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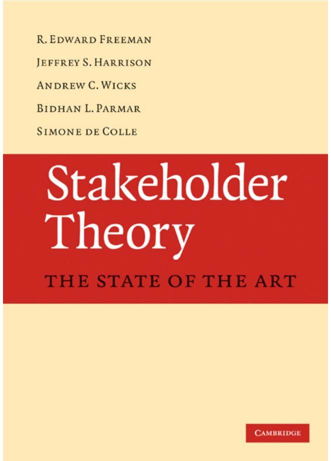

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Few paradigms in organization studies have attracted as much ambivalence as stakeholder theory. The theory conjures images of two groups with widely divergent philosophical orientations. On the one hand, some supporters view the theory as one that questions the merits of a singular focus on shareholders and capitalism run amuck. On the other hand, detractors believe that the theory comes from a socialist worldview and is ill-advised and problematic since it is difficult to identify valid stakeholder claims or to trust managers to distribute shareholder wealth. Although the arguments put forward by both groups have merit, they miss a core element of stakeholder theory. Stakeholder theorists see the separation of moral good and business success as artificial and unhelpful. Instead, they have argued that the effective management of stakeholders is a strategic activity that is necessary for business success as it adds value to shareholders and ensures the long-term survival and sustainability of the firm. Ignoring stakeholders is dangerous, not just because it is morally inappropriate, but also because it does not make economic sense.

Earlier works have also highlighted that in addition to the aforementioned ambivalence to stakeholder ideas, there is a lack of clarity surrounding what the theory aims to do. They have drawn attention to the three distinct areas of discussion, the first being prescriptive and focusing on how things should be, the second one being descriptive in nature and seeking to examine how things actually are, and the final one being instrumental and seeking to predict whether stakeholder management affects business success. These three distinct approaches to stakeholder theory stand testimony to its ability to appeal to a large audience, but also obfuscate the coherence of the paradigm. Moreover, questions have been raised as to what exactly stakeholder theory seeks to achieve. Does stakeholder theory offer an alternative to capitalism and contest the shareholder model? Or does it offer a narrative on how capitalism might work better? And is there any difference between the two?

Although there has been ambivalence and a lack of clarity surrounding the questions the theory seeks to answer, few doubts can be raised about the timeliness of the theory. The string of ethical scandals and financial crises over the last decade has highlighted concerns with a model based on maximizing shareholder wealth in the short term. These scandals urge a fundamental reassessment of issues relating to business and society. Moreover, the banking bail-outs and costs borne by ordinary citizens who played no role in the financial crisis have caused anger that a model based on capitalizing profits but socializing losses is unacceptable. While these are important philosophical concerns, does stakeholder theory offer any relevant insights into addressing such concerns?

Stakeholder Theory: The State of the Art seeks to identify these prior concerns with the theory and might be seen as an ambitious attempt to set the record straight. But it also does a lot more than that. It is the most compelling and complete treatise on the topic to date. The book is well-structured and has much to offer both the general-interest reader and the more hardcore stakeholder theorist. Core strengths of the book are the excellent overviews of the emergence of stakeholder ideas, the current state of the theory and problems with it, and the identification of 36 core questions that could be pursued by future studies. The book is structured in four parts. Part 1 discusses the genesis of stakeholder theory. This is followed in Part 2 by a review of the state of stakeholder theory and opportunities for contribution within traditional business disciplines. Part 3 identifies the use of the theory in the areas of ethics and corporate social responsibility (CSR), and like the previous part, it offers suggestions within specific areas. Part 4 of the book discusses the current narratives on capitalism and introduces the concept of stakeholder capitalism, arguing that this is a more useful way to understand how organizations should operate. It also identifies areas of opportunity for the development of the paradigm by future research.

Part 1 of the book comprises three chapters, highlighting the problems the theory seeks to solve, describing the emergence of what came to be known as stakeholder theory, and urging that the theory should be viewed through a pragmatist lens. The first chapter develops the argument that stakeholder theory seeks to counter some economic theories that might have been relevant to times of environmental equilibrium but are untenable in an era of environmental turbulence and large-scale changes. It proposes to change the dominant managerial mindset and rethink how value is created, as well as encouraging us to stop viewing ethics and economic benefits as incompatible or separate entities. Thus it proposes a radical overhaul in the managerial mindset and the curriculum taught in business schools on the grounds that current frames of reference are inadequate. These arguments present an elaboration of Freeman's seminal book of 1984, which was largely strategic in content. The chapter reiterates a core argument that most antagonists seem to miss, namely that separation between business and ethics, which suggests that a business decision does not have ethical ramifications and vice versa, is false. An interesting insight of the chapter is the argument that there is often "jointness" in the interests of various stakeholders, and that an organization would do well to meet them instead of indulging in political games and playing stakeholders off against one another. To some extent, this represents a departure from Freeman's seminal work, where stakeholders were occasionally viewed as disruptive elements and their claims upon the firm were said to require management through an array of strategic responses. These arguments also move away from some other work by eminent stakeholder theorists who seek to answer the question of who or what should matter by defining the saliency of claims in terms of power, legitimacy and urgency.

The chapter goes on to compare and contrast the compatibility of stakeholder theory with other leading economic theories on value creation and trade, including works by Milton Friedman, Michael Porter and Michael Jensen. It argues that while most of these prior frameworks focus on the maximization of gains for shareholders, they are not incompatible with stakeholder theory for the simple reason that value maximization and sustained economic returns rents can only be accrued if the interests of stakeholders are met. In other words, as CK Prahalad explains in a separate context, while there might appear to be a discrepancy between doing well and doing good, it is also possible to do well by doing good. This attempt to draw parallels between stakeholder arguments and other economic theories was both interesting and counter-intuitive and shows the intellectual openness with which stakeholder theorists have embraced other ideas in the field. One risk involved in drawing parallels, though, is that these arguments might be interpreted as defensive and subservient to the dominant economic mindset. One area remains incomplete, however: while one would not dispute the book's claims regarding the importance of meeting the joint interests of primary stakeholders, including customers, shareholders and suppliers, to what extent does one need to meet the interests of secondary stakeholders, such as the community? The authors finally go on to describe how stakeholder theory can be viewed an entrepreneurial approach.

The second chapter of the book describes the development of stakeholder ideas, tracing them back to the Stanford Research Institute (SRI). It explains how effective corporate planning requires the ability to understand and manage the expectations of key groups beyond shareholders, since an organization could not function without their support. The SRI viewed a firm's survival as the key objective of a firm and categorically acknowledged that a firm would cease to exist without the support of key groups such as the government and society. The chapter provides an excellent overview of how stakeholder ideas have been present in some management scholarship since the 1960s, including works by Dill, Ansoff, and Bernard Taylor. These ideas also emerged separately in the systems theory and CSR literatures. The background to the development of stakeholder ideas is interesting from a historical perspective, and the authors have been generous in acknowledging the contributions made by a fairly large body of scholarship before Freeman's seminal book of 1984, which has been described as key to the diffusion of stakeholder ideas. The chapter makes an interesting reference to Jim Walsh's comments on how people incorrectly cited

Freeman's work and saw the book as a treatise on CSR when in fact it was largely instrumental and strategic in content; it goes on to explain how the concept of CSR is probably superfluous since these ideas should already be a part of the business planning process and not a separate after-thought activity.

The third and final chapter of Part 1 of the book proposes stakeholder theory as a genre of management scholarship, something with broader appeal and applicability than a theory. It argues that one should not view stakeholder theory in terms of the traditional definition of what constitutes a theory, that is, as something that offers a set of internally consistent and testable propositions with predictive validity. The authors see themselves as philosophical pragmatists and argue that pragmatists "see the goal of inquiry as generating insights to help us to lead better lives" (p. 75). They would see the theory as useful rather than something that helps the generation of objective insights into why and how things happen. They place the onus on scholars to be attentive to the assumptions and implications of their work, and to make insights relevant from a managerial standpoint. This was perhaps the most difficult chapter of the book to follow, something of which the authors forewarn at the beginning of the chapter itself. But the core insight according to which stakeholder theory is a genre that can be applied in a variety of settings, as well as the categorical assertion that theories should also be useful and are not value-neutral, have much merit and defy our perceptions of what constitutes theory. At face value, these ideas may appear radical in content and urge a fundamental reassessment of business scholarship, which they argue is failing us. However, the authors build their arguments drawing upon earlier insights by leading thinkers including Amartya Sen, Jeffrey Pfeffer, Henry Mintzberg and Sumantra Ghoshal, in addition to Andrew Wicks's earlier work on the topic. They also left me wondering if the fetishized role of management researchers, obsessed with trying to create a science of management, would not be better served by seeing them as problem-solvers and value-shapers.

Chapter 4, which opens Part 2 of the book, provides an overview of the influence of stakeholder theory in the area of strategic management. Unsurprisingly, there are several overlaps between this and Chapter 2. It traces what we now know as strategic management from the early works by Ansoff and Chandler towards a latter interest in the political and cognitive aspects of strategy formulation, evidenced in arguments put forward in frameworks such as resource dependence theory. This chapter argues that while until the early 1980s a lot of ideas on strategic management did not use the term "stakeholders", they were not incompatible with it and remain friendly to it. The rise in economic theories such as those presented by Michael Porter in the late 1970s and early 1980s implied that stakeholder ideas remained peripheral to mainstream scholarship, the only exception being a growing interest in the association between social and financial performance. The rise of stakeholder ideas has attracted a great deal of skepticism from luminaries such as Jensen, who questioned the merits and feasibility of focusing on stakeholders, arguing that this would lead to waste and

new types of agency problems.
The book goes on to describe the emergence of Jay Barney's resource-based view of the firm as a leading theory in strategic management and argues that while stakeholder theory and the resource-based view are compatible, little has been done to combine them. It explains that organizations are dependent on stakeholders to develop a large number of resources and capabilities and urges future research to build upon this idea. However, the chapter points out that the emergence of the resource-based view implied a continued focus on attaining superior economic returns rents and pushed stakeholder theory to the fringes as a theory that should solely be interested in social or ethical issues. The authors see effective stakeholder management as something that minimizes risk, improves reputation, increases perceptions of fairness, and enhances the value of the firm to several of its stakeholders. Other parts of the chapter discuss the influence of stakeholder theory on other areas, including corporate governance, and managerial practice. Overall, the chapter rightly develops the argument that a focus on stakeholder ideas has become a practical necessity and come to the centre-stage due to the large number of corporate scandals in recent years. At first glance, the core recommendation on integrating the resource-based view with stakeholder theory, though strategically prudent given the centrality and wide-ranging acceptability of the former in strategic management scholarship, appears to be a formidable challenge given that both frameworks have been criticized as being too broad. Again, questions could be raised regarding the double-edge of being too accommodating: on the one hand, it shows intellectual openness and a gateway for theoretical integration; on the other hand, it raises a persistent and nagging doubt concerning the theory's ability to be central to strategic management scholarship rather than a secondary influence on existing theories of the firm.
The fifth chapter offers an interesting overview of the influence of the theory in related areas of management, including the disciplines of accounting, finance and marketing. While the authors see that stakeholder theory has informed these fields, they lament that these disciplines have done little to elaborate core ideas of stakeholder theory. Although the area of finance may be seen as antagonistic to the stakeholder idea, the authors claim that even scholars in finance recognize the influence which non-financial entities or stakeholders exert upon the firm. Finance scholarship does not view moral considerations as central but recognizes the practical effects of stakeholder management and some evidence suggests that firms are more open to stakeholder feedback than to direct governmental intervention. The authors also explain that while finance scholars recognize that ethical violations reduce shareholder value, they see shareholder value as the most important (if not the sole) objective of a firm. Friedman's well-cited dictum that the only social goal and responsibility of a corporation is to maximize shareholder wealth remains central to the field. Perhaps the biggest complaint leveled against stakeholder theory is Jensen's concern that it may lead to wastage and agency problems through managerial investment in pet projects and siphon away wealth that rightfully

belongs to shareholders. Areas of application in finance include risk management and takeovers. The authors make a strong challenge to the dominant economic mindset by arguing that a big misconception in the finance literature is that it sees the distribution of resources and value as a zero-sum game, one where a benefit to one group implies a penalty to others. Accounting scholars, meanwhile, have largely drawn upon stakeholder ideas in the area of corporate social reporting. These studies use stakeholder ideas to understand what motivates disclosure and whether financial performance has any linkages with it. Other accounting areas where stakeholder ideas have been used include some literature on how accounting standards within countries face conflicting pressures and demands from a wide variety of entities, as well as a growing interest in the area of corporate governance. The chapter is skeptical, however, on whether accountants are genuinely interested in stakeholder concerns or solely focused on impression management and rhetorical dynamics. A core area recommended for future research is the development of performance indicators and measures and the incorporation of intangibles into accounting indicators.

Stakeholder ideas have also been used in the areas of human resource management and organizational behavior. These include studies on leadership through cross-country comparisons of stakeholder orientations, the effect of stakeholder management on organizational effectiveness, and links between stakeholder orientation and recruitment. Remaining consistent with prior chapters, the authors clearly summarize the core arguments and insights of these prior studies, enabling the reader to follow how stakeholder ideas have been widely diffused and diversely applied. Other areas where stakeholder ideas are present include the fields of project management and marketing. Applications of stakeholder ideas in the area of project management and supply chain management include studies on how stakeholder participation in projects affects internal politics and product development, improves environmental performance, and affects decision-making in times of ambiguity. Meanwhile, while the marketing literature has always had a focus on core stakeholders including customers and shareholders, there has been some theoretical elaboration of the stakeholder concept, an example being the “six markets” framework (p. 154). Studies also draw explicit attention to the importance of developing long-term relationships and avoiding a short-term approach. The authors argue that the field of marketing has a strong focus on external constituents and offers much potential for enhancing stakeholder arguments. Overall, the extensive overview of studies across disciplinary boundaries offers intriguing insights into both the diffusion and the selective interpretation of stakeholder ideas across the field. But it occasionally raises a concern: can any form of external analysis or open systems perspective be deemed a stakeholder approach simply by using the appropriate terminology? How might stakeholder ideas be similar to or different from an open systems approach to organizations?

Chapter 6 of the book offers an overview of how stakeholder ideas have been applied in the related disciplines of law, public administration, environmental studies, and healthcare policy. The authors find that these disciplines have borrowed stakeholder ideas, generally for instrumental purposes, but done little to enhance the theory. One of the most interesting parts of the book is the summary and discussion of the influence of stakeholder ideas in the area of law. An important insight that emerges in the chapter is a discussion in some law scholarship on "whether stakeholder theory is a superior way of thinking about corporations and their obligations" (p. 164). Areas where these arguments have had an impact on law are statutes that permit managers to take the interests of stakeholders such as employees and the community into consideration during events such as hostile takeovers. Despite this, some legal scholarship also recognizes the risks of stakeholder ideas in that they might create "too many masters" and present a "slippery slope to socialism" (p. 167). Other interesting ideas include suggestions on how stakeholders such as indigenous groups might best serve their interests if they maintained a proactive and conciliatory stance with corporations as active shapers of and participants in the decision-making process rather than belligerent opponents. While the authors claim that only intermittent attention has been paid to stakeholder issues and that little theoretical advancement is offered in the law scholarship, I saw reasons to be optimistic as long as discussions move beyond stakeholder issues being anti-capitalist, as though capitalism implies an antisocial orientation towards structuring society! The area of healthcare has also seen the application of stakeholder ideas and developed the argument that a healthcare system that is excessively driven by cowboy capitalism and a singular focus on shareholders can have negative consequences on society. As in several other fields, Freeman's seminal work is incorrectly cited as having normative underpinnings. Ironically, this should not be surprising since it meets the traditional definition of a classic, namely something that is widely cited but seldom read.

A major focus in the healthcare literature has been on identifying and managing the interests of the various stakeholders from a strategic standpoint. Similar to the healthcare policy arena, studies in the area of public policy management have devoted much attention to using stakeholder identification and management ideas for setting priorities and strategies. A core limitation here is a lack of attention to the normative underpinnings of stakeholder theory. The environmental policy literature devotes a great deal of attention to communicating and interacting with stakeholders and draws attention to the need to make some difficult choices while exploiting natural resources. Overall, it appears that the authors have been through an impressive amount of literature and clearly identified the diffusion of stakeholder ideas in non-business disciplines, as well as highlighting how the application of stakeholder analysis, identification and engagement has made a particularly powerful impact in these disciplines. Based on these summaries, one is tempted to agree with the authors that these disciplines have applied notions but done little to add to the richness of stakeholder ideas and avoided engaging with difficult normative questions related to the role of corporations and what constitutes an appropriate balance between business and social interests. Despite their observations, however, their review of some discussions within the field of law show how the authors within the field of law have shown clear signs of deeply and critically engaging with the merits, implications and implementation of a stakeholder approach. These get to the heart of the normative debate on what constitutes acceptable behavior and to what extent corporations should be legally responsible for their actions. Clearly, these are difficult questions. But the greatest change would come from voluntary actions on the part of firms, something that is only possible if the merits of a stakeholder approach are seen to be compelling.

Chapter 7 provides an overview of the use of stakeholder theory within the domain of business ethics. Not surprisingly, the stakeholder paradigm has become a core pillar of business ethics scholarship and provided it with a clear frame of reference to connect the domains of ethics and business. A key concern of this stream of literature has been to engage with the ethics of capitalism and engage with the normative pillars of the theory. The chapter on ethics starts with a primer on the origins and core tenets of the scholarship in the area, explaining that while issues related to ethics have long been present in philosophical discourse, the field of business ethics has a short history spanning only a few decades. The rapid rise in business ethics was largely driven by a string of business scandals and an increasing demand from the industry for teaching and training in the area. This stream of literature brought the stakeholder-versus-shareholder debates to the heart of academic scholarship, presenting the stakeholder approach as an alternative to the shareholder one. In spite of this, the book explains the dichotomy or paradox that exists given that a stakeholder orientation might be moralistic but legally questionable when the statutes also seek the protection of shareholder interests. This sharp distinction between the shareholder and stakeholder approaches has been questioned and criticized by several stakeholder theorists who would rather see a stakeholder approach as a better narrative on capitalism and not something that is driven by socialist ideals; they would rather view stakeholder theory as an overarching orientation that “encompasses shareholder theories” (p. 206). William Fredrick, meanwhile, has been known to have explained elsewhere that business ethicists might have done a disservice to stakeholder theory by moving it away from its original strategic focus towards philosophical discussions that show little understanding of business and management. The chapter also highlights the problematic nature of the conceptual breadth of stakeholders, draws attention to how business ethicists do not really see organizational self-interest as a sufficient reason to pay attention to stakeholders, and stress a lack of conceptual clarity on the precise circumstances in which stakeholder claims are legitimate. Clearly, the ethicists have singularly focused on the normative dimensions of the theory, or how things should be, and paid less attention to the other two areas. Areas that have informed debates in the domain of business ethics include feminist theory, Kantian capitalism and libertarian principles. A particularly interesting part of this chapter is a detailed summary of an earlier article by some of the authors of the book on the misunderstandings and misuses of stakeholder theory, something that remains pervasive even today. Examples include representations of stakeholder theory as a comprehensive moral doctrine and as a framework driven by a socialist worldview. While stakeholder theory is viewed as a moral theory, the authors would rather see it as a strategic management theory which incorporates ethics into its framework. Overall, and while the normative (or moral) pillars of the theory were not a central focus of Freeman's seminal work even though some normative ideas were presented in his book, the business ethics scholars have embraced only some of Freeman's ideas and have taken things to the other extreme. They have begun singularly focusing on morality or ethics as an end in itself, and not as both a means to an end and an end in itself, as Freeman's seminal work proposed.

The eighth chapter of the book discusses the connection between stakeholder theory and CSR literatures. Although issues related to social responsibility have been around at least as long as stakeholder ideas, the CSR literature is nevertheless fragmented with diverse and often disconnected conversations on corporate governance, social entrepreneurship, social performance, and corporate citizenship. The chapter claims the two areas offer the opportunity to better integrate their respective focus on financial and social objectives respectively. CSR commenced with an original focus on how firms should seek to do more than legally comply with standards, and on how ignoring social objectives was a "very dangerous corporate strategy" (p. 237). While the term "stakeholder" might not have been central or used by CSR scholars, they did indeed focus on the role of various constituents and the public. The focus in the CSR scholarship also moved from passive orientations of CSR (CSR1) towards a more active definition of CSR as corporate social responsiveness (CSR2). Many CSR theorists have turned to stakeholder theory to enhance the conceptual clarity of their argumentation and started paying attention to the linkages between social and financial indicators of performance. While meta-analyses and reviews have found the evidence on linkages between social and financial performance to be equivocal, a lack of consistency in results has been attributed to the widely divergent ways in which social performance or responsiveness has been operationalized. The authors of the book seem skeptical of the extent of social responsiveness demanded by several CSR studies, arguing instead that companies have widely divergent needs and objectives and not all can (or should) devote substantial efforts to alleviating specific social ills. Remaining consistent with their disagreement with economic perspectives, the authors see the separation between social/ethical and financial objectives as unhelpful, superficial, and unnecessary. Other discussions focus on the areas of connection between CSR and stakeholder theory in the areas of corporate governance and social auditing amongst others. One topic that clearly emerges in the chapter is concerns that CSR is a "residual" and "nonstrategic" activity (p. 257); in response to this, the chapter presents an integrated view of CSR, suggesting that it amalgamates social and financial objectives.

Chapters 9 and 10 seek to provide directions for the field by first presenting and developing a stakeholder narrative on capitalism and subsequently offering core questions for future research in the domain.

They return to the original arguments presented in the first chapter on how stakeholder theory is concerned with issues of value and trade, the ethics of capitalism, and a managerial mindset. They highlight the emergence of refined doctrines of capitalism – evidenced in terminologies such as “creative capitalism” and “responsible capitalism” – and put forth “stakeholder capitalism” (p. 268). They stress how prior narratives on capitalism are inadequate since they view competition or distribution of resources as a zero-sum game and ethics as being separate from economic prosperity. For the authors, stakeholder capitalism is a distinct alternative informed by pragmatic and libertarian thinking. They develop a framework of stakeholder capitalism as being based on six principles. These include stakeholder cooperation as something that is feasible and beneficial, the right to freedom and voluntary participation, and a need for a system where freedom is accompanied by an equal measure of responsibility for the effects of actions on other groups. While the libertarian views are explicit in their reluctance to seek compulsory participation or enforcement, the authors raise a nagging doubt on whether such self-enlightenment can occur without enforcement. Clearly, the onus of creating a new narrative on capitalism must be lauded and one would expect these ideas to be further refined and make an impact on academic discourse and public policy debates over the coming years. The final chapter of the book identifies a set of 36 questions that could be pursued by future research. These are elegantly phrased as nudges for “*richer descriptions*” (21 questions), “*redescriptions*” (9 questions) and “*relating descriptions*” (6 questions) by future studies (p. 286). Compelling questions that require richer descriptions include a need for some interesting stories from both a company and a stakeholder perspective, measuring value for stakeholders beyond financial and accounting measures, and on how stakeholders make sense of equity and fairness. Clearly these questions mostly seem to form in the descriptive realm of the theory. Instead, suggested questions that offer an opportunity to redescribe current narratives are largely normative in content and include an urge to focus on what it means to replace stock options with stake options and on how we might redefine the traditional goals of business if we got rid of the separation fallacy. The final set of questions recommend inter-disciplinary collaboration and a focus on issues such as identifying how new disciplines might impact stakeholder theory, as well as creating and identifying the similarities and differences between stakeholder theories relating to different types of organizational forms. The book concludes by arguing that stakeholder ideas should be seen as a work in process and makes a strong assertion that these ideas deserve to be at the centre of management scholarship.

My overall view is that this book makes a compelling contribution and will inspire renewed research and greater clarity in the domain of stakeholder theory. The book clarifies that stakeholder theory is a genre or a framework that aims to be useful. It continues to emphasize that a separation between ethics and business is false and comes in the way of creating a reasoned discourse in the field. Writing a coherent narrative on the development of stakeholder ideas across disciplines and time is no easy task given the different interpretations and applications of the stakeholder concept. The authors have done a service to the field by undertaking this onerous mission. The book provides a single-point reference for both novice and embedded stakeholder theorists to understand the key assumptions and principles of the theory and the various ways in which the theory has been applied, as well as identifying the state of evidence and areas that offer the greatest opportunity for contribution. The broad appeal and diffusion of stakeholder ideas stand testimony to its relevance, yet a suspicion remains that these ideas have been embraced more warmly by business ethicists than strategy scholars. A core challenge that remains to be resolved is how stakeholder theory might emerge as a central or dominant theory of the firm from a strategic management perspective.