making processes. In this sense, contest among varying stakeholder interests is essentially a more specific facet of

decision-making behaviors identified by students of strategic decision making. Their work emphasizes *conflict*, the general amount of dissent and disagreement in the strategy formulation process (Dean & Sharfman, 1996). Myriad issues can produce conflict in a decision process, and not all have particular stakeholder interests underlying them. In many cases, decision makers agree on the ultimate stakeholder interests they wish to satisfy and merely disagree about the means by which the firm can best satisfy them (Eisenhardt & Bourgeois, 1989). Thus, insofar as the relative priority of stakeholder interests remains open to debate and plays some role in the policy making process, it can be said to encompass a relatively high level of contest.

While contest has not been as central to the study of stakeholder management as engagement has, it remains an implicit concern, particularly in the common demands for stakeholder representation in the corporate governance process (Luoma & Goodstein, 1999). Contest and representation are not synonymous. Firms may, after all, exhibit contest among multiple perspectives even where no stakeholder group member is involved in the discussion. Likewise, even where direct stakeholder representation occurs, it is no guarantee that decision processes will evidence much explicit consideration of multiple stakeholder interests (Hammer, Currall, & Stern, 1991). However, the implicit assumption made by advocates of representation is that the presence of members or representatives of a stakeholder group in the decision making process will certainly increase the likelihood that these interests will be voiced and even incorporated into a firm's policies.

### **Specificity**

Firms vary in the specificity of their policies for and commitments to stakeholders. Specific policies set clear standards, rules, and measures by which the firm intends to satisfy stakeholder claims. At one extreme, we can imagine a company with very specific policies in place concerning how stakeholder groups are to be treated. Customer bills of rights, detailed environmental standards, and clear employee grievance processes all indicate a level of specificity about a firm's commitment to a given stakeholder group. By contrast, firms which suggest that "employees are our greatest asset" or "we put our customer first" without detailed

policies supporting these commitments exhibit low specificity. Even in his earliest attempts to explain the stakeholder concept, Freeman (1984; Emshoff & Freeman, 1981) recognized a tendency to resort to generic descriptions of stakeholder interests and equally generic approaches to satisfying them. There is a tendency to treat groups such as employees and local communities as monolithic categories. Firms with specific policies have overcome the pull of the generic and addressed claims in concrete terms, making their commitments plain and explicit.

Two caveats suggest themselves here. First, specificity is a substantive dimension of stakeholder management. As such, specificity should not be confused with engagement or contest. Where the latter two dimensions concern how firms make policies—they are the procedural dimensions of stakeholder management—specificity describes the content of the policies themselves, though highly specific policies might include procedures by which they are to be implemented (e.g., grievance mechanisms). Second, there is no underlying value judgment involved in labeling a firm's approach to stakeholder management low in specificity. After all, at its best, specificity allows a firm to avoid the costs that occur when stakeholders perceive the possibility for opportunistic or dishonest behavior (Jones, 1995). However, in some cases, having a policy that is somewhat vague allows flexibility in implementation, which might permit greater fairness. Throughout this paper, we are concerned that the dimensions discussed here cover all approaches to stakeholder management, including those that might prove unacceptable to normative stakeholder theorists.

### **Breadth**

Firms also vary in the *breadth* of their stakeholder policies. While a firm's policies may be very specific, they may or may not recognize a broad range of stakeholder demands. Since Evan & Freeman's (1993) seminal contribution to the normative stakeholder literature, the distribution of value among stakeholders has been a central concern of stakeholder research. If, as some have posited (cf. Donaldson & Preston, 1995), stakeholder theory is rightly framed in contra-distinction to the stockholder theory of the firm, then an important dimension of stakeholder management (though not the only dimension; Phillips, 2003) is whether the firm

privileges a narrow range of stakeholder interests or recognizes a broad range of interests.

Perhaps the simplest way to capture variation along this dimension is to define a policy's breadth as the proportion of stakeholders receiving benefits in excess of their contribution or costs, (i.e. where the ratio of return to contribution is greater than 1) from that policy. In aggregate, a firm with a broad approach to stakeholder management will tend to have more policies that allocate value evenly across stakeholder groups.

As mathematically simple as breadth may appear, it requires an additional point of clarification. Stockholders are not the only possible beneficiary of narrow stakeholder management. A firm may narrowly focus its benefits on any particular stakeholder group; indeed, varying ownership structures privilege very different stakeholder groups (Easterbrook & Fischel, 1991). As we discuss in greater detail below, there are surely companies that privilege a different stakeholder. We can imagine a firm, for example, that makes decisions with its customers as the paramount claimant. Such a company might, for example, drive down costs in order to offer the lowest possible prices, even where other stakeholders, such as employees, communities, even investors, may be adversely affected by low wages, declining social capital, and even the risk of lawsuits. As such, the broad-narrow distinction is of less use to normative stakeholder theorists, who are primarily concerned with the traditional stockholder-stakeholder debate, than to descriptive-empirical stakeholder researchers, who realize that narrow policies are likely to have similar effects regardless of which stakeholder receives most favored stakeholder status. We treat this dimension more generically because our interest lies in the antecedents and effects of a firm's decisions about how to allocate value to satisfy multiple stakeholder claims.

### **Combining the Dimensions**

What remains in this section is to discuss how these dimensions fit together. Law, Wong, and Mobley (1998) bemoan the fact that few organization theorists consider the ways in which the dimensions of a multidimensional construct combine. The simplest answer to this question would, of course, be to treat these dimensions as either summative or multiplicative.

Some have, indeed, imagined that firms can evidence more or less (even good or bad; Waddock & Graves, 1997) stakeholder management. Of course, the difficulty involved should be self-evident. It is arbitrary to say that a firm that engages well with stakeholders but distributes value narrowly exhibits “more” or “better” stakeholder management than one with low engagement and high breadth. More appropriately, we may imagine this to be a construct whose dimensions do not combine in an algebraically meaningful way (e.g., by addition or multiplication) but rather comprise semi-independent attributes—a situation that clearly calls for a profile construct (Law, et al., 1998). As Law and associates suggest, popular profile constructs in organization studies include the Myers-Briggs type indicator, which categorizes personality types by locating individuals along four largely independent dimensions.

We suggest that firms exhibit different types (profiles) of stakeholder management defined in terms of the four separate dimensions. To notate these profiles in relatively simple terms, we start with the presumption that, in the aggregate, firms exhibit either high or low levels of each dimensions, and these levels can be represented using either a capital or small letter corresponding with the dimension. Thus, a firm may exhibit a high level of engagement (E) or a low level (e). If we categorize a firm on each of the dimensions, we produce a profile such as **ECsB**, which indicates that the firm exhibits a high level of engagement, a high level of contest, a low level of specificity, and a high level of breadth. This produces sixteen possible profiles.

### **STAKEHOLDER MANAGEMENT PROFILES**

It is possible to imagine firms that exhibit any of the sixteen possible stakeholder management profiles (see Figure 1); but not all sixteen profiles are equally likely. To simplify our typology of stakeholder management profiles further, we make two assumptions grounded in recent research on stakeholder management and organizational decision making (Dean & Sharfman, 1996; Eisenhardt & Bourgeois, 1988; Johnson-Cramer, 2003). First, we assume that firms that engage to a great degree with their stakeholders tend to produce broader stakeholder policies. Exposure to the actual interests of stakeholders allows managers to recognize possibilities for mutually acceptable tradeoffs by which a broader range of claims can be

satisfied. Moreover, even as greater engagement insinuates a firm into a denser network ties within its stakeholder set, the firm opens avenues for these groups to pressure and influence policy-makers (Rowley, 1997; 2000). Thus, we assume that profiles where engagement and breadth correlate will be more likely than those where these dimensions move independently. Second, firms that exhibit high degrees of contest tend to produce more specific policies. The give-and-take of high contest discussions forces managers to make finer distinctions in their policies, and these will tend toward more rather than less specific policy content.

Based on these simplifying assumptions, we suggest that four of the possible sixteen stakeholder management profiles are the most common ideal types: **ECSB, eCSb, EcsB, and ecsb**. For simplicity's sake, we refer to these types as, respectively: activist, paternalist, pluralist, and functionalist. In this section, we discuss each of these profiles briefly then offer, in the next section, theoretical explanations for how and why firms move among these types over time.

#### **Activist Stakeholder Management (ECSB)**

The activist profile is so named because it generally describes a firm that actively manages its various stakeholder relationships and creates policies that address their multiple demands on firm resources. An activist firm exhibits a stakeholder management profile that is high on all four dimensions. Such a firm would monitor and communicate with stakeholder groups, represent their interests during internal deliberations, and produce specific policies that distribute value to a broad range of stakeholder groups. Many exemplars of activist firms would be familiar to students of corporate social responsibility, who often advocate elements of activist stakeholder management (Wood, 1991). These might include The Body Shop in the 1980's, Ben & Jerry's in the 1990's, and Whole Foods Markets in recent years. However, despite their association with notions of responsible business, we do not intend to say that the activist profile is either intrinsically moral or instrumentally superior. One might, for example, see some activist behaviors as overly risky, endangering the long term viability of the firm. Generally, there might be intermediate points on any of these dimensions and external contingencies that

weigh against an activist approach. As we suggest below, activist stakeholder management is rarely a permanent state, and few firms remain activist throughout their existence.

One of the most familiar illustrations of an activist profile is the Vermont ice cream manufacturer, Ben & Jerry's, especially as it was managed by its founders during the mid-1990's. The firm's efforts at engagement were extensive and consistent across many stakeholder groups. Management frequently engaged with customers through novel avenues, soliciting advice on new flavors and even letting customers participate in the search for a CEO. The firm also went well beyond the standard communications with shareholders concerning the release of financial data. Annual shareholder meetings were extensive affairs in which questions from the audience were actively encouraged. These stakeholder interests also factored highly into the internal discussions at the company; by virtue of the ownership stake held by Ben & Jerry themselves, social concerns were frequently discussed alongside business concerns in top management meetings. The policies produced were broad in distributive orientation. For example, the company demonstrated a consistent concern for the welfare of their suppliers—particularly the family farms in Vermont that provided dairy products. The company promoted favorable policies, including paying premium prices to these and other suppliers, broadly distributing value among stakeholder groups. The firm's policies were also inordinately specific. For example the company committed itself to a cap on salary ratios between the highest and lowest paid employees of 5:1 until 1993. They offered specific percentages of revenue to nut suppliers in developing countries. In sum, the firm exemplified an activist approach characterized by high levels of engagement, contest, specificity, and breadth.

### **Paternalistic Stakeholder Management (eCSb)**

The paternalist approach is so named because it envisions a firm in which decision making is done in isolation from stakeholder input and imposed outward with clear, specific implications. It is mainly characterized by internal discussion and contest over how stakeholders should be treated. This give-and-take produces highly specific stakeholder policies. However, in the absence of information and pressing demands by stakeholders—who lack any avenue for

voicing their concerns to the paternalistic firm—the policies, though specific, tend to allocate value narrowly among stakeholder groups. Indeed, by virtue of its relative distance from even its most preferred stakeholder group, the firm tends to impose its perceptions of its stakeholder groups needs on them. Here, again, we refrain from moral judgment, as a firm with narrow but specific policies at least allows stakeholders to predict accurately how the firm will behave toward it (and to act accordingly). Yet, as with the activist approach, paternalistic stakeholder management should not be seen as a particularly stable profile. The seeds of change are sown in the fact that stakeholders may ultimately find effective influence strategies for making firms attend more actively to their claims (Frooman, 1999).

To illustrate the paternalistic approach we highlight Wal-Mart's strategy from the mid-1990's. Wal-Mart had an extremely narrow set of stakeholders with which it was concerned, limited to customers and, secondarily, shareholders. The company's slogan illustrates this emphasis perfectly: "Everyday low prices." This narrow distributional pattern was apparent also in the cutthroat practices the company employed in negotiations with suppliers, wielding its purchasing power to bring lower prices to customers. Similarly, Wal-Mart has faced criticism for its treatment of employees. To say that Wal-Mart privileged the claims of customers over other stakeholders, however, is not to say that the company had a high level of engagement with customers—or any other stakeholder group. The company did not engage actively with consumer groups, including those who were protesting many of its practices that played into providing lower prices (*Fast Company*, 2005).

### **Pluralist Stakeholder Management (EcsB)**

A pluralist approach is so named based on the high levels of openness to multiple stakeholder perspectives that is its most distinguishing feature. A firm employing a pluralistic approach encourages high levels of stakeholder engagement by opening multiple channels of communication that are bi-directional and open. Stakeholders interacting with pluralistic firms will feel "listened to", especially in the early stages of a firm's policy-making processes. Aware of these multiple interests, the firm will likely create policies that reconcile these interests

effectively and, thereby, evidence relatively broad allocations of value across stakeholder groups. Taken together, these features represent the two most commonly prescribed features of stakeholder management. However, upon close inspection many of the policies of the pluralistic firm may lack specificity. A commitment to corporate philanthropy might lack clear goals or explicit targets for annual giving. Commitment to employees may not transcend general platitudes, and codes of conduct may include little attempt to specify either the exact meaning of the company's values or the consequences of undesirable actions. These gaps in specificity correspond neither with a lack of awareness of stakeholder needs nor with an aversion to incurring the costs associated with allocating value broadly across stakeholders. Instead, they reflect the fact that the firm's leadership has, for whatever reason, not engaged in the high contest decision making processes necessary to produce specific policies.

The pluralist approach is evident in the stakeholder management approach at Hewlett-Packard (HP) in the years prior to Carly Fiorina's appointment as CEO. The firm sought to engage its stakeholders and encouraged extensive cross-boundary communication. This included efforts to engage employees, the local community, groups representing the various countries it worked in around the globe, and supplier groups. These efforts at communication were matched by resource outlays, including a significant amount of corporate philanthropy—an obvious indicator of a broad distribution of value. However, many of the company's policies during this period lacked specificity. For example, HP's code of conduct for interacting with suppliers is merely an industry standard code relating to suppliers rather than being specific to HP's suppliers (HP, 2005). In part, this may have stemmed from a hesitancy to make decisions that might have made policies more specific. The premium that the HP culture put on consensus decision making slowed efforts at reorganizing the company's sprawling divisions by soliciting input from affected employees instead of directing the rationalization of division from above guided by those with a holistic sense of how the organizational pieces fit together. Ironically, widespread agreement about the so-called "HP Way", a set of core company values, might have stifled contest over stakeholder claims (*Highbeam*, 2005).

**Functionalist Stakeholder Management (ecsb)**

The functionalist profile involves low levels of all four behavioral dimensions of stakeholder management. This profile receives its name because such firms seem to operate on a limited model in which activities are restricted to the minimal functions of business. Such an approach reflects the mutual reinforcement that all four dimensions can have on each other. Functionalist firms engage in limited communication with stakeholder groups, often prompted by immediate crises. Management is concerned with only a narrow set of stakeholder claims (typically shareholders). Consumers and employee needs, for example, might be taken into consideration only as they relate to shareholder wealth maximization. In this profile, decision processes exhibit low levels of contest, as decision-makers focus on the relative contribution of their function to the achievement of the firm's relatively narrow goal set. This corresponds with relatively vague policies regarding stakeholders, as managers have little incentive to revisit or revise stakeholder-oriented policies. To some, it would appear that firms fitting into the functionalist profile follow a pattern that can best be termed "stakeholder neglect".

Critics might argue that the functionalist approach to stakeholder management has been the dominant approach taken by many companies from the rise of the corporation through the 1990's. While we recognize a greater diversity of profiles, we illustrate the profile with reference to Royal Dutch Shell. For many years, Royal Dutch Shell operated as holding company, loosely coordinating activities among its various country operations, and employed a very narrow focus on shareholders. Decisions about dealing with stakeholders, including primary stakeholders like employees, were made at the country level, leading to an inconsistent approach to engagement, breadth, contest, and specificity across national subsidiaries. At the corporate headquarters, the executives of Royal Dutch Shell largely stood above any conflicts that arose between stakeholders at the local level and subsidiary management. Where the company claimed to engage with stakeholder groups—these included environmental activists and local communities in several parts of the world—the engagement process was extremely limited. The company avoided contact with particularly strident opponents (e.g., Greenpeace)

and tended to engage in fairly unidirectional communication with stakeholder group members. As Post, Preston, and Sachs (2002:143-44) portray the company as of the early 1990's, prior to a series of external jolts, its management approach was "fragmented", "locally focused", evidenced "limited external involvement", and focused almost exclusively on improving return on investment. Thus, Royal Dutch Shell exemplified the sort of narrow and disconnected stakeholder management approach described by the functionalist profile.

In sum, we have responded to the first of two tasks: the development of a more comprehensive typology of stakeholder management approaches. The four profiles described here represent ideal types, approaches that firms take in managing their relationships with their various constituencies. In the second half of the paper, we turn to the second task and advance a model explaining how and why firms move among these profiles over time. We divide this task into two stages. In the next section, we argue that firms tend to follow a set progression among these profiles. This progression is, to no small degree, driven by forces inherent to the stakeholder management profiles themselves. As a given profile grows unstable, the firm naturally moves toward the next profile in the progression. Having examined the direction of this progression among the four profiles, we turn our attention to the external and internal forces that affect the rate at which firms move through this cycle.

### **THE DIRECTION OF PROFILE CHANGE**

A starting point for understanding patterns of movement among stakeholder management profiles is to revisit prevalent assumptions about why firm-stakeholder relationships change. Existing theories posit a wide range of structural, institutional, and political forces that determine a firm's approach to stakeholder management. Ostensibly, any change in this complex system of forces can jolt a firm into changing its approach. As certain stakeholder groups grow in power, legitimacy, and urgency, for example, so the focal firm becomes more likely to alter the priority it accords those groups (Mitchell, et al., 1997). As firms themselves go through different phases of the organizational life cycle, they expose themselves to different levels of resource dependence and, thereby, encounter greater need to become active in relating to external

constituencies (Jawahar & Mclaughlin, 2001). These are important insights, and as we envision stakeholder management in a more comprehensive way, we may find that these factors play a more complex role in shaping the patterns of movement among profiles. However, we must also entertain the possibility that movement among profiles cannot be traced unambiguously to a simple set of extrinsic factors—be it the environment or the nature of the firm.

An alternative line of reasoning is to assume that stakeholder management approaches have their own causal power, their own internal logic or momentum which shapes the possible approaches that managers can choose in response to changes in internal and external environments. This stands to reason, given the totality of the construct we have advanced so far. Stakeholder management profiles represent the entirety of a firm's connections to and deliberation about the external world; they encapsulate the clarity and breadth of a firm's existing substantive commitments to these constituencies. Why should we devote serious attention to studying a firm's stakeholder management approach without expecting that it will play a central role in shaping the processes and policies that the firm will adopt in the future? In this sense, these profiles engender a form of path dependence, whereby their character limits the possible approaches the firm can choose in the future (Arthur, 1989). Path dependencies often originate outside the firm, in the coercive and normative pressures exerted by states and professions (Scott, 2001; Rao, 1998). However, as Greve (2000) illustrates in his study of Japanese banks, decisions made by managers in earlier periods—in this case, the choices involved the geographical location of branches—can attain momentum that generates path dependence as readily as external forces. If we ask why firms adopt a given profile, one explanation lies in the profile which immediately preceded it.

The model presented in Figure 1 summarizes the direction of profile change based primarily on transitions from one profile to another. Before elaborating the stages of this model, it is important first to discuss the mechanisms that effect path dependence and, thereby, drive the transitions among the profiles. We choose to focus on three mechanisms, in particular. This is not an arbitrary choice. The notion of path dependence, described to this point, rests on the idea

that certain patterns of behavior become institutionalized at the firm level. These particular patterns, identified here as stakeholder management profiles, perform a very specific function: to allow the firm to reconcile complementary and conflicting demands on the firm by constituencies of varying power and legitimacy. These profiles describe forms of policy-making, and as with all policy-making systems, their stability depends on the quality of information they elicit from constituencies, the degree to which they represent various claims during the policy-making process, and the satisfaction their policies engender (Easton, 1965; Eckstein & Gurr, 1975). Since our concern is with the stability of these profiles and the type of profiles that likely replace them when they fail, we pay particular attention here to the information, representation, and satisfaction effects elicited by the varying approaches to stakeholder management.

**Information Effects.** A firm's current stakeholder management approach shapes the amount and quality of information that managers receive about the outside world. As we have suggested above, a firm's level of engagement directly affects the number of external ties the firm maintains to stakeholder groups, and these ties serve as information channels by which managers can learn about stakeholder interests, claims, and priorities (Rowley, 1997). At one extreme, very low levels of engagement increase the risk that a firm will grow out of touch with stakeholder issues. At the other extreme, communication ties to external constituents can become burdensome on managers. Network theorists have long recognized the potential for highly connected, or central, actors to experience information overload. Firms which engage too heavily in communication with stakeholders may find themselves overwhelmed by the volume of information and unable to make rational decisions, especially in the face of shifting stakeholder expectations (Frederickson, 1984). It seems possible that there might be some equilibrium point of information flow at which the firm can make a fairly rational assessment of which stakeholder management approach to adopt, *ceteris paribus*. However, the presence of either a dearth or glut of information about external demands is a challenge to the decision process.

**Representation Effects.** A second effect that a stakeholder management profile can have is on the internal decision processes of the firm. The process of contesting stakeholder

claims that we have described has a significant effect on how strategic decision makers interact and define their identity. In his study of pension plan controversies, Johnson-Cramer (2003) found that managers in high contest firms adopt different strategies for representing the sometimes unique perspectives of stakeholder groups internally. How managers effect this translation and how others react to these representation strategies can produce extreme levels of anxiety and conflict (Jehn, 1997). Thus, while contest's primary effect may be to produce policies that more specifically address stakeholder claims, it also has notable secondary effects. First, a firm whose managers engage in a great deal of contest is likely to experience a growing amount of emotional and interpersonal strain, which might well motivate managers to back away from contesting stakeholder perspectives as time passes. Second, a high contest firm, in which the representation of particular stakeholder interests becomes a central feature of the decision process, is more likely to develop functions to support this. For example, consider both the rise of human resource functions in response to civil rights legislation in the 1960's (Dobbin & Sutton, 1998) and the growth of public affairs divisions, especially in regulated industries (Greening & Gray, 1994). In each case, while external pressures created the impetus for professionalization, its diffusion among firms depended on the internal desire for someone to make sense of ambiguous external claims, and this desire was likely greatest at those firms already evidencing high contest in their decision processes. Over time, though, professionalized internal representation can decrease contest as line managers define their own identity in contrast to the professional representatives and become less inclined to represent these stakeholder interests themselves. Contest also rests more heavily on the professional representative's ability both to maintain connections to the external constituency and to garner political status in the firm. Here, again, we encounter the ambivalent nature of representation, which might rise and fall around an elusive equilibrium point.

**Satisfaction Effects.** One of the most important direct effects a firm's policies is the degree to which stakeholder group members are satisfied with how the focal firm treats them. The notion of satisfaction has been central to stakeholder research from the outset (Freeman,

1984; Jones, 1995). The relationship between a focal firm's approach to managing these relationships and satisfaction is certainly more complicated than we can dress here. However, three important considerations inform the progression outlined in the model. First, because stakeholder interests can be either complementary or conflicting, not every stakeholder group is equally satisfied with every firm policy. Except in the possible case of perfect equality, any distribution of value across stakeholder groups is likely to produce a division between the most favored stakeholder(s) and other groups. Because stakeholder groups act, at least in part, to safeguard their interests (Rowley & Moldoveanu, 2003), inequities are likely to be an ongoing impetus for change. Second, as Jones (1995) posits, stakeholder group members react adversely not only to the material rewards that they receive but to the perceived procedural fairness evidenced by firm behavior. Contracting processes are characterized by efforts on both sides not only to gain a promise of material but to ensure, with a greater measure of certainty, performance of the promise. Thus, stakeholders are unlikely to be satisfied merely with the promise of broad allocations but to seek some certainty that the firm will continue to deliver in the future. Third, stakeholder claims rarely remain static and usually do not decrease over time. Investors rarely ask for lower returns, and employees rarely ask for salary cuts. Watchdog organizations are rarely satisfied with having gotten a firm to change a single policy. In general, stakeholder management profiles elicit very different combinations of stakeholder attitudes, and in turn, these satisfaction effects require firms to adopt profiles better suited for satisfying stakeholder claims.

Together, the information, representation, and satisfaction effects serve as important mechanisms by which an existing profile can both spur and direct change in a firm's stakeholder management profile. As we have suggested in describing them above, each profile contains within it the seeds of its own instability. Each makes clear demands on the information processing, political unity, and stakeholder satisfaction of a firm, and when the firm proves unable or unwilling to bear these pressures (for reasons addressed in the next section), the information, representation, and satisfaction effects dictate which profile is likely to ensue. What remains is to understand the proposed order of transitions suggested by the model.

**Activist → Paternalist**

For many observers, the activist profile is the pinnacle of responsible and responsive firm behavior (Wood, 1991). Yet, the profile is unstable precisely because it places such strong demands on the firm to make consistently equitable policy through informed and contested deliberation. The effects of these demands are rarely sustainable. High levels of engagement overwhelm the information processing capabilities of the firm. This can become especially acute as the need to maintain communication ties to constituents devolves to a smaller subset of managers engaged in representation activities. The continuing growth of stakeholder expectations also means that some initiatives, however well-intentioned, will eventually fail to meet expectations. Stakeholders rarely meet expectation failure with inaction, and their external influence efforts exacerbate the instability of the firm's already overburdened policy-making apparatus. Finally, while the activist firm allocates value broadly, this cannot preclude the fact that some groups possess the power to impose their demands on the firm (Frooman, 1999), and it is only a matter of time before some pressure managers to favor their interests over others.

The instability of the activist approach does not, however, merely leave managers to choose another approach willy-nilly. Rather, the combination of external pressures and internal predispositions yields only one likely outcome for this transition. For, were the firm to be unaware of the external picture, it might well choose to decrease the level of contest somewhat, ease the burdens on policymakers, and ultimately fall back to slightly less specific policies in the interests of maintaining its broad orientation. Ignorance of political realities might allow it to adopt a pluralist rather than a paternalist approach. However, a high engagement firm is not in a position to ignore the external picture. The information and influence, which flow over these network ties, make demands for more narrow policies loom large in management thinking and create great pressure for the firm to move from high breadth to low breadth. At the same time, in response to information glut to which high engagement firms are liable, the presence of an internal representative of stakeholder claims begins to substitute for actual ties with stakeholders and allows a shift from high engagement to low. Thus, taken together, the information overload,

the professionalization of representation, and the push for narrower allocation of value by power and dissatisfied stakeholders make the transition from activist to paternalist profiles likely.

*Proposition 1. Firms exhibiting an activist approach to stakeholder management will most likely transition to a paternalist approach.*

Ben & Jerry's, which took an activist approach throughout the 1990's, offers an equally clear illustration of this transition. The firm's high breadth policies fueled growing stakeholder expectations, and several incidents illustrate how difficult it is to satisfy those expectations consistently without falling prey to both information and satisfaction effects. An initiative to supply pig farmers with ice cream waste products led to a higher death rate among these swine and a higher fat content among those that survived to slaughter. Safety concerns arose over contaminants in South American nut supplies obtained as part of an effort to preserve rainforests. In each case, the high degree of engagement overwhelmed the small firm's ability to process important information needed to prevent these issues. The firm also faced criticism in its choice of a new CEO, when the need to attract a new CEO (in a tight market for executive talent) pressured the firm to remove its salary ratio cap. In time, Ben & Jerry's reduced its claims to engagement and breadth, though high contest remained a feature of board level meetings, where the firm's founder, Jerry Greenfield, took an active role in advocating social causes. With the takeover of the firm by Unilever in 2004, the complete break from engagement and breadth seems complete. At this time and in the absence of visible engagement, it is difficult to know whether internal contest continues and even whether firm policies are particularly specific. Yet, contingent on the answers to these questions, we might find that Ben & Jerry's has actually continued on to the next step of the model.

### **Paternalist → Functionalist**

The paternalist profile's instability traces to the fragility of high contest interactions and highly specific policies in the absence of engagement and breadth. The tensions engendered by high contest policy-making are difficult enough to maintain when managers are engaged with stakeholders. In those cases, managers may overcome the emotional strain of representation

because of their close connections to constituents. The paternalist firm lacks these connections. Its natural response to conflict-laden processes is to shift into lower contest decision making. We might expect, for example, to see professional representatives becoming marginalized or adopting more instrumental attitudes toward their constituency (Dobbin & Sutton, 1998; Berman, Wicks, Jones, & Kotha, 1999). At the same time, the dearth of information created by low engagement allows the paternalist firm to grow out of touch with shifting stakeholder demands. This not only lessens the potential for high contest but also allows policies to grow less specific. Policies that once satisfied stakeholder concerns (however narrowly defined they are in low breadth firm) and offered precise prescriptions for firm action grow increasingly less aligned with the realities they are meant to address. Confronted with the possibility of reverting to activism with its attendant external demands and internal tensions, the firm naturally pursues a course of continued isolation that is, at the same time, characterized by less internal tension.

*Proposition 2. Firms exhibiting a paternalist approach to stakeholder management will most likely transition to a functionalist approach.*

To understand Wal-Mart in light of this proposition, we must remember that, for many years after its founding, Wal-Mart maintained an activist approach (Bradley & Ghemawat, 1994). It had very specific policies in support of its customers and employees, and these policies were the natural result of being highly engaged with its typically rural, working class demographic. Its “Buy American” policy was a specific effort to support its customers and their community, and its policy of hiring retirees had similar intentions. Above all, its mission to give its customers the things they could not otherwise afford translated directly into its specific pricing policies. As the firm drifted into a paternalism approach in the 1990’s, its distribution of value was sharply narrowed, but it did not jettison those specific policies designed to benefit customers. However, in time, as the firm’s growth brought a wider range of customers, what appeared to be a specific set of policies. Some (such as its “Buy American”) were eliminated and other became far more generic (“Everyday low prices”). Internally, the zeal of founder Sam Walton, a driving force for the paternalist profile, may also have yielded to the instrumental

mentality of professional HR managers. Unsurprisingly, after less than a decade of functionalist stakeholder management, Wal-Mart has recently embarked on widely publicized efforts to connect with those concerned with corporate social responsibility, to engage with public policy makers through an expanded public affairs function, to burnish its record on employee relations, and to enforce greater responsibility among overseas suppliers. These suggest that the functionalist phase that started in the mid-1990's may be coming to an end as the firm undertakes the next natural transition.

### **Functionalist → Pluralist**

The transition away from a functionalist approach begins with stakeholder dissatisfaction. In some cases, the stakeholder group becomes dissatisfied because the functionalist firm has adopted narrow policies that reduce the group's share of the value generated by the firm. Freeman (1984:225) reminds managers of the "bleak future" in store when their processes do not offer stakeholders a voice in processes that affect them. Left without opportunities to influence the firm directly, group members mobilize and pursue avenues that may prove costly to the firm, in hopes that the firm will reconsider its allocations. In light of what we have come to know about stakeholder mobilization and influence (Frooman, 1999; Rowley & Moldoveanu, 2003; Frooman & Murrell, 2005), this eventuality will not seem surprising. It follows that, in the wake of such an experience, the firm will reform its procedures (high engagement) and yield substantive concessions (higher breadth) to the stakeholder group.

This is not the only possible impetus for this transition. After all, if a firm's disengagement necessarily mobilizes stakeholders, then the paternalist approach should prove equally divisive. Assuming that the other mechanisms described above come into play, we might expect firms to leap directly from the paternalist to the pluralist profile. However, this suggests that managers (a) are aware of brewing stakeholder discontent, despite their isolation, (b) will react to confrontational techniques by yielding ready concessions rather than becoming defensive, and (c) readily have the competence to rebuild ties with previously disenfranchised stakeholder group members. These assumptions are not entirely dependable. Indeed, as Rowley

(2000) found in his study of firm-stakeholder interactions in strategic alliance networks, disconnected firms (i.e. low engagement or low density) are more likely to engage in what he calls solitarian behaviors, taking advantage of their relative invisibility and obscuring their behaviors. This is consistent with our prediction that disconnected functionalist firms will reduce rather than enhance levels of contest and specificity when confronted by stakeholders. In fact, those that are most able to withstand stakeholder influence attempts (i.e, firms that are central and thereby powerful) may be even more likely to adopt these functionalist behaviors.

Thus, the functionalist-pluralist transition may often be more gradual. We suggest three plausible steps. First, any extended period of low engagement—a functionalist firm has already passed through a paternalist phase before entering the functionalist phase—lessens a firm's ability to assess stakeholder needs. Just as firms may become culturally disposed to greater engagement after developing information gathering skills within an equally, it seems reasonable that the process might work in reverse. Under the functionalist profile, therefore, the firm struggles to understand the needs of even those stakeholder groups that its narrow policies favor. Second, the high levels of contest in paternalist firm lead managers to labor under the impression that it has some knowledge of stakeholder claims, even if this contest has actually fallen out of line with external realities. Managers in the functionalist firm are even more apt to wonder where to turn for information about stakeholder interests. Third, as the firm engages with a narrow range of stakeholders, it naturally applies these techniques to other relationships, gathers information about a range of interests, and, perhaps beginning with interests that do not necessarily conflict with those of the favored stakeholder, begins to satisfy a broader range of stakeholder interests through a series of *ad hoc* policies. Therefore,

*Proposition 3. Firms exhibiting a functionalist approach to stakeholder management will most likely transition to a pluralist approach.*

If Royal Dutch Shell, circa 1990, represents the functionalist profile, subsequent events illustrate both possible paths to the functionalist-pluralist transition, for two issues in the 1990s made the company rethink its stakeholder management approach (Post, Preston, & Sachs, 2002).

First, the issues around the disposal of the Brent Spar drilling platform made the company realize how little it knew of the activities of environmentalists. It was, for example, unaware of the degree to which environmental activists were coordinated globally and could impact revenues across subsidiaries in developed countries. Shell's decision to sink the rig into the North Sea, a conclusion well-supported by a scientific perspective that remained uncontested in the decision process, drew a hostile reaction that brought managers up short and led them to engage more directly with environmentalists. Second, in the conflict between the Nigerian government and Ogoni tribesmen in the Niger Delta, Shell did not adopt a pluralist approach in direct response to aggressive stakeholder influence attempts. For years, the Nigerian subsidiary had become more entrenched in its functionalist approach, withdrawing from activities in the area and safeguarding its relationship with the Abacha regime. It was, rather, the gradual change in the political system, the changing nature of a stakeholder already privileged by Shell's narrow policies, which prompted Shell to realize its need to become better informed. In developing a more external orientation, the firm gradually came to understand the local community better and has committed greater resources to its improvement. Though it is not clear what Shell specifically intends or whether internal debate about the issue is any more robust, especially given the organization's fragmented decision structure, its activities are highly consistent with a pluralist approach.

### **Pluralist → Activist**

The final transition, from a pluralist approach back to an activist approach, primarily reflects the fact that policy breadth, alone, does not satisfy stakeholder interests. Stakeholder group members seek not only the short term satisfaction of their substantive interests but also the alleviation of ambiguity about future relations (Hill & Jones, 1992; Jones, 1995). This dissatisfaction undermines the stability of the pluralist approach, especially as stakeholders use the channels of influence, present in a highly engaged pluralist firm, to press for more specific policy commitments. Of course, the firm is more likely to respond to these claims not only because managers are more aware of stakeholder claims (compared to managers under functionalist profile) but also because stakeholders have an opportunity to cultivate ties with

managers who serve as advocates for their positions. It is this combination of external pressures with the internal ability to integrate stakeholder claims through high contest deliberation that allows the pluralist-activist transition to run its course. Thus, over time, we expect that information effects of the pluralist position will give rise to the higher contest, which allows satisfaction effects to translate into greater specificity.

*Proposition 4. Firms exhibiting a pluralist approach to stakeholder management will most likely transition to an activist approach.*

The case of Hewlett-Packard under Fiorina and now beyond remains to be written. Signs point to the sort of pluralist-activist transition that our model predicts. The relatively recent developments around the Sarbanes-Oxley act has prompted the company (and its sister firm, Agilent) to codify its somewhat unspecific values commitment—historically expressed in the “HP Way”—into a more specific code of behaviors. Both companies, aware of stakeholder demands have undertaken this task. At the same time, the presence of an active corporate social responsibility representative suggests the greater formalization of HP’s commitments to stakeholders. Finally, in recent years, the level of contest at HP has been worthy of headlines, which suggests that the implicit nature of the firm’s substantive commitments under its founders has totally given way to multiple perspectives, including those pushing for greater accountability to investors. These are tentative signs of the pluralist-activist transition that brings greater contest and specificity. Only time will tell, however, whether HP has passed only fleetingly through this transition and directly into the next, leading to a paternalist profile.

### **THE RATE OF PROFILE CHANGE**

Observing firm-stakeholder interactions over time, we soon encounter an additional problem: Why do some firms conform to a single profile for so long while others cycle through the sequence of profiles so quickly? This is a problem not with the direction of change but with the rate of change. To address it, we must turn our attention back to the extrinsic factors that have dominated descriptive stakeholder research to date. Many of these factors have demonstrable effects on firm-stakeholder relationships. They exacerbate the information,

representation, and satisfaction effects so pivotal in determining whether a profile is viable over the long term. It would be impractical to achieve a full accounting of these extrinsic factors in a single paper; however, it will be useful to illustrate how these extrinsic factors might be incorporated into the model and their impacts on the rate of change examined by future work. In the remaining section of this paper, we examine the potential effects of two widely cited factors in organization theory: the nature of the organizational environment and the dynamics within the top management team. We argue that, as external environments and top management teams evolve, these dynamics exacerbate the instability of stakeholder management profiles and increase pressures for the firm to move more quickly from one profile to another.

### **Environment-Level Factors**

Forces outside of the firm can exert significant pressures on firms to change how they manage stakeholder relationships. The characteristics of the firm's external environment influence a firm's choice of structure (Koberg & Ungson, 1987), its financial performance (Oliver, 1997), and even its social responsibility (Goll & Rasheed, 2004). We consider the effects of two common characteristics of a firm's external environment (Sharfman & Dean, 1991). The first, munificence, relates to the ease with which a firm can secure the resources necessary for its operation. Munificent environments present the firm with readily available resources. It follows that higher munificence leads to greater competition among input providers and concomitantly greater certainty for the firm in procuring the necessary inputs, insulating the firm from needing to change in response to pressures from any one input provider. Firms operating in less munificent environments are more likely to undertake organizational changes, altering their firm strategy (Koberg, 1987) and even engaging in riskier behavior and outright illegal activity (Staw & Swajkowski, 1975). The evidence paints a fairly consistent picture that munificence relates, in a general sense, to the likelihood of change. In terms of stakeholder management, munificence becomes important because of its general impact on a firm's ability to satisfy its stakeholders. Without slack resources, the firm is likely to experience the satisfaction

effects described above more dramatically. This will accelerate the rate at which a given stakeholder profile destabilizes and gives way to its successor. Thus,

*Proposition 5: Firms in less munificent environments will be experience a higher rate of profile change than those in more munificent environments.*

A second common characteristic of the external environment, dynamism refers to the variability of the level of resources available to the firm (Dess & Beard, 1984). Here, the emphasis is not on the absolute availability of resources but on the environmental uncertainty and instability (Boyd, 1991). Dynamism plays an important role, especially in today's business environment, where the unpredictable nature of resource supplies subjects managers to global supply chain disruptions that were unimaginable in the past. Sources of dynamism include changes in technology and shifts in markets for inputs, two factors that have evolved significantly in recent decades. Unpredictable environments are difficult to navigate and force managers to undertake change in order to mitigate the negative effects of organizational jolts (Baum & Wally, 2003). These organizational changes include managing firm-stakeholder relationships. Here, however, the primary effect of dynamism is less on stakeholder satisfaction than on information. For example, in a dynamic environment, firms whose decision processes are more decentralized and, thus, closer to information about stakeholders can outperform those that are not (Andersen, 2004) At the same time, dynamism can also bring a firm into contact with a broader array of groups, exacerbating the information effects associated with stakeholder engagement (Hillman, Canella, and Paetzold, 2000). In essence, the research on dynamism, though ambivalent about what kinds of change dynamic environments prompt, suggests unequivocally that firms react to dynamic environments with some kind of change. In the case of stakeholder management, this exaggeration of information effects will hasten the collapse of inappropriate approaches, accelerating a firm's movement along through the profiles

*Proposition 6: Firms in more dynamic environments will be experience a higher rate of profile change than those in less dynamic environments..*

### **Firm Level Factors**

A similar logic holds true in examining the effects of firm-level factors on the rate of

change. We illustrate this by examining a common concern of organization theorists, including those in the stakeholder research tradition (e.g., Agle, Mitchell, & Sonnenfeld, 1999): the nature of the top management team. One important characteristic of top management teams is the degree of turnover experienced, especially among chief executive officers (CEOs). CEOs have a strong influence on the decisions organizations make about strategy, structure, and interactions with those stakeholders in the firm's immediate environment (Kesner & Sebor, 1994). Further, the CEO is ultimately held accountable for the success of these decisions (Dalton & Kesner, 1985). When a firm changes leadership—especially in cases of involuntary turnover—strategic change is common. Indeed, a new CEO may be brought in precisely because the board of directors sees a need for change in the strategic direction of the firm. There is a great deal of evidence suggesting a relationship between top management team turnover and strategic change in general (e.g., Dalton & Kesner, 1985; Wiersma, 1992).

In regard to stakeholder management, turnover can have a marked effect on all of the mechanisms that destabilize existing profiles. The most obvious possibility is that firms might experience more rapid change based solely on the satisfaction effects. Involuntary executive turnover is more likely at poorly performing firms (Kesner & Sebor, 1994), and new managers are likely to attempt new approaches and, thereby, to change how the firm interacts with its various stakeholders. Yet, perhaps a more pronounced effect of top management team turnover is to exacerbate the representation effects of a firm's stakeholder management profile. CEO succession is typically associated with increased turnover in other positions since a strongly held idea that the entire management is seen as have “a strong set of beliefs about how to run the business” and the only way to bring about strategic change is to clear out the “managerial deadwood” (Walsh & Ellwood, 1991). Such overhauls can have a radical effect, either rapidly increasing or diminishing managers' ability and willingness to represent multiple stakeholder claims in decision processes. Finally, turnover means that many stakeholders may be interacting with managers that are new to the relationship, increasing information effects as well.

Considering, the magnitude of these effects, we contend that:

*Proposition 7: Firms experiencing top management turnover will be experience higher rates of profile change than firms not experiencing top management turnover.*

A second important characteristic of top management teams is the level of diversity. We also explore how the findings on top management team diversity relate to changes in stakeholder management approaches. Diversity in the demographic background of executives impacts firm decision process in many ways. Group cohesion and the frequency of communication decrease while the level of conflict rises (Knight, et al., 1999). Homogeneous groups have an easier time reaching consensus, but they may succumb to “groupthink” and are not adequately considering alternatives. In fact, diverse groups show greater creativity and innovation in decision making by examining a more comprehensive set of alternatives (Jackson, May, & Whitney 1995). Here, again, the extrinsic factor seems to exacerbate the representation effects of a firm’s stakeholder profile. Yet, we might also expect diversity to affect how satisfied a stakeholder group is with the specificity of policies. If changing internal political winds could affect the dependability of a firm’s policy commitments, then diversity would seem to increase the likelihood of such a change. The net result is increased pressure on the forces for profile change.

*Proposition 8: Firms with greater top management team diversity will be more likely to change stakeholder management approaches.*

## **CONCLUSION**

We still have much to learn about the dynamic nature of firm-stakeholder interactions. This paper advances the field’s efforts to understand how and why firms change their approach to stakeholder management. In doing so, we have made three contributions. Our first is a new way to describe the dimensions of stakeholder management. While others may have preceded us in the work of describing stakeholder management in behavioral terms, we have not merely added another typology to an already cluttered landscape. Going beyond the one-dimensional approaches common in earlier research, these profiles move us closer to having a comprehensive typology of stakeholder management approaches without blurring important distinctions between

procedural and substantive aspects of the construct. Our second contribution lies in the model's implications for understanding how firms change their approaches. We model the progression that firms take through these profiles over time. The model and its propositions rest on an uncommon premise: that present stakeholder management matters in explaining future stakeholder management, that firm behaviors create path dependencies that constrain future choices. Our third contribution is to begin the exploration of how extrinsic factors (at the environment and firm levels) affect how quickly firms move along this path. The propositions are suggestive rather than exhaustive. We intend them as a springboard for future researchers considering the factors that precipitate movement among the four profiles.

Of course, presenting such a model is not without risk. The primary risk associated with such a model is that some might read the progression of profiles outlined here as overly simplistic. Critics may well suggest counter-examples that show firms moving in other directions or maintaining profiles that differ from the archetypes shown here. A secondary risk is that, by creating a typology explicitly intended to be exhaustive, we have included all manner of approaches, some of which might not be morally commendable. We risk being accused of sidestepping the long tradition of normative stakeholder theory. If stakeholder management includes a stance such as the functionalist approach, are we not condoning narrow and disengaged policies? Our response to both criticisms is to acknowledge the necessary limits of our work. As with all attempts to model complex phenomena, the reality is more complicated than the model. We are confident that the empirical research, counter-examples, and conditions that must follow from these ideas represent a potentially fruitful exchange of which this is only the first expression. Likewise, we hope that our work *will* raise moral questions among normative theorists. A better description of how firms interact with stakeholders and a deeper analysis of why they change their approach should elicit penetrating moral questions about how firms should manage these relationships responsibly. We look forward to the ongoing dialogue.

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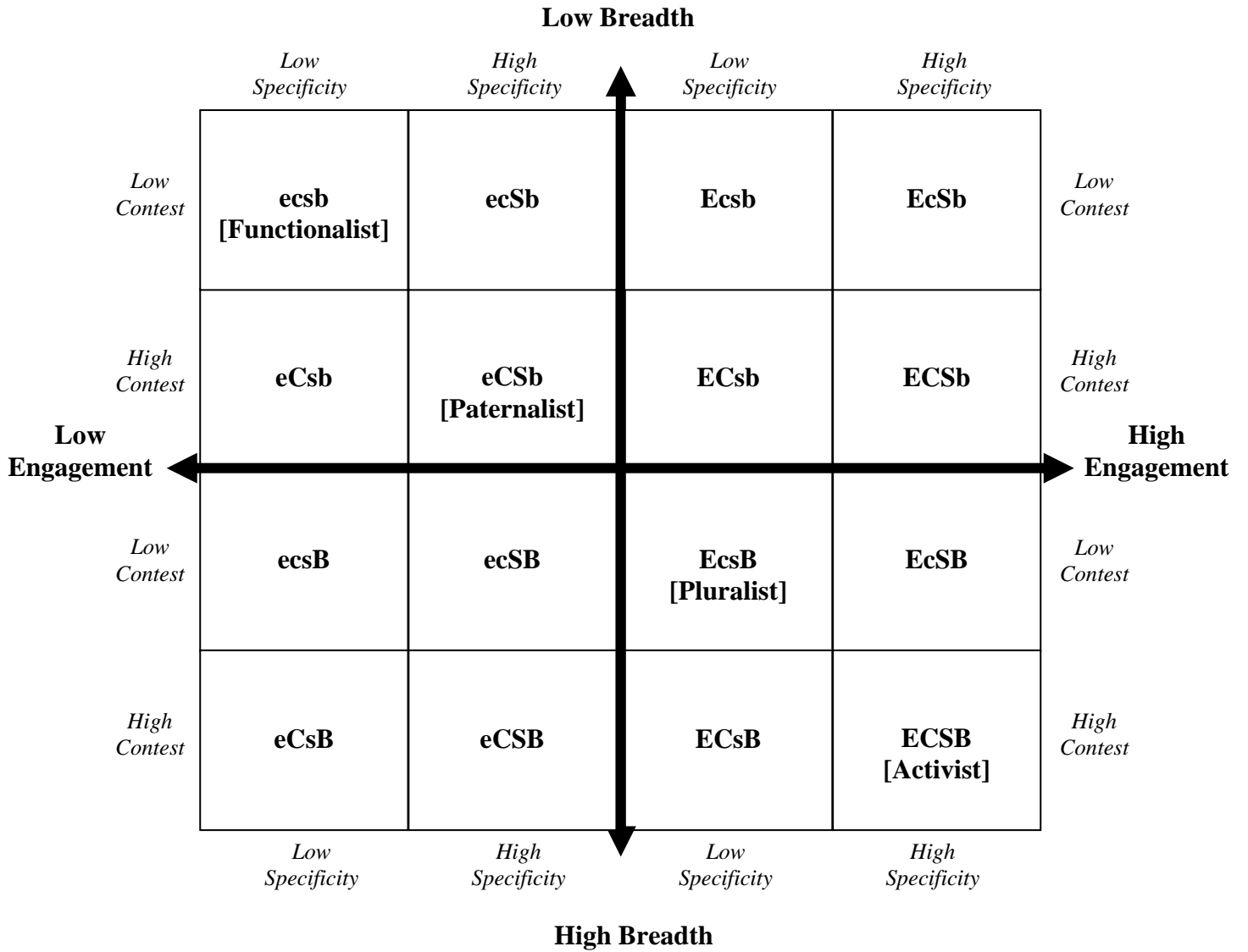
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FIGURE 1

The Dimensions of Stakeholder Management



**FIGURE 2**

**A Dynamic Model of Stakeholder Management**

