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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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# Stakeholders Matter

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and

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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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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.

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