

**Distinctions in Descriptive and
Instrumental Stakeholder Theory:**
A Challenge for Empirical Research

Niklas Egels-Zandén

Centre for Business in Society
School of Business, Economics and Law at Göteborg University
SE – 405 30 Göteborg, Sweden
Niklas.Egels-Zanden@handels.gu.se
+46-31-7862729 (telephone)

Joakim Sandberg

Department of Philosophy
Göteborg University
SE – 405 30 Göteborg, Sweden
Joakim.Sandberg@filosofi.gu.se
+46-31-7864571 (telephone)

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Distinctions in Descriptive and Instrumental Stakeholder Theory:

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Abstract

Stakeholder theory is one of the most influential theories in business ethics. It is perhaps not surprising that a theory as popular as stakeholder theory should be used in different ways, but when the disparity between different uses becomes too great it is questionable whether or not all the “stakeholder research” refers to the same underlying theory. This paper starts to clarify this definitional confusion by distinguishing between three different ways in which different lines of stakeholder research are connected with descriptive and instrumental stakeholder theory. First, a distinction is made between research connected with descriptive and with instrumental stakeholder theory as defined by Donaldson and Preston (1995) in the *narrow* or *broad* sense. Second, a distinction is made between research that interprets descriptive and instrumental stakeholder theories as either *hypotheses* or *research areas*. Third, a distinction is made between research that interprets Donaldson and Preston’s (1995) central concept of “stakeholder management” as either *behaviour* or *rationale*. Finally, the paper discusses the implications of these differences for empirical research into stakeholder theory.

Key words: descriptive stakeholder theory; instrumental stakeholder theory; stakeholder management; stakeholder theory.

Introduction

Over the past few decades there has been growing interest in matters related to business ethics, not only among moral philosophers but also (and perhaps even more so) among business scholars. Interesting business ethics issues that could be studied include the extent to which managers are sympathetic to different ideas concerning corporate ethical responsibilities, and the extent to which companies in fact fulfil these responsibilities. Another especially interesting issue is the question of whether or not companies that fulfil (or at least are perceived to fulfil) certain ethical responsibilities have a competitive advantage over companies that do not.

This article is about the prerequisites of research into these issues, or, more specifically, about so-called stakeholder theory. In recent years, stakeholder theory has become one of the most common frameworks used in the academic community for conceptualizing and understanding issues concerning corporate ethical responsibilities (Wijnberg 2000; Stoney & Winstanley 2001; Heugen & van Oosterhout 2002; Orts & Strudler 2002; Schwartz & Carroll 2008). Since the publication of Freeman's landmark book, *Strategic Management: A Stakeholder Approach* (1984), hundreds of articles have been written about stakeholder theory (Donaldson & Preston 1995; Jones & Wicks 1999; Buchholz & Rosenthal 2005). It should not be surprising that a theory as popular as this is understood in different ways and used for different purposes. However, if the disparity between different uses of the theory becomes too great, one might start to wonder: In what sense do different lines of research, only loosely connected to the same general "theory", really deal with the same subject matter?

The central argument of this article is that there is widespread confusion among scholars interested in the above types of questions as to exactly what they are studying, and as to how their results are comparable to those of other scholars. This is mainly because most articles on stakeholder issues refer to the same understanding of stakeholder theory, or to the same set of fundamental distinctions in this theory, but yet use this theory in fundamentally different ways. Of course, many previous writers have commented on the definitional confusion surrounding stakeholder theory (e.g. Donaldson and Preston 1995; Jones and Wicks 1999). In one of the most influential articles on this theory, Donaldson and Preston (1995) attempt to clarify and categorise the disparate streams of stakeholder research by organising them into a taxonomy of three aspects of stakeholder theory: 1) normative stakeholder theory, 2) instrumental stakeholder theory, and 3) descriptive stakeholder theory. While some authors, notably Freeman himself (1999) and Kaler (2003), have criticised the separation of these three aspects into distinct parts, it seems fair to say that Donaldson and Preston's (1995) taxonomy has been highly influential in shaping subsequent research into stakeholder theory (Hendry 2001). This is also the taxonomy on which we will focus in this article. While this taxonomy has been useful in many ways, we argue that much confusion remains and, furthermore, that the taxonomy is inconsistently referred to in the current stakeholder literature.

This poses a challenge for scholars interested in empirical studies related to business ethics in general and stakeholder theory in particular. Although a range of articles on empirical stakeholder issues often refer to Donaldson and Preston's (1995) typology –

mainly to their understandings of instrumental and descriptive stakeholder theory – it remains unclear exactly how such diverse articles actually connect with these aspects of stakeholder theory. In this paper, we will introduce three distinctions between ways in which different lines of research are connected with descriptive and instrumental stakeholder theory. First, we will distinguish between lines of research connected to stakeholder theory in what we will call the *narrow* sense, i.e. that connect directly to the understanding of this theory established by Donaldson and Preston (1995), and lines of research connected to stakeholder theory in a *broader* sense, i.e. that do not connect directly with Donaldson and Preston’s definitions but still seem to connect with some general ideas of stakeholder theory. Second, we will distinguish between lines of research that interpret descriptive and instrumental stakeholder theories as *hypotheses* and those that interpret them as *research areas*. Third, we will distinguish between lines of research that interpret Donaldson and Preston’s central concept of “stakeholder management” as *behaviour* and those that interpret it as *rationale*.

It is not always easy to pinpoint exactly where a field of inquiry has got itself into trouble. As the above-cited designations “narrow” and “broad” suggest, we believe that some of the problems originate in the fact that Donaldson and Preston take a quite narrow view of what counts as stakeholder theory in their influential and frequently referenced article. We will say something briefly about where we think certain problems arise and offer some tentative ways to avoid them. However, our main argument is a negative one: As long as the different ways in which empirical studies relate to the theories to which

they refer are not kept apart, it will remain unclear exactly to what extent the results of different lines of empirical research are comparable.

Although our main argument is a negative one, we believe it fills a gap in the current literature on this much-debated topic. The extensive discussion of stakeholder theory has to date mainly applied the normative perspective (Donaldson & Preston 1995; Jones 1995; Jawahar & McLaughlin 2001; Mellahi & Wood 2003), and consequently, the descriptive and instrumental aspects of stakeholder theory have been largely neglected (Jones & Wicks 1999; Treviño & Weaver 1999; Jawahar & McLaughlin 2001; Butterfield *et al.* 2004). Likely, this tendency is at least partly related to Donaldson and Preston's (1995) framing of normative stakeholder theory as the core interpretation of the theory (Berman *et al.* 1999). We believe our focus on the instrumental and descriptive aspects of the theory could be seen as a logical follow-up to Kalers' (2002, 2003) categorisation of normative stakeholder theories, and begins to address the need for more research into the prerequisites of empirical studies concerning business ethics and stakeholder theory. By clarifying the foundations of, and differences between, lines of research referring to descriptive and instrumental stakeholder theory, we hope this paper will provide an important foundation for future research into the kinds of questions mentioned at the outset.

The paper proceeds as follows: First, we discuss different ways of understanding Donaldson and Preston's (1995) taxonomy. Then we turn to an analysis of how different lines of research that refer to instrumental and descriptive stakeholder theory are actually

connected with this taxonomy. We conclude by discussing how the results of this analysis should be interpreted, why the situation is as it is, and how the taxonomy could be remade to fit these results more straightforwardly.

Donaldson and Preston's (1995) tripartite taxonomy

What is stakeholder theory? Well, as noted above, many quite distinct lines of research in the academic community refer to this theory, doing so in quite different ways. In line with Donaldson and Preston (1995), we think that introducing some form of taxonomy of the different uses, or understandings, of stakeholder theory into this mess is much needed. A good starting point of such a discussion is the tripartite taxonomy Donaldson and Preston themselves introduced. Donaldson and Preston argue that the point of certain articles on stakeholder theory is to “to describe, and sometimes explain, specific corporate characteristics and behaviors” (1995: 70). Such a line of research is probably most accurately referred to as *descriptive*, since it deals with issues concerning how the world *is*. The point of certain other articles referring to the same theory, Donaldson and Preston argue, is to “interpret the function of, and offer guidance about, the ... corporation on the basis of some underlying moral or philosophical principles” (1995: 72). This line of research is probably best referred to as *normative*, since it deals with issues concerning how the world *ought* to be.

It is not equally obvious how to understand the third use of stakeholder theory. The point of a third group of articles on stakeholder theory, Donaldson and Preston argue, is “to identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g. profitability, growth)” (1995:

71). It would seem correct to characterise this line of research as descriptive as well, at least in a certain sense, as the purpose of these articles is to find out how the connections between certain things really *work*, or *are*, in the world. Of course, they could often be implicitly normative as well: saying how a certain style of management affects profits is often, at least as understood by managers, tantamount to saying that companies *ought* to be managed in a specific way. But perhaps we may grant, at least for our purposes here, that these lines of research are best referred to as *instrumental*.

How should this all be discerned more exactly? Exactly what kinds of distinctions are we talking about here? First of all, it should be noted that Donaldson and Preston (1995) do not understand their taxonomy as we have introduced it here, i.e. as one that distinguishes between different lines of research, or different kinds of issues. Rather, they understand it as a taxonomy of different aspects of stakeholder *theory*. If read literally, Donaldson and Preston say that they simply distinguish between different “aspects” of stakeholder theory, i.e. they understand the situation as one where there is one overall *theory*, but many *aspects* of this theory. In the end, they argue, only one of these interpretations of the theory really makes sense; their “most important proposition” is “that the stakeholder theory is fundamentally normative” (1995: 86). Thus, the normative aspect of the theory is believed to capture the *core* of the theory. When other writers refer to Donaldson and Preston’s typology, however, it is fairly common that they talk about *different* stakeholder *theories*, that is, instrumental stakeholder *theory* and descriptive stakeholder *theory* (e.g. Jones 1995; Jawahar and McLaughlin 2001). This at first sight semantic distinction between stakeholder *theory* and stakeholder *theories* contains a critical

dimension for understanding what should be considered stakeholder theory. We will return to this discussion below and argue that, for our purposes, the term ‘stakeholder theories’ is the most appropriate.

Donaldson and Preston conclude that the normative aspect of stakeholder theory is its core after discussing different possible justifications of this theory, i.e. why should stakeholder theory be accepted over alternative conceptions? A central part of the normative aspect of stakeholder theory, they say, is the idea that “[t]he interests of all stakeholders are of intrinsic value” (1995: 67).¹ Now, descriptive justification, Donaldson and Preston argue, would come from stakeholder theory being “a descriptive account of how managers behave” (1995: 73–74), i.e. from an acceptance of the claim that companies *actually embrace* the idea that the interests of all stakeholders are of intrinsic value. Instrumental justification would come from acceptance that companies practicing stakeholder management will maximize their financial performance. However, Donaldson and Preston (1995), seemingly correctly, present both these claims as lacking compelling empirical support, while arguing that the normative justification, i.e. that companies *ought* to embrace the idea that all stakeholders’ interests have intrinsic value, is reasonable. Donaldson and Preston (1995) also note that few authors would abandon stakeholder theory even if the descriptive and instrumental justifications proved insufficient, further strengthening the argument that the normative aspect is the core of the theory.

The discussion of the different aspects of stakeholder theory and their justifications identifies one of the central tensions in understandings of stakeholder theory that we wish to emphasise in the present paper. This is most clearly illustrated in the discussion of *instrumental* stakeholder theory. Donaldson and Preston at one point claim that instrumental stakeholder theory “is used to identify the connections, *or lack of connections*, between stakeholder management and the achievement of traditional corporate objectives” (1995: 71; our italics). Hence, instrumental stakeholder theory could be interpreted as research into the positive or negative links between stakeholder management and financial performance, and into what would explain these links. However, Donaldson and Preston in another passage describe instrumental stakeholder theory as “the proposition that corporations practicing stakeholder management will, other things being equal, be relatively successful in conventional performance terms” (1995: 67). Kaler also interprets Donaldson and Preston in this way, by claiming that the instrumental aspect of stakeholder theory “is its use in arguing that the adoption of a stakeholder approach to running companies is an equally good or better way of achieving ‘conventional corporate objectives’ as ‘rival approaches’” (2003: 72–73). In this latter interpretation, instrumental stakeholder theory is presented as the hypothesis, or, if we like, the claim, that stakeholder management is *positively* related to financial performance. In contrast, the first interpretation presents it as a research area, where it is *not* assumed that the connection between stakeholder management and financial performance is positive. There is a similar tension regarding interpretations of descriptive stakeholder theory. We will return to this distinction between the *hypothesis* and *research area* versions of stakeholder theory below.

Before concluding our discussion of Donaldson and Preston's (1995) typology, it is important to note that they argue that there are close relationships between the descriptive, instrumental, and normative aspects of stakeholder theory. According to Donaldson and Preston, the three aspects above are interrelated in several ways. First of all, they write, "[t]he theory's descriptive accuracy is supported ... by its instrumental and predictive value; *if* certain practices are carried out, *then* certain results will be obtained" (1995: 74). Somehow, that is, the instrumental aspect is thought to lend support to the accuracy of the descriptive aspect. Furthermore, "[t]he descriptive accuracy of the theory presumes the truth of the core normative conception, insofar as it presumes that managers and other agents act *as if* all stakeholders' interests have intrinsic value" (1995: 74).

Leaving aside the question of whether or not Donaldson and Preston with this framing attempt to derive an *is* from an *ought*, it is enough for the purpose of the present article to conclude that they envisioned close relationships between the different aspects of stakeholder theory. Based on this understanding of Donaldson and Preston's (1995) taxonomy, we can start to analyse in what way existing lines of research that refer to this taxonomy actually connect with their original definitions of descriptive and instrumental stakeholder theory.

Instrumental stakeholder theory

Stakeholder management: behaviour versus rationale

When discussing *instrumental* stakeholder theory, it should be noted that the instrumental issue related to stakeholder theory is part of a broader class of issues, often said to

concern the link between corporate social performance (CSP) and corporate financial performance (CFP), and actually represents a growing part of this field. According to some writers, normative stakeholder theory appears to be one of the main theoretical frameworks for defining CSP in this CSP–CFP research (e.g. Margolis & Walsh 2003). Hence, while Donaldson and Preston noted that CSP–CFP research at the time of their article did “not translate easily into a[n] [instrumental] stakeholder theory context” (1995: 77), the situation seems very different today (e.g. Waddock & Graves 1997; Moore 2001). The question is then whether instrumental stakeholder theory as used in CSP–CFP research is understood in the same way as in Donaldson and Preston (1995). The answer to this question depends on the chosen definition of “stakeholder management”.

As noted above, Donaldson and Preston define instrumental stakeholder theory as “a framework for examining the connections, if any, between the practice of *stakeholder management* and the achievement of various financial performance goals” (1995: 67; our italics), and they note that the principal focus of interest in this research has been that “corporations practicing *stakeholder management* will, other things being equal, be relatively successful in conventional performance terms” (1995: 67; our italics). A key question is then how to define “stakeholder management”. Donaldson and Preston argue, as indicated above, that “stakeholder management” should be understood as embracing the understanding that “all stakeholders’ interests have intrinsic value” (1995: 74). That is, their understanding of “stakeholder management” is closely linked to what they perceive as the normative core of stakeholder theory. Exactly how this should be spelled out, however, is never made entirely clear. At one point they write that “stakeholder

theory is ‘managerial’ and recommends the *attitudes, structures* and *practices* that, taken together, constitute a *stakeholder* management philosophy” (1995: 87; last italics in original). The important distinction we wish to emphasise here is that between attitudes and practices, i.e. between identifying companies with a genuine “stakeholder management” philosophy as those whose *rationale* is influenced by the normative core of stakeholder theory, and those that simply *behave* in accordance with this normative core. Obviously, it seems possible to behave in accordance with a certain philosophy without actually embracing this philosophy (i.e. to behave in accordance with the philosophy of stakeholder theory without embracing the idea that all stakeholders’ interests have intrinsic value).

If the passage above is read literally, Donaldson and Preston would seem to indicate that *both* rationale and behaviour should be considered when defining “stakeholder management”. Based on this definition, it is possible to return to the question: Is instrumental stakeholder theory as used in CSP–CFP articles understood as it is in Donaldson and Preston (1995)? If “stakeholder management” is defined solely as *behaviour*, we believe that to a large extent it is. Numerous CSP–CFP studies base their definition of CSP on normative stakeholder theory and operationalise this definition by focusing on behaviour. Hence, given this interpretation of “stakeholder management”, there has been ample empirical research into instrumental stakeholder theory – although this research has partly been disguised under the CSP–CFP label. However, if “stakeholder management” is defined as *rationale* (or as behaviour *and* rationale), little existing CSP–CFP research fits Donaldson and Preston’s (1995) definition. This is

because CSP–CFP research focuses almost exclusively on behaviour (often on corporate “talk” behaviour in the form of annual reports, codified principles, etc., as measured by, for example, different CSP databases), few studies having stringently correlated managerial stakeholder attitudes and/or managerial stakeholder decision-making rationale with financial performance. Hence, the prevailing focus on *behaviour* as the measure of CSP and “stakeholder management” has led to a research gap in terms of *rationale* as a measure of CSP and “stakeholder management”. The relation between studies with *behaviour* and *rationale* as the measure for “stakeholder management”, i.e. between *what* firms do and *why* they do it, is further discussed below.

Hypothesis versus research area interpretation

Besides the behaviour/rationale tension in instrumental stakeholder theory, there is also the tension between instrumental stakeholder theory as a *hypothesis* or a *research area*. If instrumental stakeholder theory is interpreted as the hypothesis that adopting stakeholder management will maximize profits, as indicated by both Donaldson and Preston (1995) and Kaler (2003), existing CSP–CFP research indicates that this is an only partially supported hypothesis. For example, Margolis and Walsh (2003) demonstrate that the CSP–CFP link is unclear, some studies finding a positive, some a negative, and some no link between CSP and CFP. Even though the findings of most studies seem to indicate a positive CSP-CFP link, it is only hesitantly that one could claim that companies adopting stakeholder management “will, other things being equal, be relatively successful in conventional performance terms” (Donaldson and Preston 1995: 67). Furthermore, Rowley and Berman (2000) provide a convincing theoretical argument for the implausibility that a company will maximize profits by adopting stakeholder

management, arguing that profit maximization is so dependent on contextual factors that it is unreasonable to expect a simple idea such as stakeholder management to provide a universal recipe for success.

Rowley and Berman (2000) instead argue for more theoretically driven hypotheses of when and how stakeholder management and financial performance can be expected to be positively *or* negatively related. Hence, reframed in the conceptual language of the present paper, Rowley and Berman (2000) argue for a shift from a *hypothesis* version of instrumental stakeholder theory to a *research area* version of the theory. Eventually, such a version would yield theoretical context-dependent explanations of how stakeholder management and financial performance are related. However, the prevalent “barefoot empiricism” of existing CSP–CFP research has so far led to little such theoretical advancement (Rowley & Berman 2000: 406; cf. Ullman 1985). We will return below to the issue of how the hypothesis and research area versions of instrumental stakeholder theory *empirically* relate to each other.

Narrow versus broad interpretation

The final distinction between different versions of *instrumental* stakeholder theory is that between a *narrow* and a *broad* interpretation of this theory. While important distinctions exist within the above-discussed research into instrumental stakeholder theory, it is still closely linked to the fundamental ideas and definitions presented by Donaldson and Preston (1995). Regardless of the choice of behaviour/rationale and hypothesis/research area versions, all these versions closely link instrumental stakeholder theory to normative stakeholder theory – indeed, in a way similar to that envisioned by Donaldson and

Preston (1995) and scholars such as Jones and Wicks (1999), Shankman (1999), and Orts and Strudler (2002). In the *hypothesis* version, this link is through the claim that corporations practicing “stakeholder management” (behaviour and/or rationale) will maximize profits. In the *research area* version, the link is the analysis of the financial effects accrued by companies practicing “stakeholder management”. Consequently, we label these versions as *narrow*, since they are connected to the fundamental ideas of stakeholder theory as originally defined by Donaldson and Preston (1995).

However, there is also a different, *broad*, line of research that is not connected directly to these fundamental ideas but is still connected to some general idea of firm-stakeholder relations. Despite using a different interpretation of instrumental stakeholder theory, this broad line of research often refers to the typology and definitions presented by Donaldson and Preston (1995) (e.g. Berman *et al.* 1999; Moore 1999; Asher *et al.* 2005). The research into broad instrumental stakeholder theory is found under the rubrics of both instrumental stakeholder theory (e.g. Berman *et al.* 1999; Moore 1999; Asher *et al.* 2005) and stakeholder management theory (e.g. Malvey *et al.* 2002; Goodijk 2003; Lord 2003). Compared to *narrow* instrumental stakeholder theory, *broad* instrumental stakeholder theory has so far spawned little research.

The main focus of the *broad* line of research is fairly straightforward: it is simply to analyse what types of relationships firms should form with their stakeholders in order to maximize shareholder value. Central tenets of the *broad* version are that “modes of dealing with stakeholders that prove upon adoption to be unproductive will be

discontinued” (Berman *et al.* 1999: 492), and that firms will “seek to satisfy these other stakeholders, but only in so far as this is commensurate with the satisfaction of the overriding objective [of shareholder value]” (Moore 1999: 119). Hence, in broad instrumental stakeholder theory the focus is solely on shareholders’ interests and *no* intrinsic value is accorded to all stakeholders’ interests, as postulated by normative stakeholder theory. The notion of “stakeholder management” has, thus, been replaced by the notion that firms should act toward stakeholders in whatever way maximizes shareholder value. As Berman *et al.* (1999) conclude, broad instrumental stakeholder theory is compatible with shareholder theory as articulated by Friedman (1970: 32), in that the “social responsibility of business is to increase profits”. In fact, defined in this way, broad instrumental stakeholder theory is an extension of shareholder theory to the empirical phenomenon of firm–stakeholder relationships. Since all that matters is shareholder value and how to maximize it, stakeholder relationships are handled in whatever way maximizes shareholder value – no strings attached.

The focus of *broad* instrumental stakeholder theory on shareholder value is closely linked to the focus of the *hypothesis* version of *narrow* instrumental stakeholder theory, since the *hypothesis* version also focuses on maximizing shareholder value (cf. Kaler 2003). The main difference between these two lines of research into instrumental stakeholder theory is that the *broad* version is wider in its focus than is the *narrow hypothesis* version. While the narrow hypothesis version exclusively focuses on the assumption that corporations adopting stakeholder management will maximize profits, the broad version

openly examines potential ways for firms to relate to stakeholders so as to maximize profits.

While the *broad* instrumental stakeholder theory version and the *narrow hypothesis* version are fairly similar, greater differences exist between the *broad* version and the *narrow research area* version. In the *research area* interpretation of *narrow* instrumental stakeholder theory, the link to the normative core of stakeholder theory is central, since it serves as a test of the financial effects of acting in accordance with this normative core. As noted above, this is *not* the case in *broad* instrumental stakeholder theory, where the normative *stakeholder* core is replaced by a normative *shareholder* core. A central proposition in stakeholder literature is that normative *stakeholder* theory stands in sharp contrast to normative *shareholder* theory (Donaldson & Preston 1995; Jones & Wicks 1999). Freeman (1999: 234) even argues that the term “stakeholder” is an “obvious literary device meant to call into question the emphasis on ‘stockholders’”. Since there is an irreconcilable relationship between the normative cores of stakeholder and of shareholder theory, it follows that *broad* instrumental stakeholder theory (an extension of shareholder theory) cannot be closely linked to normative stakeholder theory (as postulated by *narrow* instrumental stakeholder theory). Hence, *broad* instrumental stakeholder theory is substantially different from the *narrow* definition of instrumental stakeholder theory formulated by Donaldson and Preston (1995), even though the authors of *broad* instrumental stakeholder theory themselves often claim adherence to this definition.

Given the irreconcilable relationship between the cores of broad and narrow instrumental stakeholder theory, it is of course debateable whether *broad* instrumental stakeholder theory should be considered a *stakeholder* theory at all. Can a *stakeholder* theory really be based on a *shareholder* normative core? More generally, can a stakeholder theory be based on any other core than that of normative stakeholder theory? Donaldson and Preston (1995) do not explicitly address this issue, but their overall argument in favour of tight couplings between normative, instrumental, and descriptive stakeholder theory indicates that they would answer ‘no’ to both these questions. Additional support for such a position comes from Kaler’s (2003) discussion of instrumental and descriptive stakeholder theories as second-order theories, i.e. as theories about normative stakeholder theory. Hence, although Kaler (2002, 2003) is critical of much of Donaldson and Preston’s (1995) reasoning, he agrees regarding the centrality of the normative core of stakeholder theory. This implies that it is not enough for research (at least not in the business ethics field) to deal with firm–stakeholder relations to be categorised as stakeholder theory. In addition to this, researchers must also base their research on the normative core of stakeholder theory (as is done in *narrow* versions of instrumental stakeholder theory).

In contrast to the authors above, we have chosen to allow *broad* versions of instrumental stakeholder theory to be classified as versions of stakeholder theory, i.e. we have decided to allow loose couplings between the normative core of stakeholder theory and research into instrumental (and descriptive) stakeholder theories. We think this is appropriate for our purposes, i.e. to categorise versions of instrumental and descriptive stakeholder

theory and relate these to empirical research, for two reasons. First, the stricter definition of stakeholder theory advocated by the authors above would simply mean that well-known studies, such as Berman *et al.* (1999), would not be considered research into stakeholder theory. For our purposes we find this problematic, as these studies certainly relate to stakeholder theory in *some*, albeit loose, sense. Furthermore, as noted above, the authors of these studies very often refer to Donaldson and Preston's (1995) definitions, i.e. the authors *themselves* claim that their research is connected to instrumental stakeholder theory. As long as the *narrow* and *broad* versions of stakeholder theory are kept apart, we see no problem with seeing research into broad instrumental stakeholder theory as research into stakeholder theory. However, this suggestion comes with a caution proviso: Since there is undoubtedly a discrepancy between the broad and narrow versions, researchers treating the broad version need to be careful when referring to Donaldson and Preston's (1995) typology. We return to the issue of what to include in stakeholder theory when discussing broad *descriptive* stakeholder theory.

Comparability of empirical research

Table 1 summaries the different identified versions of *instrumental* stakeholder theory.

Insert Table 1 about here

A first observation when discussing the comparability of empirical research into different versions of instrumental stakeholder theory is that, despite their differences, there are

interesting links between the versions. For example, if researchers interested in how firms should prioritize stakeholders so as to maximize profits (*broad* version) demonstrate that this is best done by other means than adopting the principle and practice that all stakeholders' interests have intrinsic value, it falsifies the hypothesis that stakeholder management maximizes profits (*narrow hypothesis* version). Similarly, if researchers interested in how firms should prioritize stakeholders so as to maximize profits (*broad* version) find that this is best done by adopting stakeholder management, it confirms the central claim of the *narrow hypothesis* version and these versions become identical. Hence, *empirically*, the *narrow hypothesis* version can be seen as a subset of the *broad* version. The *narrow hypothesis* version's claim that stakeholder management maximizes profits can also, *empirically*, be seen as a subset of how stakeholder management affects profits more generally (*narrow research area* version). In other words, the *narrow hypothesis* version can, *empirically*, be seen as a subset of either the *narrow research area* version or the *broad* version.

The link between the *broad* version and the *narrow research area* version is less straightforward. If researchers interested in the financial effects of adopting the normative core of stakeholder theory (*narrow research area* version) demonstrate that stakeholder management does not maximize profits, this provides little guidance as to how firms should prioritize stakeholders to maximize profits (*broad* version) other than that stakeholder management is not an alternative for profit maximization. Similarly, if researchers interested in how firms should prioritize stakeholders to maximize profits (*broad* version) find that approaches other than stakeholder management are best for

maximizing profits, this provides little guidance for researchers interested in the financial effects of adopting the normative core of stakeholder theory (*narrow research area* version), since these researchers are focused on *how* stakeholder management and financial performance are related.

The Venn diagram in Figure 1 summarises the above relationships between the *narrow hypothesis*, *narrow research area*, and *broad* versions of instrumental stakeholder theory. As seen in Figure 1, there are differences and similarities in the empirical focuses of the *broad* and the *narrow research area* versions, and the *narrow hypothesis* version is a subset of either the *narrow research area* or the *broad* version; this last point is determined by whether the *narrow hypothesis* version is interpreted as primarily interested in maximizing profits, i.e. a subset of the *broad* version, or in the financial effects of adopting the normative core of stakeholder theory, i.e. a subset of the *narrow research area* version. Interestingly, Figure 1 (as well as the above discussion) shows that the sole similarity in empirical focus between the *broad* and the *narrow research area* versions is the question of whether or not stakeholder management maximizes profits. Hence, these versions' sole similarity in empirical focus is the same question that comprises the empirical core of the *narrow hypothesis* version.

Insert Figure 1 about here

A difficulty for empirical research into instrumental stakeholder theory (regardless of which version) is differences in the measurement of “stakeholder management”.

Numerous researchers have demonstrated that corporate “talk” and “practice” are often unrelated (e.g. Meyer and Rowan 1977; Brunsson 1989). Add to this the fact that *rationale* for behaviour and *actual* behaviour (in the form of talk and/or action) are not necessarily related, and it is clear that it is difficult to compare empirical studies that use different measurements of “stakeholder management”. Hence, stakeholder management behaviour could stem from non-stakeholder rationale, and stakeholder management rationale could in practice lead to non-stakeholder management behaviour (with the latter of these discrepancies being less likely than the first, at least in the long term). It might even be appropriate to distinguish different versions of instrumental stakeholder theory based on their definition of “stakeholder management”, for example, a hypothesis narrow *rationale* version of instrumental stakeholder theory versus a hypothesis narrow *behaviour* (talk/action) version of the theory. Obviously, this would be cumbersome in practice, but it is important to keep the possibility in mind when comparing different kinds of research into instrumental stakeholder theory. Even though the “stakeholder management” concept is not appropriate for use in the *broad* version, the behaviour/rationale tension is equally evident in this version when comparing empirical research.

Descriptive stakeholder theory

Stakeholder management: behaviour versus rationale

There are great similarities between the above distinctions regarding *instrumental* stakeholder theory and *descriptive* stakeholder theory. First, the *behaviour* versus *rationale* tension in the definition of “stakeholder management” is equally present in descriptive stakeholder theory. Donaldson and Preston (1995) identified the following main studies as belonging to descriptive stakeholder theory: Baumhart (1968), Brenner and Molander (1977), Posner and Schmidt (1984), Halhal (1990), and Clarkson (1991). Jones (1994) and Clarkson (1995) are notable studies that could be added to this list, as could more recent studies such as Rowley (1997), Mitchell *et al.* (1997), Agle *et al.* (1999), and Jawahar and McLaughlin (2001). Interestingly, among these studies, some focus on *rationale* (e.g. Baumhart 1968) while others focus on *behaviour* (e.g. Halhal 1990; Clarkson 1991; Agle *et al.* 1999). Hence, there seems to be a more holistic approach to definitions of “stakeholder management” in research into *descriptive* stakeholder theory as a whole than in research into *instrumental* stakeholder theory.

Hypothesis versus research area interpretation

Similarly, the *hypothesis* versus *research area* tension is also present in descriptive stakeholder theory. The *hypothesis* version of descriptive stakeholder theory claims that companies have in fact adopted the normative core of stakeholder theory. This version is indicated in Donaldson and Preston, for example, by the statement that “the descriptive accuracy of the theory presumes the truth of the core normative conception, insofar as it presumes that managers and other agents act *as if* all stakeholders’ interests have intrinsic

value” (1995: 74; italics in original). The question of whether or not this is a plausible hypothesis will be discussed below. There is also a *research area* version of descriptive stakeholder theory that focuses on explaining the extent to which managers in fact adopt the normative core of stakeholder theory. However, it is difficult to find explicit references to such a version in Donaldson and Preston’s (1995) article, even though the authors’ reasoning certainly allows for such an interpretation of their argument.

Narrow versus broad interpretation

While both the behaviour/rationale and hypothesis/research area distinctions are important, the most important distinction in descriptive stakeholder theory is that between the *narrow* and *broad* versions. In the *narrow* version there are close links between descriptive and normative stakeholder theory as envisioned by Donaldson and Preston (1995). In the *narrow hypothesis* version of descriptive stakeholder theory, this link is established by the claim that corporations actually adopt the normative core of stakeholder theory; in the *narrow research area* version, the link is established by analysis of the extent to which corporations adopt the normative core of stakeholder theory. Although interesting and closely related to Donaldson and Preston’s (1995) original definition of descriptive stakeholder theory, the *narrow* version has spawned little research. Hence, researchers have been more inclined to study the financial effects of adopting the normative core of stakeholder theory (*narrow instrumental* stakeholder theory) than to study the extent to which firms in fact adopt this core (*narrow descriptive* stakeholder theory).

Instead, most articles referring to descriptive stakeholder theory adopt a *broad* approach. The focus of this *broad* descriptive stakeholder theory is to describe the interaction between organisations and their stakeholders (e.g. Mitchell *et al.* 1997; Rowley 1997; Jawahar & McLaughlin 2001). There have been numerous articles published along this broad line of research, for example, regarding how managers prioritize competing stakeholder claims (Mitchell *et al.* 1997; Agle *et al.* 1999; Driscoll & Crombie 2001; Elms *et al.* 2002; Egels 2005), and how these prioritizations change throughout firms' life cycles (Jawahar & McLaughlin 2001). Authors have also shifted focus from organisations to their stakeholders, and have discussed when stakeholders will act to influence a firm and what strategies they will use to do so (Frooman 1999; Rowley & Berman 2000; Friedman & Miles 2002; Rowley & Moldoveanu 2003). Rowley (1997) has also argued that firms respond to networks of stakeholders rather than to individual stakeholders.

Most of these articles that have a different focus from that originally defined as descriptive stakeholder theory by Donaldson and Preston (1995) still refer to Donaldson and Preston's definition of descriptive stakeholder theory (e.g. Jawahar & McLaughlin 2001; Butterfield *et al.* 2004), i.e. they claim to inquire into descriptive stakeholder theory. But how are they really studies of such theory, and how can the results of these studies be adequately referred to as descriptive stakeholder theories? As noted, the focus of most such articles seems to be on describing the interaction between organisations and their stakeholders. Hence, such research does not seem to *presume* "that managers and other agents act *as if* all stakeholders' interests have intrinsic value" (Donaldson &

Preston 1995: 74). Rather, issues of how managers act, prioritize, and ascribe value, or salience, to stakeholders are in fact the core questions up for discussion (e.g. Mitchell *et al.* 1997). Hence, most research into descriptive stakeholder theory is not closely related to the normative core of stakeholder theory. Now, as noted in relation to narrow and broad *instrumental* stakeholder theory, some authors suggest that instrumental and descriptive stakeholder theory *must* be closely related to this normative core to be adequately described as instrumental and descriptive *stakeholder theory*. Once again, however, we believe this approach is not entirely appropriate for our purposes. If research into stakeholder theory must be based on normative stakeholder theory, existing research into *broad* descriptive stakeholder theory, such as Mitchell *et al.* (1997), Rowley (1997), and Jawahar and McLaughlin (2001), would simply not comprise research into stakeholder theory – but, as we have demonstrated here, these studies comprise most research into descriptive stakeholder theory.

A second, more flexible approach would be, rather than requiring that research be based on normative stakeholder theory, only to require that stakeholder theory research *not* be based on normative *shareholder* theory. This would exclude research into broad *instrumental* stakeholder theory (e.g. Berman *et al.* 1999), but include research into broad *descriptive* stakeholder theory (e.g. Mitchell *et al.* 1997). However, a third option is simply to allow loose couplings between the normative core of stakeholder theory and research into instrumental and descriptive stakeholder theories, i.e. instrumental and descriptive stakeholder theories could be based on any core including *shareholder* theory.

We believe that the third option is appealing, since it recognises research into *broad* instrumental and descriptive stakeholder theory as research into stakeholder theory. This option is problematic since it diminishes the specificity of stakeholder theory, with some stakeholder theories (such as *broad* instrumental stakeholder theory) being based on normative *shareholder* theory. Despite this problem with the loose coupling approach, we advocate it for our purposes, i.e. categorising versions of instrumental and descriptive stakeholder theory and relating them to empirical research. Hence, we talk about stakeholder *theories* (as compared to stakeholder theory), *versions* of stakeholder theory, and treat some theories based on normative *shareholder* theory as *stakeholder* theories. Undoubtedly, other researchers interested in stakeholder theory, for example, Kaler (2002, 2003) and likely also Donaldson and Preston (1995), would disagree with this choice. However, based on the taxonomy developed here, these researchers could easily revise our definitions by degrading *broad* instrumental and descriptive stakeholder theories into non-stakeholder theories (the first definitional approach), or by degrading only *broad* instrumental stakeholder theory to the status of a non-stakeholder theory (the second definitional approach).

Comparability of empirical research

Table 2 outlines the different identified versions of *descriptive* stakeholder theory.

Insert Table 2 about here

As shown in Table 2, there are similar discrepancies between interpretations of descriptive stakeholder theory identified with reference to instrumental stakeholder theory. However, although these distinctions are important, there are close links between the empirical research into each version (again, as with instrumental stakeholder theory). For example, if researchers interested in how firms actually prioritize stakeholders (*broad* version) demonstrate that this is done in a manner different from that of adopting the principle and practice that all stakeholders' interests have intrinsic value, it falsifies the hypothesis that companies actually adopt stakeholder management (*narrow hypothesis* version). Existing research into how firms actually prioritize stakeholders (*broad* version) also indicates that this is done differently from simply embracing stakeholder management (e.g. Mitchell *et al.* 1997; Rowley 1997; Agle *et al.* 1999; Driscoll & Crombie 2001; Jawahar & McLaughlin 2001; Elms *et al.* 2002; Egels 2005). Hence, there seem to be other better explanations of how managers prioritize stakeholders than that of managers adopting, and acting on, the principle that all stakeholders' interests have intrinsic value, i.e. the *narrow hypothesis* version seems implausible. This reasoning also indicates that, empirically, the *narrow hypothesis* version can be seen as a subset of the *broad* version. The *narrow hypothesis* version's claim that companies actually adopt stakeholder management can also be seen as a subset of research into the extent to which corporations embrace the normative core of stakeholder theory (the *narrow research area* version). Hence, the *narrow hypothesis* version can, empirically, be seen as a subset of either the *broad* or the *narrow research area* version; the choice is determined by whether the *narrow hypothesis* version is interpreted as primarily concerned with explaining firm–stakeholder relationships, i.e. a subset of the *broad* version, or with the

extent to which managers embrace the normative core of stakeholder theory, i.e. a subset of the *narrow research area* version.

The link between the *broad* version and the *narrow research area* version is less straightforward. If researchers interested in the extent to which corporations embrace the normative core of stakeholder theory (*narrow research area* version) demonstrate that companies do not embrace normative stakeholder theory, it provides little guidance as to how firms actually prioritize stakeholders (*broad* version) other than indicating that stakeholder management is an implausible explanation. Similarly, if researchers interested in how firms actually prioritize stakeholders (*broad* version) find that this is done in other ways than simply embracing the normative core of stakeholder theory, it provides little guidance for researchers interested in the extent to which corporations embrace normative stakeholder theory (*narrow research area* version).

Figure 2 summarises the relationships between the *narrow hypothesis*, *narrow research area*, and *broad* versions of descriptive stakeholder theory, and shows that the relationships are similar to those identified with reference to instrumental stakeholder theory. As seen in Figure 2, there are both differences and similarities in the empirical focuses of the *broad* and the *narrow research area* versions, and the *narrow hypothesis* version is a subset of either the *narrow research area* or the *broad* version. Again, like instrumental stakeholder theory, the core empirical question of the *narrow hypothesis* version, i.e. whether or not managers embrace the normative core of stakeholder theory,

is the sole similarity in empirical focus of the *broad* and the *narrow research area* versions.

Insert Figure 2 about here

Conclusion

In this paper, we have suggested that there are three important distinctions between how different lines of research connect with descriptive and instrumental stakeholder theory. First, there is a *narrow* version closely related to Donaldson and Preston's (1995) definitions of descriptive and instrumental stakeholder theory, and a *broad* version differing from these definitions but still referring to their labels and definitions. Second, there are versions defining "stakeholder management" as *behaviour* and as *rationale*. Finally, there is also a mainly theoretical distinction between versions that treat the narrow versions of stakeholder theory as either *hypotheses* or *research areas*.

The categorisation developed here allows for discussion of the prevailing focus of research into both descriptive and instrumental stakeholder theory, and one may note an interesting difference between research into these two theories. While *instrumental* stakeholder theory has mainly developed along the line of Donaldson and Preston's original and *narrow* version of stakeholder theory (albeit almost exclusively focused on "stakeholder management" defined as behaviour rather than rationale), *descriptive* stakeholder theory has mainly developed along the line of the *broad* understanding of

stakeholder theory. Hence, researchers have been interested in analysing i) the financial effects of adopting the normative core of stakeholder theory (narrow instrumental stakeholder theory) and ii) how organisations interact with their stakeholders (broad descriptive stakeholder theory), but have not been particularly interested in analysing either iii) how firms should relate to their stakeholders so as to maximize financial performance (broad instrumental stakeholder theory) or iv) the extent to which firms actually embrace the normative core of stakeholder theory (narrow descriptive stakeholder theory).

Rowley and Berman (2000) present a potential explanation of this development. These authors claim that business ethics researchers are concerned with the CSP–CFP link (i.e. narrow instrumental stakeholder theory), not due to its potential for theoretical development but to the perceived necessity of legitimizing their own studies of business ethics in academia (cf. Wood & Jones 1995). This legitimizing is to be achieved by demonstrating that a clear positive link exists between financial performance and CSP, i.e. that a clear positive link exists between financial performance and corporate adoption of the normative core of stakeholder theory. If we extend the authors’ reasoning into the realm of descriptive stakeholder theory, it is clear that, in comparison, researchers have less incentive to establish that firms in fact adopt the normative core of stakeholder theory (narrow descriptive stakeholder theory). This is because the only argument needed is that *if* companies were to act in such a way, i.e. if companies embraced ethical business practices to a greater extent, their financial performance would improve. Hence, there is little incentive to pursue the narrow version of descriptive stakeholder theory, besides

that of getting published in international academic journals. However, it is reasonable to expect that work based on broad descriptive stakeholder theory would be more publishable than that based on narrow descriptive stakeholder theory, since the former allows greater latitude for infusing alternative theories into descriptive stakeholder theory – for example, agency theory (Hill & Jones 1992), resource dependency theory (Frooman 1999; Jawahar & McLaughlin 2001), actor-network theory (Egels, 2005) and institutional and social network theory (Rowley 1997). Hence, both the research focus on the *broad*, rather than the narrow, version of *descriptive* stakeholder theory and the focus on the *narrow*, rather than the broad, version of *instrumental* stakeholder theory seem to be rational choices, albeit for different reasons.

This paper has several important implications for future research. First, it highlights the need for researchers to distinguish between different versions of instrumental and descriptive stakeholder theories, to avoid definitional confusion and bolster the comparability of empirical research. Second, it demonstrates the need for researchers treating the broad versions to be careful when referring to Donaldson and Preston's (1995) typology. Finally, to balance the prevailing research focus, it indicates the need for more research into i) what rationales and/or behaviours firms should adopt when interacting with stakeholders so as to maximize profits (all versions of *broad* instrumental stakeholder theory), ii) the link between adopting "stakeholder management" (defined as rationale) and financial performance (the *rationale* version of *narrow* instrumental stakeholder theory), and iii) the extent to which firms actually adopt the principles and

practices of stakeholder management (all versions of *narrow* descriptive stakeholder theory).

¹ It should be noted that Donaldson and Preston's terminology here differs somewhat from common philosophical terminology. Regarding the common philosophical understanding of intrinsic value, surely *interests themselves* do not have such value but the *fulfilment of certain interests* may. Kaler (2003) similarly modifies Donaldson and Preston's original statement by replacing "the interests of all stakeholders are of intrinsic value" with the idea that stakeholder interests should be served as the ultimate objective of corporate activity.

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Tables

Table 1

| Versions of instrumental stakeholder theory | Measurement of 'stakeholder management' |
|--|---|
| Narrow a) hypothesis b) research area | Narrow a) behaviour b) rationale c) behaviour and rationale |
| Broad | Broad a) behaviour b) rationale c) behaviour and rationale |

Table 1: Different versions of instrumental stakeholder theory

Table 2

| Versions of descriptive stakeholder theory | Measurement of 'stakeholder management' |
|--|---|
| Narrow a) hypothesis b) research area | Narrow a) behaviour b) rationale c) behaviour and rationale |
| Broad | Broad a) behaviour b) rationale c) behaviour and rationale |

Table 2: Different versions of descriptive stakeholder theory

Figure 1

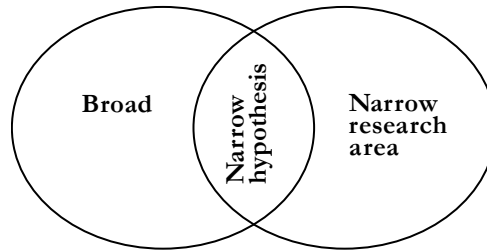


Figure 1: Relations between different versions of instrumental stakeholder theory

Figure 2

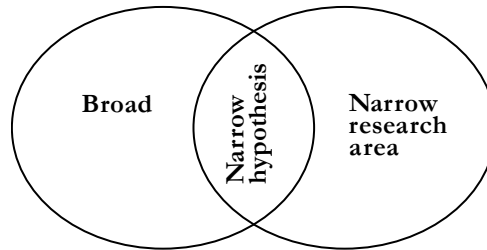


Figure 2: Relations between different versions of descriptive stakeholder theory