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Company Stakeholder Responsibility

A Resource Based Perspective

by

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1 Introduction

The world of firms, authorities, the civil society, NGO's and individuals is being tighter and tighter interconnected and no firm or authority can neglect the potential influence from developments on the other side of the globe. The firm must therefore be able to respond to and proactively foresee challenges before they grow into dysfunctional conflicts or critical losses to the firm.

Due to industry specific features the *grocery industry* has always been very turbulent and historically has exhibited significant structural changes. Today this industry represents some of the world's largest companies and has a rather complex stakeholder structure. Well-renowned firms, like Tesco, have worked intensely on balancing the different stakeholders demands and first of all tried to implement self-reinforcing synergistic positive circles between the activities rolled out in relation to their stakeholders. The centre of Tesco's balancing efforts is a balanced scorecard approach called the 'Steering Wheel' introduced in 1997. At the centre of the wheel a value statement is located, "No one tries harder for the customers". In the wheel they present four quadrants that relate to stakeholders in four main areas: Customers, People (Employees), Operations and Finance. Nested within these four quadrants, at the next level of detail, are a number of statements that can be characterized as either value statements e.g. "We trust and respect each other" or more like headings of Key Performance Indicators (KPI's) e.g. "I don't queue". Nested below these statements are a number of quantitative or more strategically formulated KPI's. Each business function has their own Steering Wheel and the responsibility for the deliveries on the specific KPI's is delegated to these units. The KPI's are measured on a quarterly basis and reports are sent to the relevant units (Indu 2006a). One of these units, established in 2001, is the Corporate Responsibility committee, which comprises of executives from different departments and it is, among other things, responsible for Tesco's yearly CSR (Corporate Social Responsibility) report; first published same year (Indu 2006b). It has been published the proceeding years since then (http://www.tescocorporate.com/cr.htm). In general, Tesco seems to have succeeded in integrating CSR initiatives in general operational measures and they underline that CSR is implemented via gradual improvements: "CSR is a journey: whatever we have achieved, there is always more that can be done and that needs to be done"[1] (Indu 2006b). The strategy of gradual improvements is clearly related to the fact that management needs to balance the interests of the different stakeholders and secure sufficient capacity to make necessary investment for future expansion. This shows precisely what the balancing task is

[1] Sir Terry Leahy, Group Chief Executive, Tesco in 2003.

all about; improvements for all stakeholder groups measured over some time span, are at best obtained via synergistic effects e.g. if employees are better educated and motivated it makes customer feel better and in a long-term perspective they might be more loyal and therefore buy more. Yet, Tesco's CSR initiatives have had its *critics*. In relation to *suppliers* Tesco were accused of "squeezing its suppliers" and producers by demands to reduce prices or to be marking up prices much above what was paid to producers / suppliers. Furthermore animal health conditions were questioned in one instance (Indu 2006a & b). Concerning *employees*, the criticism relates to low wages and methods for reducing absenteeism. As examples it is reported that Tesco both, "came up with a policy of not paying for the first three days of sick leave" and paid low wages to employees below 18 years of age (Ibid). Now, it is of course impossible with only such few critical examples to conclude whether this in any fundamental sense mirrors, how Tesco's main activities are unfolded. And the reflection could here be, whether CSR initiatives in general are sufficiently close to and implemented in a way, where they gradually change the core activities. Or does CSR initiatives remain marginal and without influence on core activities. If fierce price competition in retailing forces retailers in their core business to "squeeze" suppliers or employees, this is of course bad news in a CSR perspective. Still, it is a rather complex task to document whether such causal mechanism is at play. In Denmark two large retailers, Dansk Supermarked and Jydsk were in a TV broadcast (DR2)[2] accused for neglecting or at least not controlling serious enough the conditions under which suppliers in India were producing clothes to their stores. Also H&M has had criticisms on such topics[3]. When asked why H&M do not build their own factories to avoid inconvenient PR, a manager from the firm replies, "H&M is not a manufacturing firm" and thus indirectly concludes that they have to thrust their suppliers or middlemen. In a practical business context this points to the need of enhancing the CSR control mechanisms and some of the mentioned firms have to some extent implemented new measures accordingly. In a theoretical or analytical context, this point to the complexities of understanding stakeholder systems[4]; that control systems may be costly and that establishing such systems should be seen in context of other possible activities, initiatives and governance forms that a stakeholder perspective can propose on these issues and how managers can balance different interests.

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[2] The specific program with the title: When discounts kill" was broadcasted June 18th 2006

[3] The Danish magazine for the union: 3F with the title '3F',no.13-30, June 2006.

[4] The conceptualization of the term, "stakeholder system" is in this paper based on Freemans (1984) definition of who is a stakeholder. Concerning the discussion on who is a legitimate stakeholder see footnote no. 26. The system is made up of stakeholders, often with a focal firm at the centre, and, dependent on the delimitation of the studied problem, relevant networks of surrounding stakeholders, for example suppliers and customer, and suppliers' suppliers and customers' customers.

Furthermore, firms in the *pharmaceutical industry* have developed their stakeholder relationships with the hindsight of seeking synergistic effects. For example, *Coloplast* that develop, manufacture and market internationally medical products in the key business areas: ostomy care, continence care, wound care, breast care and skin care. In their Annual Report 2003/4 in the section called 'Stakeholder report' they describe their expected synergies: "Our stakeholders' interests converge across the board. To generate good financial results, a company needs satisfied customers and successful employees. Improved processes and new technology can reduce the environmental impact and ensure even more effective utilisation of materials, all for the benefit of society and Coloplast's performance." And "More and more people .. are affected by Coloplast's activities. At the same time, the actions and attitudes of the surrounding world are of vital importance to the company….Companies must endeavour to achieve balanced value creation for key stakeholders. They must also strike a balance between short-term results and long-term considerations." Thus, Coloplast finds that positive synergistic cycles between the different stakeholders are possible, but there is a delicate balance between the short- and long-term decisions that management make and that also secondary stakeholders like the "surrounding world" may play an important role when striking this balance. Some of the primary stakeholders like nurses and patients are in addition involved in dialogue groups and online communities (Andersen 2005 and Mouritsen and Larsen 2005). Another pharmaceutical firm, *Novo Nordisk*, has also worked with CRS for a number of years. Novo Nordisk is a global player in diabetes care and do also represent significant market shares concerning haemostasis management, growth hormone therapy and hormone replacement therapy. According to Morsing and Oswald (2006) the management of Novo Nordisk' stakeholder relationships is now represented at executive level and a separate department is handling branding and stakeholder issues. This department "drives, challenges and monitors Triple Bottom Line strategies", engage with or builds stakeholder relationships worldwide at relevant geographic levels and seeks to identify long-term trends of importance to the firm and its stakeholders (Ibid, p. 187). Thus, Novo Nordisk seems in significant ways to integrate stakeholder thinking into their business strategies, but according to Morsing and Oswald (2006, p. 199): the "question that remains… is to what extent ..[the company's effort concerning internal auditing, annual reporting and balanced scorecards]..is effective in influencing behaviour at the operational level". This may indicate two things concerning the strategies for stakeholder responsibility. Either the performance indicators at tactical level simply evaporates at the operational level, because they are difficult / impossible to translate to the operational level? Or it could be interpreted as organisational culture based enertia towards these CSR issues at the operational level?

To sum up the cases, it is rather clear that the case firms see some synergistic effects from enhancing the relationship to important stakeholders and wish to be open to the rest. Yet, the case examples also reveal that it is not enough to implement codes of conduct on the strategic / tactic level; they must be followed by action and control on the operational level. But how should this be understood theoretically and which causal chains can be suggested to explain both the positive aspects e.g. synergistic effect and well as the more difficult issues of balancing interests and implementation of the decided codes of conduct? Therefore this paper will pose the question, to what extent can stakeholder theory and related socio-economic theories contribute with possible explanations? But before this is discussed at length, a few words on the early history of stakeholder.

Stakeholder theory is not new and important contributions stem from the early to the mid 80s. Freeman's (1984) book "Strategic Management: A Stakeholder Approach" is considered as one of the founding contributions to this line of thought. In this book he proposes that strategic management theory should explicitly consider the multitude of external and internal groups and organizations that influence and are being influenced by the focal company. Freeman later (2004) describes some aspects of the early US developments of stakeholder theory, but the early European contributions in this area is to my knowledge not yet investigated or reviewed[5].

Since the first contributions to stakeholder theory, several streams of scientific contributions have appeared. Donaldson and Preston (1995, pp. 66-67) classify these contributions into 4 approaches: 1) *Descriptive* by presenting models that describes the corporation and can be tested for their accuracy 2) *Instrumental* that identifies the connection between stakeholder management practice and performance goals 3) *Normative* by stressing that stakeholders are defined by their intrinsic value and their interest in the focal firm, not by the (functional) interests of the focal firm 4) *Managerial* by recommending "attitudes, structures, and practices" that together constitute stakeholder management. This paper will focus on an *analytical* approach, by analysing the actual pattern of stakeholder relationships, where stakeholders have "different interest, resources and abilities in relation to the governance of the company" (Mygind 2004, p. 3), or more precisely develop a theoretical framework that in the future could guide empirical analysis of these patterns. In line with this, such analysis should not be purely descriptive, but instead it should be informed by theoretically developed proposals or hypothesis

[5] In Denmark, for example, Christensen et.al. (1982), wrote a book that analyzed the subject extensively, including e.g. a partner ("interessent") model (Ibid, p. 98) very similar to Freeman's (1984, p. 25, exhibit 1.5) stakeholder map: "Stakeholder View of Firm" and proposals concerning the balancing of firm's future earnings and social goals in models that are just as advanced as those proposed by Jensen (2002) and Windsor (2002) and discussed in more detail in section 7.

concerning causal chains and relevant dimensions when analyzing a specific phenomenon and hereby in general terms apply to an abductive methodological perspective (Magnani 2001, Alvesson and Sköldberg 2000). Furthermore, this paper intends to include a *normative* perspective within relevant models of the proposed analytical approach by adding dimensions concerning how business ethics and responsibility issues are transformed into enactment, and thus raise the attention on these aspects. In several of the below sections this issue will be discussed in detail.

As can be observed from the title of the paper, the concept of *Company stakeholder responsibility* (CSR) (Freeman and Velamuri 2005) is seen as a focal point of departure for the paper. The concept is derived from stakeholder theory and corporate social responsibility theory and seeks to combine the best from the two conceptual worlds by suggesting that A) '"Company" signals that all forms of value creation and trade, all businesses need to be involved', instead of just focusing on corporations[6]. B)'"Stakeholder" ..suggests that the main goal of CSR is to create value for key stakeholders and fulfil our responsibilities to them.'. Here the responsibility, not only to shareholders, but also to other key stakeholders is emphasised. And C)'"Responsibility" implies that we cannot separate business from ethics. ..taking a stakeholder approach to business is ideally suited to integrate business, ethics, and societal considerations'(Ibid, p. 11). Thus, in stakeholder theory the "responsibility" dimension, borrowed from CSR thinking, indicates that business and ethics should not be separated (Freeman 1994, Werhane and Freeman 1999) and the explicitly addressing of "morals and values" is what makes it "distinct" (Phillips, Freeman and Wicks 2003). Consequently, this paper focus on discussing frameworks that is applicable to companies, not just corporations, operates with a broad and open definition of who the relevant or legitimate stakeholders are (Ibid, pp. 17-19 – sections 2, 4 and 8) and where responsibility issues are incorporated into relevant frameworks and models.

Furthermore, the analytical approach, as described above, underlines the importance of being able to suggest models and propose hypotheses that under certain preconditions can project how, in casu, stakeholder relationships evolve and how they are balanced and what factors and casual chain are likely to occur. This paper will suggest that stakeholder theory can profit from including relevant aspects of resource dependence theory (e.g. Pfeffer & Salancik 1978, Emerson 1962), resource based view of the firm (e.g. Peteraf 1993 and Barney 1991) and transaction cost economics (e.g. Williamsson 1985). Resource

[6] Now, this distinction will mostly represent a support of the intention of focusing not only on corporations, because the implications will primarily be visible when empirical research forces a choice between company types and sizes.

dependencies play a significant role in the value creation process, because it represents both the basis for the primary value attraction between stakeholders and the dependence initiated influence on certain parts of the stakeholder system; - an influence that may limit the reach of the firm's initiatives. Furthermore, these theories contribute with an understanding of how a given focal firm and its stakeholder system can generate capacity and how such will capacity enable it to act responsible and what relationship dynamics promotes or inhibits this capacity generation?

From an initial review of selected business ethics litterature, this paper intents to uncover to what extent principles derived from business ethics theories can be directive for business practice or whether a transformation of these principles is needed? When seeking to understand these potential transformation processes, what role do organizational culture theories play in order to conceptualize, how such processes enhance or inhibit stakeholder responsibility enactment? Besides organizational culture theories also resource based theories contribute with crucial elements of an understanding of how resource dependencies or value creation promotes or impedes such enactment. Combined in a model these theories shows that the dynamic interrelation between selected dimensions and hereby support a preliminary understanding of the pathways inolved in the accumulation of a capacity pool needed to be able to realise stakeholder responsibility. From this capacity base a new model suggests that stakeholder responsibility enactment is conditioned by the need and urgency levels that stakeholders express, which again indicates that an organizational culture influenced perception of this, function as a gatekeeper in the process of enactment. Consequently, the primary contribution of this paper is to pinpoint that business ethics principles always needs to be transformed in order to be directive for business decisions and that organizational culture theories play a significant role in the understanding of the transformation process. Furthermore, a detailled account of resource based theory extends the existing contribution within stakeholder thinking by suggesting that certain configurations support the idea of stakeholder collaborating induced synergistic effects that enhances value creation, but also underline that unbalanced configurations may impede the responsibility reach of a given firm. On this basis, this paper furthermore proposes two new models, one that explain which dimensions are involved in building capacity necessary to enact responsibility and another that recombines elements from existing stakeholder theory (urgency and needs) and organizational culture theory (embedded codes of conduct) in an understanding of how stakeholder responsibility is enacted.

On this background, the purpose of this working paper is to explore, to what extent and how the normative core of stakeholder theory can be transformed into a business setting of executive decision-making, where the different stakeholder interests are balanced? How resource dependence theory, theories concerning the resource based view of the firm and transaction cost economics can be combined into a model that identifies the dynamics that influence the focal firm’s capacity to act responsible? And finally what dynamics influence the transformation of capacity into an enacted and espoused implementation of codes of conduct with the result of potentially enhancing stakeholder responsibility? Consequently, the intention is to take the first steps in building frameworks that can guide later necessary empirical studies.

Thus, the next section of the paper (*section 2*) will review stakeholder research focused on business ethics and social responsibility issues under the conceptual heading of ‘the normative cores of stakeholder theory’. The normative cores is here preliminarily categorized as either soft or hard types of normative cores, based on, to what extent the formulated cores are specified and immediately directive for practical action. In a model this dimension is opposed with a dimension that signify to what extent the normative cores can be implemented directly by managers within their normal decision ‘space’. *Section 3* further explains that the organisational culture of a given stakeholder system will strongly influence the implementation or enactment of these normative cores. *Section 4* then evaluates whether it is possible to set a minimum level of the company’s commitment to enact social responsibility and this is followed in *section 5* by adding the question whether firms can always balance stakeholder’s interests without problematic outcomes. A critical and fictive case of closing a plant is at the centre of the discussion and the case indicates that managers may not always be able to balance stakeholder interests without harming some of these interests, also in the medium- to long-term perspective. Yet, outside periods with critical episodes or crisis, the outcome of the balancing process can very well be synergistic effects between stakeholders that increase the overall level of value creation (*section 6*). The main elements that promote or inhibit value creation is in *section 7* presented based on resource dependence theory, theory on the resource based view of the firm and transaction cost economics and in *section 8* these main elements are united in order to propose the dimensions that decide how the capacity to act responsible is generated in a dynamic set-up. Based on this, *section 9*, presents a model that proposes that the focal firm’s capacity, stakeholders needs, the urgency of a given business interaction, and codes of conduct embedded in the organizational culture, are important dimensions when seeking to understand how company stakeholder responsibility is enacted in business practice. And finally, *section 10* concludes the papers.

2. Review of the normative core of stakeholder theory

This review is based on Freeman's (1994) general proposition that the "business" and "ethics" discourse should not be separated (The Separation Thesis). Therefore it is important to review the normative recommendations developed in the literature on business ethics and social responsibility. These contributions are here called, the normative core (Phillips, Freeman and Wicks 1993). The normative core of stakeholder theory can at least be separated into two preliminary categories: *soft and hard types*.

Soft types of normative cores

Soft types of normative cores is here named *soft* e.g. in the sense that they are formulated in general terms that can be relatively easily be absorbed in existing codes of conduct of a firm or its stakeholder system.

The first contribution under this heading is Donaldson and Preston (1995, p. 84) that reviews *property rights theory*. They mention that "property" should not just be seen as representing the rights of property owners like e.g. shareholders, but instead as constituting a "complex bundle of rights and responsibilities" and that any one principle like "need" or "ability" could not "account for all aspects of" this. Instead the trend is towards more pluralistic theories, "allowing more than one fundamental principle to play a role". They exemplify this in relation to stakeholder theory by suggesting that the "stake" for a long-term employee could be "effort" and for customers it could be: "protections implicitly promised in the market offer (Ibid)". Hereby such characteristic "give various groups a moral interest", but it is not necessary that "such stakes constitute formal or legal property rights" (Ibid, p.85). Thus, Donaldson and Preston (1995) confirm that some specification of the general (soft) principles is necessary, but the mentioned examples seem to open new questions. The stake for an employee could with good reason be the accumulated "effort", yet, the crucial question for this stakeholder's accumulated "rights" is how the effort is measured and acknowledged by the management.

In the second contribution Argandoña (1998) develops the theory of *common good* by suggesting that "..to the extent that the company develops its common good, all will have a share in it (although in different ways and different proportions)" (Ibid, p. 1098). This fundamental argument is applied to stakeholder theory and it follows that the "main duty" of stakeholders is to contribute with their part in "achieving company's goal", partly by providing the resource they have agreed to make available, partly by providing the conditions under which stakeholders from the company receives "whatever he can reasonable expect from it, and whatever he has a right to receive by virtue of his contribution" (Ibid, p. 1099). The theory of common good is hereby found to provide a “foundation” for stakeholder theory, but this proposal cannot “simply be translated into a list of rights and duties, as it will always be partial and arbitrary”(Ibid). The duties of e.g. a focal firm must be “analysed case by case, taking into account the specific circumstances”(Ibid). Consequently, Argandoña too emphasises the importance of transforming the overall recommendations to the specific circumstances in a stakeholder system. Still, another guiding principle or aspect is presented: “the duty to play an active role increases with the agent’s capacity and the recipient’s need” and as argued later on in section 9, precisely this aspects could provide an important link between the accumulated capacity of the focal firm and the duty and ability to enact responsibility.

The third reviewed normative foundation for stakeholder thinking is the principle *stakeholder fairness states* (Phillips 1997, p. 57): “Whenever persons or groups of persons voluntary accepts the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of participants and there exists the possibility of free-riding, obligations of fairness are created among participants in the co-operative scheme in proportion to the benefits accepted”. The mentioned obligations are distinct “..from duties and basic human rights, which exists simply by virtue of one’s humanity, [because these] obligations of stakeholder fairness are additional moral obligations that are created based on the actions (in this case voluntary receipt of benefits) of the parties” (Phillips 2003, p. 26). The “..principle of stakeholder fairness provides for the generation of the obligations, not the content of the obligations”. The content should be based on the “actual discourse with the various stakeholders” (Phillips 1997, p. 65) and a derived norm should be “justifiable only in the case that it can be approved by all of those affected by the norm” (Ibid, p. 64). This contribution seems to emphasise that “stakeholder fairness states” is developed in an exchange process between relationship partners and that reciprocity between the parties is crucial. It hereby delivers a philosophical justification for Ring and Van de Veen’s (1994) further discussion on the concepts, equity or fairness in an interorganisational context. These concepts will be discussed further in section 8.

The fourth perspective: *Feminist ethics* underline the importance of adopting a caring approach. Thus, stakeholder management as perceived by Wicks, Gilbert and Freeman (1994, p. 493) in this ethics perspective is about “creating value for an entire network of stakeholders by working to develop effective forms of cooperation, decentralizing power and authority, and building consensus among stakeholders through communication to generate strategic direction”. The argument for increased decentralization is that the “firm not only nurtures communication and interdependence among stakeholders, it is able to draw more fully on the latent abilities and creativity of all” (Ibid). This directly addresses the potentials for generating value via synergetic processes. One of the factors that decide whether synergistic processes will occur is the organizational culture and its characteristics. Organisational culture and stakeholder theory is discussed more in detail in section 3. Burton and Dunn (1996, p. 142-143) proposes a caring ethics along somewhat the same lines, although specified differently by suggesting that attempts should be done to a) find win-win solutions among stakeholders b) “try to satisfy all reasonable stakeholder demands, as we care about and for all stakeholders” with the addition that weaker relationships with “least advantaged” stakeholders should not be induced to harm. One of the possible reflections is who decides when a stakeholder demand is “reasonable” or a “win-win” solution has been obtained? Resource dependence theory, as discussed in detail in section 7, indicates that in unbalanced relationships the party possessing the most favourable position in the resource configuration will have the ability to assert decisive influence on what is e.g. considered “reasonable” demands from a given stakeholder. Yet, how this ability is practiced and whether the practice promotes building “consensus” and “win-win” is another dimension that is not mechanically related to whether the relationship is balanced or unbalanced. This is also further elaborated in section 7. The notion that “the ‘least advantaged’ stakeholders should not be induced harm” does seem to represent a more “hard” type of normative core that can be operationalized. This issue will be discussed more in the next section

The fifth perspective: *integrative social contracts theory* (ISCT) (Donaldson and Dunfee 1994, p. 254) seeks to promote the interconnectedness between the empirical and the normative approach to business ethics by developing a normative theory. In this sense it represents both soft and hard types of normative cores. A crucial observation on “moral life in economic affairs” is that they are “strongly bonded” (Ibid, p. 257) or embedded in other words (Granovetter and Swedberg1992). For example how can a person in advance know “what the correct rules of business ethics are for a specific system without knowing more about the system and its participants” (Donaldson and Dunfee 1994, p. 258)? Therefore ISCT includes this localized or embedded knowledge in their model, but also propose a hypothetical macrosocial level to incur obligations. Thus, the theory “recognizes ethical obligations based upon two levels of consent: first, to a theoretical “macrosocial” contract appealing to all rational contractors and second, to real “microsocial” contracts by members of numerous localized communities”. These communities have moral free space to generate ethical norms through these contracts, but contracts should be “grounded in consent, buttressed by the rights of individual members to voice and exit” (Donaldson and Dunfee 2000, p. 440). Besides consent if “microsocial” contract are to be obligatory, they must be compatible with “hypernorms” and an “initial list” should, “at a minimum” include “core human rights” and “the obligation to respect the dignity of each human person” (Donaldson and Dunfee 1994, p. 267). As will be discussed in the sections 3-5 the consequences of voice or exit may differ significantly between the individual members of a specific localized community. In addition, their conditions for entering into a contract and evaluating its effects may also differ markedly. One example is a poor, illiterate farm worker harming his health by working too hard. The employer is not violating any hypernorms, but the worker so desperately needs money in order to provide for his family that the option of exit is meaningless. This example is also valid for employee groups, in specific regions of a number of industrialized countries with very limited access to social security systems.

But Donaldson and Dunfee (1994) do propose a specification of these norms. Thus, in case of conflict among the just mentioned norms, priority through “six principles consistent with the spirit and the letter of the macrosocial contract” is needed. The “general principles that contractors .. would choose and which therefore define *macrosocial contract* of economic morality, are:” 1. & 2. Transactions and norms embedded locally should be applied as long as they do not have “significant adverse effects” (Ibid, p. 269) outside the local community. This rule is of course encouraging to people outside the community, but the insignificance of the exit rule in specific circumstances open questions to the overall applicability of the rule. 3. The more global the community the greater priority to its norms. To give priority to the norm, gives very little indication of decision criteria to guide the prioritisation process. 4. Norms that supports maintenance instead of damage to the economic environment should have priority. Now, economic life both locally and globally is a continuous process of construction and deconstruction / destruction and this process may not, per se, have conflicting outcomes if the deconstruction / destruction process is implemented in an organised manner. Instead of innovation, maintenance of specific economic subsystems may reduce value creation in the long run. 5. “Where multiple conflicting norms are involved, patterns of consistency among the alternative norms provide a basis for prioritization” (Ibid). It is here not clarified whether the “alternative norms” should be selected within the six suggested rules or outside. Furthermore, how “patterns of consistency” could become a “basis for prioritization” is not either specified. 6.“Well-defined norms should” have priority over “less precise norms” (Ibid). This is a rather obvious observation, however the crucial question again seems to be who decides to what extent a norm is well-defined? In summary then Donaldson and Dunfee (1994) provides an important notion that moral in economic business is strongly embedded and besides hypernorms like core human rights, local circumstances must be taken into account. However, when applying this notion to localised norms a number of new questions arise. Many of the questions relate to the need for the provision of more precise decision criteria and to the question whether contractors have equal abilities at free will to enter or exit contracts or do some contractors enter by necessity?

Hard types of normative cores

The *hard* type *normative cores* are formulated in more specific terms and are to a higher degree directly instructive to manager's decisions and, thus, more difficult to absorb by the firm. From the examples of hard formulations in the review above it is worth mentioning: not harming or improve the conditions of the "least well-off stakeholder" (Burton and Dunn 1996), duty increases with capacity and recipient's needs, as suggested by Argandoña (1998, p. 1100); we "must apply the principles of efficiency or capacity and need: the duty to play an active role increases with the agent's capacity to act and the recipient's need". The latter example will be discussed in more detail in section 9, but the former proposing that the "least well-off stakeholder" should not be harmed, could be said to be compatible with the latter. Thus, the rule that the duty increases with the recipient's need, have close connotations to not harming the "least well-off stakeholder", when this is seen as a special case of the principle to "satisfy all reasonable stakeholder demands". Still, Argandoña's proposal directly connects duty with capacity and therefore this conceptualisation is used in section 9.

Freeman (1994) furthermore suggests that a "redesigned contractual theory will capture the liberal idea of *fairness* if it ensures a basic equality among stakeholders in terms of their moral rights …and if it recognizes that inequalities among stakeholders are justified if they raise the level of the least well-off stakeholder". This notion is already touched upon just above. Other liberal ideas as *autonomy* and *solidarity* is defined by respectively "that each stakeholder must be free to enter agreements that create value for themselves" and by recognizing "mutuality of stakeholder interests"[7] (Ibid, p. 412 and p. 416). These ideas are explicated in a Doctrine of Fair Contracts consisting of six principles, where we should think of "management as having the duty to act in accordance with some specific constitution". And the author suggests "requisite changes in the enabling laws of the land" (Ibid, p. 417). The first principle of "clearly defined entry, exit and renegotiating conditions" can with relevance be discussed in the context of business economics and especially transaction cost economics. Refer to section 7 below. The next five principles seem to have far reaching consequences for the market economic system, if they are taken literally. The content of these principles are: 2) "changing the rules of the game must be agreed upon by unanimous consent" among stakeholders 3) if a contract impose cost on a third party, she/ he must be compensated or included in the contract 4) "all parties to a contract must share the costs of contracting" 5) any stakeholder must "adjudicate conflicts within the bounds" and in the interests of other stakeholders 6) the firm should be

[7] The content of this notion is very close to the proposals of Ring and Van de Veen (1994) as discussed in later sections.

“managed as if it can continue to serve the interests of the stakeholder through time…Therefore it would be rational to hire managers who are fiduciaries to their interests and the interest of the collective”(Ibid, p. 416-417).

A literal interpretation of Freeman (1994) emanates a model where a collective of employees, financiers, customers and communities hire managers that are “fiduciaries to their interests” and where larger changes demand “unanimous consent” and extensive inclusion of potential costs imposed on third parties. Besides the generally applied representation of financiers in boards, inclusion of employees in boards are known in Scandinavia (e.g. Christensen and Westenholz 2000, Rose and Kvist 2006), and from employee-owned firms (e.g. Westenholz 1999), and historically in former Yugoslavia with more extensive representation of employees (e.g. Broekmeyer 1977). But a system where a collective of employees, financiers, customers and communities and probably also supplier should reach "unanimous consent” on the more important issues would surely paralyse the market economic system through the cascading effect of collective indecision in the related stakeholder systems.

Besides principle 3, none of the other principles seems to be discussed in detail in later works by Freeman and the co-authors. One possibility is that this doctrine should be interpreted in the light of later works of Freeman and co-authors, where the ethic challenges in the medium to long term perspective are viewed from within the normal decision space of *managers*, which further indicates that a literal interpretation is not compatible (Freeman and Liedtka 1997, Werhane and Freeman 1999; Freeman and Phillips 2002; Phillips, Freeman and Wicks 2003; Freeman and Velamuri 2005). Another possibility is that the 1994 article is meant to be seen as belonging to a quite different discourse than later works?

In summary,
the discussion on soft and hard types of normative cores has focused on two crucial aspects, namely, to what extent the suggested rule or principle is, a) specified and directive for business practise b) within what is normally understood as being within the decision

‘space’ of business managers? Figure 1 illustrates that four different outcomes can be

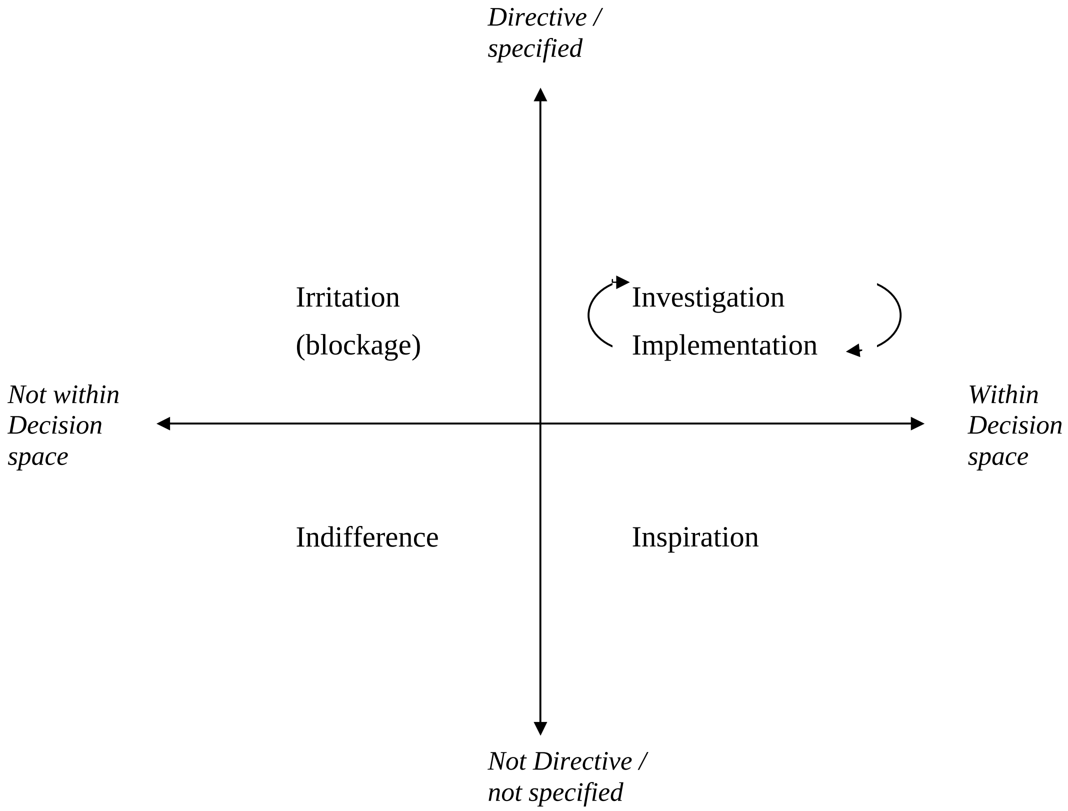

Figure 1: Normative cores - four types of influence on business practise

suggested, 1) Indifference 2) Irritation (blockage) 3) Inspiration, and 4) Investigation / Implementation. The literature in the review has contributed primarily to the type 3 influence, but also, if interpreted literally, one contribution to type 2 is found, whereas non have contributed to the type 1 (*Indifference*) and not either to the type 4; - at least when viewed from a purely deductive perspective. One of the hard type normative cores could clearly be stated as relatively directive, but at the same time, in a literal interpretation, the proposed principles consisting of e.g. unanimous consent among a broad group of stakeholders, seems outside the normal decision ‘space’ of business mangers. Presenting such suggestions to business managers is likely to cause a mental *blockage* or at least *irritation*, as they would conceive it as unrealistic and maybe inhibiting market dynamics. Yet, based on other contributions from the same author, a literal interpretation would probably not cover the intentions with the proposals herein. The rest of the hard type and nearly all the soft type contributions, are best allocated within the type 3 field. Principles within these are clearly compatible with the decision space of business managers, but the problem is instead that the principles are not or cannot be sufficiently specified in order to be directive for business decisions. It is often mentioned that crafting a list of rights and duties would not be meaningful, because it will always be partial. Yet, managers can clearly be inspired by these relatively abstract principles, but when they try to use them in practice they need to consider: how should I translate or transform these principles into codes of conduct that could be directive for our business context? When you look at the specific codes of conduct afterwards it may be difficult to establish why precisely these principles have generated precisely these codes; there is a relative diffuse link between the two. It is what can be labelled: *Inspiration.* Still, if researchers manage to carry the torch this far, it is a very important first step on the road to stakeholder responsibility. The type four category, *Investigation / Implementation* represents a situation where it is possible to construct rules or principles that are within the normal decision space and at the same time directive for business practice. As mentioned above there is clearly a tension between global hypernorms and localized / embedded norms and precisely this constitute a difficulty for proposing global principles and detailed lists. The procedure that can secure best compatibility between principles and practice is, as indicated in figure 1, to initiate an iterative process between investigation involving research, consultancy and internal investigations, and implementation processes, altogether following an abductive methodology: An analytical framework guiding empirical studies and results are again theoretically reflected and reformulated for new empiric inquiry. The models suggested in figure 2 and 3 is intended to condensate empirical and theoretical findings that illustrate how business practice can be conceptualised, with a focus in figure 2 on value and resource pool generation, whereas figure 3 is centred around dimensions influencing responsibility enactment. Hereby, this hopefully can reduce conceptual distance between hypernorms and responsibility enactment.

Another aspect, related to this, is that it may not be totally impossible to construct *nested systems of codes of conduct* that may reduce this distance. The concept of nested systems are borrowed from biological science, where e.g. a quark can be said to be nested within an atom, this atom within a molecule, the molecule within an organ, this organ within a subsystem (blood transport), and this subsystem within a creature (mammal). The description of Tesco’s steering wheel gives an indication how such nested systems could be developed. (Local) subcultures will always to some degree differentiate and this paves the way for specific local ethical norms[8], which may generate tension in relation to espoused hypernorms. However if nested consistently within hypernorms, there can be synergy instead of tension between the local and global implementation of codes of

[8] The notion of local “moral free space” is somewhat misleading also from the perspective of Donaldson and Dunfee (1994) as they actually nest the local specifications by letting them be dependent on consent, voluntary intro / exit to be obligatory and also nested within hypernorms.

conduct. In the Tesco example the global norms would be Tesco's Steering wheel on corporate level together with the document "Tesco Corporation Business Ethics Policy"[9], but also local applications exist both in terms of Steering Wheels for each unit and the culture and practice that enacts the KPI's from the local Steering Wheel. Still, this issue needs to be elaborated, both in further theoretical, as well as, in empirical studies Now, the localized parts of a nested system will differ on a number of aspects, for example, dependent on which national, ethic and organizational cultures that the system needs to bridge, dependent on business function and on stakeholder type.

In line with this, the next section discuss more in detail the embeddedness in organizational culture of the codes of conduct reflecting the normative cores. Still, the discussion of nested systems, just above, seems to indicate that normative cores can be transformed / translated without contradiction, if only the system is nested. However, as argued in section 5 this is not the case, because it may in certain critical instances or crisis situations be necessary to a firm, to make decisions that cannot be called ethically unproblematic to all stakeholders in any absolute sense. This can only be true in the relative sense of doing the best within the decision space and responsibilities of an executive manager that balance stakeholder interest to secure the long-term prosperity of the firm / stakeholder system. Furthermore in section 4 it is discussed whether suggesting minimum levels of commitment to business ethics principles are a fruitful venture?

3. Enacting and espousing codes of conduct is strongly bonded or embedded in the organizational culture of stakeholder systems

In line with this, Donaldson and Dunfee (1994, p. 257-258) find that moral life in economic affair is "strongly bonded", i.e. that humans possess "finite capacity to assess facts" and that economic systems is of non-natural or "artifactual nature". Thus, one way to understand this embeddedness of moral life is to include organizational culture in the thinking of how such normative cores are espoused and enacted. Via the crucial dimensions of organizational culture: artefacts, values and assumptions (Schein 1992), awareness of the embedded and implicit character of organisational phenomena becomes prevalent. Top managers can change the tangible aspect of business ethics that relate to both artifacts (e.g. standard and norms) and to values (e.g. strategies, goals or mission statements). Still, employees or middle managers can tacitly or openly resist such change, if they perceive such change not to be in accordance with existing values and assumptions held by individuals or subcultures in the firm. Thus, managers can mirror or reflect normative cores, as recommended by stakeholder thinking, in artifacts or values that are

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[9] The document is from May 6, 2004
www.**tesco**corp.com/data/1/rec_docs/173_20051017_**Ethics_Policy**.pdf

made explicit to the stakeholder system, but subcultures in this system may hold values and assumptions that make them resist such changes. In effect, not only should the suggested normative cores to some extent be compatible with the decision space normally at the disposition of managers, if managers succeed in transforming the normative cores to the stakeholder context in which a focal firm is embedded, still there is no guarantee that new normative cores will be accepted in the short term. When enacting and espousing codes of conduct (and changing them) managers must perform a dual transformation processes, both transforming generally formulated normative cores and transforming (certain parts of) the stakeholder system to reflect and enact responsibility. According to Martin (2002) such a transformation of the organizational culture can be viewed from three perspectives: integration, differentiation and fragmentation. These perspectives reveal the tension between the need (in the integration perspective) for some consensus and consistency among individuals and subcultures in order to transform cultural elements relating to business ethics and the fact that an organization will always contain some ambiguity and conflicting assumptions / values. This viewpoint very much parallels Donaldson and Dunfee’s (1994, p. 270) and their described tension between “local economic communities” or differentiated or fragmented subcultures specifying “ethical norms for their members through microsocial contract” and hypernorms as representing the need for integration and consistency. The learning from organizational culture theory tends to be that this tension to some degree always will be present and it is heavily disputed to what extent management can change organizational cultures in any consistent way (e.g. Keyton (2005). These difficulties will probably be more pronounced if intending to change an entire stakeholder system and its codes of conduct. This even gets more problematic as organizational culture theory primarily focus on intra- and not interorganisational aspects of organizational culture (Martin 2002) and therefore a “nexus approach” is suggested in which external influences and interactions are allowed e.g. including the option that cultural differences due to e.g. nation, race and industry can influence organizational cultural elements (Ibid).
Then, what can be concluded concerning the relation between the normative core / codes of conduct /enacted stakeholder responsibility and organizational culture? The following indicate some possibilities:

1. Not only do the findings from organizational culture theory indirectly support the notion from business ethics theory (Donaldson and Dunfee 1995) that morality of economic life is strongly bonded or embedded, it furthermore specify what processes may promote and which may inhibit the enactment of stakeholder responsibility. In other words, it is hard to imagine a study of stakeholder responsibility that do not touch some aspect of organizational culture theory.

2. Enacting stakeholder responsibility can be understood and analysed as a subset of organizational culture theory i.e. as embedded in artifacts (codes of conduct as espoused in e.g. CSR reports, business ethics policies, mission statements), and assumptions / values (attitudes, values and behaviour that consciously or subconsciously represent or express issues relating to stakeholder responsibility).

3. The tension between the concepts, integration, differentiation and fragmentation seems to be a tension that is also present in processes where normative cores are transformed to codes of conduct and again, codes of conduct are transformed to responsibility enactment, including feedback cycles. The nested systems of codes of conduct, mentioned in section 2, point to the need for a certain degree of integration of the intra- and interorganisational processes, if a discrepancy between hypernorms and localized norm should not occur. The learning from organizational culture theory suggest that such management induced integration intended to reach across subsystems and cultures is difficult if not very close to impossible to implement. This raises the parallel question whether it is possible from executive level to induce a consistent enactment of codes of conducts within the focal firm and especially with a reach including stakeholder relationships, as the external perspective have been sparely studied in organizational culture theory? It is clearly difficult, but when studying the phenomenon organizational culture can contribute with conceptual and analytical frameworks.

From the discussions above several layers of transformation is suggested to take place between normative cores and enacted stakeholder responsibility or between hypernorms and localized norms. But can we find "hyper-hyper" norms that are so important that they should not so much be transformed, but just be applied?

4. Normative cores and minimum levels of commitment

Donaldson and Dunfee (1994, p. 267) mention that the task of building a comprehensive list of hypernorms is immense, but it is also "open ended because no criterion exists for determining when a proposed list of hypernorms is complete". However, they supply us with an initial "minimum" list including: 1) *core human rights* e.g. personal freedom, physical security and well-being, etc. 2) respect the dignity of each human person. They also refer to early versions of the UN Global Compact. These principles are described in short form: 1) respect human rights 2) secure that operations are not complicit in human rights abuses 3) freedom of association and collective bargaining 4) eliminate forced and compulsory labour 5) eliminate child labour 6) eliminate discrimination in employment 7) precautionary approach to environmental challenges 8) promote environmental responsibility 9) support diffusion of environmentally friendly technologies and an, finally, an overarching principle that is expected to become the tenth principle; to work against corruption, including extortion and bribery[10].

But is not some transformation still needed? For example how is physical security and well-being transformed into norms and rules in the stakeholder system for working environment, including the right to pauses, total work hour per day / week, ergonomics, etc? Again the devil is in the detail.

Another type of "normative core" minimum level is that the conduct of a stakeholder system should be *legal*. This norm can be claimed to possess universal meaning, however the implementation hereof still involve a large grey zone, where transformations and interpretations are needed, e.g. antitrust legislation, legal aspects of work condition, restrictions on marketing and advertising, etc. Furthermore, especially large corporations have the ability to "shop" between different national legislative systems that best adapt to the needs of the firm and maybe also (some of) its stakeholders. Consequently, legality becomes a kind of "commodity" where firms can choose levels and types of legal constraint.

A third type of minimum responsibility level is relating to *(business) norms of fairness* as conducted in the stakeholder system. To Ring and Van de Ven (1994, p. 94) "Equity" or "Fairness" is proposed to be a key concept, and defined "..as "fair dealing" (which does not require that inputs or outcomes always be divided equally between the parties)…In fair dealing reciprocity is sufficient.., but equality is not necessary..". If one or more stakeholder (-s) perceive the balancing process as crossing this ethical limit and thus considering the firm as being unfair, they might induce conflict e.g. by customers complaints or media attention, or withdrawal from the relationship if possible e.g. shareholders or retreat to passive / hidden resistance if they are dependent on the resources possessed by the focal firm e.g. employees or suppliers. In consequence, to be defined as "responsible" a balancing process should as a minimum be perceived as fair by the stakeholders in the sense of a fair deal or process containing reciprocity. To some extent this parallels the development of localized ethical norms based on microsocial contract (Donaldson and Dunfee 1994), because consent is represented as dimension whether it is actively or passively adapted, and also to some degree the exit dimension is present.

In summary, then, two points to consider appear:

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[10] Fussler, C and Cramer, C (eds.) (2004) Raising the Bar Creating Value with the UN Global Compact. Greenleaf Publishing, Chapter 1.

1. The principles settled in Global Compact or similar principles calls for a transformation before they can be said to be directive for business practice or stakeholder responsibility enactment. Thus in this respect, it seems to resemble the influence type 3 – Inspiration, as discussed in section 2.
2. Legislation can of course not be said to be intended for "Inspiration" only, however, it does involve a grey zone, where interpretation (transformation) is necessary[11]. Especially global firms have the resources to make this interpretation value generating for the firm and furthermore they have the option of choosing between different national legislative systems to obtain the best fit, seen from their perspective. The transformation process here resemble the type 4 influence from section 2, where implementation and investigation follow each other in cyclic processes. In firms this process is represented by the process between nested systems of codes of conduct and responsibility enactment and in research it is between empirical research that follow this process and gradual enhancement of frameworks for understanding stakeholder responsibility enactment.

But let us for a moment consider a scenario where a stakeholder system actually succeeds in applying a significant part of the normative cores by transforming them into specific guidance for enactment. Such a firm and its stakeholders will likely be better of in terms of value creation and overall stakeholder satisfaction, but will it be possible, in any absolute sense, to avoid critical or problematic outcomes in a business ethics perspective? Probably not.

5. Can the firm always balance stakeholders' interests without ethically problematic outcomes? – A critical case

To clarify this proposition a critical case (Yin 1989)[12] is examined. Can a company that in general would be considered as ethical responsible, as the outcome of normal market economic trends, be involved in situations that have problematic ethical outcomes that leave managers in a Catch 22 decision situation? To tentatively answer this question let us consider a case where a US or European firm, in order to secure the long term survival of the firm, in one stroke closes a plant where 2,000 employees work and move the jobs to a new plant in South East Asia. In this case the change is legal and it is also conforming to the UN Global Compact principles of human rights, labour rights and environmental care.

[11] The legal systems in different countries settle different levels of interpretation, e.g. explanatory memorandums and court orders in cases that include matters of principle. Another issue is the ability and will by authorities to enforce the laws. Depending on how these factors have developed and is handled currently, this will leave a greater or smaller grey zone that are free for interpretation.

[12] Yin states that the *critical case* can be "used to determine whether a theory's propositions are correct, or whether some alternative set of explanations might be more relevant" (Ibid, p. 47).

Nevertheless the 2,000 jobs that disappears represent, let us say, 80% of the jobs available in the local community. This leads to relative poverty, family ruin, suicides, decline in local government service or increased taxes, etc. In South East Asia the new plant has the opposite result by reducing poverty, helps families to survive and improves the income basis for the local public sector. How can business ethics literature contribute to the evaluation of this case? None of the propositions that can be condensed from the discussed normative core seems to be directive for manager's decisions in this specific case. The manager needs to transform the recommendations of e.g. taking care or not harming the least well-off and hereby make decisions that can "cut through" contradictory demands. Although the firm generally interact with stakeholders in a responsible way and has no intentions to harm any of them; in this situation the outcome is rather devastating and can of course be interpreted by the employees as not responsible. But how do the new jobs in South East Asia count in this evaluation? The South East Asia employees may not even be regarded as stakeholders, because they are probably normally not hired before the European / US employees are dismissed, still others (e.g. Freeman and Velamuri 1995) would probably include the South East Asia employees. Nevertheless the top managers are left alone transforming the normative cores into decisions that can handle these ethics paradoxes with an outcome that produce as little harm as possible from the overall perspective of the stakeholder system. The dismissed employees may have been informed about the decisions of the board in a timely, fair and detailed way; and managers may even have done whatever they can e.g. qua network connections, offer courses relevant in relation to new jobs, some extra months salary, etc. Still, it cannot be ignored that, in the short term, the dismissed employees may feel that they have been harmed.

The manager is per job-description responsible for the long term survival of the firm and as mentioned her / his the decision conform to Global Compact and legal principles, still there is no chance that she / he can conform to the wishes of the employees if their claim is to maintain their job and if we are still taking about a firm in a market economy. Furthermore, it is difficult to evaluate the ethic effects of a manager's decisions without also considering how the society handles unemployment. Besides this, the critical case seems to highlight the importance of ethic trade-offs, where "positive" ethic effects counterbalance "negative" ethic effects. In a normative ethic sense the positive effects in South East Asia is not directly improving the conditions for the 2,000 unemployed. Certain resource trade-offs may accumulate value for the stakeholder system as a whole, but viewed from a business ethics perspective the interest of *all* stakeholders should be considered, which leads to contradiction. But what (temporary[13]) sacrifices can the manager from an ethic perspective

[13] The case also shows some problems of separating between temporary and permanent sacrifices, because the sacrifices of the dismissed employees becomes rather permanent in relation to the focal firm, however

let the employees endure? On the precondition that ethics basic-line criteria's are fulfilled and if the firm only have the resources needed to establish the new plant and secure proper conditions for employing the new South East Asian employees, what else can the managers do, if the alternative for the firm is not to survive, despite the unlucky and ethic problematic consequences for the 2,000 dismissed employees? Probably she / he has no alternative and the alternative that 10.000 employees in the long-term loose their job is not either attractive. If the firm has financial resources that exceed the needs in relation to new South East Asian activities this of course widens the decision space with regard to the 2,000 employees that is confronted with dismissal. The managers can then choose to help by different measures like using the network channels of the firm to facilitate the search for a new job, use the brand for promoting the qualifications of the employees, pay courses to help employees to accommodate to new job possibilities or pay external consultants to facilitate the job change process, etc. These last examples point to the idea that not only the level of *ethical leadership* of the managers, but also to the issue, to what extent managers / firm / stakeholder systems accumulate *capacity* that can be made available to problem solving. Consequently, there is a rather direct connection between the ethic "promises" the firm can give and the capacity with which it can fulfil them. It would be fatal to stakeholder thrust if there is a mismatch between ethic promises and available resources to fulfil them. If the case firm should have avoided the unlucky and ethic problematic consequences of the unemployment, then it should have saved resources proactively in order to be able help in critical situations. Is, then, the moral implication from the business ethics discussion that firms should accumulate a reserve to handle possible future social or ethic problematic events, if they operate in countries where unemployment and social security is minimal? If not, the example show that ethic claims on medium to higher levels, when stakeholder claims are contradictory and given the function of the firm in a market economy; is impossible to fulfil without the necessary resources and thus the content of these ethics recommendations from researchers seems to dissolve or transform into a question of proactive resource accumulation? Thus, it must be recognized that when normative cores are enacted and espoused in a stakeholder system these cores are transformed to match the specific circumstances of a given system. Managers normally seek to fulfil their role by securing the long-term survival of the firm in a market economy. But even if they apply ethical leadership of the generative type (Damon 2002 and Freeman and Velamuri 2005), they cannot in certain critical situations avoid harming the long-term interests of certain primary stakeholders e.g. closing plants, dismiss larger groups of employees or harm the global or local environment to some extent e.g. contribute to global

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seen from the trade-off perspective between the dismissed and the newly employed or the employment capacity on global scale the sacrifices could be seen as temporary shifts between location. However, this is of very little help to the 2.000 unemployeed.

warming. They can by a number of measures relieve the harm if they possess sufficient resources; but not avoid it as such. Consequently, the commitment of managers must be evaluated by their ability to espouse (e.g. mission statements or CSR reports) what levels (Freeman and Velamuri 2005) and faces (Damon 2002) of morality they want to express. Yet, the outcome hereof will primarily be measured by the commitment obtained from their stakeholders and hopefully reflected in an enactment that result in (an increase in) the total value creation potential of a given stakeholder system. To what extent does the capacity of the firm actually meet the needs of their stakeholders? This must be assessed simultaneously. Such capacity is based on an ability to balance different stakeholder's interests in the long-term interest of the firm and its stakeholders. If succeeding, value will fulfil needs that will generate commitment that will generate value, and so on. A positive and synergistic circle is at play. If such a circle can be activated a rising level of commitment to ethical leadership may well accompany the rising level of value creation in the stakeholder system.

A conclusion of this section is the following:

1. When crisis or very critical episodes occur, despite having to a high degree implemented stakeholder responsibility, it is not always possible for the business executive, within the normal decision space, to avoid long-term harm on certain stakeholder groups.

2. The capacity to foresee such critical instances is therefore crucial to stakeholder responsibility. Thus, not only the level of *ethical leadership*, but also the extent to which companies are able to accumulate *capacity* is an important precondition in order to being able to solve problems. Consequently, there is, and should be, a rather direct connection between the ethic "promises" the firm can give and the capacity with which it can fulfil them.

3. This capacity generation should be seen as an integrated part of value creating process of the firm. Thus, apart from the critical situations, where managers' responsibility decision space implodes and makes ethical leadership a contradictory venture, a gradual rise of awareness, commitment and responsibility in accordance with the value and capacity accumulated, is what could be expected or at least hoped for[14].

[14] There are probably firms that are run on such conditions of human depravation, slavery and environmental disaster that they should be closed. This is, however, within the jurisdiction of national and international authorities, when that is the case.

The process of balancing different stakeholder demands seems to be an important mechanism in value creation and thus also crucial to a fulfilment of a gradual rising commitment to ethical leadership.

6. Balancing stakeholder demands and value creation process

The task of balancing the interest of multiple stakeholders simultaneously is not easy and as Freeman and Mc Vea (2001, p. 195) mention, firm must sometimes distribute harms or sacrifices. Thus, the interests of the various stakeholders are not necessarily easy to balance because they may be conflicting (Jensen 2002; Lorca and García-Diez 2004). Still, the expected general trend for stakeholders is that they all in the long run gain higher value from being attached to the focal company than not (Freeman and Mc Vea 2001, p. 195). The theoretical discourse on the balancing issue seems to be aligned according to the following questions:

- What are the decision criteria for balancing or prioritising stakeholder interests? Should it be based on a “single-valued objective function” (Jensen 2002, p. 68)?
- How is the balancing process structured and can stakeholder interests be balanced in a process where all stakeholders perceive a persistent and long term value increase from maintaining the relationship and if yes, how is this accomplished?

Concerning the *former*, Jensen (2002) suggests that a) purposeful behaviour requires the existence of a single-valued objective function b) total firm value maximization makes society better off.

A precondition for Jensen’s (2002) *latter* argument is that there are no monopolies and externalities, although he recognizes that they both exist. Jensen claims that if externalities can be properly (re-) assigned to “some private individuals or firms” externalities ceases to exist (Ibid, p. 70), but at the end of the day he admits, that monopoly causes the firm to produce “less of a commodity than that which would result in maximum social welfare”. Resolving externality and monopoly problem is the “legitimate domain of the government in its rule-setting function” (Ibid). Exactly these last concessions point to the fact that ‘social welfare’ in general must be discussed from the perspective of the society as a whole and not only from the perspective of the firm as an institution. Thus, the firm play a specific role and fulfil specific functions within a society e.g. as a production, allocation and exchange system for goods and services. The firm and its stakeholder can address the social and environmental “welfare” questions that relate to the *specifics* of the given stakeholder system, but in a *general* sense these welfare issues relates to the public sector. A firm should view the welfare problem through interaction with its stakeholders and base it on these stakeholders' *perceptions*, considering weather or not welfare from their perspective has increased, which is a much more restricted claim compared to the Jensen (2002) argument that value maximization, per se, causes welfare to rise.

The *former* suggestion by Jensen (2002) is that purposeful behaviour by managers requires the existence of a single-valued objective function. Jensen exemplifies this by pinpointing the confusion that would occur, if a manager should maximize on both profits and market share. There would be no criteria as to where the manager could position the outcomes in the range between profit and market share maximization. This is also valid for diverse and potentially conflicting demands from stakeholders (Jensen 2002, p. 73) and Jensen claims that stakeholder theory fails "to provide a criterion for making such trade-offs, or even acknowledge the need for them" and suggest the objective function to be that the firm should be "value seeking" towards identifiable improvements; which corresponds to"the change in the market value of all claims on the firm" or as a "flow" measure: economic value added (EVA) (Ibid, p. 81). Short-term profit maximisation at the expense of long term value seeking is a "sure way to destroy value". "We cannot maximise the long-term market value of an organisation if we ignore or mistreat any important constituency", however "no constituency can be given full satisfaction if the firm is to flourish and survive" (Ibid, p. 77). Thus managers have to "deal with the difficult issues associated with specifying the trade-offs among multiple goods and bads that determine the overall score for an organisation's success" (Ibid, p. 83). Jensen does not specify this trade-off process in any detail, but do mention that it is important to distinguish between single dimensional performance or outcome measures and the "drivers that the unit or person can use to affect the performance measure" (Ibid, p. 81). It is not directly mentioned, but it seems likely that managers' trade-off decisions are related to the drivers and "their changing relation to the results and how to manage them" (Ibid, p. 82). Consequently, this could be interpreted in a direction where managers have to make trade-offs between the use and *combination of available resource bundles in order to meet their long-term performance measures i.e. value seeking behaviour towards identifiable improvements*. But there is no specification of how this should be accomplished or how the conflicting demands between stakeholders may be met.

Windsor (2002) uses Jensen (2002) as a starting point for further discussion of how conflicting stakeholder demands can be balanced. Windsor (2002, p. 87) sees Jensen's suggestions "less [as] an alternative and more one dimension of a 'triple'-bottom-line performance evaluation framework" and therefore he develops this further in a three dimensional model that discuss how the dimensions of "financial value", "stakeholders interests" and "stakeholders power and / or public policy can be balanced. The model show that increases in the financial value of the firm can be followed by increased accommodation to stakeholders' interests, but also that from an optimum point the direct opposite development may occur. This last mentioned situation may correspond with the issues discussed in section 5, but the former argument also insists that a gradual increase in financial value and stakeholder welfare is possible. Christensen et. al. (1982), also discusses this issue and do agree with Windsor that both a synergistic and contradictory pathway is possible. Yet, Christensen et.al. (1982, pp. 113-114) suggests interesting scenarios and one of these is projected to give both higher financial value *and* higher levels of compliance with stakeholder needs, but until this target is reached the firm will have to cope with extra costs for e.g. depreciation of investments. The other scenario will also generate higher levels of compliance with stakeholders' interests, but at lower compliance levels than the first scenario, and consequently, at lower depreciation costs. The interesting thing here is, by which criteria it is possible to choose between the two scenarios? One aspect of this is to what extent the extra depreciation costs surpass / equals / is lower than the expected extra earnings, but as part of the considerations, it should also be assessed whether "the firm possess the sufficient financial strength and the necessary access to financial resources that enable it to survive in the period" from "today" (T_0) until the objectives of the first scenario are accomplished (Ibid, p. 114). And the length of this period is very important when estimating how strong financially the firm must be to reach the goals of the first scenario. One similar example is from investing in warehouse based deliveries of online ordered groceries without delivery fee, where industry based data indicate that such venture do not break-even until a turnover of €67 million and if this is reached within 5 years a debt of €15.8 million (amortization not included) is accumulated. And a longer time horizon for reaching this goal will of course increase the need for strong financial sources (Kornum & Vangkilde 2005). Another example would be the maturing of 3G mobile telephone markets that demands huge investments. That exactly these examples slips to mind, may indicate that this problem of non-compliance is largest, when firms has to be very persistent (Kornum & Bjerre 2007) in order to create new markets by e.g. introducing new products / services to new markets. Christensen et.al. (1982) in addition underlines that in a dynamic context the mentioned problems may be reduced because both stakeholder needs and financial value may increase gradually and simultaneously, which will decrease the financial requirements, because each step of extra financial value can pay much of the next step of investments, also concerning activities that improves stakeholder conditions.

Thus, tentatively to that two major pathways can be considered possible: 1) Pathways characterized by industries with main activities in existing / mature markets with steady sales / profits levels and where a gradual increase in both financial and stakeholder value is possible. Now, higher profit levels would signify that a proportional larger part of turnover could be utilized for investments, in order to accomplish the demands from stakeholders. As the examples in section 1 indicates the health care industry seems to both have high levels of profit and many stakeholder responsibility activities implemented, whereas in the grocery industry the Tesco example is not supporting the hypothesis of higher profit levels induce higher levels of stakeholder responsibility, but much of the rest of the industry seems to confirm the hypothesis. Consequently, empirical analysis seems very welcome here. 2) When creating new markets where organic growth is difficult due to network externalities or a long period before break-even can be expected or both, investment in stakeholder responsibility related activity may require either extra strong *persistency* (Kornum & Bjerre 2007) / financial strength or stakeholder responsibility activities may be set on standby until break-even or another financial measure, like profit, has been reached.

Besides the two-dimensional relation between financial and stakeholder value, Windsor (2002, p. 95-96) proposes a model where an increase in stakeholders' power or public policy influence is constraining the financial value of the firm. Yet, the model does not include existing business strategy literature as a basis for the model. Thus, there can be claimed no direct causality between an increase in stakeholder power and a decrease in the firm's market value. Normally a focal firm will make exchanges with a stakeholder, and vice versa, because the parties possess resource bundles that are complementary (Dyer and Sing 1998) and if changes in resource dependence (power) (refer to section 7) are implemented in accordance with existing synergies within the relationship, this may in some cases even enhance the financial value of the firm. For example, if change in the resource dependence configuration gives rise to a more efficient utilization of the marketing channel interfaces between the focal firm and a given stakeholder this may generate additional value.

In a general comment on this issue of value maximization Phillips, Freeman and Wicks (2003, p. 486) argue that stakeholder theory is "consistent with value maximization", however this "says nothing about who gets a say in the decision making or who gets how much of this value, so maximized. It is only when the primary beneficiary of this profitability is constantly and exclusively a single stakeholder (e.g. equity share owners) that there is a conflict between the theories". Managers will secure that the earnings will be distributed to all legitimate stakeholders and will communicate (in advance?) how "profits should be maximized". Thus, profits or value maximization per se is not questioned, but the distribution of wealth, procedure and communication about this, is an important element in stakeholder thinking. But should then the surplus be distributed evenly and the stakeholder treated equally? The three authors (Ibid., p. 488) suggest that balance should be obtained via meritocracy and quotes the Sloan Colloquy[15]: "Corporations should attempt to distribute the benefits of their activities as equitable as possible, *in the light of their respective contributions, costs, and risks"*. This discussion of the distribution of value in accordance with the "respective contributions" corresponds very well with resource dependence thinking. These theories directly identify the mentioned contributions via the concept of the perceived value of a given exchanged resource and its uniqueness (concentration). If the resource is assessed both to be valuable and scarce / unique the contribution will be perceived to be larger. Combined with transaction cost economics "costs, and risks" are also covered (See section 7). Because resource dependence theory is about managers *perceptions* of their stakeholders (and vice versa) this gives a direct indication of how the "respective contributions" are evaluated and the network of stakeholders interdependencies will condition the span of obligations that the firm can handle and form a basic structure for the balancing process. Due to the total structure of the stakeholder system, contributions from individual stakeholders may differ, or are unequally distributed. Thus, an unbalanced relationship may not per se cause conflict. Instead the level of harmony / disharmony is more likely to be related to whether the stakeholder interaction process is *perceived* to be *fair* (Ring and Van de Veen 1994, Weber 2007) and *perceived* to conform to certain levels of *business ethics or company responsibility* (see section 2 above). Due to the structure of exchange an uneven distribution may be perceived "natural" and fair.

In *summary*:

1. In the balancing process all stakeholders (should) have their fair share of voice and benefit, based on their "respective contributions". Precisely, resource dependence theory is about companies' *perceptions* of their stakeholders (and vice versa). This gives a direct indication of how their contributions are evaluated and the network of stakeholder interdependencies will condition the span of obligations that the firm can handle and form a basic structure for the balancing process.

2. A company in collaboration with its stakeholders must create sufficient value in order to survive. If the company collapses no value can be distributed among stakeholders and all stakeholders will normally be in a less favourable situation, as discussed in

[15] The three authors refer to: http://mgmt.utoronto.ca/~stake/principles.htm This link in no longer active. The new link to the text is: http://www.rotman.utoronto.ca/~stake/Principles.htm The content of the statement have changed: "Successful managers will see that all stakeholders receive sufficient benefits to assure their continued collaboration in the enterprise, and that their burdens and risks are no greater than they are willing to bear".

section 5. In order to know whether the firm is heading in the direction of a collapse or success it needs an economic "yardstick", but this should not be confused with the question of what motivations drives the process, where a lot of other motives may be involved. In line with this, the economic measures should be compared to and balanced in relation to the rate of fulfilment of e.g. KPI's measures that are nested within the codes of conduct as espoused by the firm and its stakeholders.

3. Proposed models of balancing the financial value against stakeholder interests, indicate that both positive and negative synergistic effects are possible. Gaining the best future scenario for all stakeholders in these models include as analytic dimensions, the rate between extra depreciation costs vs. extra earning and the time horizon for the investment. In some configurations, a certain financial strength is demanded to reach the "best scenario", however when viewed dynamically, a gradual rise of investment levels, when earnings allow for this, may reduce the sum needed for depreciation.

4. As a hypothesis, it is suggested that developing synergistic effects from the balancing process is easier in mature markets with well-consolidated firms, than when firms are creating new markets. Due to e.g. network externalities, investment in stakeholder responsibility related activities may require either extra strong *persistency* / financial strength or stakeholder responsibility activities may be set on standby until break-even has been reached.

5. A third dimension, market or public power, is also included in the models as a measure. However, there is no mechanical relation between an increase in resource dependence (power) of a stakeholder and a decrease in the financial value of a focal firm, as stated in the model. Dependent on the resource configuration, an increase in unilateral resource dependence may lead to both an increase and decrease in financial value. Refer to section 7.

In line with the summary, the outcome of the balancing process may be a gradual increase in the investment in stakeholder related improvements, hopefully causing earnings to gradually rise, and so on in a positive circle. This process can over time accumulate a resource reserve or a capacity pool. The capacity to meet stakeholder needs can be said to connote its ability to act caring. As we also discussed above the ability to handle critical situations is founded in the capacity of the firm. There seem to be a relation between the urgency of a critical episode, the capacity of a company and its ability to act proactively and thus meet the potential needs of their stakeholders.

The capacity pool that provides the foundation for enactment is generated in the current value creating processes of the firm and its stakeholders. However some business processes may promote and some may inhibit value creation. Some of the basic socio-economic theories contain elements that, in combination, can explain what promotes / enhances value creation and capacity building. Of special interest in the context of stakeholder theory is resource dependence theory, theories in relation to the resource-based view of the firm and transaction cost economics. Section 7 will draw the fundamental lines between stakeholder thinking and these theories, whereas section 8 will further develop this into a model that are capable of handling the dynamics of stakeholder relationships involved in the creation of capacity pools, which, further on, enable responsible actions.

7. Analysing stakeholder relationships

7.1 Resource dependence

Stakeholder theory underlines the importance of offering an attractive value to all its stakeholders (Freeman and Velamuri 2005) and at the core of *resource dependence* theory is actually, how different stakeholder's value propositions influence different stakeholder's relationships and how value are distributed between a focal company and its stakeholders, as perceived by the different parties. Thus, in the dynamic process of balancing all the stakeholders, the firm must prioritise their resource utilization between these stakeholders and one important dimension to include is, to what extent the focal company is dependent on given stakeholders. If a firm is very dependent on a specific stakeholder a considerable amount of its "free" resources may be locked-in to serve this one stakeholder and thus inhibiting its ability to meet the other stakeholders with the resources they otherwise would have wished. Dependence originate from a situation where e.g. a focal company evaluate whether the offerings / resources of a stakeholder as valuable / important and whether these resources at the same time are concentrated. That is, to what extent is there no or only few alternatives to exchange with a given stakeholder (Pfeffer & Salancik 1978 and Emerson 1962). Accordingly, resource dependence theory is designed for specific relationships in a two-ways / dyadic perspective. It is therefore in line with stakeholder theory that emphasizes the importance of "understanding particular stakeholders of each firm" (Freeman and Velamuri 2005, p.8). Thus, resource dependence theory contributes with an understanding of the value and availability of a focal firm's /stakeholders resources and of the degrees of freedom this leaves for interacting with its stakeholders. Thus, some relationships are balanced and some are unbalanced. In unbalanced and dependent relationships one of the parties have the ability to direct the future development of the relationship by possessing the most critical resources in this particular relationship (Kornum 2003). To the other party this will reduce resource availability and in certain resource configurations reduce the potential for value creation with this party as the centre of the stakeholder system. Seen as a larger system a given focal firm is embedded in a number of dyadic relationships that are more or less unbalanced and where the focal firm will have decisive influence in some and will be the directed party in other. But besides the restrictions in resource availability and thus value creation potential, also direct influence on stakeholder responsibility implementation possibilities are prevalent. If a producer of, for example, chewing gum is dependent on a specific world leading supplier of an ingredient that possess unique characteristics on homogeneity and viscosity, it will probably be difficult for this producer to impose demands on this supplier concerning environmental and social responsibility issues relating to the production of raw materials to the suppliers production; that is, to activate demands directed at the suppliers supplier. Thus, resource dependence restricts the potential reach of a given focal firm and to what extent it can be directive in the stakeholder system concerning responsibility initiatives. But it also potentially restricts the resource input from the surrounding stakeholder system to the focal firm, because some stakeholders with decisive influence allocate resources at their will and thus supports other interests than that of the focal firm.

Thus a given focal firm would probably seek initiatives or strategies that could balance relationships, where the stakeholder has decisive influence. Here resource dependence theory also propose a number of generic strategies for balancing this; the so-called balancing operations (Emerson 1962). Emerson suggests two strategies that relate only to the interaction between the two parties in a business relationship: 1) “emergence of status”, where the dependent party unilaterally invests resources[16] that are expected to be valued by the other party, who holds the strongest position in the relationship. Thereby this latter party might perceive the offerings of the former party more valuable and consequently the relation is balanced; and 2) “withdrawal” from the relationship. The two final strategies proposed by Emerson involve building new or altered relationships with third parties: 3) “coalition forming” and thereby pool resources and gain a more favorable position and 4) seek alternative markets or channels[17] as a potential future supplement or replacement of the dyad in focus. Frooman (1999) uses a resource dependence perspective and proposes on this background two basic influence strategies “usage”, where a partner chooses to maintain the relationship, but with strings attached and “withhold”, where the partner decides to withhold its resources. Besides *usage* and *withholding* strategies a stakeholder can also choose a *direct* strategy, where the stakeholder “manipulates the flow of resources to the firm” and an *indirect*, where an ally is utilized to manipulate flows (Ibid, p.198). Now, Frooman (1999) uses Emerson (1962) when reviewing definitions of ‘power’,

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[16] Emerson (1962, p. 39) mention that it can take many forms from “ego-gratification to monetary differentials”

[17] Emerson (1962, p. 39 calls this strategy for ‘Extension of power network’

however when developing the just mentioned four dimensions of stakeholder strategies, Emerson's balancing strategies (operations) are not mentioned. This is curious, because there are large similarities between the two contributions. For example, Emerson's two first strategies are direct strategies and the last two are indirect, furthermore the first is a usage, whereas the last three of Emerson's strategies are withholding strategies. The major difference between the two authors is important to notice. Where Emerson is not specifying by which criteria's managers should choose between the four balancing strategies, the strength of Frooman's strategy propositions are that they are directly and causally liked to four resource dependence configurations. Yet, exactly this causal link invites for discussion. As already mentioned resource dependence occur if one or both of the exchange partners possess resources that are perceived valued / important and at the same time are concentrated / scarce (Pfeffer & Salancik 1987, Weber 2002, Kornum 2003). Dependent on a specific configuration, the dependence may be identified as belonging to a continuum between strong and weak or balanced and unbalanced. Frooman (1999, p. 196) seems to agree that resource dependence should be viewed in relative terms, dependent on the actual configuration of stakeholder partnerships. But is it fruitful to make a direct causal link between different resource dependence configurations and Frooman's four strategies for managerial action? Well, the issue seems open to reflection. Resource dependence theory gives a tool that help to identify *who* has the *ability* to decide important aspects of the future development of the stakeholder relationship, but gives very little guidance *what* strategies should be pursued by this actor and *how*. Frooman (1999, p. 200) for example writes, "a low level of dependence of a firm on a stakeholder implies that the firm does not need to be responsive to the stakeholder". This suggestion could be questioned from a responsibility perspective as discussed above in section 2. But the most important point to consider here is that although the resource dependence configuration presented by Frooman originates from resources generated historically and enables the firm decide important aspects of the future development, it seems unwise to conclude that the firm then not should be "responsive" to this stakeholder. What is missing in the "equation" here is that strategies also have to take into account possible or projected future changes in the resource configurations. This has been discussed intensely in transaction cost economics and an important parameter here is, 1) to what extent the parties' plan to invest in relation specific assets for the next period. In addition it must be considered whether 2) direct experience of thrust, commitment, and fairness is at hand (or communicated via WOM as reputation) and what 3) expectations of the direct outcome gained from the exchange for the next period is expected to be. Now, returning to the Frooman example of being "responsive" or not, prospect for the future may indicate that it would be counter productive for both parties, if the firm decided just from a resource dependence perspective, not to be responsive. If, for example, the stakeholder is likely to generate valued resources in the future and they have a reputation of fair play, why should the firm not be responsive to this stakeholder? Responsibility issues like observing the stakeholders needs and being reflective on urgency matters underline this (Se figure 3 for further elaboration). Consequently, it is important to differentiate between the abilities, due to different resource dependence configurations, with which a focal firm is equipped and the answering of why and how a certain strategy should be implemented. Answering these latter questions involves at least the mentioned aspects of possible future outcomes gained from the stakeholder relationship. These aspects will be touched upon in more detail in relation to figure 2.

An issue related to resource dependence theory is the contribution from social exchange theory to analyse stakeholders in a broader network. Rowley (1997) pinpoint two dimensions as important for a stakeholders' potential influence: the "density" of the stakeholder network and "centrality" of the focal firm's position herein. Density is defined as the number of ties between network members and increased density is expected to make communication across the network more efficient. Resource dependence theory tends to stress other dimensions, more precisely, not merely the quantity / numbers of relationships, but instead the quality defined as the degree by which the resource possessed is regarded as valuable and concentrated by other stakeholders and the dependency generated from this. In unbalanced relationships the stakeholder with decisive influence can define which communication channels are plausible and thereafter decide whether to restrict or promote communication on their behalf. For example in the grocery sector the density is very high, but the relationships between suppliers and retailer are often in resource dependence terms highly unbalanced in favour of the retailer. As a direct consequence of this, the communication flows from retailers to suppliers is often very sparse e.g. not including POS data[18], whereas suppliers are obliged to supply the retailer with the information they need. Thus, it is not network density, but the pattern of resource dependencies in a given network that strongly influences decision regarding communication effectiveness across the network. Rowley's definition of centrality, although referring to the "power" term, is basically also derived from the number of ties of a focal firm. Centrality in a resource dependence perspective will rather be the extent to which the stakeholders of a focal firm and their stakeholders again, within a defined network boundary, are dependent on the resources possessed by this focal firm. If we again use the example of the grocery retailers they have a high centrality, because nearly every other actor, is to a higher or lower degree dependent of the resources that these retailers possess. One of the important resources is precisely access to consumers or market shares. Twenty years ago the centrality of a focal

[18] This means Point-of-sales data, which represent the data scanned at check-out counter of a shop

retailer (in resource dependence terms) were lower because the number of retailers were larger, however the number of ties were probably higher because of a larger number of actors in the market (wholesalers, producers, etc.). But lower amounts of goods and resources were exchanged in the individual ties. Whereas the "power" of retailer is said to have risen, the number of ties has been reduced, which indicates that the focus on the quantity of ties is not sufficient in an understanding on how and why the units in the network are connected.

The next contribution from stakeholder theory, that might relate to resource dependence theory is Freeman and Liedtka (1997, p. 290) that discuss the opposed concepts of "value creation" and "value capture". The former represents the value created by "reconfiguring the business processes", whereas the latter represent "bargaining power" that secure "as great a share of the total profits as possible for their own firm". The authors propose that the value creation and value capture "mindset[s] are incompatible and work at cross purposes with each other. The emphasis on value capture undermines the value creation process as soon as one member's bargaining power gets out of balance" (Ibid). It is not clear whether this discussion is directly focused on resource dependence theory or more are focused on certain parts of transaction cost / agency theory and Porter's theories when using the words: "capture", "hostage" and "bargaining power"? But if we assume that there is a tiny hint also to resource dependence theory, because "bargaining power" may unreflected be perceived as synonymous with "unbalanced dependence", some clarification is needed. As mentioned elsewhere in this paper, the very definition of resource dependence relates to whether resources are valued and at the same time concentrated or unique. Thus, the very notion of resource dependence reveal that some degrees of unique value has been exchanged and (mutually) created historically and this unique value is the basis for the primary value attraction (Kornum and Bjerre 2007) between the two parties. However, the primary value attraction may be unbalanced, because one of the parties possesses resources that the other perceive more valuable and unique, than vice versa. Hereby one of the parties has the *ability* to decide important parts of the development of the dyad. Yet, this ability can be used constructively or destructively. Used *constructively* this ability can secure that the largest proportion of valued / unique resources are not misused or gradually destroyed by the other party, who possesses the smallest proportion of valued / unique resources. From a total system perspective it is of course not productive if value is misused in this manner. Thus, an unbalanced resource dependence is not a problem, per se, and the party that only possess the smallest proportion of valued / unique resources may still perceive this unbalance as a basic condition for doing business in a specific industry (Kornum 1998, 2000) and not attaching any disharmonious sentiments because of this situation, in itself (Weber 2007).

This ability to strongly influence the development of a relationship, however, does not indicate that it from a business perspective is long-term value creating, to do whatever she / he finds suitable. Not giving the other party sufficient voice may inhibit product development or other types of innovation and decrease the overall accumulated value and hereby there is a smaller “pie” to divide (Freeman and Liedtka 1997, Dyer and Singh 1998). Furthermore, the other party will probably exit the relationship as soon as changes in resource dependence configurations allow for it.

Another aspect is how the party with the most unique resources perceive their own role in the relationship and how they present their wishes to the other party. Now, if they perceive themselves as “powerful”, “able to capture value of the other party” or “make hostages” this may from the outset produce a non-constructive and less productive atmosphere in the relationship. But if this also leads to coercive strategies[19] such strategies may give negative effects in response to the coercion[20]. The reason for such negative responses to coercion is that it will often be seen as not fair. As already discussed in section 4, fairness is a question of reciprocity, which do not imply that the outcome from an uneven distribution of valued / unique resources should necessarily be distributed evenly (equality). To *summarize* this discourse on value creation vs. value capture: Resource dependence signify that valuable and unique are exchanged, and is in itself the basis for value creation. But it is not unbalanced resource dependence configurations, as such, but rather the extent to which the parties in a stakeholder relationship are able to behave in ways that are perceived as giving voice (to innovation), being fair and act non-coercively that decide the “value chain’s capability for superior value creation” (Freeman and Liedtke 1997, p. 290).

In summary, from resource dependence theory, and of potential value to stakeholder theory, the following seems crucial:

1. Resource dependence direct value exchange in pathways following the resource configuration of specific stakeholder systems and hereby secure that value from a total stakeholder systems point of view is not misused, or allocated with fewer prospects for value creation.

2. The specific configuration of a stakeholder relationship or system decide *who* has the *ability* to influence important aspects of the further development of the

[19] Refer to French, J.P.R. and Raven, B (1959), The Bases of Social Power, in: Cartwrigth, D. (Eds.), Studies in Social Power. Ann Arbour: University of Michican Press.

[20] Stern, L.W., El-Ansary, A.I. Coughlan, A.T. (1996), Marketing Channels, Fifth Edition. New Jersey: Prentice Hall.

relationship / system. Thus, in balanced configurations both / all parties has the *ability* to influence the relationship and resource dependence, as such, is not a problem, rather a value. However, in unbalanced configurations one party has decisive influence on how value is allocated in the relationship. This may restrict the other party's access to unique resources and the reach of stakeholder responsibility initiatives. But it may also reduce value destruction from an overall systems point of view.

3. Yet, this relates to the question, to what extent the two parties in a relationship have opposing interest, i.e. domain dissensus[21]. That is, when the two parties have non-opposing interests, resource dependence as such, don't seem to pose any problems to the relationship, rather potential problems relates to investments into the future, as discussed in section 7.3 and 8. When they, besides being exchange partners, are e.g. competitors, there may be a stronger inclination to use the ability to decide the future development of the relationship in directions that secure their own value positions. However, the decision to follow such inclination is probably not taken only on the basis of this historically generated *ability*, but also based on the future prospects for value creation in collaboration with this partner, as discussed in section 8, combined with the responsibility issues discussed in section 9. But if the partner *is* a strong competitor, this represents a paradox between cooperation and competition e.g. between knowledge sharing and the competitors ability to imitate your products. Refer to section 7.2 concerning this question.

4. As a consequence of all this, the centrality and density of a given stakeholder system or network is not decided by the sheer number of ties identified, but the resource configuration and the dependencies specifically identified herein. Furthermore, mechanically linking a strategy on *how* to engage with stakeholders, with the *ability* (via unbalanced resource dependence) to decide the development of the dyad, is not so fruitful, because the *how* decision is normally also taken on the basis of the future prospects for the relationship (fairness, outcome of exchange, uncertainty, etc.). Similarly, value capture is not seen as a fruitful strategy because it only seems to be based on the abilities originating from an unbalanced and dependent relationship (bargaining power).

5. If the parties of a relationship possess resources that are valued, but these resources are not concentrated the parties have several alternatives to the present relationship i.e. the parties are not (inter-) dependent, but bonds or ties do exist. The

[21] Refer for example to Ross, Robert H.and Lusch, Robert F (1982), Similarities between Conflict and Cooperation in the Marketing Channel. Journal of Business Research; Jun, Vol. 10 Issue 2, p237-250.

configurations that this reveal are tightly related to transaction cost economics and the effects of investment in relation specific assets and will be discussed in section 7.3.

But the ability of a focal firm to engage in stakeholder relationships, to create value and sustained competitive advantage also depend on the resources build firm-internally and this is where resource based view of the firm tend to focus.

7.2 Resource based view of the firm

Resource dependence theory is consequently applicable to the study of “the particular stakeholder of each firm” (Freeman and Velamuri 2005) by identifying to what extent each of them possesses valuable and concentrated resources from the perspective of the firm and vice versa from the perspective of the stakeholders. A parallel line of thought is the resource based view that focus on the resources possessed by a focal firm and the degree to which these resources are valuable, rare and non-imitable (Barney 1991). If a firm possesses resources that are valuable, rare and difficult to imitable, then the firm is likely to earn above average profits. Analysing the resource based view line of thought from the resource dependence perspective, the question arises, who is going to evaluate to what extent the resources possessed by the firm is *valuable and rare*? From a resource based view the firm’s resources will be evaluated in their own right or maybe also compared to resources possessed by competitors. A resource dependence analysis will stress that the value and rareness must be evaluated by the stakeholders of the focal firm, that is, the long-term effect / value of a given resource and its rareness combination depends on how the individual stakeholder evaluate exactly these dimensions. So the focal firm may view their own merits otherwise than their stakeholder, but what count in the long-term perspective is the view of their stakeholders. Besides the traditional “internal” perspective on firm’s resources, Dyer and Singh (1998) provide a relational view or perspective. This contribution will be discussed in more detail in section 7.3.

The *imitability* dimension primarily should be related to one of the types of stakeholders of a focal company, namely the competitors. To what extent are the competitors able to imitate the core competences of the focal firm via e.g. possession of patents or complex and tacit resources that are difficult to imitate, at least in the short-term. Freeman and Liedtke (1997, p. 293) define competitive *threat* as how a stakeholder’s behaviour could change in order to “directly harm” the “business”. But they do not include the dimensions that decide to what extent a stakeholder is influenced by competition. *Competition intensity* (Kornum and Bjerre 2007) propose such dimensions. Besides *Imitability*, a given stakeholder is influenced by the extent to which a competitor is capable of developing a primary *value attraction* with a customer / stakeholder that is stronger than a focal firm and the extent to which they are more *persistent* in their efforts, e.g. caused by being financially strong (Kornum and Bjerre 2007).

The resource based view seems to dissolve in two parts, one that could use resource dependence theory to evaluate to what extent the resources of the focal company is considered valuable and concentrated (rare) by their stakeholder and another that compares the focal firm with their competitors and evaluate their ability to imitate the resources of the focal firm. An aspect that is often not considered is that the very *same resource* is often *utilized in relation to several stakeholders simultaneously*. As a consequence, what the individual stakeholder evaluates as valuable and concentrated only mirrors some of the resource bundles that the firm possesses. The supplier of a grocery retailer may, for example, find the retailer's resources valuable and concentrated because they are very efficient in implementing their campaigns (Weber 2002). However, this ability of being efficient may origin from a number of resource bundles that the retailer possesses. One of these can be a high degree of focused leadership training, but also an organizational structure where the purchasing department decides many of the category management questions in the stores at the expense of the autonomy of the store managers. But these capabilities and competences may also be important for other stakeholder e.g. by securing that the shelves are very seldom empty (consumers) or employees that experience a very consistent leadership. Especially when balancing the different stakeholder interests in a dynamic setting and the identification of possible synergy effects it is crucial to evaluate the *firms ability to utilize the possessed bundles of resources* with the *broadest possible applicability to different stakeholders* without, of course, being unfocused.

Summarizing a stakeholder perspective on the resource based view of the firm, reveals,

1. If the internal resources of a company are difficult to *imitate* by competitors this cause above normal rents and a sustained the competitive advantage of this company.

2. Besides imitability, *competition intensity* is hypothesized to consist of the *Value attraction* and the *Persistency* of the competitors in their efforts to reach customers. Now, if the competition paradox, mentioned in the summary of the previous section, is reconsidered here, what do we get? Competition is active between stakeholder systems that seek stronger bonds (attraction and persistency) with customers (and motivate suppliers to partake in this venture). But suppliers may still be competitors and customer may not be loyal. Thus, the firm still has to

cope with the competition paradox in these respects[22]. Consequently, business relationships do, probably often, include configurations where competition and therefore more likely value capture than value creation may occur. There is quite much uncertainty at play concerning to what extent a given firm will meet one of the two alternatives, and therefore it must choose different measures like building up trust gradually and / or implement safeguards. Se section 7.3

3. Different stakeholders may identify and view different resource bundles as valuable. From the point of view of the focal firm, in the value generation process with different suppliers or customers, they may seek to *reuse* as much of the generated value in their exchange with *other* partners and hereby possibly avoid sunk costs from investing in relation specific assets. Consequently, although some products are developed as a relation specific asset, some e.g. modules can be reused for other purposes in new customer relationships.

This opens a discourse that involves transaction cost economics.

7.3 Transaction cost economics

When a company makes unilateral investments that are specific to a relationship with a stakeholder, then the company may incur sunk costs if the relationship is terminated prematurely (Williamson 1985). Thus, a company will sometimes distribute harms (Freeman and Mc Vea 2001), sacrifices or costs to other stakeholders and in line with this the distribution of costs in external exchanges, is at the core of *transaction cost theory or economics*. Transaction cost theory tends to contain two core concepts that are relevant to stakeholder theory[23]. The first concept is transaction specific assets (Williamson 1985) or *relation specific assets*. When a focal company, in order to enhance the value creation potential, makes investments that are specific to a given stakeholder they are subjected to the risk of incurring sunk costs if the relationship is terminated prematurely. Different degrees of specifity and transaction frequency determine whether the investments should

[22] Some even stress the importance of seeking new markets with new value propositions (blue oceans), instead of head on competition on existing markets (Kim and Maubourgne (2005), Blue Ocean Strategy. Harvard Business School Press: Boston). Yet, this line of thinking does not systematically include an analysis of competition from second movers. Concerning the first-mover second-mover discussion see e.g. Vangkilde (2005).

[23] Some aspects of transaction cost economics have already been addressed in a stakeholder context. Thus, Freeman and Evan (1990) discusses based especially on Williamsons (1984) suggestions that the voting rights of the firms' stakeholders should be delimited to shareholders / owners and in special cases managers and suppliers. As this paper will not single out the special circumstances for shareholders as stakeholders, this topic will not be reviewed in detail in this paper.

be made firm internally or outsourced to the market and what kind of contractual arrangement will be best suited for the different scenarios (Ibid).

There seems to be a close conceptual link between resource dependence and transaction cost theory. Relation specific assets translated to resource dependence perspectives would be called a resource that is concentrated to only one relationship. So there are obvious similarities between the two lines of thought. But what are the differences? In Kornum (2003) it is suggested that the primary difference is time scale related[24]. Resource dependence focus on resources developed historically and accumulated before they are studied today (T_0), whereas transaction cost theory study the strategic options the firm have in (T_0) when looking into the future (T_1). It is in Kornum (2003) further proposed that if a relationship can be characterized as unbalanced because a focal firm possesses resources that are valued and concentrated from the perspective of stakeholder, and vice versa, the focal firm is able to decide crucial elements of the future development of the relationship including the contractual arrangements.

Williamson has expressed some reservations concerning resource dependence theory. Williamson (1991, p. 80-81) proposes that the ‘parties to a transaction adopt a relatively far-sighted approach … [that] has power-mitigating/vitiating effects. Such parties anticipate potential dependency conditions and organize with respect to them from the outset ’. Thus in transaction cost theory ‘initial endowments are ordinarily taken as given’. This seems to propose that the effects on the contractual arrangements of the initial resource dependence between the transacting parties are weak or negligible. Still the empirical work of Buvik and Reve (2002, p.278) suggests that ‘the power-dependence structure in channel dyads seems to determine both the buyer’s and the supplier’s ability to safeguard assets at risk’. Later, in a rather similar argument Williamson (1999, p. 1103) discusses the competence perspective and here acknowledge the path dependency effects of ‘pre-existing investments’ made by a focal firm and / or its suppliers. Resource dependence, as presented in this paper, is actually constituted by pre-existing investments. Thus, the concepts of asset specifity and important resources are closely inter-linked and the real difference is time scale related.

In line with this Kornum (2003) proposes two scenarios, 1) unbalanced relationships where a stakeholders is resource dependent on a focal firm that hereby has the ability to decide important aspects of the future development of the relationship e.g. concerning how depreciations from investments in relation specific assets are divided between the parties

[24] Still, there are other differences e.g. theory of science where TCA is a response to neoclassic economic theory, constructs relating to assumptions on human behaviour differ, etc.

and whether they will accept that the dependent party can safeguard assets at risk. Refer to section 7.1. 2) Unbalanced relationships where the focal firm is tied to one of the stakeholders, but not resource dependent, because alternatives are available. In such a scenario the classic transaction cost theory proposals for different strategies for outsourcing and contractual arrangements seem in general to hold, when the adjustments discussed above and below are taken into account.

The second concept is *trade-offs between different cost categories* (Williamson 1985, Ring 1999). When a focal firm tries to balance the benefits and sacrifices between stakeholders at a level that is acceptable to these stakeholders in the long-term, it is important to notice that higher costs in one category can be traded of by lower costs in other costs categories. For instance, an investment in specific assets may reduce other costs at a speed and at a level that will balance the cost for the depreciation of these investments. Similar types of reasoning are found in Argyris and Liebeskind (1999). Ring (1999) also focuses on the trade-off’s between transaction costs, production costs, learning costs, opportunity costs and social welfare costs. He exemplifies how e.g. higher ex ante transaction costs or higher learning costs will reduce ex post costs or higher transaction costs will reduce production costs. Ring (1999) also mentions inventory and transportation costs as relevant cost categories to examine.

Finally, the relational view of resource based theory both refer back to resource-based view of the firm (as described in section 7.2) and to transaction cost economics. Dyer and Singh (1998) opened this discourse and they in general propose that, not only, the internal resources of a firm can develop into a competitive advantage, also the relationships in which the firm is engaged, can incur such advantage. They review the literature in the field and from this conclude that, 1) Investment in relation specific assets can generate productivity gains, increase efficiency of the supply chain, increase speed to market and gain higher profits 2) Although deployment of relation specific assets may create greater value, the more specialised it is; at the same time the value often is lower in alternative uses. Therefore the firm / stakeholders must safeguard assets at risk and the authors propose that using informal self-enforcement governance mechanisms seems to both minimize transaction costs and increase value creation as compared to formal legal governance mechanisms 3) The larger the investments in knowledge sharing routines are, the more likely an increase in relational rents is. The generation of relational rents is influenced by the exchange partner’s ability both to absorb the knowledge input from the focal firm and to align incentives directed towards encouraging transparency and reciprocity 4) Complementary resources is combined investments in resources that are distinct to the relationship and therefore become more rare, valuable and difficult to imitate.

Thus in summary, these points widens the perspective of transaction cost economics and emphasise the elements of stakeholder relationships that can create value and profit, whereas the traditional approach primarily have focused on costs and uncertainty. In addition, there is many sub-concepts and dimension that have some resemblance with resource dependence theory. Consequently, the notions of relation specific assets, knowledge sharing routines and complementary assets relate to resources that are valued and rare / unique and hereby complements the value creating dimension of resource dependence theory. However, Dyer and Singh (1998) do not discuss the dimension of resource dependence theory that relate to the strength and balance of resource dependence and how this will influence the propositions suggested just above. As discussed in the two previous sections the ability to decide important aspects of the development of the relation may be unevenly distributed and if there is not consensus concerning the further development, the party with the most unique value configuration may not agree to share the risk originating from the other party's wishes to investment in relation specific assets, e.g. by allowing a safeguard of the unilaterally deployed assets. The reason for not wanting to share the risk may be to secure the unique assets from deteriorating. If the stakeholders in addition to opposing interests are competitors this furthermore enhances the risk that the party possessing the most unique resource constellation, will use this position more to secure its own (or the value chains) interests, rather than the competitor's interests. Unilateral investments in relation specific assets by the other party are in such circumstances even more risky. Yet, further research on this issue is needed. The relevance for stakeholder thinking is rather straightforward as the two authors present results indicating that enhanced collaboration with (at least some types of) stakeholders will decrease overall costs, increase value creation and induce higher levels of profit.

In summary, introducing transaction cost thinking to stakeholder theory reveals the following:

1. Whereas resource dependence is the result of historically accumulated resources in specific configurations, investment in relation specific assets represent resources that is to be deployed in the future and therefore incur uncertainty. How the generated resource configuration will influence the parties decisions concerning investment in relation specific assets depend on, whether the resources exchanged only are perceived as valuable (bonds occur) or they are concentrated (dependence occur)

2. When *dependence* of the unbalanced kind occur, the ability to decide important aspects of the development of the relation is unevenly distributed and if there is dissensus concerning the further development, the party with the most unique value configuration may not agree to share the risk originating from the other party's wishes to invest in relation specific assets, e.g. by allowing safeguarding of the unilaterally deployed assets. The reason for not wanting to share the risk may be to secure the unique assets they possess from deteriorating. If the stakeholders in addition to opposing interests are competitors this furthermore strengthen the risk that the party possessing the most unique resource constellation, will use this position to secure its own (or the value chains) interests, rather than the competitor's interests. Unilateral investments in relation specific assets by the other party are in such circumstances even more risky. These two scenarios indicate that in some stakeholder configurations it may be difficult to implement responsibility initiatives if the other parties are not interested in this. Yet, further research on this issue is needed.

3. When only *bonds* or *ties* exist one or both parties find the exchange valuable, still, they have several alternatives to this relation. The specific configurations of bonds influence the ability to safeguard assets at risk, however in most configuration safeguarding of assets is a realistic option and the consequences for stakeholder thinking is summarized below.

4. Safeguarding assets should not be seen as opposed to thrust- and fairness based view on stakeholder relationships, but as complementary.

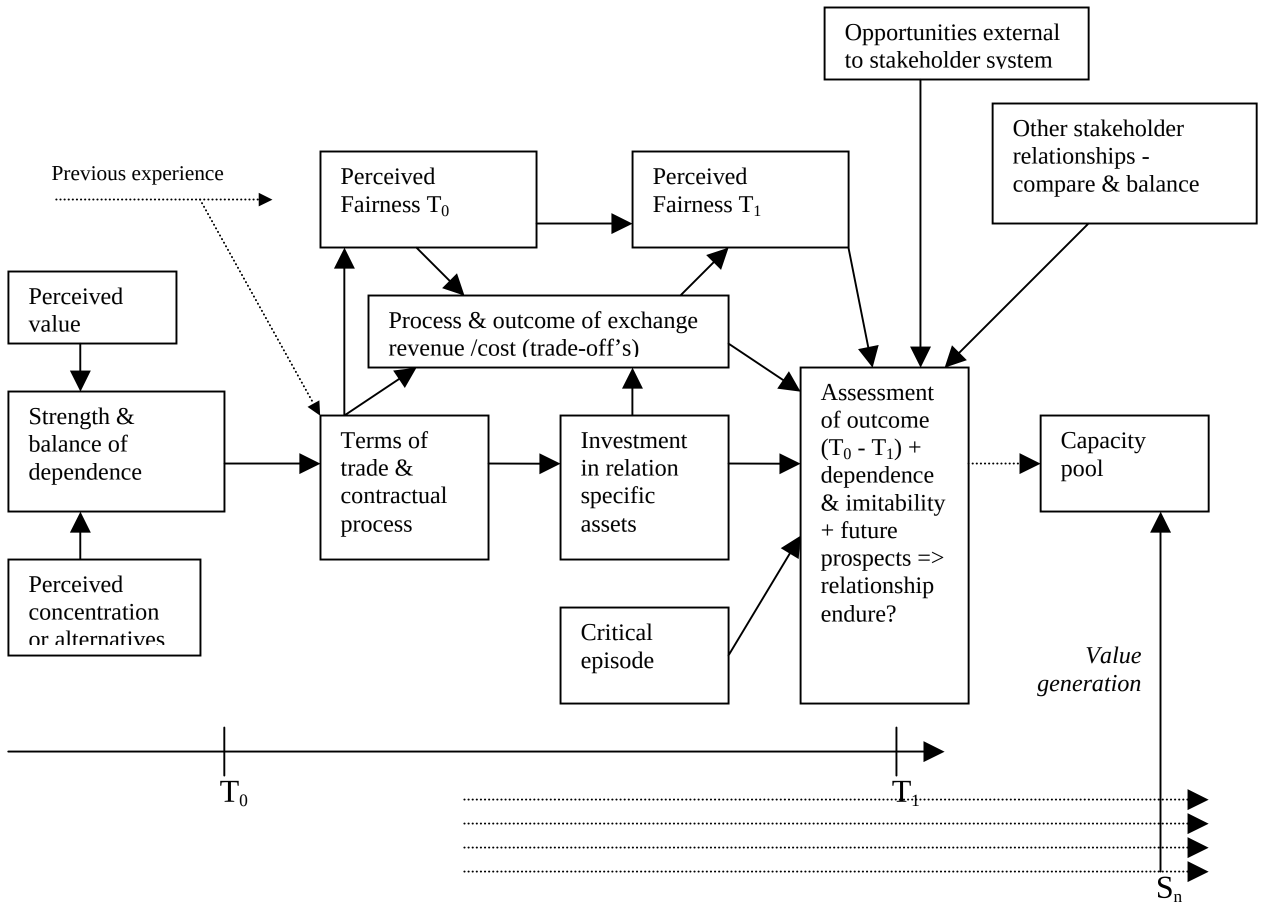
5. A reason to safeguard assets at risk is environmental uncertainty (e.g. changing technological, market or customer circumstances). When deploying relation specific assets, with the purpose of improving the value creation potential of a given stakeholder relationship, such uncertainty will expose some degrees of risk that has to be addressed e.g. in contractual arrangements. Behavioural uncertainty (e.g. opportunistic behaviour) is of course also a possibility, but evidence indicates that self-reinforcing or trust-based measures can counter act, at least, some of this.

6. Transaction costs can be traded of with other cost categories and cost can be traded of by an increase in value creation. This is an important knowledge in order to understand why increased levels of stakeholder responsibility may in fact in total be generating higher levels of value to a stakeholder system, because the costs incurred when acting caring or being proactive, may be traded of, by lower costs in other cost categories for example contracting costs. This signals that the proposal from stakeholder responsibility thinking that responsible and ethical leadership

generate synergistic effects could find support in an enhanced version of transaction cost economics as proposed by Dyer and Singh.

8. The dynamics of stakeholder relationships

The balancing of different stakeholder interest is implemented in an increasingly volatile and rapidly changing environment. This prompts research to develop the theoretical field and thus enable it contribute with concepts and models that increasingly incorporate the *dynamic or inter-temporal* aspects of this *balancing process*. Phase models (e.g. Dwyer, Schurr and Oh 1987, Ring and Van de Ven 1994, Van de Ven and Poole 1994) tend to analyze the lifecycle of a relationship by attaching different characteristics to different phases of the lifetime of a relationship. However lifecycle models are often not related to the underlying causal powers or forces that drive change and consequently besides being able to identify the phases by empirical studies, these theories are not able to explain what forces caused transformation from one phase to another and consequently not either the real dynamics of stakeholder relationship development. What are needed are models and concepts that combine static-relational dimensions with dynamic or inter-temporal dimensions. Inspired by Håkansson (1982), Ring and Van de Veen (1994) and Kornum (1998, 2003, 2006) and Storbacka, Strandvik and Grönroos (1994, p. 23) (Relationships Profitability Model) a model is proposed in figure 2 that illustrates how a capacity pool is dynamically generated in a stakeholder relationship. The model shows how one of parties in a relationship perceives the business interaction with the other party in the relationship. To understand fully how the dyad could develop the perception of both parties should be analysed. The primary "glue" that ties the parties of a relationship is the *strength and balance of the dependence* between parties. As already mentioned, relations can be from moderately to strongly unbalanced and there can be dependence or just ties because the resources exchanged are indeed valued, but they are not concentrated or unique and thus generate bonds, but not dependence. If relationships are both unbalanced and dependent the party with the ability to influence decisively, can decide crucial elements of terms of trade, the process around contract preparation, maintenance and termination hereof and the distribution between the parties of benefits or sacrifices in relation to investment in relation specific assets and how to safeguard. Via these measures this party also strongly influences the conditions for the outcome of the activities in the relationship between T_0 and T_1. Yet, the inclination to materialize this ability is also influenced by the extent to which the



Inspired by Kornum (2006)

Figure 2: Stakeholder relationship dynamics generating capacity pool

relationship is characterised by domain dissensus and competition. If the strength of dependence is lower or that only relationship ties exist or the relationship is more balanced both parties will to a higher degree be able to influence terms of trade and relation specific asset investment distribution and the relationship is likely to develop along the lines proposed by transaction cost economics and resource based relational view as described in section 7.3.

Perceived fairness dimension in the model (Ring and Van de Ven 1994) represent dynamic features. The perception of whether the conduct of a stakeholder is fair can of course change during a given period of exchange processes. But more importantly, fairness perception can be said to be influenced by the strength and balance of dependence and how. As already indicated in section 7.1 a given resource dependence configuration is causally linked to *who* has the *ability* to decide important aspects of relationship's future. This could indicate that the party with the least favourable position in the resource configuration might react to the imbalance and a higher likelihood of conflict or disharmony could be the consequence. Yet, a recent study seems to indicate that the issue whether the relationship is in a state of harmony / disharmony is not so much a question whether the relationship is unbalanced or balanced, but instead, whether the relationship is perceived fair and efficient, or not (Weber 2007). But figure 2 illustrates a slightly different causal chain by not including the harmony / disharmony dimension, so the results from Weber (2007) cannot be included directly. Still, it can be hypothesised in accordance with figure 2 that perceived fairness is not directly influenced by the strength and balance of dependence, but only indirectly via the contractual process and how this process evolves and in addition how the daily interaction and exchange episodes evolve between T_0 and T_1. And, in addition, if any previous experience exists how is this perceived today (Håkansson 1982, Ring and Van de Veen 1994; Kornum 1998; Hultmann 1993 and Weber 2007). Consequently, this could be interpreted in the direction that although a relationship may be unbalanced and one of the parties has decisive influence, this fact per se is not a source of disharmony, but is instead by the other party understood as a condition for doing business (Kornum 1998; 2000) and therefore not directly influencing this party's perception of fairness. The key concept influencing perceived fairness is perceived reciprocity and fair (not necessarily equal) shares of benefits and sacrifices (Ring and Van de Veen 1994) in the contract process and daily interaction. Again perceived fairness in T_1 will influence the perception of the outcome of the period. Perceived fairness could be proposed as a crucial trigger to release considerations whether a relationship should continue or be terminated right away or phased out. Dependence consideration can reveal that although the monetary outcome of the period is not satisfactory and the relation is not perceived fair, the provided resource may be so scarce that trading with this party is necessary. But if the probability of identifying alternatives is better and a stakeholder is not perceived fair a company may choose to initiate significant and even costly activities to find a replacement. Thus, besides changes in resource dependence patterns, changes in perceived fairness are suggested to be an important trigger of changes in the stakeholder system.

The *assessment of outcome* in T_1 is normally related to initial negotiation, renegotiation or termination of contracts or relationships (Ring and Van de Veen 1994) with frequencies of yearly renegotiations (+/-). But also critical episodes (Storbacka, Strandvik and Grönroos 1994), where one of the parties may be under-performing or dyad external conditions like prices on raw materials rising rapidly, may trigger a renegotiation of the conditions for the relationship. An important part of the assessment in T_1 is the evaluation of the direct outcome of the relationship as a result from the period. In T_0, scenarios of cost / benefit trade-off's can be implemented and the efficiency of these can be evaluated in T_1. This dimension primarily evaluates the outcome in monetary terms (efficiency, profit, ROI, EVA, etc.) and the model signifies that this dimension is but one out of several that is included when assessing a stakeholder relationship. Refer back to section 6 for this discussion. Besides this, the parties of a relationship will evaluate whether the value generated in the period has caused a rearrangement of the resources inside the focal firm or in the stakeholder system that will make imitation more difficult for competitors and / or has altered the strength and balance of relationships in and outside the stakeholder system, as figure 2 indicate. If the outcome in monetary terms are more positive than expected, this of course give the focal firm and in the next run the stakeholder system better monetary capacity to implement ethical leadership. However as discussed above unbalanced and dependent relationships may reduce the reach of responsibility initiatives although the firm or stakeholder system in monetary terms may indeed have the capacity to respond.

But what do a model of the *dynamics* of a stakeholder system reveal that has not been discussed in the previous sections:

1. The new aspects of the dynamic model are that it combines findings from resource dependence theory, the relational view of resource based theory and transaction cost economics, and in addition show their interrelatedness. But foremost that you can follow possible pathways for synergistic cycles of value creation or the opposite. For example, an ability to decide important aspects of the relationship, can be utilised following different pathways, a) *positive cycles* (Kornum 1998) that secure that investments in relation specific assets are evaluated (e.g. economically), including the expected combined effect of what each have invested and what their benefits is expected to be. On this background the two parties negotiate a distribution of benefit and sacrifices that they find is a sign of reciprocity and fairness, considering their respective contributions. Thus, this process is likely to produce a more balanced investment in relation specific assets, that will better support the outcome via more value or lower costs or both, but also the fair process will cause a higher motivation to engage in the exchange and thereby enhance the outcome of the exchange. 2) *Vicious cycles* where the resource dependence ability is the same, but it is utilized quite differently, not sharing benefits / sacrifices => negotiations perceived unfair => investments unbalanced / motivation to perform low. Other pathways could be followed.

2. Furthermore, the model indicates what dimensions and relations between dimensions may form the basis for the pathways generating synergistic circles. For example, the model contributes to the understanding of a potential reduction or increase in the capacity pool, and thus indirectly how stakeholder responsibility is dynamically enacted. As presented in the previous sections, some of the dimensions and relations are already studied some even intensively others have barely been

noticed. This model could be considered as a very first step to investigate these dimensions, relations and pathways in more detail. Some of the issues that the model further elaborate is shortly touched upon in the next 2 points.

3. As discussed, different resource configurations affects the value creation potential and the capacity pool differently. But, as already discussed at length, besides this, the direct reach of responsibility initiatives are also promoted or impeded. We here see a potential double causal mechanism where both value creation and responsibility reach is restricted or enhanced. What seem interesting to study further are which combinations of resource configurations and dynamic pathways can be said to generate value, enhance perceived fairness, and distribute benefits (larger capacity pool) and sacrifices (resource and costs to obtain this) based on reciprocity.

4. Finally, the dimension, “Assessment of outcome” combines e.g. resource dependence changes and direct outcome, which is new. What needs to be further studied is which concepts and mindsets managers use when assessing these dimensions and how this is related to the processes of balancing stakeholder demands?

Consequently, in the model of stakeholder relationship dynamics the effects of the dimensions involved, expand and restrict both capacity pool generation and the reach of responsibility initiatives. But capacity and reach is one aspect. What about the normative aspect, for example, the duality of ability and duty?

9. Dimensions of responsibility enactment: Capacity, need, culturally embedded codes of conduct and urgency

Argandoña (1998, p. 110) claims, “the duty to play an active role increases with the agent’s capacity to act and the recipient’s need”. From this, we are able to derive that there is correlation between the “ability” and the “duty” to act caring and the *needs* that stakeholders express. Consequently, by *capacity pool* is here meant the resources that a focal firm has accumulated historically and that can be identified as being in “stock” today. Dierickx and Cool (1989, p. 1506) proposes the concept of asset stock accumulation and defines it as “the cumulative result of adhering to a set of consistent policies over time. Put differently, strategic asset *stocks* are *accumulated* by choosing appropriate time paths of *flows* over a period of time” (Italics set by the authors). It is not crucial to this paper whether the resource pool / stock accumulated is the result of “consistent” or inconsistent policies, but the suggestions from the two authors seems to support the definition above. They furthermore discuss the difference between “stock” and “flow”, where stock is accumulated flows and flows can add or deduce from the stock. The point here is that while "*flows can be adjusted instantaneously, stocks cannot*. It takes a consistent pattern of

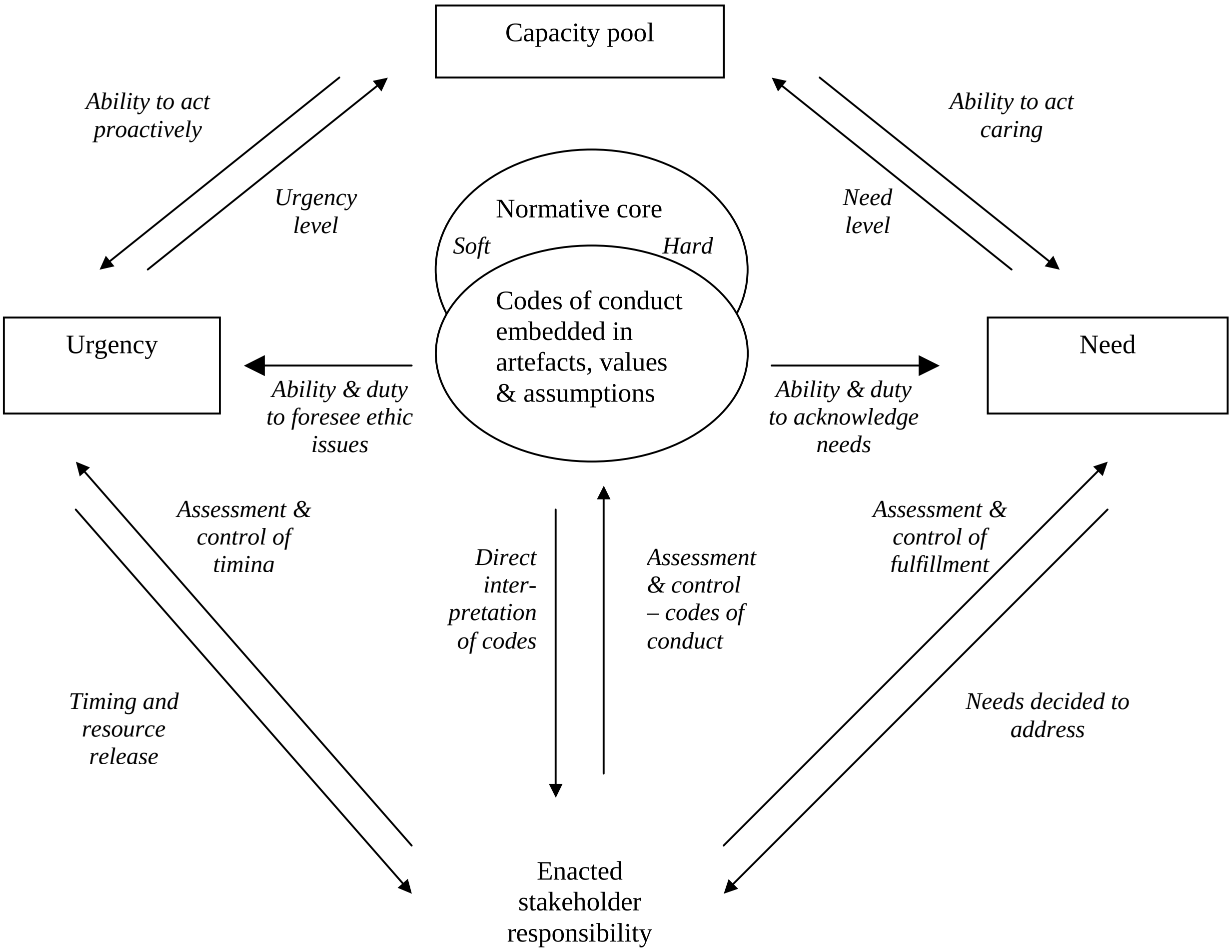


Figure 3: The dynamics of stakeholder responsibility enactment

resource flow to accumulate a change in strategic asset stock" (Ibid) (Italics set by the authors). Thus, in relation to stakeholder responsibility this notion point to the importance of gradual development of resources and competences in this area, which hereby contribute to the generation of a resource pool in this area over a period of time. If such a resource pool is not available when needed, the firm can do very little when a critical case occur. The authors focus on "non-tradeable" strategic assets (Ibid) understood as assets that has to be build in-house because they are not available in the market e.g. reputation for quality and dealer loyalty must be built over a period of time. Logically a reputation for dealer loyalty is not build by the focal firm itself, but will be the result of exchange between this party and its primary stakeholders during a period of time. This point to the positive effects of developing strategic resources in collaboration with primary stakeholders (Dyer and

Singh 1998) and hereby tends underline why a stakeholder approach is important. Thus in this paper the distinction whether a resource is build internally or in collaboration with a primary stakeholder do not seem to have a decisive influence on the pace by which the resource pool can be altered and hereby be redirected toward responsibility or business ethic related issues or tasks. Furthermore, a discussion of resource types according to e.g. Javidan (1998) is not considered crucial, but instead this paper will focus on resources that are strategically important to the value creation and long-term survival of the firm. Still, organizational resources that in other frameworks (Barney 1991) would relate to the generation of the resource pool, in figure 3, are located in conjunction with the box: "Codes of conduct embedded in artefacts, values & assumptions", because organisational resources and structures are so tightly intertwined with organizational culture that they must analysed as a whole.

Thus, the so defined capacity pool both influences the firm's ability to act caring, but it also influences its duty to do so (Burton and Dunn 1996 and Argandoña 1998). According to the above discussion of capacity pool, a focal firm / its stakeholder may not be able to make fundamental changes over night if critical episodes in relation to responsibility issues appear. Which point to the importance of a focus on the long-term commitment accumulating relevant resources and a gradual adjustment towards ethical leadership. Figure 3 illustrate that a stakeholder can express certain levels of needs. The concept of "need" is in this paper defined as the *perception of the given stakeholder expressing a specific version of how need can be defined and expressed*[25]. Thus, a given stakeholder's perception of need level represent one side of the equation, the other relates to how a given focal firm perceives or assesses this need on the background of the available capacity pool. In sum, this will give the company an impression of its ability to act caring. However the actual decision on which needs should be addressed, besides capacity, is also influenced by the process of social construction where the need is interpreted on the basis of the codes of conduct as embedded in the organizational culture of the company. Such an interpretation is conditioned both by organizational members / management's abilities to foresee needs changing and by their sense of duty in relation to acknowledging the needs of the given stakeholder (Martin 2002, Keyton 2005 and section 3). Together this will influence how stakeholder responsibility is enacted and during a period of time the company can assess and control to what extent the decided level of needs fulfilment is reached, both by own evaluations and of course also the option of directly asking the stakeholders, seems attractive in a responsibility perspective.

[25] As indicated by Donaldson and Preston (1995, p. 84) single principles as "need" cannot account for all aspects of the "property" concept. Now, "need" is in figure 2 not discussed in the context of "property rights" and this hopefully justifies not making a review of the business ethics literature on this concept, which in a broader context would be appropriate.

In the elaboration of the critical case (section 5) it was discussed that a certain capacity pool was important in order to address the problems occurring in the described critical and urgent situation. According to Mitchell et al (1997, p. 867) *urgency* is based on “two attributes: (1) Time-sensitivity – the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) criticality – the importance of the claim or the relationship to the stakeholder. We define urgency as the degree to which stakeholder claims call for immediate attention”. Urgency, as used in this paper is covered by “time-sensitivity” as just defined. The “importance” of a claim is instead here assigned as part of the construct that decides the strength and balance of dependence in a relationship i.e. whether the resources (claims) are valued / important and concentrated[26]. Thus a manager, besides considering the time-sensitivity of a claim (urgency in figure 3), would also consider the strength and balance of resource dependence (figure 2) and whether the collaboration until now have generated value (Dyer and Singh 1998), which makes “criticality” superficial, as a dimension in figure 3.

In line with this, Figure 3 shows the actual timing and release of resources in urgent situations is important, because delays on behalf of the focal firm may trigger strong stakeholder reactions because they are time-sensitive. However, the manager’s perception of time-sensitivity and the signals received from a stakeholder, is also influenced by the codes of conduct embedded in the organizational culture. This interpretation has its cognitive limitations as to foresee what ethical issues becomes crucial in the future, but the codes of conduct will also signify which kind of duty and the reach of this duty in relation to an interpretation of what levels of stakeholder responsibility could be reasonable. The assessment and control of the timing is very much an issue of communication management. An assessment may consist of its own management communication performance evaluation, for example compared to other companies in the same situation. This may reveal that the timing of response from the external stakeholders e.g. media

[26] Interestingly, Pfeffer & Salancik (1978) defines the importance of a resource by its criticality, thus, defining it the other way around. See Weber (2002) and Kornum (2003) for a cirtical review of Pfeffer & Salancik’s definitions of these concepts. More crucial Mitchell et. al. (1997) besides urgency, use two other so-called “relationship attributes”: power and legitimacy. Concerning the power attribute in this paper it is discussed intensively in section 8.1 under the heading of resource dependence, as resource dependence is considered as the source of power. The legitimacy attribute is important when the theoretical effort is focused on giving guidance, whether a given person or organisation should be considered as a (genuine) stakeholder (e.g. Mitchell et al 1997 and Phillips 2003). However this paper / author is, instead of defining on beforehand some legitimate stakeholder, more inclined to focus on the long-term value generating potential via a trial-an-error or sense-making process á la Weick and thus giving a potential stakeholder a chance to voice and be heard. Refer for example to Freeman and Velamuri (2006, pp. 17-19; principle 2, 4 and 8) or Fremann and Liedtke (1997, p. 293) who, with some similarity to a trial-and-error process, proposes the term: “Monitor Stakeholder”, which are characterised by low cooperative potential and low competitive threat.

appeared hesitating and therefore may appear dishonest or having something to hide, although this may not be the case seen from an internal perspective.

The already described critical case on closing a plant and the implications for employees as a primary stakeholder show how important capacity building is for the ability to act proactively and responsible in urgent matters. If such a crisis is externally induced e.g. by competition or changes in the legal foundation of the firm and it is presumed that the crises requires quick response if the firm is to survive, the capacity to compensate and assist the stakeholder that is harmed seems crucial. If the firm has no reserves, despite the recipient's need is significant, it may only have the ability to inform the staff in a respectful and timely manner, but may have no resources to actively support the transfer of the employees to jobs in other firms. From the perspective of the relationship between capacity and need you could infer that the duty then is reduced in accordance with the limited capacity available. However if the relation between urgency and capacity is taken into account, it becomes visible that the ability to act caring is also related to the ability to be proactive. The point from this insight is that although managers are bounded rational and cannot foresee every possible obstacle, ethical leadership seems to include some capacity stock building to better handle urgent matters and critical situations, also by being able to compensate financially if necessary. Also the unfolding of proactive measures is dependent on the codes of conduct that are espoused from artefacts, values and assumptions of the organizational culture embedded in the stakeholder system. Building "some" capacity can of course cover a quite wide range from firm to firm, but should a firm build more reserves that they would otherwise do without considering ethical leadership? On the most general level of answering this question the answer might be yes and this will most likely induce a immediate reaction from of the some proponents of the "value maximization" principle (e.g. Jensen 2002) and they would counter argue that extra ethical reserves would make the firm less competitive and thus create less wealth to its stakeholders in the long run. Let us examine this argument a little closer. In the critical case of closing a plant the long term effects of the two proposed scenarios; - respect and timely information versus active support to help employees transfer to job in another firm. Closing a plant is normally not something that enhances the image of a firm, especially not in the local area and often not either on national scale. Thus two different ways of supporting the employees may just make up the difference between negative and positive exposure of the firm in media. Furthermore, employees that in every possible way is helped in the unfortunate situation is more likely to further enhance the positive image via word-of-mouth and it is also much more likely that such employees will return to firm again if treated well in the interim period. Consequently, the losses generated from damaging the image and potential future lower degrees of availability of earlier valued employees, may well surpass the resources in need of handling critical situations that may occur in relation to stakeholders in the future (e.g. Dyer and Singh 1998).

To conclude this section:

1. Managers will enact their ethical leadership based on the already transformed normative cores as embedded in codes of conduct.

2. The capacity pool or stock is generated during some period of time, and therefore, as compared to flows, it will take some effort or time to change this, if needed. Thus, if capacity related to stakeholder responsibility is not accumulated, management will have few(-er) options to handle a crisis in the short run. Such accumulation of resources may be seen as economically infeasible, but in the long run the reduced losses from handling crisis in ethically sound ways, may balance the resources used to generate capacity.

3. The duty to act is positively correlated with capacity to do so, and the needs expressed. This paper suggests that "need" is defined by the need level expressed by stakeholders.

4. How the duty to act is unfolded, will depend on how codes of conduct are espoused based on artefacts, values and assumptions of the organizational culture embedded in a stakeholder system. Similarly, besides the available capacity, the ability of the firm to act proactively depends on its inclination to actually do so, which again is based on embedded cultural characteristics.

5. Consequently, a given focal firm's enactment of stakeholder responsibility depend on the need level, the time-sensitivity (urgency) of the need and how the firm interprets this, based on the culturally embedded codes of conduct. Still, the outcome of all this, according to experience (empiric evidence), tells us that it is clearly also related to the focal firms ability to monitor or control, that the actions expected (expressed in codes of conduct at executive level) to be implemented, is also realised in practice (at operational level).

6. What tends to be new in this model is the use of the dimensions, "capacity" and "codes of conduct being embedded in the organizational culture of the firm". Thus, in the model they represent a crucial influence on the dimension, "enactment of stakeholder responsibility". The need and urgency dimensions are already a part of the stakeholder responsibility discourse, however, in the model these dimensions are located in new patterns of interrelations. Seen as a whole the model is hopefully

closer to represent what influence stakeholder responsibility enactment is in practice.

10. Conclusion

The purpose of this paper has been to explore selected contributions from the field of business ethics and apply these findings to the understanding of balancing stakeholder demands. To enhance this understanding three socio-economic theories are reviewed, resource dependence theory, transaction cost theory and theories related to resource based view of the firm. They, again, form the basis for the discussion of which dynamic processes generate the capacity to enact stakeholder responsibility. And based on a given capacity pool, how and which processes influence the stakeholder responsibility enactment in practical business life? The findings of this conceptual exploration are briefly concluded in the following.

According to proponents, stakeholder theory must be considered as “explicitly and unabashedly moral”. Thus the moral and normative aspect is seen as a core that makes stakeholder theory / corporate social responsibility distinct, as compared to mainstream socio-economic business theory. A review of selected parts of business ethics literature showed that most of it can be said to be of the *Inspiration* type, that is, although it can safely be characterised as being within the normal decision “space” of business manager, the proposed principles are not formulated in patterns that are directive and specify actions of managers. Yet, to inspire executives is a rather fine result, if obtained, but being better to formulate principles that are more directly applicable to certain business contexts, might be rated higher by managers. As suggested in this paper a process that enhances this is to combine business *Implementation* processes with e.g. research processes that *Investigate* such implementation and transformation processes. The findings from all this will enable e.g. researchers to formulate new and more directive / specified principles. However, these principles are probably only applicable to selected business contexts or stakeholder relationships. Such *transformation process* from espoused principles to guided enactment seems important, because even Global Compact principles and legislation is transformed into the specifics of a business context, which often causes the direct link between principle and enactment to blur or some times even evaporate.

One possible way to implement and specify, is suggested to be establishing nested systems of codes of conduct. The implementation of such nested systems depends on the business context in which it is embedded and related to this, the organizational culture theory plays a pivotal role in defining the business context, especially when the topic is stakeholder responsibility. Organizational culture theory contributes with an understanding of the structures and processes that e.g. employees experience every day, - processes which, at the same time, is constantly reproduced or re-enacted. Codes of conduct and their (re-) enactment are a part of this process. Organizational cultures can be characterized as Integrated, Differentiated or Fragmented, where the findings from empiric work indicate that it is difficult if not impossible to secure that the missions and values formulated by of executives are incorporated into the mindset of every individual in the entire organisation. These difficulties pose a problem, as suggested in this paper, if the responsibility enactment demands a certain level of integration of the internal organisation. To even integrate larger parts of the stakeholder system will strengthen this problem of responsibility reach.

A case of closing a plant has showed that crisis or critical events leads to an annulment of the absolute principle that the long-term interests of all primary stakeholders can *always* be met in responsible ways. The bad news is that this is simply not possible. Yet, the firm can be proactive and build capacity that enables them to handle such situations much better. In line with this, the good news is that if capacity is build gradually or if we are outside crisis periods it is normally possible to balance stakeholder demands via procedures that do not harm the long-term interest of the primary stakeholders, seen as e.g. a fair distribution of benefits and sacrifices evaluated for a given time span.

Static models of exactly such balancing processes show that both positive and negative interaction between financial value and social responsibility is possible, but when having the objective of the “best” and most responsible solution this demands some extra financial strength. However when viewed dynamically extra earnings in the previous period may contribute to a gradually enhanced stakeholder responsibility implementation in the next period, which hereby reduces the investment need upfront and again underline the importance of gradual capacity building. Furthermore, it is hypothesised that this gradual process is easier in mature and consolidated industries / networks, than when firms seek to create new markets for entirely new value propositions, because of e.g. network externalities.

Besides the already mentioned organizational culture induced restrictions for responsibility reach into the outskirts of the stakeholder system, resource dependence, resource based view of the firm and transaction cost theory also helps to identify what restricts or promotes the reach of a focal firm. *Resource dependence theory* represents attraction seen as the primary value attraction between the parties of a stakeholder relationship, but it also represents restriction in certain resource configurations, where one of the parties’ ability to access valued and unique resources may be restricted, because certain parts of the resource allocation is decided by the other party of the relationship. The restriction of access based on an unbalanced dependent relationship is primarily a problem when the parties have opposing interest (domain dissensus) or are competitors. Such a scenario may tempt the party with the most unique resource (strongest position) to decide a distribution of benefits and sacrifices in favour of itself. However such unilateral decision making of value capture, may be generating less value than viewed from a broader system-wide perspective, where both the sum and the individual share might get higher. Yet, if a given focal firm wishes to promote new responsibility initiatives via such strongly positioned stakeholder, e.g. a supplier, this may restrict the reach of such initiative. On the other hand, the decision of the party possessing the most unique resources may be justified from a system-wide value generation / protection perspective where this party restrict access to its resources with the purpose of protecting them from misuse by the other party, or by considering that the total value is higher in alternative uses. It is here important, which perspective is chosen to evaluate the issue.

Resource based view of the firm is combined with frameworks for market creation and it is proposed that competion intensity consists of, degree of imitability, value attraction and persistency of market reach efforts. Whereas imitability signify a wish to keep distance to a competitor by making imitation difficult, the two last mentioned dimensions relate to features that ties a focal firm to its suppliers or customers in order to strengthen its reach. In other words, it can strengthen a partnership or the loyalty to these parties. Yet, suppliers may also be competitors and customers may not be loyal and may buy similar products from the competitors. Referring back to resource dependence theory, the inclination for using value capture is also an option here, which infuses a higher level of uncertainty in these relationships as compared to those with no opposing interests.

Besides relation specific assets, uncertainty is one of the important dimensions of *transaction cost theory*. Concerning the former dimension it has strong connotations to resource dependence theory, because both refer to resources that are valued and concentrated. Yet, the difference is that the unique resources, which resource dependence theory intend to study are resources accumulated historically and evaluated today. Whereas transaction cost theory refer to resources that the firm plan to invest in the future as evaluated from today. In unilaterally configured *dependent* relationships with opposing interests, the party with the least unique resource position may expose itself to high levels of uncertainty if investing in relation specific assets in such a configuration, because the other party may not allow for (contractual) safeguarding of the assets at risk. Such configurations may therefore restrict stakeholder responsibility reach, because risky investments may be reduced or avoided. If only *ties* exists (resource are valued, but several alternatives exists), safeguarding of assets at risk seems a realistic option in most configurations. Environmental uncertainty e.g. due to technological innovations, will always constitute a reason for potentially safeguarding assets, but also behavioral uncertainty e.g. opportunism may also be an option. Still, self-reinforcing safeguards or fairness based behaviour can, at least to some extent, reduce the need and cost allocated to the latter. A further aspect of transaction cost theory is that cost can be traded of with other types of cost and similarly, cost can be traded of by an increase in the level of value creation. In relation to stakeholder thinking this imply that cost in one category incurred when seeking to enhance stakeholder responsibility precense may be traded of by cost reductions and / or value creation increase in other categories and hereby, indirectly supporting the notion of potential synergistic effects from implementing stakeholder responsibility initiatives. This is further supported by the *resource based view theory of the firm – a relation view*, which present evidence that show that external relationships contribute to the sustained competitive advantage of a firm. This is due to the complementarity of externally exchanged resources and knowledge sharing, which makes resources more valuable, unique and non-imitable and because investment in relation specific assets under certain conditions generate more value than costs. And as already mentioned self-reinforcing rather than legally based safeguards are preferable due to e.g. cost savings. The positive implications of all this for stakeholder responsibility thinking is straightforward, as this thinking often proposes principles of increased stakeholder collaboration.

Based on selected parts of all these theories a dynamic model is proposed. The model illustrates which dimensions dynamically interact to generate a capacity pool that can support stakeholder responsibility enactment. Via the proposed dimensions and their interaction one can follow possible pathways for synergistic /positive or vicious cycles of value creation. And, for example, show that the same resource dependence configuration may be the platform for pathways that differ because of differences due to variances in e.g. handling the negotiation process, allowing the other party to safeguard asset at risk and securing a fair distribution of benefits and sacrifices. Thus, as a preliminary idea, it is interesting to further study how and why different combinations of resource configurations and pathways promote stakeholder responsibility and why others do not.

As already mentioned above, the accumulation of a capacity pool, is especially relevant in order to better handle crisis responsible, but it is also important that a pool can support a gradually increased focus on stakeholder responsibility enhancing initiatives. In both cases generating the stock may be economically feasible through the value creating potential of synergistic cycles. Thus, in a model of stakeholder responsibility enactment dynamics, this pool enables the focal firm to act caring and proactively in relation to a given stakeholder. The codes of conduct embedded in the organizational culture constitute a dimension that plays a pivotal role of interpreting the need and urgency level as expressed by the stakeholder. Consequently, the artefacts, values and assumptions of a culture influence the perception of decision makers as to whether they acknowledge themselves as having a duty and being able to meet expressed needs and foresee upcoming issues of interest to business ethics. In this respect the organizational culture can be seen as having the role of a perceptive gatekeeper between available capacity pools and expressed need and urgency levels. A further and maybe even more important aspect of this model is the ability of the focal firm to monitor to what extent prescribed behaviour is actually practiced as responsibility enactment. Hereby the model is hopefully closer to reflect an understanding of stakeholder responsibility enactment, as it unfolds in reality and, in effect, identify how the normative core principles are transformed into codes of conduct and further on into stakeholder responsibility enactment.

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