The dominant shareholder-value model has led to mismanagement, market failure and a boost to regulation, as spectacularly demonstrated by the events surrounding the recent financial crisis. **Stakeholders Matter** challenges the basic assumptions of this model, in particular traditional economic views on the theory of the firm and dominant theories of strategic management, and develops a new understanding of value creation away from pure self-interest toward mutuality. This new “stakeholder paradigm” is based on a network view, whereby mutuality enhances benefits and reduces risks for the firm and its stakeholders. The understanding of mutual value creation is operationalized according to the license to operate, to innovate and to compete. The book develops a vision for a strategy in society in which, rather than the invisible hand of the market, it is the visible hands of the firm and the stakeholders that lead to an overall increase in the welfare of society.

**Sybille Sachs** is Professor and Head of the Institute for Strategic Management: Stakeholder View at the University of Applied Sciences Zurich (HWZ). In addition, she is an affiliate professor of the University of Zurich, where she established the module for Business and Society in 2000 and adjunct professor at the University of Southern Queensland in Australia. She has published numerous articles and books in the fields of strategic management and stakeholder management and is co-author of the book *Redefining the Corporation* (2002).

**Edwin Rühli** is Professor Emeritus for Business Administration at the University of Zurich. He is also Senior Advisor at the Institute for Strategic Management: Stakeholder View of the University of Applied Sciences in Zurich. He is the author of the groundbreaking German management book *Unternehmungsführung I–III* and has published more than 150 peer-reviewed publications in the fields of international management, corporate governance, strategic management and stakeholder management.
Business, Value Creation, and Society

Series editors

R. Edward Freeman, University of Virginia
Stuart L. Hart, Cornell University and University of North Carolina
David Wheeler, University of Plymouth

The purpose of this innovative series is to examine, from an international standpoint, the interaction of business and capitalism with society. In the twenty-first century it is more important than ever that business and capitalism come to be seen as social institutions that have a great impact on the welfare of human society around the world. Issues such as globalization, environmentalism, information technology, the triumph of liberalism, corporate governance and business ethics all have the potential to have major effects on our current models of the corporation and the methods by which value is created, distributed and sustained among all stakeholders – customers, suppliers, employees, communities, and financiers.

Published titles:

Fort  Business, Integrity and Peace
Gomez and Korine  Entrepreneurs and Democracy
Crane, Matten, and Moon  Corporations and Citizenship
Painter-Morland  Business Ethics as Practice
Yaziji and Doh  NGOs and Corporations
Rivera  Business and Public Policy

Forthcoming titles:

Maak and Pless  Responsible Leadership
Mansell  Capitalism and Corporate Responsibility
Hemingway  Corporate Social Entrepreneurship
Stakeholders Matter
A New Paradigm for Strategy in Society

SYBILLE SACHS
and
EDWIN RÜHLI
To Alexandra Sachs, for whom the paradigm shift matters
## Contents

*List of figures*  
page xii

*List of tables*  
xiv

*Foreword by R. Edward Freeman*  
xv

*Acknowledgments*  
xvii

1 Challenges for a new paradigm in strategic management  
   The future of business in society: social and economic changes  
   Requirements for a new paradigm in strategic management  
      Historic nature of paradigms  
      Origin of the economic paradigm  
      Post-Enlightenment Capitalism  
      Multi-paradigm concepts to reflect reality  
      Our contribution to the stakeholder paradigm  
      Path toward a new stakeholder paradigm  

Part I Development of the basic assumptions of a new stakeholder paradigm  

2 The economic paradigm and its basic assumptions  
   The economic paradigm of the theory of the firm  
      What is the purpose of the firm and its underlying principle of value creation?  
      Who are the actors and who are the owners?  
      What are the main attributes of actors and their behavior?  
      What are the conditions of the environment?  
      Final remarks  
   The strategy theory: general remarks  
   The strategy theory: the “Industry Structure View of Strategy” (ISV)
Contents

viii

What is the purpose of the firm and its underlying principle of value creation? 20
Who are the actors and who are the owners? 21
What are the main attributes of actors and their behavior? 22
What are the conditions of the environment? 23
Final remarks on the ISV 24
The strategy theory: the “Resource-based View of Strategy” (RbV) 26
What is the purpose of the firm and its underlying principle of value creation? 27
Who are the actors and who are the owners? 29
What are the main attributes of actors and their behavior? 29
What are the conditions of the environment? 30
Final remarks on the RbV 30
The economic paradigm revisited 32

3 Contribution of stakeholder theory to our understanding of the stakeholder paradigm 35
Descriptive dimension 35
Who are the stakeholders? 35
What is the interaction between the firm and its stakeholders? 38
Our understanding from a descriptive perspective 40
Instrumental dimension 41
Stakeholders impact value creation 42
Stakeholders create competitive advantage 42
Stakeholder relations pay off 42
Our understanding from an instrumental perspective 43
Normative stakeholder dimension 43
Economic normative foundation 44
Social/philosophical, normative foundation 45
Our understanding from a normative perspective 45
Final remarks 46

4 The stakeholder paradigm 48
The stakeholder theory of the firm 48
What is the purpose of the firm and its underlying principles of value creation? 48
Who are the actors and who are the owners? 50
What are the main attributes of actors and their behavior? 51
What are the conditions of the environment? 52
Final remarks 53
Contents ix

Stakeholder Capitalism 53
  What is the purpose of the firm and its underlying principles of value creation? 54
  Who are the actors and who are the owners? 54
  What are the main attributes of actors and their behavior? 55
  What are the conditions of the environment? 56
  Final remarks 56

The basic assumptions for our understanding of the stakeholder paradigm 57
  What is the purpose of the firm and its underlying principles of value creation? 57
  Who are the actors and who are the owners? 59
  What are the main attributes of actors and their behavior? 60
  What are the conditions of the environment? 62
  The assumptions of different paradigms 63

Part II Our understanding of the stakeholder paradigm and its operationalization 71

5 Our understanding of the stakeholder paradigm operationalized in the three licenses 73
  Our claim for the stakeholder paradigm 73
    The economic paradigm in an endless series of constraints 73
    Challenging the dominance of self-interest 74
    The fundamental shift to mutuality in a network view 74
  Putting the paradigm into operation: the three licenses 76
    License as entitlement 76
    Licenses stimulate value creation 78
    Take another look at the Matterhorn 78
    Embeddedness in networks 82
    Stakeholder licenses 86
    Multiple roles of stakeholders 88
  Common dimensions of the three licenses 88
    Content of the licenses 89
    The cast of relevant stakeholders 89
    Contributions to value creation 89
    Value distribution 90
    Firm and stakeholder strategies 90
    Evaluation of mutual value creation 91

6 License to operate 95
  The content of the license to operate 95
Contents

The cast of stakeholders: society as an end and value contributor, not as a constraint 98
Mutual value creation with and for social and political stakeholders 102
  Corporation perspective 102
  Stakeholder perspective 104
  Important benefit and risk potentials from the perspective of the license to operate 105
Value distribution to social and political stakeholders 109
Strategies from the perspective of the license to operate 110
Evaluation from the perspective of the license to operate 111
Concluding remarks to the license to operate 113

7 License to innovate 114
The content of the license to innovate 114
The cast of stakeholders: from the resource-based view to the resource owner view 115
  Stakeholders as resource contributors 115
  Stakeholders as providers of non-limited resources 118
  Stakeholders as direct and indirect resource contributors 120
  Stakeholders as voluntary and involuntary resource contributors 121
Mutual value creation 123
  The motivation of stakeholders to contribute resources 123
  The dynamics of resource contribution 125
Value distribution to stakeholders from the perspective of the license to innovate 128
Strategy and core competencies from the perspective of the license to innovate 129
Evaluation from the perspective of the license to innovate 130
Concluding remarks to the license to innovate 131

8 License to compete 133
Content of the license to compete 133
The cast of stakeholders: from the industry structure view to the dynamic network structure view 133
  The nature of stakeholder networks 133
  The attractiveness of stakeholder networks 135
  Dynamics of stakeholder networks 138
Mutual value creation: positioning in and among stakeholder networks 139
  Forms of positioning 139
## Contents

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit and risk potentials in stakeholder networks</td>
<td>140</td>
</tr>
<tr>
<td>Multiple roles of stakeholders</td>
<td>141</td>
</tr>
<tr>
<td>Positioning on the continuum between cooperation and confrontation</td>
<td>144</td>
</tr>
<tr>
<td>Value distribution to stakeholders from the perspective of the license to compete</td>
<td>145</td>
</tr>
<tr>
<td>Generic strategies from the perspective of the license to compete</td>
<td>147</td>
</tr>
<tr>
<td>Evaluation from the perspective of the license to compete</td>
<td>149</td>
</tr>
<tr>
<td>Concluding remarks on the license to compete</td>
<td>151</td>
</tr>
<tr>
<td>9 Challenges resulting from a paradigm shift</td>
<td>154</td>
</tr>
<tr>
<td>What are the main challenges for the required change?</td>
<td>154</td>
</tr>
<tr>
<td>What are basic change patterns and processes?</td>
<td>155</td>
</tr>
<tr>
<td>General principle of change</td>
<td>155</td>
</tr>
<tr>
<td>Gradual change</td>
<td>156</td>
</tr>
<tr>
<td>Fundamental changes</td>
<td>157</td>
</tr>
<tr>
<td>Three basic learning processes</td>
<td>158</td>
</tr>
<tr>
<td>Economic impacts</td>
<td>162</td>
</tr>
<tr>
<td>Requirements in the perspective of the license to operate</td>
<td>162</td>
</tr>
<tr>
<td>Requirements in the perspective of the license to innovate</td>
<td>163</td>
</tr>
<tr>
<td>Requirements in the perspective of the license to compete</td>
<td>163</td>
</tr>
<tr>
<td>Cultural impacts</td>
<td>164</td>
</tr>
<tr>
<td>Different levels of culture</td>
<td>165</td>
</tr>
<tr>
<td>Role of leaders</td>
<td>167</td>
</tr>
<tr>
<td>Structural and legal impacts</td>
<td>171</td>
</tr>
<tr>
<td>Structures and processes of firms and stakeholders</td>
<td>171</td>
</tr>
<tr>
<td>Distinctiveness and complexity of network structures</td>
<td>172</td>
</tr>
<tr>
<td>Governance systems and legal impacts</td>
<td>173</td>
</tr>
<tr>
<td>Epilogue</td>
<td>179</td>
</tr>
<tr>
<td>Appendix: Methodological considerations</td>
<td>181</td>
</tr>
<tr>
<td>Glossary</td>
<td>194</td>
</tr>
<tr>
<td>Notes</td>
<td>201</td>
</tr>
<tr>
<td>Bibliography</td>
<td>224</td>
</tr>
<tr>
<td>Index</td>
<td>269</td>
</tr>
</tbody>
</table>
Figures

All figures and tables in this book are our own illustrations, except where stated otherwise.

1.1 Structure of the current book ................................. page 9
2.1 The firm and its environment ................................. 14
4.1 Perceptions of firms and stakeholders ................. 62
5.1 Comparison of the economic and the stakeholder paradigm .......... 76
5.2 The Swiss view of the Matterhorn ......................... 79
5.3 The Italian view of the Matterhorn ..................... 80
5.4 The three licenses to analyze mutual value creation .... 83
5.5 Stakeholder networks ........................................ 84
5.6 Evaluation concept ........................................... 92
5.7 Key elements of the three licenses ...................... 93
6.1 Types of social and political stakeholders’ contributions .... 105
6.2 Expected benefit and risk resulting from stakeholder interactions .......... 106
7.1 Benefit and risk potentials as perceived by managers .... 116
7.2 Types of stakeholder contributions ..................... 117
7.3 Possible contributions by stakeholders to core competencies .......... 131
7.4 Comparison between traditional RbV and the license to innovate .......... 132
8.1 Types of stakeholder contributions ..................... 143
8.2 Three generic strategies .................................. 147
8.3 The stakeholder network of Suva’s New Case Management .......... 149
8.4 Stakeholder network of microfinance institutions (MFIs) .......... 150
8.5 Focus on stakeholders in mutual value creation .......... 150
8.6 Comparison between traditional ISV and the license to compete .......... 152
### List of figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1</td>
<td>Impacts of change processes</td>
<td>155</td>
</tr>
<tr>
<td>9.2</td>
<td>Structural differentiation in a stakeholder network</td>
<td>173</td>
</tr>
<tr>
<td>E.1</td>
<td>Mutual value creation in networks</td>
<td>180</td>
</tr>
<tr>
<td>A.1</td>
<td>Overview of the research process</td>
<td>186</td>
</tr>
<tr>
<td>A.2</td>
<td>Action research process: steps 1 to 5</td>
<td>188</td>
</tr>
</tbody>
</table>
Tables

2.1 Main theories of the firm  
3.1 The most important stakeholders  
4.1 Overview of the assumptions of the most important paradigms and theories  
6.1 Most important social and political stakeholders  
6.2 Strategic activities based on similarities and differences of stakeholder and firm perception of an issue  
8.1 Benefit and risk potentials  
9.1 Different leadership types in firms  
9.2 The stakeholder paradigm and different levels of governance  

page 17  
36  
64  
101  
111  
142  
168  
177
Foreword

Stakeholders Matter: A New Paradigm for Strategy in Society is an important book. It ushers in a new wave of scholarship in management theory. The new era that is upon us obliges us to tell a new story about business, as an institution that is firmly set in society, rather than apart from it. The authors take globalization, mega-change due to information technology, and the emergence of new and innovative business models as normal to this new era. The old way of thinking about business as a purely economic and instrumental tool for the benefit of financiers is no longer useful. The new narrative of business must be told in stakeholder terms to allow for the diversity of business forms that we are seeing in the twenty-first century.

When the authors claim that a new paradigm has emerged for strategic management, they are being too modest. Their proposals do no less than rewrite the contract between business and society. First of all, they broaden the notion of business as the engine of economic activity by focusing on value creation for stakeholders rather than economic value for shareholders. Business in the twenty-first century must be seen as an institution which creates value for customers, suppliers, employees, communities, financiers and society. Second, one of their key arguments is that this new narrative about business, indeed the new social contract, contains three licenses: (1) license to operate; (2) license to innovate; and (3) license to compete. The combination lays out a new agenda for thinking about the purpose of the firm, its strategic vision and its business model for value creation.

Equally as important as the substance of their argument, is the process of research on which this book is based. It comes from a multi-year, multi-company, multi-disciplinary perspective which the authors have developed over the past decade. It shows us a different way to conceptualize research that is at once intellectually rigorous, based on an analysis of good practice, and speaks to academics and thoughtful practitioners. Business research in the twenty-first century needs to
xvi

Foreword

reflect the massive changes that the institution itself has undergone. We cannot afford only narrow disciplinary studies that stand closer to scientism than to improving and interpreting business practice. As the authors demonstrate, there is no trade-off between rigor and relevance. Good research must be both conceptually rigorous and practically relevant. *Stakeholders Matter* is such a work.

It is an honor to publish this book in the series on Business, Value Creation, and Society. The purpose of this series is to stimulate new thinking about value creation and trade, and its role in the world of the twenty-first century. Our old models and ideas simply are not appropriate today. We need new scholarship that builds on these past understandings, yet offers the alternative of a world of hope, freedom and human flourishing. Professors Sachs and Rühli have produced just such a volume.

R. Edward Freeman
University Professor
Academic Director, Business Roundtable
Institute for Corporate Ethics
The Darden School
University of Virginia
Charlottesville, Virginia USA
Acknowledgments

We are especially grateful to have experienced “mutual value creation” with, and hopefully also for, different “stakeholders” in our “network” in the course of writing the book.

First of all, we want to thank Isabelle Kern, who supported us from the beginning to the end of the book. Also we want to thank Ruth Schmitt who, as a co-leader of joint research projects, contributed many ideas to our understanding of the stakeholder paradigm. The work could not have been written without the support of our research team: Manuel Heer Dawson, Andrea Gäumann, Claude Meier, Marc Moser, Irene Perrin and Thomas Schneider (in alphabetical order). With them mutual value creation took place in its purest form, which we profoundly appreciate. The research team members represent a broad range of scientific disciplines: information technology, economy, political science, sociology and psychology. This diversity greatly enriched our ideas and insights.

We want to thank Christine Luisi for making our English more readable. In refining the language, she had the opportunity to challenge the logic of our argumentation, which was of unique value.

We are grateful for the outstanding support from R. Edward Freeman, the general editor of the series “Business, Value Creation, and Society.” He has been a formative influence from the beginning of our research. He stimulated us to integrate strategy and stakeholder theory, and to emphasize the humanistic aspect of value creation. We had the advantages of a great reviewer team with Joseph Mahoney, James Post and Grant Savage. From their different perspectives, they challenged and advised us with valuable comments and encouragement. We also received excellent support from Paula Parish, our editor at Cambridge University Press. She was a true “benefit provider.”

We thank all of our interview partners in the different case studies for providing us with insights on how mutual value creation takes place in real life situations and not just in theory.
xviii

Acknowledgments

Furthermore, we would like to include an even broader “cast of stakeholders” in our thanks: Simone de Colle, Sabine Döbeli, Hans Groth, Ulrich Gut, Jeffery Harrison, Gilbert Lenssen, Guido Mattanza, Bruce Millett, Bidham Parmar, Lee Preston, Nigel Roome, Thomas Streiff, Jean-Paul Thommen, Sandra Waddock, Christoph Weber, Patricia Werhane, Duane Windsor and Donna Wood (in alphabetical order). We had the privilege to meet and discuss with them, and to learn from their publications.

As we have based our ideas on a wide range of literature, we are grateful for the innumerable impulses and the richness of the ideas we received from all of the authors.

We are grateful to the University of Applied Sciences HWZ for supporting our research and providing us with the necessary work conditions.