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978-0-521-19639-0 - Stakeholders Matter: A New Paradigm for Strategy in Society

Sybille Sachs and Edwin Rühli

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Stakeholders Matter

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.

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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.

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CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town,
Singapore, São Paulo, Delhi, Tokyo, Mexico City

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521196390

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First published 2011

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Sachs, Sybille.

Stakeholders matter : a new paradigm for strategy in society / Sybille Sachs,
Edwin Rühli.

p. cm. – (Business, value creation, and society)

Includes bibliographical references and index.

ISBN 978-0-521-19639-0

1. Strategic planning. 2. Customer relations. I. Rühli, Edwin. II. Title.

HD30.28.S2217 2011

658.4'012–dc23

2011020616

ISBN 978-0-521-19639-0 Hardback

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To Alexandra Sachs, for whom the paradigm shift matters

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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

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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.

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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.

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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.