

Chapter 1

INTRODUCTION

ABSTRACT: How do managers make sense of stakeholder management? This is the central question around which the stakeholder concept and its gaps revolve. But where are these gaps? And what is the true focus and scope of the stakeholder concept? These are the questions answered in this book. This introductory chapter provides a context and a rationale for how such investigations contribute to stakeholder management and, through a summary of the remaining chapters, highlights how each chapter helps to answer the above questions.

SUMMARY: 1.1. Outline. – 1.2. Motivation of research. – 1.3. Aim of this book. – 1.3.1. Definition: How. – 1.3.2. Definition: Research. – 1.3.3. Definition: Managers. – 1.3.4. Definition: Sense making. – 1.3.5. Definition: Managerial branch. – 1.4. Research question. – 1.5. Summary. – References.

1.1. Outline

Long before academics and practitioners began speaking of ‘stakeholder management’, the managerial view of a firm asked managers to balance the needs of owners with those of its customers, suppliers and employees. Today, with stakeholder management, the literature asks managers to take a far broader and more external view of stakeholders and the stakeholder environment (Freeman, 1984). Dmytriyev *et al.* (2017, pp. 392-395) claim that “most practicing managers are unaware of discoveries in management scholarship”, going on to explain that they do not read many of the research papers and treatises on business management. In this sense, practising managers may be largely unaware of the advances and insights that the stakeholder management literature provides. Mitchell *et al.* (1997), for example, explain how stakeholders attain and augment saliency, while scholars such as Rowley (1997) and Hendry (2005) explain the influencing strategies that stakeholders adopt vis-a-vis the effects on them and how a firm achieves its objectives. The peril is that, in being unaware of these insights, managers may continue with their traditional managerial view while re-branding their practices as stakeholder management. That being the case, this book explores how managers make sense of stakeholder management.

The stakeholder-oriented literature refers to two branches of stakeholder management: the managerial branch and the normative branch.

While acknowledging these branches are not mutually exclusive, this book focuses on the managerial branch, including its frameworks, models and contributions. Further details of what delineates the managerial branch from the normative branches can be found on page 6 under Definition: Managerial branch. The managerial branch begins with Freeman's (1984) book *Strategic Management: A Stakeholder Approach*, which offers a theory for competitive advantage based on managing its effects on stakeholders or the effects created by them. This branch of stakeholder theory acknowledges that firms and stakeholders have reciprocal effects on each other. While it provides a theoretical framework for how managers may identify, analyse and make sense of these effects, it is equally criticised as being "not terribly sophisticated" (Harrison & Freeman, 1999, pp. 483-484). Despite more than three decades of iterative development and debate as to what constitutes stakeholder theory, scholars are yet to answer the question of how managers manage stakeholders' concerns.

In documenting this research and findings, this book presents five main chapters, being:

Chapter 1: An introduction detailing the aims and motivation for this book.

Chapter 2: A review of the theoretical and empirical literature that constitutes the managerial branch of stakeholder theory and stakeholder management.

Chapter 3: The research methodology, which outlines how the case study was conducted and the multiple sources of data that informed the research. In overview, Yin (2003, 2014) and Creswell's (1998) case study methodologies formed the basis of the investigations. These helped to tease out: (1) construct validity, or the metrics for studying stakeholder management; (2) external validity, or the fields to which results might be generalised; and (3) reliability, or the processes and procedures that informed the research, so that other researchers might replicate this study. Triangulating and synthesising data from multiple sources helped to make sense of stakeholder management from a managerial perspective without bias. Field-based, semi-structured interviews were undertaken to explore the managers' sense making, which provided depth to the data. Online content in the form of recruitment notices was also coded, which provided breadth.

Chapter 4: The research results derived from synthesising the practitioner-oriented stakeholder literature, analysing the semi-structured interviews and coding the recruitment notices. The findings are arranged into three approaches: communications, relationships and positioning.

Chapter 5: It provides concluding observations and outlines the contribution to the managerial branch of stakeholder management, and details the limitations of this research and opportunities for further research.

1.2. Motivation of research

This book responds to calls for more empirical research into the managerial sense making of the stakeholder concept. For example, Ackermann and Eden (2011) explore how top management teams make sense of stakeholder management in strategic settings, suggesting an opportunity for further research into the ‘theory-to-practice’ and ‘practice-to-theory’ cycles. Freeman *et al.* (2010, pp. 288-289) suggest several areas for further empirical research into sense making, such as how executives make sense of who is and is not a stakeholder and how stakeholders make sense of equity and fairness. Likewise, Phillips *et al.* (2003) advocate for greater consideration of how stakeholder management is applied in entities other than ‘corporations’, such as not-for-profit, privately run businesses, small to medium enterprises (SMEs) and family-run businesses.

In researching managerial sense making, Schlierer *et al.* (2012) conducted empirical research across six European countries: Belgium, Italy, Norway, France, the United Kingdom and Spain. Their research aimed to explore how managers of SMEs interpret stakeholder management. The researchers find the terms ‘stakeholder’ and ‘stakeholder management’ have varying meanings and managers from different countries, industries and cultures view stakeholder management differently. Italian managers view stakeholder management as a strategic concept, aligned to forging strong relationships with the community. British and Spanish managers find the concept to be fashionable, and available for voluntary adoption. The French believe ‘ethics’ drive the concept, but in a way that is (only) applicable to ‘primary’ stakeholders. However, it also appears that they do not completely understand the stakeholder vocabulary. Perhaps this is in part due to how the vernacular is translated from English to French. The Norwegians believe the stakeholder concept and corporate social responsibility (CSR) to be closely aligned and voluntary. The Belgians view stakeholder management as a regulatory concept, aligned with socially responsible behaviour. Given these findings, Schlierer *et al.* (2012) conclude by calling for further empirical research into how and why managers make sense of stakeholder management differently, which motivates this research.

Freeman (1984) is widely recognised as the father of stakeholder management with his book titled *Strategic Management: A Stakeholder*

Approach. In the book, Freeman offers a new way of thinking about firms, the stakeholder environment and the effects that each can have on the other. However, despite the many scholarly contributions to what is now known as ‘stakeholder theory’, academics have adopted a wide range of interpretations of what stakeholder management is. The result is a lack of clarity around the concept (Phillips *et al.*, 2003). This leads to the motivation for this research: if academic research is unable to provide clarity on the concept of stakeholder management, how do managers make sense of it?

Although Freeman’s (1984) original stakeholder theory supports strategic management, and Donaldson and Preston (1995) state there are multiple stakeholder theories, Phillips *et al.* (2003) concede these theories mean different things to different people. For example, project management (Aaltonen & Kujala, 2010; Assudani & Kloppenborg, 2010), marketing (Laczniak & Murhy, 2012), public relations (Smudde & Courtright, 2011), construction (Yang *et al.*, 2011) and college sports (Comeaux, 2013) each have their own interpretations. Moreover, a common finding from two studies into stakeholder management praxis, one in the UK and the other in Germany, found “there is no standard approach to stakeholder management. Some activities reported could be described as public relations that simply informs the public rather than interacts with stakeholders” (Roloff, 2008, p. 233). All of these varied interpretations mean the term ‘stakeholder management’ loses its significance, becoming an empty signifier (Laclau & Mouffe, 1985).

1.3. Aim of this book

The aim of this book is to answer the research question: How do managers make sense of stakeholder management? However, as stakeholder management is complex (Pesqueux & Damak-Ayadi, 2005) and confusing (Phillips, 2003; Wagner Mainardes *et al.*, 2011), it is first prudent to provide some definitions to frame the focus and scope of this book.

1.3.1. Definition: How

As the research question is focused on ‘how’ managers make sense of stakeholder management, an explanation of how is required. Merriam-Webster gives a three-part definition, each of which aligns to a part of this research as follows.

1.3.2. Definition: Research

“(1)(a) in what manner or way, (b) for what reason, (c) with what meaning, (d) by what name or title” → A presentation of the findings as three different managerial approaches to stakeholder management (i.e., communications, relationships and positioning) answers the first part of the definition.

“(2) to what degree or extent” → An explanation of the ‘why’ ‘when’, ‘who’, ‘what’ and ‘how’ of stakeholder management answers the second part of the definition.

“(3) in what state or condition” → A discussion of the foci and limitations of stakeholder management answers the third part of the definition.

In asking ‘how’, this book seeks to establish a common ground to replace the confusion and complexity that has thus far dominated.

1.3.3. Definition: Managers

While Freeman (1984, p. v) refers to managers as those who “manage the affairs of the corporation”, it is also important to acknowledge, as do Hasnas (2013) and Phillips *et al.* (2003), that stakeholder management can extend beyond corporations. For example, managers can manage the affairs of an entity or stakeholder group, which may include individuals, governments, communities, societies and so on. Therefore, for the purposes of this book, managers are intended as those practitioners who work in organisations (e.g., public or private, government or non-government, for-profit or not-for-profit). Managers may be owners or work for the organisation’s owners, negotiate and work with suppliers, and/or provide the organisation’s products and services to customers. They interact and work with stakeholders. Thus, they are the subject of inquiry in this research.

1.3.4. Definition: Sense making

A person’s sense making is used synonymously to describe how people understand or interpret phenomena (Dumay, 2010; Qu & Dumay, 2011). Bundy *et al.* (2013, p. 357) explain “cognitive structures are the mechanisms and biases that direct the sense making process”. Collis and Hussey (2003, p. 262) use the term to ‘make sense’ in the context of “... understanding the coherence of meaning and action in the case(s) under study”. Moreover, Henneberg *et al.* (2010, p. 355) explain that a manager can make sense of something by “understanding the (spatial and interlinked) relationships between actors within a business network”. Therefore, this

book considers managers' sense making as how they interpret and understand phenomena, which in this case is the managerial branch of stakeholder management.

1.3.5. Definition: Managerial branch

Donaldson and Preston (1995) provide a seminal categorisation of stakeholder theory as normative, descriptive, and instrumental. Friedman and Miles (2006) acknowledge the normative approach as being prescriptive or the 'right thing to do' and further group the descriptive and instrumental theories together as an analytical approach, covering "all stakeholder theory that is not strictly normative" (Friedman & Miles, 2006, p. 83). Freeman and Phillips (2002, pp. 336-338) also identify two theses of stakeholder theory: the instrumental thesis, which considers stakeholder considerations for strategic intent or firm value, which is akin to the managerial branch; and the normative thesis, which states that managers have an obligation or duty to include stakeholders' considerations, which is akin to the normative branch. While acknowledging the normative aspects of stakeholder management, scholars have found that the normative focus has been at the expense of "providing managerial direction and explaining managerial behaviour" (Elms *et al.*, 2002, p. 413), suggesting a requirement for further empirical research into managerial aspects of stakeholder theory.

Guthrie *et al.* (2004, p. 284) differentiate the managerial branch from the ethical (moral) branch as it comprises situations where "a stakeholder's power to influence corporate management is viewed as a function of the stakeholder's degree of control over resources required by the organisation". The managerial branch "recommends the attitudes, structures, and practices, that taken together, constitute a stakeholder management philosophy" (Donaldson & Preston, 1995, p. 87). It "reflects and directs how managers operate" (Freeman *et al.*, 2004, p. 364) and states that "if managers treat stakeholders in line with the stakeholder concept, then the organisation will become more successful or more likely to be sustainable" (Friedman & Miles, 2006, p. 2). Therefore, this book aims to explore sense making of the managerial branch of stakeholder management.

1.4. Research question

The central research question of this book is: How do managers make sense of stakeholder management? In exploring managerial sense making,

which explains how managers interpret and understand stakeholder management, this book explores how managers refer to stakeholder management; how they use the stakeholder vernacular in their businesses; and how they find context and meaning for the concept. Hence, the data collected for this research was designed to explore managerial sense making by the foci, implications and ‘why’, ‘when’, ‘who’, ‘what’ and ‘how’ of stakeholder management.

Two frameworks were used to explore and find answers to the research question. The first was chosen in response to calls by Egels-Zandén and Sandberg (2010) and Frooman (2010) for a clearer definition of what is meant by stakeholder management, particularly during the data collection phase of empirical research. A good example of where clarity might have been lacking in the past is field-based semi-structured interviews, where the interviewees may have views that differ from the stakeholder literature. The second frames the results of data collection and analysis by how the practitioner-oriented literature conceptualises stakeholder management: communications, relationships and positioning.

The second framework, including its conceptualisation of communication, relationship and positioning approaches, explores the research data and results through eight sub-questions. 1) What is the focus of these multiple approaches and their aims? 2) Following an issues-based approach recommended by Frooman (2010), what are the implications of managers adopting one approach or another and what are the consequences of managers adopting an unsuitable approach? 3) Why do managers need to practise stakeholder management? This explores the drivers or impetus for action. 4) When is stakeholder management required? This may involve questions such as when to develop new products and services versus when to enter new markets. 5) and 6) Who within the firm is adopting each stakeholder management approach? and Who are the stakeholders being managed? 7) What are managers managing under the guise of stakeholder management? Is it stakeholders’ perceptions, resources, alliances or something else? Finally, 8) How do managers manage their stakeholders and what tools do they use?

1.5. Summary

As it stands, there is no common ground in the literature that makes sense of stakeholder management; scholars simply describe the current state of play as confusing and complex. There is also a lack of research into managerial praxis and a plethora of questions surrounding the what, why, when,

who and how of stakeholder management that still need to be answered. Filling these gaps is the main motivation for this book.

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