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Doctoral Thesis

***Competing for Stakeholders: Three Essays on Business
Sustainability***

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To my mother Domenica, my father Domenico, my brother Antonio & my grandmother Onelia.

You are my strength and my own life.

To Gail and Richard, for your lovely kindness.

If all my dreams came true is because of you.

“There are people who come in our days, even for a moment, but at that moment they make everything brighter. They are people who never give up our hand even though we are far away, people who take care of us without asking for anything ... they are people ... or they are angels!”

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"The future belongs to those who believe in the beauty of their dreams."

Eleanor Roosevelt

Chapter 1

Introduction to the dissertation

The failure of traditional managerial approaches and the recent crises of financial systems pushed many economic actors to change their business models: from a profit oriented approach to a sustainable model. This required a shift from “single-minded aspiration to maximize financial performance” of the corporations, to a “multiple stakeholder oriented approach to create shared value”. The capability of the firm to manage different stakeholders’ expectations may represent a useful business tool to enhance competitive advantage because of the many benefits linked to effective stakeholder engagement by the corporation (see Freeman et al., 2010; Parmar et al., 2010).

Simon (1964) argued that organizations must, by their nature, have multiple goals that actually should be viewed as constraints on top managers. That is, although top managers may label one or another of the constraints they face as “the” organizational goal, efforts to optimize on that goal can take place only within the operating space remaining after considering the minimum requirements of other key constraints. The implications of Simon’s (1964) argument for achieving business sustainability are clear: sustainability requires, at the very least, meeting the minimum needs of the firm’s essential stakeholder groups.

Yet over the past few decades the practitioner and scholarly focus has been much narrower, emphasizing nearly exclusively the single goal of maximizing for-profit firms’ financial performance (Harrison et al., 2010; Zollo et al., 2009). Such a single-minded aspiration – whether toward the profit goal or a different goal – is inconsistent with Simon’s (1964) argument and with firm’s long-term viability. The exclusive pursuit of financial performance (Steward et al., 2000; Dyllick et al., 2002; Bruce et al., 2005; Morris et al., 2005), for example, has contributed to many business failures, whether through incentive-induced top management frauds (e.g., Harris and Bromiley, 2007; O’Connor et al., 2006) or as an antecedent to the recent U.S. subprime mortgage crisis (Purnanandam, 2011). This over-emphasis on one goal, among many, is the antithesis of business management toward sustainable firms.

Achieving business sustainability requires instead that top managers: (1) return to the core assumption of the behavioral theory of the firm, that they must satisfy multiple goals that serve as constraints on their firms’ survival (Cyert and March, 1963; Simon, 1964); (2) strive to create increasing value for each primary stakeholder group, just as they must strive to create value for

consumers (Priem, 2007); and (3) operate as stewards of, and entrepreneurs within, the organizational decision making system that is composed of the firm's principal stakeholders (Augier and Sarasvathy, 2010).

The result is a view wherein top managers must address multiple stakeholder goals and, potentially even better for the firm, have the opportunity to act as entrepreneurs in creating value above the minimum levels required for stakeholder participation. Managers' super-ordinate goal is to attract and retain exceptional primary stakeholders, and even more to obtain their commitment and effort toward system-wide value co-creation. This increases the system's resiliency and, in turn, the business firm's sustainability.

I develop these ideas by integrating aspects of stakeholder theory (Freeman, 1984), stewardship theory (Jones et al., 1997), and resource dependence theory (Aldrich and Pfeffer, 1976) with the behavioral theory's explanation of an organizations' multiple goals (Cyert & March, 1963; Simon, 1964) and with recent work identifying firm-level strategies that create value from a consumer perspective (Priem, 2007). The result is a model of the firm (Chapter III), its current stakeholders and its potential stakeholders as an organizational decision-making system, wherein top managers sequentially address multiple goals and create value above the minimum level required for stakeholder participation, in order to attract exceptional stakeholders and obtain their commitment and effort toward system-wide value creation.

Harrison et al. (2010, p. 61-63) advanced the stakeholder literature through their recent argument that those firms which better understand the utility functions of their stakeholders have an advantage, because of the resulting "better understanding of the minimum requirements of a stakeholder". I agree, and moreover think that an understanding of primary stakeholders' multi-attribute utility functions gives a firm the opportunity to entrepreneurially create value for multiple primary stakeholder groups simultaneously.

However, few studies have examined primary stakeholders (Clarkson, 1995) as representing constraints for the firm (Reynolds, Schultz & Hekman, 2006, is an exception). Moreover, Freeman et al. (2010) and Parmar et al.'s (2010) review concluded that stakeholder theory provides a useful framework that helps explain how firms can create shared value. Yet they also

concluded that key questions remain to be answered, including: “How can firms create different types of value for different stakeholders” (Parmar et al., 2010: 432)? I reply to this question following two different methodologies.

First of all, I take a step toward understanding the base multi-attribute utility functions of the five primary stakeholder groups – stockholders, customers, employees, suppliers and the general public (Clarkson, 1995). I develop five unprompted, inductive empirical taxonomies of stakeholder utility categories – one for each primary stakeholder group. I then compare these taxonomies as a first step in identifying potential for value co-creation opportunities that could increase utility for multiple stakeholder groups simultaneously (Chapter IV). Obtaining data about the sources of utility for all primary stakeholders is difficult because stakeholders may not be forthcoming about their preferences. For this reason, I gathered primary data and based my methodology on an established, inductive process using multidimensional scaling and cluster analysis that did not “prompt” the respondents in any way and thereby minimized demand characteristics in their responses (e.g., Priem, et al., 2002; Voges, et al., 2004; Ketchen & Shook, 1996; Kruskal & Wish, 1978).

Finally, I develop a qualitative case study to better understand how the model I proposed effectively works in reality and what the linkages between the main variables are. According to Yin (2008), in fact, a case study is necessary when there is a need to understand a real-life phenomenon in depth, but such understanding encompassed important contextual conditions – because they were highly pertinent to the phenomenon of the study (Yin and Davis, 2007). The specific role played by the managers in the small- and medium-sized firms – as steward entrepreneur - is aligned with the characteristics it has in the model I proposed. This evidence suggested investigating its effectiveness and the relations between its components in these environments.

For these reasons, a medium-sized firm was chosen as the unit of analysis and the specific study question is represented by “how does a medium-sized firm build a sustainable business model based on the synergistic value co-creation approach?”

1.1 An overview of Business Sustainability.

In recent years, a new perspective has been assumed shifting the focus of the corporations: from the profit maximization approach (Friedman, 1970) to an organization designed to align private and public interests fulfilling the social requirement of everyone, directly or indirectly, involved in the organization (Donaldson and Preston, 1995; Freeman, 1984; Jensen, 2001).

This new orientation has been progressively influenced by a growing global awareness in respect to the main issues (e.g. poverty, environmental degradation, inequalities, etc.) caused by the adoption of growth models too focused on single-minded approaches which were unable to explicitly recognize the importance of shared public wealth rather than private value. The result was an increasing attention to the World Commission on Environment and Development called Sustainable Development. It is defined as “the development that meets the needs of the present without compromising the ability of future generations to meet their needs” (Brundtland report, WCED, 1987, p.43)¹.

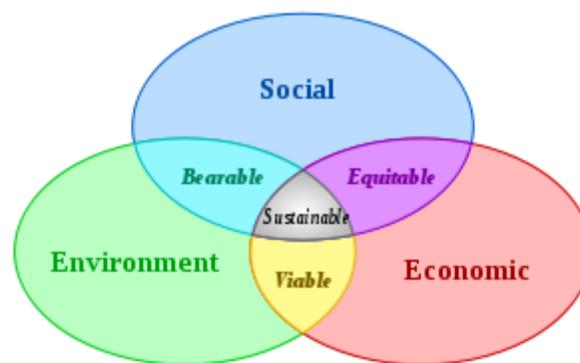
This concept is linked to the failure of the past growth models to generate shared wealth (WCED, 1987; Hopwood et al., 2005) by increasing the global trade and industry (verified Reid, 1995; Moffat, 1996; Sachs, 1999). The negative effects produced, in terms of environmental degradation and spread between poor and rich people, called the institutions and economic actors to focus their attention on new growth models (WCED, 1987) able to generate shared value for the society as a whole. The sustainable growth model introduced encompasses the capability of the society and economic actors to generate value and wealth preserving the resources which will be needed for future generations to satisfy their needs.

Since the definition of World Commission (1987), myriad definitions and theoretical frameworks were developed in the literature (Robert et al., 2002; Baumgartner et al., 2007; Van Kleef et al., 2007; Lopez, 2008) and by practitioners (IISD, Deloitte & Touch, 1992) trying to explain the specific nature of the concept and the way in which it can be grounded in reality.

¹ The term was introduced for the first time by The World Conservation Strategy in 1980 (IUCN et al., 1980; Hopwood et al., 2005).

Sustainable development, in fact, cannot be viewed just as environmental care or philanthropic activities. It needs to encompass many dimensions and to involve different actors of the society. The approach assumed by the World Commission (1987) underlines the action of different actors of the society on three interconnected dimensions: the economy, the society and the environment.

Figure 1 The Sustainable Development concept (UCN, 2006)



The sustainable path requires both to balance and often to reconcile the conflicts between these dimensions to successfully pursue a development which is able to generate shared value and wealth (ICLEI, 1996; Hardi and Zdan, 1997; Barton, 2000; Du Plessis, 2000; West Midlands Round Table, 2000; Giddins et al, 2002). This means rethinking the traditional models of production/consumption and the social practices in a way which explicitly considers a development model both sustainable in the long run and shared by all parties involved (Sharma et al., 2003). The co-operation of different actors (corporations, institutions, shareholders, customers, suppliers, employees and public actors) is important to change some paradigms which are at the basis of the traditional growth models (Sharma, 2002) and to adopt an integrated view about economic, environmental and social concerns (Brundtland report, WCED, 1987; European Commission, 2001). This means that the concept can be viewed as a pervasive intrinsic orientation which involves all people/actors in the global economy and by those to whom it may be subscribed (IISD, Deloitte & Touch, 1992). The main aim of sustainable development is

sustainability in terms of reductions of environmental degradation and major effort to meeting human needs (Robert et al., 2002; Baumgartner et al., 2007; Lopez, 2008). This is linked to the adoption of economic systems based on the satisfaction of the people needs which are able to generate wealth in the long run (Spangenberg, 2001) by a more efficient use of the resources (James, 2001).

The concept strongly linked environmental, social and economic issues (Hoopwood et al., 2005) guiding all the society into a growth model which is able to satisfy multiple needs in terms of: the wealth of present generations; and the safeguard of the interests of future people. This is because a more responsible and effective utilization of the resources of the planet may guide development models to simultaneously satisfy the needs of present and future generations, and, in the meantime, to solve the main social problems (such as poverty and inequality) caused by traditional growth models. Adopting sustainable development models means pursuing simultaneous economic improvement, environmental care and social objectives by growth paths which are able to achieve sustainability as an instrument to permanently generate shared wealth for the present without compromising the satisfaction capability of future generations to satisfy their needs., Business Sustainability can be defined in a similar way. It is “the adoption of business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; Van Kleef & Roome, 2007). Thus, sustainability issues involve firm viability both now and in the future and focus on three specific components:

- the present needs of the corporations;
- the present needs of the stakeholders of the corporations;
- the needs of future generations.

This new approach explicitly recognizes the double nature of the corporations: as economic actors – according to the Friedman view of business (Friedman, 1970) – and as social actors which directly affect the “environment” in which they operate (Campbell & Alexander, 1997). A mutual dependence relationship between business and society is largely recognized (Porter & Cramer, 2006; Carroll & Buchholtz, 2009) and it represents the main source of business

responsibility (Doh and Guay, 2006; Porter and Kramer, 2006). However, according to Carroll and Buchholtz (2009:9), when we speak about business and society relationships, we cannot refer to the society in a broad sense because it may be not realistic, but we need to consider either specific segments/subgroups of the society or some system in the society (eg. politics, law, custom, religion, economics). For these reasons, I refer to Sustainable Business Management (SBM) as the “management of business that recognizes its embeddedness in social, environmental and economic systems, and focuses on management and relationships to meet the environmental, social, and economic requirements of many different stakeholders in its networks” (Roome, 1998; Van Kleef & Roome, 2007:44).

1.2 Empirical and theoretical motivations.

For many years, corporations assumed that firm’s performance maximization and short-term gains were the main organizational goals (Friedman, 1970; Steward et al., 2000; Dyllick et al., 2002; Bruce et al., 2005; Morris et al., 2005) and overemphasized the economic dimension of the firm’s business model (Linder et al., 2000; Stewart et al., 2000; Mayo et al., 1999; Slywotsky, 1996). The result was the adoption of “single-minded” business models too focused on the maximization of the firm’s financial performance (those we call in the next sections the “myopic” business models). Some of these corporations are successful but most of them failed.

More than 80,000 companies failed per year in the last 20 years, compared to 19,000 per year, on average, in the previous 30 years (Cap Gemini Ernst & Young Center for Business Innovation Analysis, September, 2002). In the US, 132 banks failed in 2010 and 140 banks failed in 2009. “It’s never a happy thing for a bank to be closed...but like foreclosures, it’s a necessary thing when banks [are] no longer viable. To prolong it doesn’t do anyone any good – a very sick bank isn’t going to be doing much [in terms of] extending new credit...It’s a necessary process” (Federal Deposit Insurance Corporation (FDIC) Chair Sheila Bair on C-SPAN’s Newsmakers, October 2010). A progressive rush of scandals occurred in the last few years, such as Enron (2001), WorldCom (2002), Tyco (2002), HealthSouth (2003), Parmalat (2003), Bernie Madoff (2008), Lehman Brothers (2010).

These are the situations in which long-run public costs are bigger than short-run private benefits, and the value is created for just a few stakeholders – likely the shareholders – at the expense of the others, due to the incapability of the firm’s business models to align different interests and to recognize their involvement in the society.

Many problems are directly linked to business models too focused on the maximization of the short-run financial aspirations: the high-risk degree of corporations (Sanders, 2001; Sanders et al., 2007); managerial frauds (Bruner et al., 2005; Erickson, 2006; Johnson, 2006; Johnson et al., 2006, 2007; Robinson & Sartore, 2008); the adoption of the stakeholder’s prioritization model (Mitchell et al., 1997), value destroying (Jensen, 2000) and other issues directly related to the corporate governance of corporations (Fama et al., 1983; Jensen, 1986; Jensen et al., 1990; Van den Berghe et al., 2002; Bruce et al., 2005; Carroll & Buchholtz, 2009).

In contrast, a similar result is obtained by business models too focused on solving the social problems or other kinds of single objectives. A real example can better explain these kinds of situations.

Control Data Corporation was one of eight companies involved in the development of supercomputers with IBM, Burroughs, NCR, General Electric, Honeywell, RCA, and UNIVAC until 1980. It developed the fastest computing systems in the world and it had a good reputation in respect to its consumers. In 1981, the net sales from the annual report were \$3,101,300,000.

A social oriented approach was strategically developed believing that meeting society’s major unmet needs may represent a profitable business opportunity. To realize it, the company launched programs in such diverse areas in which social issues needed to be solved (such as educationally deprived and physically handicapped people, depressed urban areas, weak educational systems, and so on). The result was revenues of around \$5 Billion, 80 Thousand employed in 26 countries. One of these was Plato, a sophisticated system of computer-based education which opened up new broad opportunities in school systems, industrial training and social services. Around \$1 B was invested. However, in the long run, the result was that \$ 1 B in data storage business was lost and Control Data was forced to have a fire sale to avoid bankruptcy.

Those examples underline that business models too focused on the enhancement of single objectives are unable to effectively exploit the double nature of the firm. They are not able to generate shared value for shareholders, stakeholders and the future generations (the long-run perspective). They create value for just some of the stakeholders – in a broader sense – at the expense of the others, ignoring the social requirement of everyone, directly or indirectly, involved in corporations.

1.3 The Research problem, questions and the research design

The example presented above shows the failure of traditional business models to exploit the opportunities linked to strength-interdependence between the business and society. According to Porter and Cramer (2006) successful corporations need a healthy society and in turn a healthy society needs successful companies. So, to transform this interconnection into opportunity, a company needs to explicitly recognize its social embeddedness in building a business model which is able to effectively satisfy the needs of different stakeholders - including the shareholders - without compromising the satisfactions of some of them.

To do so, a new approach to the value creation process of the corporations needs to be developed. In my opinion, business sustainability and sustainable business management represent a viable approach to build what I call “sustainable business models” which are able to align public and private interests in fulfilling the social requirements of the stakeholders of the corporations and to generate wealth for their shareholders, in a long run perspective. Adding to this, many recent contributions converged around the idea that business sustainability may represent the future viable path to create long-term shared value because many benefits linked to that (Funk, 2003; Porter and Kramer, 2006; Parmar et al., 2010). However, very little is known about the process by which the managers can effectively do this. This represents my research problem. It can be viewed as composed of three main sources of knowledge: a better understanding of how corporations can effectively develop the sustainable business models presented above; what kind of activities need to be implemented to effectively create shared value for the firms and for the

stakeholders; and what are the conditions under which it works. These represent my research questions in terms of:

- i. How do the corporations build sustainable business models?
- ii. What does “value” mean for a particular group of stakeholders and how do firms create these different types of “value” for stakeholders?
- iii. What are the activities that firms need to develop to create shared value and under what conditions does the model effectively work?

The most recent literature (Parmar et al., 2010) confirmed a theoretical gap in order to explain how the corporation can enhance sustainable competitive advantage, co-create value with and for their stakeholders, directly contribute to the sustainability goal and sustainable development with their business models, as defined above. A more effective effort is required to fulfill these gaps. An integrated framework needs to be developed which is able to join different perspectives into a unique strategic paradigm (Parmar et al., 2010). This may be able to explain how managers can effectively manage different stakeholders’ groups, developing competitive resources for the corporations, maximizing the wealth of stakeholders’ systems delivering value and allocating rents, and contributing to sustainable development enhancing the goal of sustainability. According to Parmar et al. (2010), stakeholder theory represents a reasonable way to do this by reconciling the problem of value creation, sustainable competitive advantage (Harrison et al., 2010) and distributions of economic rents (Bosse et al., 2009) with the problem of ethics of capitalism and sustainability (Boutilier, 2007; Bansal, 2005; Sharma et al., 2005; Kolk et al., 2007). However, despite the recent contributions (Harrison et al., 2010; Bosse et al., 2009) very little is known regarding the process of managing for stakeholders when different stakeholders’ networks compete or when different stakeholders’ interests need to be included in the value creation process of corporations (Parmar et al., 2010). This represents the main aim of my work.

My research design is based on three different methodologies; each one addresses a specific question.

A qualitative study was conducted developing the conceptual model that I call “the synergic approach to the value co-creation process”. It directly fulfills the main literature gap underlined

by Parmar et al. (2010) in terms of a lack of an integrated theoretical approach which integrate the stakeholder theory with different frameworks such as: the resource dependent theory (Pfeffer and Salancik, 1978); the resource-based view in order to explain both the relationship between resource management and competitive advantage (Priem et al., 1991) and rents allocation in stakeholders' groups (Barney et al., 2001); and the decision making process model of the corporation (Cyert and March, 1963).

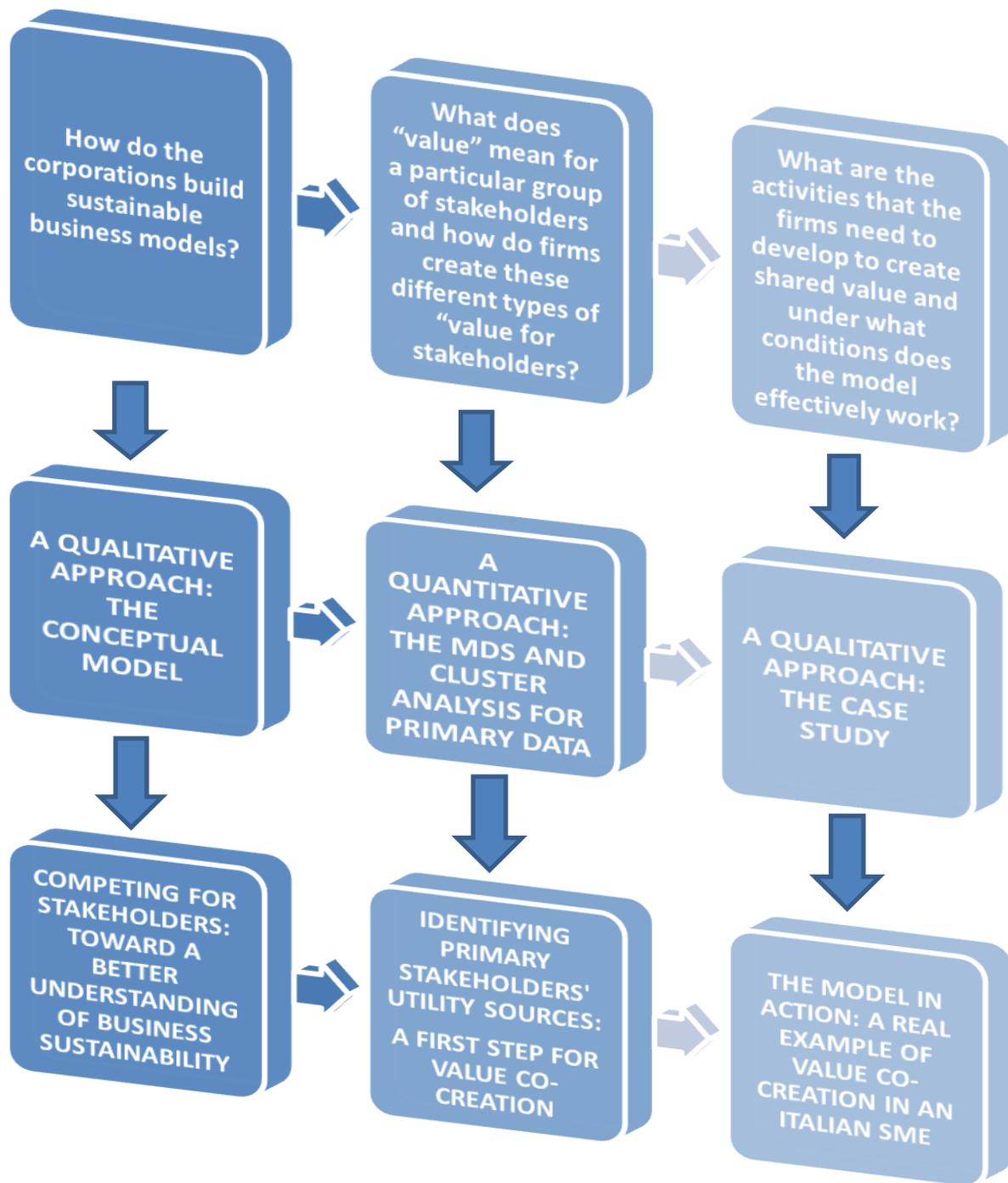
Basing my argument on the core assumption of the behavioral theory of the firm, that multiple stakeholders' goals serve as constraints on their firms' survival (Cyert and March, 1963), I develop my ideas by integrating aspects of stakeholder theory (Freeman, 1984, Freeman et al., 2010), stewardship theory (Jones et al., 1997), and resource dependence theory (Aldrich and Pfeffer, 1976) with the behavioral theory's explanation of organizations' multiple goals (Simon, 1964) and with recent work identifying firm-level strategies that create value from a consumer perspective (Priem, 2007). The result is a model of the firm, its current stakeholders and its potential stakeholders as an organizational decision-making system, wherein top managers sequentially address multiple goals and create value above the minimum level required for stakeholder participation, in order to attract exceptional stakeholders and obtain their commitment and effort toward system-wide value creation.

Furthermore, Freeman et al. (2010) and Parmar et al.'s (2010) reviews concluded that stakeholder theory provides a useful framework that helps explain how firms can create shared value. Yet they also concluded that key questions remain to be answered, including: "How can firms create different types of value for different stakeholders?" (Parmar et al., 2010: 432)? This represents my second research question, which has been addressed by a quantitative approach. To create value for all stakeholders, managers need to better understand the value drivers of the different stakeholder groups and satisfy them by a resource allocation' process characterized by two main factors: a synergistic approach and a value co-creation process. The first one underlines the capability of the corporation to allocate resources to different groups following a simultaneous approach rather than a sequential or prioritization one. This means generating value for multiple stakeholders and not just for one of them – that is, satisfying by a single managerial action a mix of different utility attributes that each primary stakeholder evaluates as important. The second process is called value co-creation because it is based on the managerial knowledge

of the structure of the stakeholders' utility functions, which permits managers to better understand "what stakeholders really want." This requires a new managerial role - *the manager as a steward and an innovation-seeking entrepreneur* – and an explicit recognition of the different, *multi-attribute* utility functions of primary stakeholder groups (following the approach of Harrison et al., 2010). To do this I gathered primary data and based my methodology on an established, inductive process using multidimensional scaling and cluster analysis (e.g., Priem, et al., 2002; Voges, et al., 2004; Ketchen & Shook, 1996; Kruskal & Wish, 1978). In particular, I gathered data from the five primary stakeholder groups – investors, customers, employees, suppliers, and the general public – and developed inductive, empirical taxonomies of utility sources found in the multi-attribute utility functions of each group. Viewing top managers as stewards of, and entrepreneurs within, the organizational decision-making system that is composed of the firm's primary stakeholders, I take an initial step toward showing how managers' actions can simultaneously increase utility for two or more primary stakeholder groups and, thereby, increase the long-term sustainability of the firm.

Finally, according to Yin (2008), a case study is necessary when it has need to understand a real-life phenomenon in depth, but such understanding encompassed important contextual conditions – because they were highly pertinent to the phenomenon of study (Yin and Davis, 2007). Despite the example I presented above shown the model acting in a big corporation, the specific characteristics of the managerial role as a steward entrepreneur may suggest that a small- and medium-sized environment might represent the natural landscape in which the model effectively exploits its potential. For the specific characteristics of SMEs, a sustainable business model, based on my synergistic approach to value co-creation, may represent the intrinsic orientation of its business strategy. The specific role played by the managers in the small- and medium-sized firms – as a steward entrepreneur - is aligned with the characteristics of the managers' role assumed in the model I proposed. This evidence suggests investigating its effectiveness and the relations between its components in these environments characterized by a lower complexity and a clear role of the manager as a steward entrepreneur. For these reasons, a medium firm has been chosen as a unit of analysis for the case study and the specific study's question is represented by "how does a medium-sized firm apply a sustainable business model based on the synergistic value co-creation approach?"

Figure 2 The research design



1.4 Research Relevance

The failure of traditional growth models called institutional and academic actors to focus their attention on development models based on different core assumptions: from single-minded approaches to multiple goal achieving; and from individualistic value creation to shared wealth generation; from a short-run period to a long-run vision.

This reformulation of traditional paradigms is largely recognized with the term of sustainable development model aimed to achieve the sustainability goal by an integrated framework. It is based on the following logic: achieving simultaneous economic development, environmental protection, and social need satisfaction can conduct the global system to growth in a way that is able to generate shared wealth for all the people by meeting their needs, preserving the environment, solving the main social problems generated by traditional growth models, and taking care of the needs of future generations by a more responsible use of the present resources. Summarizing, the sustainability is based on two pillars: an effective resource utilization model; and the capability to meet the needs of the present generation without compromising the needs of the future ones. To effectively work, this development model needs two interrelated components:

- ⇒ External – all actors need to co-operate to achieve the sustainability goals.
- ⇒ Internal – all individuals need to assume their own development models which are consistent with the general development model of the system.

So, sustainability development can be viewed as the result of two forces: a common effort of many actors to pursue the sustainable development co-operating in the three interrelated dimensions of the phenomenon; and an individual involvement to assume a sustainable behavior in terms of responsible use of the resources and a specific effort to satisfy different stakeholders' interests.

My main aim is to help the business actors develop sustainable business models which are able to involve the internal and external dimensions of sustainability toward their business models and their value creation processes. This improved knowledge has a high relevance for both academics and for managers and practitioners.

The literature gaps highlighted above are effectively fulfilled by my work and the new sustainable approach to the value creation of the corporations represents an important improvement for the theoretical comprehension of the phenomenon. My theoretical model directly integrates a synergic stakeholder approach with the strategic value creation process of the corporation, toward the Business Sustainability. This offers three main contributions for the development of an integrated theoretical framework which explains how firms can create value by a sustainable business model:

- ⇒ The recognition of the stakeholders' framework as the first step of the organizational decision-making process framework (Cyert and March, 1963), and its integration in other mainstream theories, following the suggestions of Parmar et al. (2010).
- ⇒ The new role of managers explained by both the stewardship approach and the innovation-seeking entrepreneurial orientation, to better explain the managers' behavior in pursuing a business sustainability approach.
- ⇒ The mechanisms for satisfying multiple sub-coalitions' multi-attribute utility functions simultaneously integrates the stakeholder's approach in existing theories such as the resource dependence theory (Pfeffer and Salancik, 1978), the decision making process model of the firm (Cyert and March, 1963), solving many critical issues (see Freeman et al. 2010 and Parmar et al., 2010) in terms of resources management/allocation to achieve both competitive advantage (Priem and Butler, 2001) and "sustainable success" (Parmar et al., 2010, pp. 418).

Adding to this, managerial relevance needs to be emphasized. To maximize for-profit firms' sustainability adopting the conceptual model I proposed, managers need to focus equal attention to all stakeholders, irrespective of current salience. This does not mean ignoring the shareholders but explicitly recognizing that stakeholders are different and to co-create value for each of them requires that their needs be satisfied with equal attention. This mechanism effectively works when managers are able to simultaneously satisfy two or more attributes of multi-attribute utility functions of the stakeholders of the corporation by a single synergistic approach. The considerations above require that managers must resist shareholders' pressure for ultra-high performance, because this is inconsistent with a sustainable business model developed in my model. Effectively replying to all primary stakeholders and increasing their utility represents a

viable, long-run way to overcome the limitations of the more common, short-run and single-minded business model focused solely on financial performance maximization. This may be made more possible by developing a better knowledge about primary stakeholders' multi-attribute utility functions (Harrison et al., 2010) and the value drivers on which their utility functions are based (Parmar et al., 2010). Improving the overall utility of all corporation stakeholder groups may increase the "size of the pie" for everyone (Gulati & Wang, 2002; Priem, 2007) because of better satisfaction, commitment, and trust among the primary stakeholders (Pirson & Malhotra, 2010; Davis et al., 2000; Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan & Shelby, 1994; Dwyer et al., 1987) and because of the many benefits linked to successful stakeholder care (Sisodia et al., 2007; Choi & Wang, 2009; Freeman et al., 2010; Harrison et al., 2010; Parmar et al., 2010). This, in turn, increases long-term business sustainability because value is actively created for and with different stakeholders' groups. In this way managers can co-create value by satisfying aspects of stakeholders' heterogeneous utility functions. Therefore, the first step is to better understand the sources of utility which are able to increase the satisfaction of each primary stakeholder group. The model and the taxonomies I developed of the utility sources for all five primary stakeholder groups represent an important tool for managers interested in the building of sustainable business models and the stakeholder value co-creation process.

My research represents both the first model which effectively suggests how to co-create value for different stakeholders in a sustainable way and the first empirical taxonomy developed to highlight the utility sources of each stakeholder group. Looking at the results, each primary stakeholder group has shown different utility sources, but my results may provide managers with some initial insight regarding opportunities for value co-creation for multiple stakeholder groups.

For example, management quality and accessibility is an important utility category shared by investors, suppliers, employees and the general public. This category therefore represents an opportunity for initiatives that could increase the utility of these four stakeholder groups together. Similarly, various aspects of product characteristics, quality and value form an important utility category shared by customers, employees and the general public, which again offers opportunities for simultaneously increasing multiple stakeholders' utility.

Finally, the qualitative business case confirms that my model of value co-creation represents the way in which the small- and medium-sized firms effectively create value for their stakeholders and improve their sustainability, implementing a business model which is able to generate value not just for their shareholders but for their primary stakeholders maximizing their own single utility. The central role played by the entrepreneurs/owners-managers and the importance that the informal/trust based relation and the social capital assume in the small- and medium-sized firms represent the main motivations to intrinsically adopt this kind of business model.

The contribution of this work is very high for many theoretical and managerial implications. My model directly affects the general value creation paradigm of the corporation, shifting the focus from a single-minded financial approach to a long-term shared value co-creation process, from the care of a single shareholder utility function to the balancing of different stakeholders' expectations. The success of the corporation is not just based on the profit maximization goal but on its capability to increase the overall utility of all the primary stakeholders of the corporation. This underlines the need to recognize an explicit inclusion of a sustainable approach into the business models of the corporation. To do this the managers need to act as stewards who take care of different stakeholders' expectations, creating shared value by a co-creation activity and maximizing the value of the corporation, by satisfying different stakeholders' expectations.

My model explicitly refers to an alternative model to manage the stakeholders' utility functions based on both the recognition of different stakeholders' groups and sub-segments and the comprehension of the nature/weight of the different attributes/value drivers which determine the individual goals of each of them. Each stakeholder group, in fact, can be viewed as composed of multiple segments which show differences in their utility functions (e.g. different kinds of employees may have different expectations in order to satisfy the same main objective). For this reason, the activities developed by the firms need to consider all these aspects of building a sustainable business model which is able to create and deliver value in a simultaneous way for all primary stakeholders, implicitly including the shareholders' interests. This is the way in which my model works.

1.5 Structure of the dissertation

The dissertation is composed of six chapters. Chapter II consists of the literature review. It encompasses three main topics related to the research problem: the main limitations linked to those I called the “myopic” business model of corporations; the sustainability issue, the differences of corporate social responsibility and the strategic dimension of the phenomenon; and the theoretical frameworks which better explain the main linkages of business sustainability. Chapters III, IV, V, and VI are respectively represented by the three research methodologies developed to reply to the three research questions. In particular, Chapter III explains the conceptual model developed and underlines the characteristic of the decision process followed by management to implement a sustainable business model. Chapter IV is represented by an empirical understanding of the utility sources of the five primary stakeholders of corporations. Chapter V consists of a case study which shows a real application of the model. The last chapter provides a discussion and contributions.

“Opportunities are usually disguised as hard work, so most people don’t recognize them”

A. Landers

Chapter II

Literature Review

In the last few years, increasing attention has been focused on sustainable approaches as a future path for development. The recent world financial collapse has clearly shown the inconsistency of the traditional business approach with a long-run perspective and the incapability of economic actors to generate shared wealth and value. This is because the adoption of single-minded business models, too focused on the maximization of a single objective (eg. the firm's financial performance), is able to create value for just a few categories of people at the expense of the others. They are not able to satisfy the needs of different actors, directly or indirectly, involved in the economic activity. This is what I call "myopic" business models and they are inconsistent with the business sustainability approach I consider.

The recent business experiences, explained in the introduction, clearly show these situations and the main problems directly linked to those. The main result has been the failure of most of them and the production of negative effects not just for the shareholders of the corporations but for the stakeholders and the society, as a whole. These situations in which short-run private benefits are bigger than long-run public costs are inconsistent with a sustainable development of economic and social systems and they are not compatible with the double nature of the firm as an economic and social actor (Jensen, 2001; Porter and Kramer, 2006). If profit maximization represents one of the main objectives of the corporations, these cannot be isolated by the context in which they operate, which directly affects them and by which they are affected. A mutual dependence relation between business and society is largely recognized (Porter & Cramer, 2006; Carroll & Buchholtz, 2009) and it represents the main source of business responsibility (Doh and Guay, 2006; Porter and Kramer, 2006).

For these reasons, scientific contributions may arise to explain how firms can successfully pursue both the firms' value maximization and the shared social wealth creation.

In the last years, this issue was recognized as Corporate Social Responsibility and many academic contributions were developed to investigate the relationship between the social and financial performance of the firms (Barney and Hansen, 1994; Hosmer, 1994; Waddock and Graves, 1997; Nahapiet and Ghosal, 1998; McWilliams and Siegel, 2000; Margolis and Walsh, 2001; Zyglidopoulos, 2002) to give evidence of the way in which the economic and social goals can be enhanced together. However, mixed results were found and many problems were

highlighted in these contributions, such as models misspecification, measurement errors, and insufficient scope of the data set (Orlitzky, Schmidt and Rynes, 2003; Igalens and Gond, 2005; Margolis, Elfebein and Walsh, 2007; Lee, 2008).

Adding to this, a negative approach in respect to the term was born due to the progressive use of Corporate Social Responsibility as an instrument to enhance objectives too far from what is called a good “citizenship of the corporations” (such as advertisement aims, good reputation development, donations to fulfill the negative effects of the business activity, and so on).

All these factors suggested that many focuses need to be shifted to develop a new business paradigm: from a single-minded approach to multiple objectives orientation; from an external perspective to an intrinsic approach; and from Corporate Social Responsibility to the Sustainability of the business models. This is the aim of this thesis. To do so, the starting point is represented by a better comprehension of the linkages which the phenomenon underlines integrating different theoretical frameworks. This represents the main content of this chapter.

Most of recent studies are converging around the idea that a strategic involvement of the corporation to sustainability is necessary to satisfying simultaneously the business interests and the social needs (Porter and Kramer, 2006; Husted and Allen, 2007). However, it misses an integrated theory which explains how managers can successfully create shared value pursuing a sustainable business approach. The aim of this chapter is to investigate many critical points in terms of:

- i. The main problems linked to the single-minded business models of the corporations.
- ii. The sustainability issue and the differences with the corporate social responsibility approach.
- iii. The strategic dimension of the phenomenon.
- iv. The theoretical framework which better fits to explain the main linkages of business sustainability.
- v. The main literature gaps and the research question related to the research problem presented in the last paragraph.

2.1 The sources of the sustainability issue: the “myopic” problem

For many years the corporations overemphasized the firm’s performance maximization and short-term gains (Steward et al., 2000; Dyllick et al., 2002; Bruce et al., 2005; Morris et al., 2005), adopting business models focused on single-minded approach to maximize the satisfaction/wealth of a single stakeholders’ group: the shareholders/stockholders (Chakravarthy, 1987). This is in accordance with the Friedman (1970) view of the corporation for which “the Social Responsibility of Business is to Increase its Profits”. Moreover, many definitions of business models, developed in the last years, tended to focus the attention just on the economic dimension of the firm’s business model (Linder et al., 2000; Stewart et al., 2000; Mayo et al., 1999; Slywotsky, 1996) – despite the fact that these can be viewed as encompassing three different dimensions: economic, operational, and strategic (Morris et al., 2005) – and many theoretical contributions in different fields contributed to focus the attention on the performance goal of the corporation as the single objective to maximize. This concept can be viewed in many different disciplines such as strategic management (Porter, 1980; Chakravarthy, 1987), corporate governance (Nicholson, 2007; Udayasankar et al., 2007; Core et al., 2003; Daily et al., 2003; Dalton et al., 2003; Hall, 2003; Tosi et al., 2000; Kang et al., 1999), finance (Grossman et al., 1977), and economics (Robinson, 1933; Chamberlin, 1946; Friedman, 1962, 1970), which overemphasize their attention on corporate outcome expressed in terms of profit, value, or financial performance of the firms.

Many problems are directly linked to this kind of approach: managerial frauds (Bruner et al., 2005; Erickson, 2006; Johnson, 2006), agency problems (Fama et al., 1983; Jensen, 1986; Jensen et al., 1990; Van den Berghe et al., 2002; Bruce et al., 2005), adoption of prioritization models, which are able to satisfy the interests of the few most powerful stakeholders at the expense of the others (see Mitchel et al., 1997), and higher risk of the corporations directly linked to the higher propensity to risk taking of the managers (Sanders et al., 2007).

This approach caused many firms to fail because their business models largely ignored the company’s social embeddedness and the interconnection between the business and the society (Porter & Cramer, 2006). For the corporations, it means basing their activity on “myopic” business models which are able to generate financial short-run returns rather than long-run

shared value. In other words, these business models successfully reply to shareholder pressures but they are not able to create shared value/wealth because they don't consider the needs of all the stakeholders, directly or indirectly, affected by the activity of the corporations. They are not sustainable, according to the definition I assumed in Chapter I, because they are not able to involve the stakeholders in the value creation process, but they satisfy the interests of some of them (the shareholders/stakeholders) at the expense of the others. This is clearly inconsistent with the sustainable business model which needs to align “the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; Van Kleef & Roome, 2007).

The main problem linked to the “myopic business models”, at this point, is represented by its incapability to effectively recognize the needs of the stakeholders and the future generations rather than the shareholders' interests only. In doing so, the managerial decisions, to pay attention to the interest of the stakeholders, are based on prioritization practices which give importance to some of them at the expense of the others in order to: their relevance to the final goal of the corporation - that Cyert and March (1963) called “sequential attention to goals” – their degree of salience - which is based on the relative power of the specific group, the legitimacy of the stakeholders' groups involvement in the corporation and the urgency of their claims (Mitchell et al., 1997).

The first approach creates the situation in which: alternatives are evaluated and ranked in order of their marginal advantage for a particular situation and time (Cyert and March, 1963); sequential attention is paid to stakeholders' needs and just some of them are simultaneously satisfied. Similarly, in the second one, the higher the degree of salience of the stakeholders' group in the eyes of the manager, the greater the attention paid by managers to the needs of that specific group (for more details see Mitchell et al., 1997). So, it creates the situation in which the greater the managerial perception of the degree of salience of some groups, the greater the attention paid to satisfy their needs allocating a larger amount of resources at the expense of the other groups. So, many limitations may be linked to the traditional managerial practices.

First of all, the problem of an ineffective resources allocation needs to be underlined. These processes can satisfy only the most powerful stakeholders of the corporation (Harrison et al., 2010; Coff, 1999; Pfeffer, 1981; Porter, 1980) or, similarly, to implement the most convenient alternatives (Cyert and Mark, 1963), at the expenses of the others.

Then, the lack of attention for some groups may decrease their satisfaction and, in turn, their commitment in the long run, resulting in a negative effect on some dimensions such as: the relationships between the organization and the stakeholders (Orlitzky, Schmidt and Rynes, 2003; Roman, Hayibor and Agle, 1999); the organizational legitimacy and the reputational judgment (Bitektine, 2010); and the reciprocity (see Donaldson et al., 1994; Philips et al., 2006; Bosse et al., 2009), trust (see Pirson & Malhotra, 2010; Davis et al., 2000; Barney & Hansen, 1994) and commitment in the long-term stakeholder's relationship with the corporation (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987). Moreover, extra benefits are linked to an effective embeddedness of the stakeholders into the business models of the corporations which "myopic business models" are unable to exploit. I talk about this in the next sections.

Adding to this, the other problem linked to the "myopic" business models is that they not explicitly recognize the social dimension of the corporation, as I said before. A corporation directly affects the environment in which it operates, so it cannot be isolated from its social context (Porter and Cramer, 2006). For too many years, the corporations excluded the social problems from the boundaries of their workers and for a long time the managers didn't consider the relationship between business and society. The short-term vision of these kinds of behaviors and their limitations in terms of inconsistency with the capability to create external wealth called institutions and business actors to pay attention to social issues such as the carrying capacity of the planet in order to satisfy future human needs (Brundtland report, WCED, 1987; European Commission, 2001). For corporations, this interconnection with society, assumes a specific relevance: to generate positive performance the corporations need internal and external resources (Aldrich et al., 1976) and their success is directly linked to the health of their external and internal environment (Porter and Kramer, 2006).; the business activity can produce external effects (e.g. negative environmental effects, social problems, and so on) which negatively affect the external environment of the corporation's (references); human resources, and the people in

general, represent one of the main factors which directly affect the activity and the success of the corporation's (references).

This interconnection, summarized by the assertions above, needs to be explicitly considered in designing the business model of the corporations. They need to be able to pursue their own value creation objective without compromising the wealth of the society (the external environment of the corporation). For this reason, the business model of the corporation needs both an internal and external fit (Morris et al., 2005) to create value not just for its shareholders but for the stakeholder as a whole.

However, business models too focused on the social demand or on other single objectives produce the same results. They are "myopic" in the same way as those presented above, because they consider as the main objective the satisfaction of a single stakeholder's group (the society) in terms of social issues, ignoring the economic responsibility of the corporation. One example is represented by the Control Data Corporation introduced in the first paragraph. It focused too much attention on the wellness of the external society at the expense of the other primary stakeholders of the corporation.

The managerial role, at this point, is inconsistent with the Sustainable Business Management (SBM) because it is not able to either recognize the firm's embeddedness in social, environmental, and economic systems, nor to focus its attention on the environmental, social, and economic requirements of many different stakeholders in its networks (see Roome, 1998; Van Kleef & Roome, 2007:44).

In conclusion, the adoption of "myopic business models" - based on single-minded approaches - causes the corporations to fail in the last years because of their incapability to generate shared value/wealth for the stakeholders of the corporations. They adopt value creation processes which prioritize some groups at the expense of the others and this, in turn, progressively decreases their trust and commitment. Adding to this, these generate the situations in which the short-run benefits of the specific stakeholders' group are bigger than the long-run public costs - which are represented by the negative effects of bankruptcy.

The value generated by myopic business models is not sustainable in the long-run because: the value is generated at the expense of other people (few stakeholders groups vs the other stakeholders; private benefits vs public costs); the satisfaction of the present needs of specific groups (shareholders or the society, in my examples) prevails on the consideration of the interests of the other individuals, who represent the internal and external environment of the corporations, which it affects and by which it is affected.

2.2 Business Sustainability and Corporate Responsibility: what's the difference?

The sustainability concept in the business environment is largely recognized with the term of business sustainability. This, for the corporations, means implementing “business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; van Kleef & Roome, 2007). “A sustainable enterprise is one that contributes to sustainable development by delivering simultaneously economic, social and environmental benefits – the so-called triple bottom line” (Hart et al., 2003).

Following these approaches, the corporations can contribute to sustainable development meeting the needs of: the shareholders – according to the economic nature of the firm (Friedman, 1970); the stakeholder – recognizing the embeddedness of the corporation in the society; and the future generations – taking care of the human and natural resources that will be needed in the future.

To do this, the corporations need to assume a strategic orientation which intrinsically incorporates the principle of sustainable development, involving all the stakeholders and adopting business models which are able to effectively create shared value/wealth not just for shareholders but for all those who are directly or indirectly involved in and by the organization.

This is linked to the managerial approach that Van Kleef and Roome (2007) called sustainable business management (SBM). It explicitly exploits the interrelation between business and society underlining the necessity for the firms to search for a balance between economic, social, and environmental dimensions (Campbell et al., 1997). This can be achieved by an explicit

recognition of sustainability principles in the managerial goals (Lopez, 2008) and this may be viewed as an opportunity to generate sustainable value for shareholders (Hart et al., 2003). For this reason, there is wide agreement on business sustainability as a future path to create long-term shared value because many benefits are linked to that (Funk, 2003; Porter and Kramer, 2006; Parmar et al., 2010).

In the recent years, the role of business in respect to sustainability development – that I recognized as Business Sustainability - has been largely identified by scholars and practitioners with the concept of the Responsibility to Society (Carpenter et al., 2004) or, similarly, with the term of Corporate Social Responsibility (CSR). Adding to this, many sources have been linked to the responsibility of the business activity: economic, legal, ethical, and philanthropic dimensions (Carroll, 1991). However, from the first contribution of Bowen² (1953):

- the terminology shifted - from social responsibility of business to social responsibility of the corporation.
- many terms were used such as such Corporate Responsibility, Corporate Accountability, Corporate Ethics, Corporate Citizenship, Corporate Sustainability
- many definitions were developed (Carroll, 1979; Sethi, 1990; OECD, 2000; UN, 2000; McWilliams et al., 2001; European Community, 2001; World Business Council for Sustainable Development, 2000, 2001)
- many theories were used to better understand the phenomenon (see Garriga et al., 2004 for a meta-analysis).

Despite this, there is now still not a large consensus on the exact meaning of the issue and on the way in which it can be grounded in the business environment. This confirms Votaw's (1972) perspective arguing that Corporate Social Responsibility “means something, but not always the same thing to everybody. To some people, it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in the ethical sense; to still others, the meaning transmitted is that of ‘responsible for’ in a casual mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most

² He was the first scholar to introduce the concept with the book “Social responsibilities of the businessman”.

ferently see it as a mere synonym for legitimacy in the context of belonging or being proper or valid; a few see a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large”.

For the reasons above, a new approach to the issue needs to be developed to effectively increase the comprehension about the way in which the corporations can directly contribute to the sustainable development, increasing the shared value of the firms and wealth for all the stakeholders directly or indirectly involved in the organization. So, this approach may encompass the strategic orientation of the firms basing it on the sustainable principles and sustainability goal rather than on the concept of the responsibility of the corporation, due to the higher uncertainty linked to the issue.

In my opinion, to enhance the sustainability goal – as I defined before – a general involvement needs to be required: all the actors of the system may collaborate in the sustainability direction - external dimensions - adopting strategic behaviors which are able to satisfy the needs of the present generations without compromising the capability of future generations to meet their needs - internal dimension.

For corporations, this means build business models which are able to directly contribute to sustainable development by simultaneously satisfying the needs of the enterprise, stakeholders and future generations. To do this, an active approach rather than a defensive one needs to be developed by all economic actors. Enhancing the goals of sustainable development may actively represent a source of value creation both for the company and the society (Carpenter & White, 2004). The firm’s strategies need to be elaborated with the triple aims to co-create value with and for all stakeholders. Pursuing this behavior may guide the firm both to effectively satisfy its nature as economic actor - creating value for shareholders – and to be sustainable – generating shared wealth for all stakeholders, directly and indirectly involved in the organization.

2.3 The strategic dimension of the sustainability

The sustainability of the business, as defined above, consists of all strategic activities of the corporation which are able to simultaneously satisfy the interests of present and future generations, including both the needs of the shareholders and the stakeholders as a whole. So, I am not referring to single activities developed by the corporations with philanthropic or marketing aims but I am directly referring to firms' business models which create value, encompassing the main principle of sustainability. As noted above, many authors refer to sustainability of the business with the term of corporate social responsibility. Despite my approach, which is quite different and narrower focused on the sustainability of the business models; I need to investigate the literature directly linked to the strategic dimension of corporate social responsibility, because the contributions directly linked to business sustainability remain scarce.

According to Porter and Kramer (2006), "Corporate Social Responsibility can be much more than a cost, a constraint or a charitable deed. It can be a source of opportunity, innovation and competitive advantage". In the same way, business sustainability can be viewed as an opportunity to create value for multiple actors involved in the society and in the corporation (Carpenter & White, 2004). However, the conditions under which this works are not specified.

In the last years, a great proliferation of academic contributions was developed to investigate the linkage between the CSR engagement of corporations – this is recognized under the concept of Corporate Social Performance (CSP) – and the Corporate Financial Performance (CFP) (Griffin et al., 1997; Russo et al., 1997; Waddock et al., 1997; McWilliams et al., 2000; Margolis et al., 2001; Orlitky et al., 2003; Margolis et al., 2007; Brammer et al., 2008). This moved from the belief that if the relationship exists, it may increase the legitimation of the social effort of the corporations (Useem, 1996) and may improve their motivation to do good because of the positive effect on the bottom line (Margolis et al., 2007). However, despite many contributions developed, the results on the sign of the relationship remain un-clear due to methodological limitations (Orlitky, Schmidt and Rynes, 2003; Igalens and Gond, 2005; Margolis, Elfebein and Walsh, 2007; Lee, 2008) and the misspecification of the conditions under which the CSR can be categorized as strategic (Husted and Allen, 2007).

In general, a positive relationship seems to exist between Corporate Social Performance and Corporate Financial Performance across a wide variety of industries and study contexts (Orlitzky et al., 2003) because of many benefits which are related to CSR activities of the corporations. Some of them are represented by:

- ⇒ a direct effect on the intangible assets of the corporations which, in turn, strongly influence their success in the competitive context (Dyer and Singh, 1998; McEvily and Zaheer, 1999; Morgan and Hunt, 1999).
- ⇒ A positive corporate image of the customers, investors, bankers, and suppliers (Fombrun and Shanley, 1990).
- ⇒ A better firm reputation (Zyglidopoulos, 2002; McWilliams and Siegel, 2001) and corporate identity (Hosmer, 1994).
- ⇒ A stronger support from stakeholders (Clarkson, 1995).
- ⇒ A reduction of the agency and the transaction costs (Jones, 1995).
- ⇒ A positive effect on the relational capital of the corporation (Barney and Hansen, 1994; Nahapiet and Ghosal, 1998; Waddock and Graves, 1997).
- ⇒ Better organizational skills to react to external changes, turbulence, and crises (Russo and Fouts, 1997).
- ⇒ A better capability to attract the best employees (Greening and Turban, 2000) or to increase the current employees' goodwill (Waddock and Graves, 1997).
- ⇒ The development of the capabilities which the corporations need for the more efficient utilization of the resources (Majumdar and Marcus, 2001).
- ⇒ CSR as a mean to achieve the product differentiation (McWilliams and Siegel, 2001).
- ⇒ CSR as an "insurance mechanism" which directly affects the financial performance of the corporations (Godfery, Merrill and Hansen, 2009).

Many gaps are present in the literature in order to clarify how the managers can effectively develop a CSR strategy, what kind of CSR activities need to be implemented, the nature and the sign of the relationship between CSP and CFP, and the condition under which the strategic CSR orientation works.

Despite the most of the literature focuses attention on Corporate Social Responsibility and sustainability is often used meaning environmental sustainability, I refer to the concept of business sustainability rather than Corporate Social Responsibility because we have a better specification of what the phenomenon means.

According to the considerations developed, business sustainability may be viewed as an instrument that the firms can use to directly contribute to sustainable development. A strategic management of the phenomenon may represent an effective means to satisfying different needs of different stakeholders, aligning public and private interests and generating shared value/wealth for multiple actors. Moreover, to transform sustainability into opportunity, corporations need to align their own interests - to pursue positive performance - with the needs of the market - which needs a unique value proposition - and the interests of the society – generating shared wealth for all stakeholders. This may be the result of the business models based on strategies which are able to align different interests explicitly recognizing the embeddedness of the corporation in a social environment. This confirms the strong relationship between the business and the society: a healthy society needs successful corporations and, in turn, a corporation to be successful, needs a healthy society (Porter and Kramer, 2006).

However, very little is known about the way in which the corporations may effectively do this. Despite the higher relevance of the phenomenon, very little is known about the way in which firms can effectively build sustainable business models which are able to co-create value with and for multiple stakeholders – including the shareholders – and to guarantee the wealth of the corporations in the long run.

In conclusion, in the last years, many contributions focused on Corporate Social Responsibility and on its effect on the financial performance of the firms. However, there still isn't a large consensus about the nature of the phenomenon and the way in which the corporations can effectively manage it.

To better understand how the firm can directly contribute to sustainable development and to sustainability goals, a shift is necessary: from corporate social responsibility to business sustainability. This can be viewed as a set of strategies which are able to simultaneously align

different needs of different stakeholders. In doing so, the corporations directly contribute to sustainable development because of the adoption of business models which are intrinsically sustainable. They, in fact, may be able to meet the needs of the shareholder, the stakeholders and the society, creating shared value and maximizing their wealth.

However, to do so it needs to fulfill the literature gaps by a better understanding of:

- ⇒ The way in which the corporations can satisfy the expectations of different stakeholders through their own business model. In other words, this means, having a better comprehension regarding how the corporations can build sustainable business models.
- ⇒ What the stakeholders' interests are and how the corporations can effectively satisfy them.
- ⇒ What kind of activities the managers need to develop to effectively satisfy the stakeholders' needs.

According to the definition of business sustainability I adopted, the theoretical framework which better fits to clarify the way in which the corporations can satisfy the expectations of the different stakeholders and generate shared value/wealth in the long run is represented by the Stakeholder Theory. This is because the main source of business sustainability is represented by the capability of the business models of the corporations to satisfy the needs of multiple stakeholders while they maximize corporate value and the interests of their shareholders.

2.4 The stakeholder involvement for business sustainability

As I said above, business sustainability directly refers to the capability of the corporations' strategy to involve their stakeholders defined as "groups and individuals who can affect, or are affected by the strategic outcomes of a firm" (Freeman, 1984). This approach may increase the ability of the firm to satisfy the needs of multiple actors and generate shared value, because its better capability to allocate resources and to involve its stakeholders in its decision-making system (Clarkson, 1995:107; Freeman et al., 2007). Following this approach, the corporation can be viewed as a set of interdependent relationships among primary stakeholders (Evan and Freeman, 1988; Donaldson and Preston, 1995; Jones, 1995; Hillman and Keim, 2001) and its

survival and continuing profitability depend on the capability of the managers to effectively balance the interests of all these stakeholders (Freeman, 1984; Clarkson, 1995; Donaldson and Preston, 1995).

The distinction between primary and secondary stakeholders (Clarkson, 1995) is based on the intensity of stakeholders' involvement in the corporation. In particular, primary stakeholder groups are represented by those who directly affect the capability of the corporation to survive as an going concern and they are shareholders and investors, employees, customers, suppliers and the public stakeholder group (government and communities). Secondary stakeholders, despite their influence and the fact that they are influenced by the corporation, are not directly engaged in transactions with the firm (Clarkson, 1995). Similarly, Freeman (1984) implicitly refers to primary stakeholders as those individuals who directly influence firms' outcome.

In recent years, many scholars focused their attention on the stakeholder engagement of the corporations as a factor which directly affects their financial performance and most of them confirm a strong relationship between corporate performance and managing for stakeholders (Harrison and Freeman, 1999; Roman et al., 1999; Hillman and Keim, 2001; Jensen, 2001; Margolis and Walsh, 2003; Orlitzky et al., 2003; Godfrey, 2005; Reynolds et al., 2006; Barnett, 2007; Berman et al., 2007; Sisodia, Wolfe and Sheth, 2007; De Luque et al., 2008; Laplume et al., 2008; Choi et al., 2009; Harrison et al., 2010; Freeman et al., 2010). This can be linked to many benefits which can be summarized in four main frameworks (for a more extensive recognition see Freeman et al., 2010 and Parmar et al., 2010):

- i. "The interests of all stakeholders are of intrinsic value". That is, each group of stakeholder merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as "shareowners" (Donaldson and Preston, 1995). According to the Resource Based View, in fact, good relations with stakeholders represent valuable, rare inimitable and non-substitutable resources, in terms of intangible assets, on which the Competitive Advantage of the firms can be based (Choi et al., 2009; Hillman and Keim, 2001; Ruf et al., 2001; Russo et al., 1997). Close relationships with primary stakeholders generate intangible resources— technology, human resources, reputation, and culture— which directly affect the capability of the firms to effectively

manage their assets and, in turn, their ability to acquire a competitive advantage over their rivals (e.g., Surroca et al., 2010; Orlitzky et al., 2003; Sharma and Vredenburg, 1998). Moreover, because of the path dependent nature of these resources, they also help the corporations both in the persistence of the performance advantages of the well-performing firms and in the quicker recovery of the poorly performing firms (Choi et al., 2009).

- ii. The resource dependence model of the firms moves from the assumption that corporations are not able to internally generate all the resources they need to survive in the competitive environment (Aldrich and Pfeffer, 1976). For this reason they need to build internal structures which are able to acquire resources, important for the survival of the firms, by both the satisfaction of internal demands (White, 1974) and the management of the relationship with the external environment (Child, 1972; Pfeffer et al., 1974; Pfeffer, 1976).
- iii. When the firms effectively reply to the stakeholders interests, they increase their legitimacy in the eyes of different stakeholders in terms of different kinds of judgments: cognitive (Hannan and Freeman, 1977) and sociopolitical (Aldrich et al., 1994) legitimacy; and reputation (Deephous et al., 1995) and status judgments (Washington et al., 2005) (for more details see Bitektine, 2010). Following this approach, good relationships with stakeholders increase the external perception of the legitimacy of the business activity and this allows the corporations easier access for the firm to stakeholders' resources (Aldrich and Pfeffer, 1976) and lower costs for information search (Cyert and March, 1963; March and Simon, 1958).
- iv. Good stakeholders' relationships help firms to both increase the level of stakeholders trust (Harrison et al., 2010; Barney et al., 1994) and their capability to acquire a better comprehension of the stakeholders' utility functions (Harrison et al., 2010). Because stakeholders are different in their expectations and interests (Donaldson & Preston 1995, Schneper & Guillen 2004), this allows the firm to deliver a better value proposition and to understand how it can affect its stakeholders' welfare by its own actions (Harrison et al., 2010). Moreover, trust has a positive effect on (for a more extensive recognition see Pirson & Malhotra, 2010): the cooperative behavior within organizations (Gulati and Westphal 1999, Williams 2001) and between organizational stakeholder groups (Jensen

2003, Uzzi 1997) in terms of commitment (Ganesan 1994), motivation (Dirks 1999), creativity, innovation, and knowledge transfer (Tsai and Ghoshal 1998). So, by strengthening relationships between the corporations and their stakeholders it represents a source of Competitive Advantage for the organization (Barney and Hansen 1994, Nahapiet and Ghoshal 1998). Adding to this, a positive effect in terms of a stronger commitment in the long-term stakeholders' relationship with the corporation may be underlined (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987).

- v. Reciprocal stakeholders' relationships directly affect the capability of the corporations to create wealth (Post et al., 2002), stabilize returns minimizing the risk (Graves et al., 1994), and to increase its own reputation (Fisher et al., 2007; Puncheva, 2008) and flexibility (Harrison et al., 1996). Moreover, this represents an incentive for managers to co-create value with the stakeholder to enhance the shareholders' goals (Hill et al., 1992).

These benefits clearly show the linkages between firm performance and the stakeholders' management activity. However, the process needs to be managed to effectively work in terms of: how managers reply to the stakeholders' demands and what kind of instruments they use to do this. However, the firms are not able to satisfy all of their stakeholders (Harrison et al., 2010) due to limited resources (Cyert and March, 1963), internal and external constraints (Simon, 1963), relative powers of different stakeholders (Coff, 1999; Frooman, 1999), different degrees of firm dependence from specific stakeholders (Pfeffer et al., 1978), and managerial discretion in value allocating processes (Hambrick et al., 1987; Shen and Cho, 2005). This emphasizes that managers need to adopt criteria to allocate resources based on the logic to balance interests (Clarkson, 1998; Evan and Freeman, 1993; Freeman, 1984; Jones and Wicks, 1999) rather than the maximization of single objectives (Jensen, 2001). These models are based, in turn, on prioritization approaches to managing for stakeholders. The most largely recognized tool in the literature, and used by managers, is represented by the prioritization system based on the degree of salience of different stakeholders (See Mitchell et al., 1997). Following this approach, each stakeholder's group is characterized by a heterogeneous degree of salience which is composed of relative power, legitimacy and urgency of stakeholders' claims. The higher the power, the

legitimacy and the urgency of a stakeholder group's claim, the higher the importance of that group for the managers.

Even though this approach received reasonable empirical support (Agle, Mitchell, & Sonnenfeld, 1999; Eesley & Lenox, 2006; Knox & Gruar, 2007; Parent & Deephouse, 2007; Winn, 2001), it underlines two issues in terms of: the high level of managerial discretion in resources allocation is linked to its own relative perception of the weight of the attributes of each stakeholders' group; and the higher the probability that the most salient stakeholder's group is represented by shareholders because of their importance to the corporation. This approach is also called the "arms-length" approach to stakeholder management in which stakeholders are considered different because they are characterized by different power and this is the criterion on which managers base the value allocation process (Harrison et al., 2010). Adding to this, in the literature, very little is known about the concrete tools which the managers can effectively use to satisfy the needs of different stakeholders. In other words, there is a gap in terms of how firms can effectively satisfy different stakeholders' groups characterized by different utility functions (Harrison et al., 2010) and under what conditions this process works.

The most recent contributions highlighted that stakeholders are different because they are characterized by different utility functions (Harrison et al., 2010) and, adopting a business model which would be able to align these heterogeneous needs may generate benefits, in terms of: trust (Pirson & Malhotra, 2010; Davis et al., 2000; Barney & Hansen, 1994) and commitment in the long-term stakeholder's relationship with the corporation (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987); a more effective resources allocation related to the better comprehension of what really counts for stakeholders and the relative weight of the utility maximization approach (Harrison et al., 2010); the increasing of stakeholders' reciprocity (see Donaldson & Dunfee, 1994; Phillips & Johnson-Cramer, 2006; Bosse, Phillips & Harrison, 2009); the improvement of organizational legitimacy and reputation judgment (Bitektine, 2010); and the embedding of the stakeholder's management approach in the firm's culture (Jones, Felps & Bigley, 2007).

For the considerations above, the stakeholder theory can be viewed as offering both a moral guide for the managers in the value creation process of the firms and a theoretical framework on

which a business sustainability model can be based, reconciling the relationship between business and society and giving an economic justification because of the many benefits mentioned above. So, according to Parmar et al. (2010), the stakeholders theory represents a reasonable way to reconcile the problem of value creation, sustainable competitive advantage (Harrison et al., 2010) and distributions of economic rents (Bosse et al., 2009) with the problem of ethics of capitalism and sustainability (Boutilier, 2007; Bansal, 2005; Sharma et al., 2005; Kolk et al., 2007). However, despite the recent contributions (Harrison et al., 2010; Bosse et al., 2009), very little is known regarding the process of managing for stakeholders when different stakeholders' networks compete or when different stakeholders' interests need to be included in the value creation process of corporations (Parmar et al., 2010). Moreover, in this field, very little attention has been paid to the problem of the value creation and trade (Parmar et al., 2010). To fulfill this gap and to better understand the strategic dimension of business sustainability, the business models of the corporations need to be re-thought by an integrated theoretical approach which integrates the stakeholder theory with different frameworks (Parmar et al., 2010) such as: the resource-dependent theory (Pfeffer and Salancik, 1978); the resource-based view in order to explain both the relationship between resource management and the competitive advantage (Priem et al., 1991) and rents allocation in stakeholders' groups (Barney et al., 2001); and the decision making process model of the corporation (Cyert and March, 1963). If the value creation is an important topic which stakeholder's theory needs to address, many questions remain opened. According to Parmar et al. (2010), some of them are represented by:

- ⇒ What does "value" mean for a particular group of stakeholders and how do firms create these different types of "value for stakeholders?"
- ⇒ What does it mean to balance stakeholders' interests? Are there different types of balance and compromise?
- ⇒ How do stakeholders make sense of equity and fairness?

Summarizing, most of the literature presented above largely recognizes a strong positive relation between managing for stakeholders and performance of the corporations, because of many internal - the more effective capability to allocate resources - and external benefits - strategic resources creation and a better comprehension of stakeholders' groups' utility functions. To effectively exploit those benefits, the corporations need to explicitly recognize the stakeholders'

interest in their decision-making process (Cyert and March, 1964), aligning the heterogeneous demands of different stakeholders due to the firms' limited resources which don't permit the satisfaction of all firms' stakeholders. The traditional tool developed to effectively do this is represented by the prioritization model based on the degree of salience of each stakeholder group (Mitchell et al., 1997). However, this model clearly shows the inconsistency with business sustainability and many limitations:

- i. First of all, business sustainability can be viewed as a strategic instrument to create value in the meantime for shareholders and stakeholders as a whole. This emphasizes that a model which is based on balancing stakeholders rather than simultaneously satisfying different primary stakeholders is inconsistent with the sustainability of the business because it creates value for just single segments at the expense of the others – some of them are more important in the eyes of the managers.
- ii. The model assumes that the managers prioritize the interests of the most salient stakeholders who have the most power to influence the decision of the firms, the most legitimacy to do this and the most urgency of their claims in respect to the other stakeholders. This, again, is inconsistent with the sustainable business model which needs to pay equal attention to different stakeholders needs. This is because the main principles on which it is based are represented by the creation of shared value and the maximization of shared wealth.
- iii. We know that managers make decisions under external and internal constraints (Cyert and March, 1963) but little is known about the situation in which the constraints (Simon, 1964) are represented by stakeholders' goals and interests. In other words, very little is known about the process that the managers need to follow when they have to make decisions under the stakeholders' constraints.
- iv. The traditional approach of stakeholder managements largely recognize the benefits linked to managing stakeholders - following the balancing and prioritization models - but a literature gap exists in order to explain how managers can effectively create value for different stakeholders and maximize their wealth in a sustainable way.

Adding to these, the most recent literature (Parmar et al., 2010) confirms a theoretical gap in order to explain, through an integrated theoretical model, how the corporations can enhance a

sustainable competitive advantage, co-create value with and for their stakeholders, and directly contribute with their business models to the sustainability goal and sustainable development.

2.5 Discussion and research questions

The literature review shows many limitations and theoretical gaps in order to address my research problem. This can be summarized by the question “How can the corporations create value for different stakeholders and increase business sustainability?”.

The failures of traditional business models based on a single-minded approach show that they were not able to create value in the long-run due to the adoption of a short-run approach too focused on the profit maximization of the firms. This caused the situation in which short-run private benefits were bigger than the long-run public costs. The inconsistencies of these business models with sustainable development and business sustainability are given by their incapacity to align different interests of everyone, directly or indirectly involved in the organization. In other words, they ignore the embeddedness of the corporations in the society adopting what we called a “myopic” approach. This, in turn, is directly linked to many problems which negatively affect both business and society, such as managerial fraud, unethical firms conduct, and failures of many corporations. Summarizing, we can say that they represent un-sustainable business models because they create value for few stakeholders at the expense of most of them, including future generations. To overcome this problem, a new approach needs to be developed to build business models that are able to co-create value for stakeholders, in a simultaneous way, maximizing their overall utility. This doesn’t mean ignoring the shareholders’ interests because they are considered in the primary stakeholders’ utility functions evaluation. Adopting a “sustainable business model” is not in contrast with the value creation process of the corporations, neither with their profit generation (Friedman, 1970), but it enhances the competitive advantage paying equal attention to all primary stakeholders and making decisions under the constraints of their utility functions. In this way the corporations can create value for:

- i. The stakeholders – because of a better understanding of the meaning of value for each category and a more effective value allocation process.

- ii. The shareholders – because of both a better comprehension of their single goals and the more effective process to allocate different kinds of value into different stakeholders’ groups
- iii. The corporation – because of the adoption of a business model which is able to both enhance the sustainable competitive advantage in the long run - directly linked to the benefits of managing for stakeholders – and create shared value for multiple stakeholders maximizing their overall utility. Adopting this business model will allow the corporations to be sustainable and to contribute to the sustainability goal.

For the reasons listed above, the cornerstone of this line of reasoning is represented by the stakeholder theory which is able to reconcile strategic management’s main goals – the competitive advantage of the corporations and the value creation process – with the social dimension of the corporation – a coalition of individuals, some of them organized in sub-coalitions (Cyert and March, 1963). Adding to this, the starting point is represented by the capability of the firm to create value for its primary stakeholders by the adoption of the business model which is able to maximize their overall utility. However, for this last reason, the stakeholders’ framework needs to be integrated with other theoretical frameworks due to the many limitations and gaps I emphasized in the paragraph above. Moreover, some assumptions need to be taken because some key points of the traditional approach are inconsistent with the sustainable approach on which I am basing my model. For this reason:

- i. The mechanism of “balancing stakeholders’ interests” needs to be substituted with a new approach of “aligning different interests”. This can be possible by rethinking the role of management in the resources allocation process integrating two theoretical frameworks: the “stewardship theory” and the “innovation seeking entrepreneurial approach”.
- ii. The prioritization model based on the degree of salience (Mitchell et al., 1997) needs to be replaced by a “synergistic stakeholders’ approach” in which the managers simultaneously satisfy one or more attributes of primary stakeholders utility functions (Harrison et al., 2010) by a single action. This is because its main limitation is represented by a value creation process able to satisfy some of the stakeholders at the expense of the others. This is clearly inconsistent with my sustainable approach.

- iii. The practical mechanisms by which managers may satisfy different stakeholder's interests need to be guided by a better understanding of both: the internal composition of each stakeholder's group (segment); and the value drivers which characterized the utility functions of each segment.

Integrating the stakeholder theory with the considerations above and with other theoretical frameworks such as the decision making process model of Cyert and March (1963), the utility function approach of Harrison et al. (2010), the value creation and value capture approach of Priem (2007) will allow elaboration on a conceptual model which explains how managers can make decisions regarding resources allocation and value creation processes under the constraints of primary stakeholder's utility functions. In doing so, many literature gaps can be fulfilled in terms of:

- ⇒ How firms can build sustainable business models which are able to align interests of different stakeholders' groups characterized by different utility functions.
- ⇒ What kind of activities need to be developed by the firms to create value for shareholders and to maximize, in the meantime, the wealth of stakeholders.
- ⇒ What "value" means for a particular group of stakeholders and how do firms create these different types of "value for stakeholders".
- ⇒ What is the process that the firms need to follow to align different stakeholders' interests
- ⇒ What are the conditions under which business sustainability works?

These gaps will be addressed by replying to the following research questions:

- ⇒ How can corporations build sustainable business models?
- ⇒ What is the decision process that firms need to follow to develop sustainable business models?
- ⇒ What does "value" mean for a particular group of stakeholders and how do firms create these different types of "value for stakeholders"?
- ⇒ What are the activities that the firms need to develop to create shared value?
- ⇒ Under what conditions does the model effectively work?

“Our biggest challenge in this new century is to take an idea that seems abstract, Sustainable Development, and turn it into a daily reality for the world’s people.”

Kofi Annan

Chapter III

Competing for stakeholders – toward a better understanding of Business Sustainability

The failure of the traditional managerial approaches and the recent crises of financial systems pushed many economic actors to change their business models: from a profit oriented approach to a sustainable model. This required a change in the business approach used to create and deliver value: from “single-minded aspiration to maximize financial performance” of the corporations, to a “multiple stakeholder oriented approach to creating shared value”. The capability of the firm to effectively manage different stakeholder’s expectations may represent a useful business tool to enhance the Competitive Advantage through the adoption of a sustainable business model. This makes sense when a different nature has recognized the role of the manager: from “self-objectives enhancing” to “organizational wealth maximization”. So, he can be assimilated both as a steward - who maximizes the firm’s value under the constraints of stakeholders’ utility functions – and as an innovation seeking entrepreneur – who maximizes the overall stakeholders’ utility exploiting innovative systems to create firm’s value. My model tries to explain the conditions under which it works, referring to different theoretical frameworks and directly including a sustainability approach in the strategic orientation of the firm.

3.1 Introduction

Early research in strategic management emphasized the need for top managers to make value judgments when prioritizing among multiple organizational goals (e.g. Andrews, 1971). Simon (1964) argued that organizations must, by their nature, have multiple goals that actually should be viewed as *constraints* on top managers. That is, although top managers may label one or another of the constraints they face as “the” organizational goal, efforts to optimize on that goal can take place only within the operating space remaining *after* considering the minimum requirements of other key constraints. The implications of Simon’s (1964) argument for achieving business sustainability are clear: sustainability requires, at the very least, meeting the minimum needs of the firm’s essential stakeholder groups.

Yet, the exclusive pursuit of financial performance has contributed to many business failures, whether through incentive-induced top management frauds (e.g., Harris and Bromiley, 2007; O’Connor et al., 2006) or as an antecedent to the recent U.S. subprime mortgage crisis (Purnanandam, 2011). This over-emphasis on one goal, among many, is what I call the “myopic”

business model, being the antithesis of business management toward sustainable firms. To overcome these situations a business sustainability model needs to be developed with the aim to create and deliver value in the long-run not just to the shareholders, but to all the primary stakeholders of the corporations.

As said before, achieving business sustainability requires instead that top managers: (1) return to the core assumption of the behavioral theory of the firm, that they must satisfy multiple goals that serve as constraints on their firms' survival (Cyert and March, 1963; Simon, 1964); (2) strive to create increasing value for each primary stakeholder group, just as firms in a value chain must strive to create value for consumers (Priem, 2007); (3) moderate financial performance aspirations, especially in light of recent findings that extremely high performance reflects managerial *incompetence* rather than competence (Denrell, 2005; Sanders and Hambrick, 2007), and (4) operate as stewards of, and entrepreneurs within, the organizational decision-making system that is composed of the firm's principal stakeholders (Augier and Sarasvathy, 2004).

The prescriptive model I am going to propose in this chapter has the aim to help the corporations to achieve higher levels of business sustainability. In doing so, I integrate aspects of established approaches, including stakeholder theory (Freeman, 1984), stewardship theory (Jones et al., 2007) and resource dependence theory (Aldrich and Pfeffer, 1976), with the behavioral theory's explanation of organizations' multiple goals (Cyert and March, 1963; Simon, 1964) and with recent work identifying firm-level strategies that create value for consumers (Priem, 2007). The result is a model of the firm's primary stakeholders as an organizational decision-making system, wherein top managers simultaneously: 1) address multiple stakeholder goals and 2) act as entrepreneurs in creating value above the minimum levels required for stakeholder participation. The managers' super-ordinate goal in my model is to attract exceptional primary stakeholders and obtain their trust, commitment, and effort toward system-wide value co-creation, thereby increasing the system's resiliency and, in turn, the business firm's sustainability.

The process through which managers increase their firms' sustainability in my model, which involves firms "competing" for stakeholders and stakeholders simultaneously "competing" for firms, challenges several commonly held assumptions about how top managers should deal with stakeholders. For example, in my model, primary stakeholders' goals – represented by their

utility functions – are not necessarily competing and, therefore, need not be “balanced” by top managers. Instead, managers can entrepreneurially create new value for two or more primary stakeholders, simultaneously, through value creation innovations that “increase the size of the pie” for those system members (Gulati and Wang, 2003; Priem, 2007). Moreover, stakeholders need not be treated uniformly by, for example, building trust-based firm–stakeholder relationships with all or even most stakeholders. Instead, firms can compete effectively for stakeholders’ participation by providing value propositions that best meet the differing needs of primary stakeholder groups’ quite different utility functions. And reciprocally, potential primary stakeholders (Clarkson, 1995; Goodpaster, 1994) must compete with others in the same stakeholder group who may also wish to be selected as a member in the “best” firm’s value system. I explain the implications of this more realistic, behavioral model: for strategic decision makers, for better establishing the foundations of firms’ sustainability, and for the general social welfare of those affected by the organizational behavior systems called “firms.”

3.2 Overview: Competing for Stakeholders

Surprisingly few studies have examined primary stakeholders (Clarkson, 1995) as representing constraints for the firm (Reynolds et al., 2006, is an exception). None I know has viewed a firm’s stakeholders as an organizational decision-making system, overseen by top managers. In the next sections I examine these ideas in more detail, and then I expand the discussion to consider the potential for simultaneous value co-creation for multiple stakeholders through the activities of the firm’s top managers.

3.2.1 Goals as Constraints

According to Simon, using the term “organizational goal” can cause confusion concerning whether one means the "goals of the firm's owners" or, alternately, "goals of the firm's top management" or "goals of those who hold legitimate authority to direct the organization" (Simon, 1964, p. 2). “In the decision-making situations of real life, a course of action, to be acceptable, must satisfy a whole set of requirements, or constraints. Sometimes one of these requirements is singled out and referred to as the goal of the action. But the choice of one of the constraints, from

many, is to a large extent arbitrary. For many purposes it is more meaningful to refer to the whole set of requirements as the (complex) goal of the action” (Simon, 1964, p. 7). Moreover, “in a multi-person situation, one man's goals may be another man's constraints” (Simon, 1964: 8). The optimal solution for a particular goal is given by the best alternative found inside a constraint-space (for more details, see Simon, 1964).

For my purposes, the necessity of delivering at least minimum value to each primary stakeholder constrains managers' decision-making, as indicated by Simon's (1964) discussion of companies' multiple goals functioning as constraints. Moreover, the stakeholder situation is a “multi-person” one, wherein one primary stakeholder's goal is another's constraint. Following this logic, we can assume that the “dominant” profit maximization objective of the firm's shareholders is constrained by other stakeholders' goals, which are indicated in their utility functions. Although stockholders are firm stakeholders, typically with objectives based on utility functions who value things like return, risk and investment horizon, they also must receive at least some minimum value proposition in order to continue their participation in the system. In this sense, stockholders are no more central or necessary for a sustainable firm than are other primary stakeholders such as customers, suppliers and employees (Clarkson, 1995). To the extent that a top manager is able to innovate and provide new or better value to a stakeholder group, including to stockholders, the constraint from that particular stakeholder group is relaxed. Moreover, one might expect that there is some potential for synergies in value creation among multiple stakeholders (e.g., Alchian and Demsetz, 1972; Priem, 2007). I turn to this issue next.

3.2.2 Synergistic Value Co-Creation for Stakeholders: the key assumptions

Some scholars have begun using demand-side approaches to examine strategic issues such as: the influences of consumer demand on technological innovation and competitive advantage (Adner, 2002; Adner and Levinthal, 2001; Adner and Zemsky, 2006; Tripsas 2008); consumer-focused strategies for value creation and appropriation (Adner and Snow 2010; Gans et al., 2008; Gruber et al., 2008; Priem, 2007; Zander & Zander, 2005); and users' roles in entrepreneurial innovation (Faulkner and Runde, 2009; Sawhney et al., 2005; Shah and Tripsas, 2007). These scholars have examined the potential for synergistic, joint value creation for firms and consumers. I next extend these ideas to top managers' coordination of exchanges among their firms' primary

stakeholders.

Before proceeding with a discussion of opportunities for joint firm–stakeholder value creation, however, I must explain several key assumptions upon which the model is based. The first assumption is that competition in value creation systems occurs on both sides of an exchange (e.g., Gans et al, 2008). Specifically, firms, as organizational decision-making systems, compete to attract the very best suppliers and employees, and to obtain more customers and more stockholders who are more willing to pay for their products or stock. Similarly, potential suppliers and employees compete to participate in value creation with the best firms, and potential customers and stockholders search and compete for the best value propositions for their respective investments. This shows that “competition” in a system of stakeholders actually occurs in two phases: first among stakeholders wishing to join with the firm, because of the anticipated joint value creating potential, and second among the chosen stakeholders to determine who captures what percentage of the value created (see Gans et al., 2008, for a more detailed explanation from a value chain perspective).

The second assumption is that each group of potential stakeholders has a utility function comprised of multiple goals that are substantively different from, and differently-weighted than, the goals in the utility functions of other stakeholder groups (see e.g., Harrison et al., 2010; Priem, 2007). These utility functions guide the stakeholder’s decision-making. For example, the overall utility of a new product for a consumer stakeholder might be a function of the benefit the product is expected to provide, the product’s money cost, the time required to purchase the product and master using it, and so on (Priem, 2007). Similarly, the overall utility of a new job for an employee stakeholder could be a function of salary and benefits, security, challenge, location, and enjoyment. The overall utility of a customer’s order for a supplier could be a function of order size, frequency, price received, payment terms, reputation of the customer, and the potential for follow-on business. And as mentioned earlier, stockholders’ utility functions likely include expected return, risk, and investment time horizon, among others.

Harrison et al. (2010, p. 61-61) advanced the stakeholder literature through their recent argument that those firms which better understand the utility functions of their stakeholders have an advantage, because of the resulting “better understanding of the minimum requirements of a

stakeholder”. Briefly, they argue that this understanding is advanced through a “managing for stakeholders” approach used by firms that “allocate both value and decision-making influence widely across their primary stakeholders (Freeman et al., 2007)”. Although such an approach can result in what seems to be overinvestment in some stakeholders, this “overinvestment” is more than recaptured with the trust it engenders in stakeholders – together with “(1) a history and expectation of fair distribution of value to stakeholders, and (2) a history of giving voice to stakeholders as managers make strategic decisions” (Harrison et al., 2010, p. 63) – and it prompts stakeholders to reveal the intricacies of their utility functions. Such revelations then allow the firm to either: increase its efficiency in dealing with stakeholders; increase stakeholders’ desire to work with the firm; increase the firm’s innovations in providing value to stakeholders; or improve the firm’s ability to handle the unexpected (Harrison et al., 2010).

I build upon these assumptions in the next section. First, I focus on innovations in value co-creation for and by multiple stakeholders, as a means of loosening stakeholders’ constraints on top managers. Second, I view decision making in the “firm” as centered in top management stewards who organize and operate the multiple-stakeholder decision-making system.

3.3 The model: the value co-creation process

In my model, the firm is viewed as a coalition of individuals, some of whom are organized into sub-coalitions which compete to acquire the resources to satisfy their own goals (Cyert and March, 1963). The coalition members include managers, workers, stockholders, suppliers, customers, lawyers, tax collectors, regulatory agencies (Cyert and March, 1963), so the sub-coalitions may be viewed as the primary stakeholder’s groups of the corporations (Clarkson, 1995) characterized by different goals which are embedded in their own multi-attribute utility functions (Harrison et al., 2010). Their individual “sub-goals” represent, for the managers, the constraints under which they make the decisions to allocate limited resources into different stakeholders’ sub-coalitions (Cyert and March, 1963; Simon, 1964) (See Figure 3).

Figure 3 The firm in my model based on the Cyert and March (1963) approach



The processes that managers use to allocate resources to different stakeholder groups are different and they directly depend on the manager’s own perception regarding the “role” that some stakeholder groups play in the organization. In particular, the traditional managerial practices are usually based on what Cyert and March (1963) called “sequential attention to goals” or on prioritization models, such as the degree of salience approach developed by Mitchell et al. (1997).

According to the first one, the managerial decisions to allocate resources are guided by the local rationality, the sequential attention to goals and the acceptable-level decision rules. The result is a sequential approach in which some stakeholders’ goals receive, in a particular situation and time, more attention than the others and each allocation choice represents the most advantageous alternative, for that particular situation and time (Cyert and March, 1963).

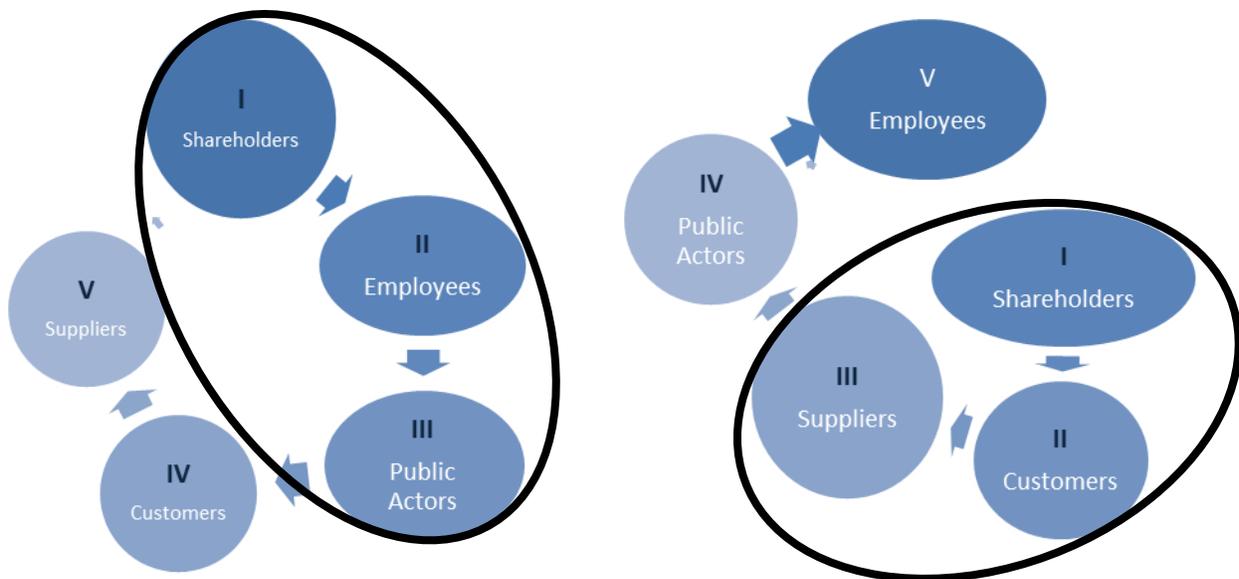
This approach creates the situation in which: alternatives are evaluated and ranked in order of

their marginal advantage for a particular situation and time (Cyert and March, 1963); sequential attention is paid to stakeholders' needs and just some of them are simultaneously satisfied.

For example, in a specific situation and time, managers may judge more convenient for the company's wealth satisfying the interests of the shareholders, the general public and the employees rather than the needs of suppliers and customers. This means that just three stakeholders' groups will be able to enhance their goals and their satisfaction will be increased at the expense of the other groups. In this specific situation, the un-satisfied stakeholders may react in different ways: the suppliers may decide to practice shorter payment terms because of the decrease of trust in respect to the buyer, who is unable to effectively satisfy their needs; or the customers may decide to buy other products because of the better capability of the competitors to offer a value proposition which satisfies the customers' needs (Figure 4a).

Another example can be viewed in the situation in which the manager decided to allocate resources to enhance the goals of the shareholders, the suppliers, and the customers (Figure 4b). In this specific situation, the employees and the public actors are not able to enhance their goals.

Figure 4 (a-b) – The “sequential attention to goals” (Cyert and March, 1963)

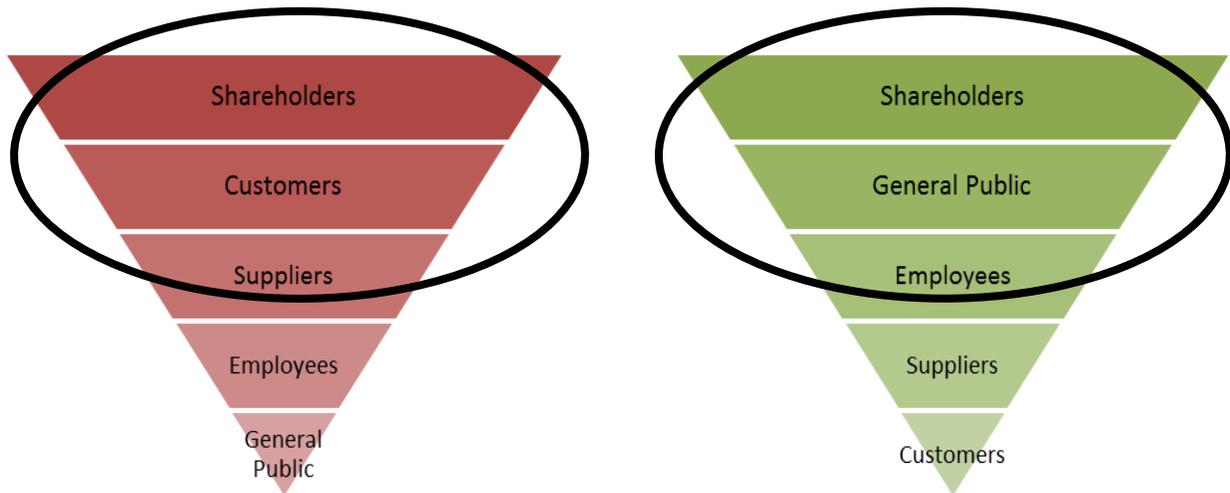


The dissatisfaction of employees may negatively affect their motivation (for more details see Locke, 1997; Locke & Latham, 1990, 2002; Meyer et al., 2004) and their long-run organizational commitment (Meyer et al., 2004; Lock, 1997). So, the employees may move from the corporation and will lose the benefits linked to a motivated and committed workforce (Meyer et al., 2004; Locke & Latham, 1990; Meyer & Allen, 1997; Pinder, 1998) and this will increase the costs directly linked to the higher likelihood of turnover (Hinkin et al., 2000; Meyer et al., 1991, 2004; Wiener, 1982). Adding to this, for example, some environmentalists' associations may act in respect to the corporation because of its incapability to take care of the environment, as a consequence of dissatisfied public actors and their lower commitment.

These represent the situations in which some goals receive more attention than others and some stakeholders' groups receive more resources to satisfy their needs at the expense of the other groups. If this is a viable solution for the short run, in the long run it may be not sustainable for the corporations because it directly affects the organizational commitment of those groups which are not fully satisfied by the managerial decision process.

Similarly, in the prioritization models, the satisfaction process of stakeholders' needs is based on the managerial perception of stakeholders' relevance such as the degree of salience of different stakeholders' groups (Mitchell et al., 1997). This encompasses three components: the relative power of the specific group, the legitimacy of the stakeholders' groups' involvement in the corporation and the urgency of their claims. The higher the degree of salience of the stakeholders' group in the eyes of the manager, the greater the attention paid by managers to the needs of that specific group (for more details see Mitchell et al., 1997). This approach creates the situations in which the greater the managerial perception of the degree of salience of some groups, the greater the attention paid to satisfy their needs allocating a larger amount of resources at the expense of the other groups (Figure 5). The adoption of the prioritization models may cause the same results of the previous model in terms of both the commitment reduction of the stakeholders' groups the managers are not paying attention to and the negative effects on the basic firm's foundations to generate future wealth.

Figure 5 – The prioritization model based on degree of salience (Mitchell et al., 1997)



An example can better clarify this argument. When the managers perceive shareholders, employees, and the general public are more salient than customers and suppliers, they primarily focus their attention to satisfy the needs of these three groups of stakeholders at the expense of the others who are characterized by a lower degree of salience.

This kind of situation may generate similar customer and supplier reactions as discussed above. In particular, the scarce attention to customers' goals may cause them to search for alternative value propositions which are more able to satisfy their own needs and to maximize their satisfaction. This commitment decrease may cause a progressive weakening in the long-term business relationships with the corporation (Moorman et al., 1992; Gundlach et al., 1995; Morgan et al., 1994) which, in turn, negatively affect the capability of the corporation to: understand the needs and the customers behaviors (Campbell 2003; King and Burgess 2008; Harrison et al., 2010); deliver a better value proposition (Mithas et al., 2005; Harrison et al., 2010); generate strategic resources which directly affect the firms long-run success (Priem, 2007; Reichheld et al., 1990; Reichheld, 1996). Similar considerations can be developed in respect to the supplier. The lower their commitment, the weaker the common strategic orientation to achieve mutual gains, on which the relationships, buyer-supplier, can be based (Chen et al., 2004).

The progressive weakness of business relationships with the suppliers may cause the losses in

terms of cost efficiencies directly linked to strong relationships with the strategic suppliers (Decideware White Paper , 2008).

These examples clearly show many limitations linked to the traditional managerial practices. First of all, the problem of an ineffective resources allocation needs to be emphasized. These processes can satisfy just the most powerful stakeholders of the corporation (Harrison et al., 2010; Coff, 1999; Pfeffer, 1981; Porter, 1980) or, similarly, to implement the most convenient alternatives (Cyert and Mark, 1963), at the expense of the others.

Then, the lack of attention for some groups may decrease their satisfaction and, in turn, their commitment in the long run, resulting in a negative effect on some dimensions such as: the relationships between the organization and the stakeholders (Orlitzky, Schmidt and Rynes, 2003; Roman, Hayibor and Agle, 1999); the organizational legitimacy and the reputational judgment (Bitektine, 2010); the reciprocity (see Donaldson et al., 1994; Philips et al., 2006; Bosse et al., 2009), trust (see Pirson & Malhotra, 2010; Davis et al., 2000; Barney & Hansen, 1994) and commitment in the long-term stakeholder's relationship with the corporation (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987). Moreover, extra benefits are linked to an effective embeddedness of the stakeholders into the business models of the corporations, which “myopic business models” are unable to exploit. I talk about this in the next sections.

The situations shown above are directly linked to the fact that organizational resources are limited (Cyert and March, 1963) and their effective allocation represent a critical managerial leverage (Clarkson, 1995) which affects the future performance of the corporation. In other words, this “problematic” situation can be described in terms of the capability of the managers to allocate the same “sized pie” into different stakeholders' groups. Summarizing, to solve this situation, they need to follow the traditional processes - based on sequential or prioritization approaches - which are affected by many limitations in terms of value generation for some of the stakeholders' groups at the expense of the others who are perceived less relevant/salient for the success of the organization. If these models effectively work in the short run, they are not able to generate sustainable wealth in the long run because of the limitations shown above in terms of progressive decreasing of stakeholders' commitment which negatively affects the foundation of

the firm's long-run prosperity.

A new business model to generate shared value and wealth needs to be developed. It may be able to increase the "size of the pie" (Gulati et al., 2003; Priem, 2007), improving stakeholders satisfaction and their commitment, rather than sharing the same resources in different ways. This is the main aim of the model I am going to introduce.

To overcome the limitations discussed above, the managers need to adopt a new resources allocation system which is able to improve the satisfaction of all primary stakeholders' groups, in the meantime. To do so, the starting point of the process is represented by a better knowledge of the utility sources which generate value for each stakeholder's group. According to Harrison et al. (2010), I am assuming that stakeholders are different because they are characterized by different multi-attribute utility functions. These encompass the stakeholders' value drivers/goals and they are able to explain "the stakeholders' preferences for different combinations of tangible and intangible outcomes resulting from actions taken by the firm" (Harrison et al., 2010:62). For each stakeholders group I can see the different utility functions as:

$$UF (\text{Shareholders}) = \sum_i (a_i X_i)$$

$$UF (\text{Customers}) = \sum_i (c_i Y_i)$$

$$UF (\text{Employees}) = \sum_i (e_i Z_i)$$

$$UF (\text{Suppliers}) = \sum_i (s_i V_i)$$

$$UF (\text{General Public}) = \sum_i (g_i K_i)$$

where each value driver (X, Y, Z, V, K) may be characterized by a different nature *i* (ie. wealth, safety, health, social involvement, environmental care, etc.) and by a different weight (a, c, e, s, g). Moreover, stakeholders are different, not just between groups, but also inside each group. For example, different kinds of employees (i.e. CEO, managers, directors, workers, etc.) can differently weigh the value drivers which belong to the stakeholders' group utility function. So, the utility functions can be reviewed as:

$$UF (\text{Shareholders}) = \sum_{ij} (a_{ij} X_{ij})$$

$$UF (\text{Customers}) = \sum_{ij} (c_{ij} Y_{ij})$$

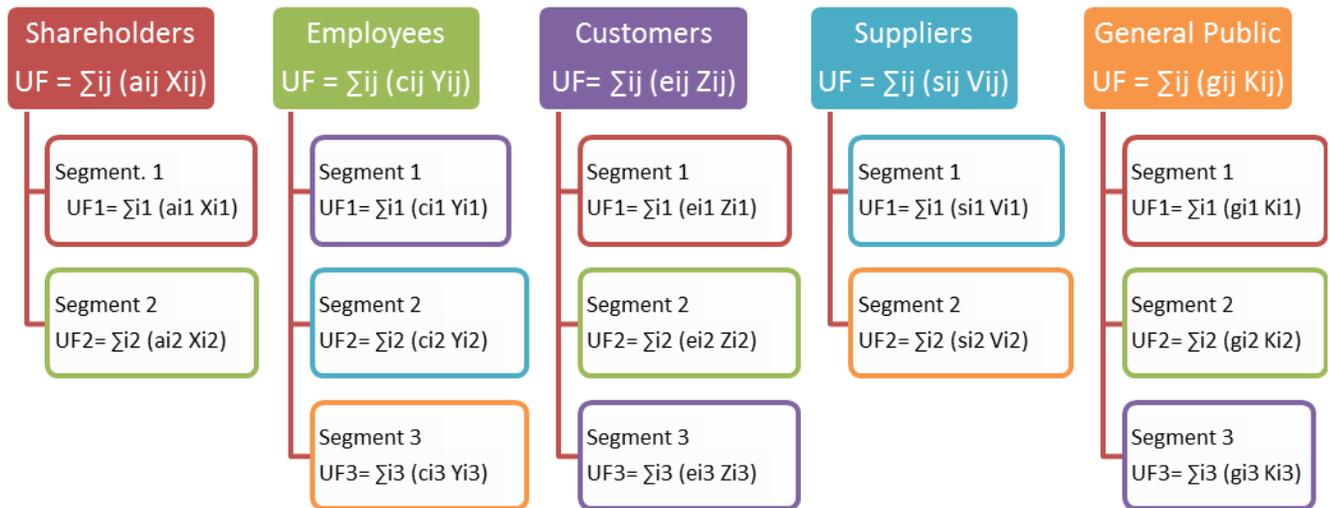
$$UF (\text{Employees}) = \sum_{ij} (e_{ij} Z_{ij})$$

$$UF (\text{Suppliers}) = \sum_{ij} (s_{ij} V_{ij})$$

$$UF (\text{General Public}) = \sum_{ij} (g_{ij} K_{ij})$$

where each value driver (X, Y, Z, V, K) may be characterized by a different nature i (wealth, safety, health, social involvement, environmental care, etc.) and by a different weight (a, c, e, s, g), in each stakeholders' group segment j (Figure 6).

Figure 6 – The managerial tool to better understand the value driver to maximize the overall utility of all primary stakeholders



This knowledge of the utility functions' structure represent a strategic tool that may help the

managers to effectively allocate resources into different stakeholders' groups focusing on one or more attributes which are able to improve the satisfaction and the commitment of different stakeholder groups. However, it needs to be used in an innovative model to create and deliver value for different stakeholders' groups which involve, in the meantime: the knowledge of stakeholders' utility functions structure - using the tool proposed above; the role that managers play in the organization and the processes they follow to allocate resources. I discuss the last two items next.

When managers are able to better understand the structure of primary stakeholder's utility functions, the corporations may potentially generate shared value and wealth in a long-run perspective, because the better knowledge about "what stakeholders want" may improve their capability to increase the overall utility of all primary stakeholders involved in the organization. However, the critical point is represented by the real process that managers may follow to effectively do this. There are three main factors on which the process is based: a) a new role of the manager, who has the main responsibility to make decisions in order to allocate resources within the constraints of stakeholders' utility functions; b) an innovative resources allocation process based on a synergistic approach rather than a sequential or prioritization one; c) the explicit recognition of different multi-attributes utility functions in the value co-creation process of the corporation.

According to the stewardship approach, managers who act as stewards maximize their own satisfaction, enhancing organizational goals and in doing so, they satisfy most of the stakeholders' groups because of the interests of most of them in organizational wealth (Davis et al., 1997; Donaldson et al., 1991). Moreover, this approach underlines that the stewards' utility function is maximized when the managers maximize shareholder's wealth through firm performance maximization (Davis et al., 1997).

However, this framework is incomplete to fully explain the behavior of the manager in my model because of two main limitations: a) the stakeholders are not explicitly viewed as different – according to the considerations above, the managers may explicitly (and not implicitly as the steward does) focus their attention on different interests of each stakeholders' group by a better understanding of their multi-attributes utility functions; b) the organizational wealth is assumed

as the main value driver – in my model, the overall utility of stakeholders may represent the main variable to maximize instead of only the wealth of the shareholders.

To overcome these limitations, the managers need to also assume an innovation seeking entrepreneurial approach. As an entrepreneur (Shane et al., 2000), the manager needs to search for new opportunities to create value for different stakeholders through an innovative system to allocate resources. This may be able to enhance both the satisfaction of each single stakeholder's group and the maximization of the overall utility of the corporation. In this way, taking care of the capability of each sub-coalition to enhance its own goals, the entrepreneur positively affects the long-term capability of the corporation to generate wealth. In my model, this represents an opportunity because the benefits linked to the higher satisfaction and commitment of the primary stakeholders through an innovative system to generate shared value, may contribute to increase the “size of the pie” (Gulati et al., 2003; Priem, 2007) to allocate into the different stakeholders' groups to enhance their own goals. This process will be better explained in the next sections.

The knowledge about the stakeholder utility functions structure may help the managers to effectively allocate resources into different stakeholders' groups, maximizing their overall utility. To do so, a better comprehension of the nature and the relative weight of the attributes are required. This is because not all of them have economic foundations, and neither do all of them have the same weight in the utility function of each group. This means that not all primary stakeholders' groups may be satisfied by organizational wealth maximization. Some of them may evaluate as important different factors characterized by a different nature. Some examples can better explain this argument.

If the most important role for employees' utility is played by the work/life balance, a higher salary may not generate the same value created by a shorter work time. This is the situation in which the stakeholders' utility function is composed by attributes which have not just economic nature and their relevance is the biggest in respect to the others factors.

If the price is not the most important attribute to maximize the utility of the customers, the managers may leverage other variables to increase the customers' satisfaction such as the quality of customer service, the green profile of the products, and the creation of a customers'

community. This means that the utility of the customers increases not just if the price will decrease, but when other benefits are created. The higher the relative weight of these kinds of benefits, the higher the increase of utility for the customers when the corporation is able to effectively leverage them.

These examples show that generating value for all primary stakeholders doesn't mean allocating the limited resources of the corporation between some of them at the expense of the others, but searching for the best mix of economic and non-economic utility function attributes which can be simultaneously satisfied by the resources of the corporation. This represents a way to increase the "size of the pie", because searching for the best mix of attributes, which can be satisfied, permits the corporation to valorize its economic and non-economic resources and, in the meantime, to increase the commitment of all primary stakeholders.

The resources allocation process, which managers may adopt, needs to be able to maximize the utility of all primary stakeholders, without compromising the satisfaction of some of them. This means that all utility attributes need to be selected by the managers (because not all of them can be satisfied by the resources of the corporation) and satisfied in the meantime (because the value needs to be generated and delivered for all primary stakeholders and not for some of them). This may be possible when a single managerial action is developed which is able to simultaneously satisfy two or more attributes of all the primary stakeholders' utility functions. This process is what I call "synergistic approach to value co-creation" and is characterized by two main factors: the synergistic approach and the value co-creation process. The first one underlines the capability of the corporation to allocate resources into different groups following a simultaneous approach rather than a sequential or prioritization one. This means generating value for all stakeholders in the meantime and not just for some of them, satisfying by a single managerial action a mix of different utility attributes that each primary stakeholder evaluates as important. The second process is called value co-creation because it is based on the managerial knowledge of the structure of the stakeholders' utility functions which permits a better understanding of "what stakeholders really want" and the effective allocation of resources to enhance stakeholders' goals. This approach can be viewed as a two-way process (co-creation) in which the managers create and deliver value for stakeholders through a better understanding of their main needs and, in turn, the stakeholders create value for the corporation because of a positive effect in terms of

stakeholders' trust (see Barney et al., 1994) and reciprocity (see Donaldson et al., 1994; Philips et al., 2006; Bosse et al., 2009). In particular, the higher trust has a positive effect on (for a more extensive recognition see Pirson & Malhotra, 2010): the cooperative behavior within organizations (Gulati and Westphal, 1999; Williams, 2001) and between organizational stakeholder groups (Jensen 2003, Uzzi 1997) in terms of commitment (Ganesan 1994), motivation (Dirks 1999), creativity, innovation, and knowledge transfer (Tsai and Ghoshal 1998). Moreover, a strong commitment represents an important variable in the long-term stakeholder's relationship with the corporation (Gundlach et al., 1995; Williamson, 1981; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987) because it may increase the "willingness of the people to make short-term sacrifices to realize long-term benefits" (Gundlach et al., 1995:78). Moreover, extra benefits are linked to effective managing for stakeholders: the more effective resource allocation related to the better comprehension of what really counts for stakeholders and the relative weight in the utility maximization approach (Harrison et al., 2010); the better capability to create shared value and the external cognition of that (Harrison et al., 2010); an improvement of organizational legitimacy and reputation judgment (Bitektine, 2010); and the embedding of the stakeholder's management approach into the firm's culture (Jones et al., 2007).

All these benefits may increase "the size of the pie" (Gulati and Wang, 2003; Priem, 2007) to share not just with the shareholders but with all stakeholders. For these reasons, the synergistic approach to the value co-creation may represent a useful tool to maximize the overall stakeholders' utility increasing the "size of the pie" (Gulati et al., 2003; Priem, 2007).

For example, following this approach, the managers can decide to allocate financial resources to satisfy the economic attributes of the shareholders and suppliers utility functions, and in the meantime, generate value for: employees, satisfying the attribute linked to the work/life balance (i.e. applying a shorter work time); the general public and customers focusing on the environmental sensibility attribute of their utility functions (i.e. implementing environmentally friendly policies and delivering a "green" value proposition) (Figure 7).

The managerial decision about the "mix of attributes" which needs to be simultaneously satisfied can be viewed as the result of an evaluation process in which the final choice is represented by

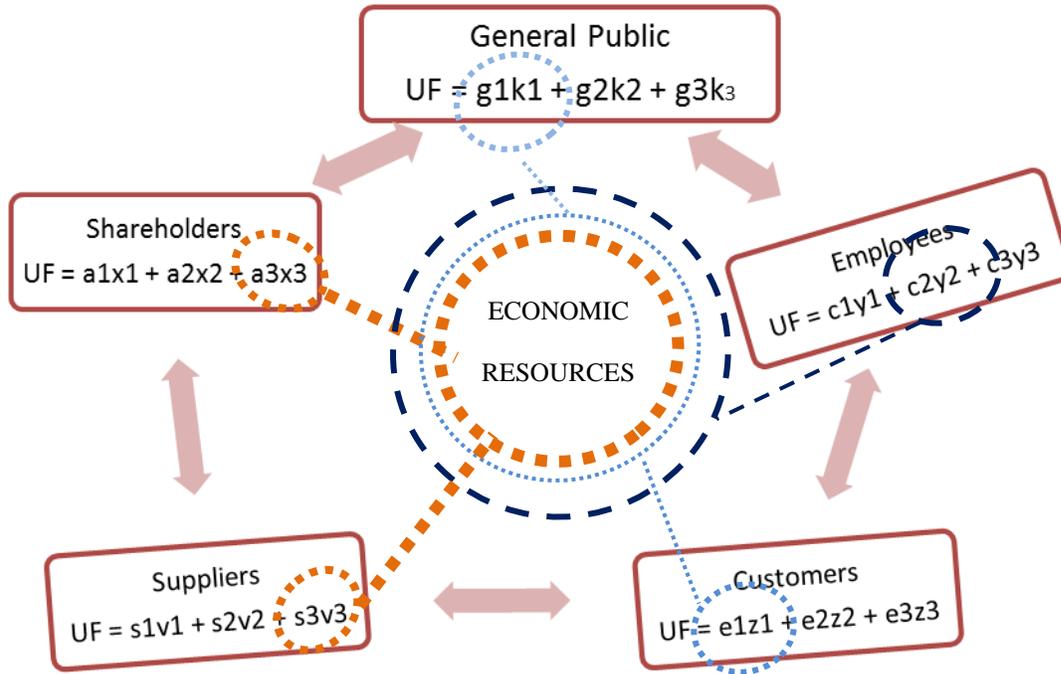
the alternative which better satisfies two criteria:

- i. The internal fit. The attributes need to have a different nature from each other - a balance between economic and non-economic factors has required - and the same degree of relevance - the need to be the most important factor in the utility function of each single stakeholder category. So, the result is a set of different factors which are able to simultaneously maximize the overall utility of all primary stakeholders of the corporation.
- ii. The external fit. The final choice - in terms of a set of attributes - needs to be effectively sustainable by the corporation. In other words, it represents the best fit with the organizational resources - tangible and intangible - available in a particular situation and time.

The final managerial choice represents the best alternative to allocate resources into the primary stakeholder's groups simultaneously satisfying their more relevant needs. So, the resources are allocated by a single managerial action and the value is created in a simultaneous way. This more effective process is able to maximize the overall stakeholders' utility contributing to increasing the "size of the pie". Moreover, the other contribution is given by the fact that all the resources of the corporation are evaluated as relevant and not just the economic ones. Not all value drivers have an economic nature, so the managers can effectively satisfy, in the meantime, the different utility attributes (economic and non-economic) which each stakeholder's group perceived as important for its own goals, overcoming the issue of limited financial resources.

The synergic approach to value co-creation has shown how the aligning of heterogeneous needs can simultaneously increase the utility of all primary stakeholders, and, in turn, can contribute to increase their satisfaction, motivation and commitment.

Figure 7 – The synergistic approach through the value co-creation model



3.4 The model in action: some real examples

In this section I describe and provide examples of value co-creation innovations that can be developed by top management stewards in a way that increases the “size of the pie” (Gulati and Wang, 2003; Priem, 2007) and thereby provides more value for allocation among two or more stakeholders. This is akin to the “entrepreneurial bricolage” described by Baker and Nelson (2005), wherein existing resources are combined in unique ways to serve existing markets. In the case of stakeholders' value systems, however, the search for “new combinations” better involves satisfying multiple stakeholders by using more or differing aspects of each stakeholder group's utility function. While there are times when sequential attention to stakeholder goals will be necessary (e.g., Greve, 2008; Reynolds et al., 2006), my focus is on simultaneous creation of value for multiple stakeholders, accomplished by attending to the multiple goals of various stakeholders in new and innovative ways.

One example of value co-creation for multiple stakeholders is provided by the iconic U.S., low-fare airline, Southwest. Southwest's initial approach to synergistically increasing value for multiple stakeholders simultaneously was unique for its time. The airline created value for passengers with a combination of low fares and frequent service – both likely of primary interest in potential passengers' utility functions. The negative, “no-frills” aspect of Southwest flights, for example with no seat assignments, was offset by attending more to potential passengers' enjoyment of “fun” features such as the pilots or flight attendants telling jokes over the plane's intercom. This value proposition involved multiple sources of passenger utility – low-cost, frequency, and fun – while simultaneously increasing Southwest's shareholders' utility with steady earnings and a consistently increasing stock price. To support its low-cost strategy, Southwest also offered its employees an innovative value proposition: they would earn relatively low salaries and perform a broader scope of work activities than would the employees of full fare airlines, but they also would be involved in a variety of tasks, be empowered to make decisions, and the airline would try hard to make sure they had fun and enjoyed their work. Again, by addressing other aspects of employees' utility functions beyond salary, Southwest was able to offer lower pay and cross-train employees in multiple jobs, while nevertheless increasing their overall utility and simultaneously increasing utility for Southwest's shareholders. Southwest became an extremely popular employer that could select the best employees. And finally, Southwest's employees' fun reinforced that of the passengers, and vice versa. Although well-known now, these were innovative ideas when Southwest began flying in 1971.

The Italian firm Ferrero SpA – named the most reputable firm in the world by Forbes Magazine in 2009 – is another example of synergistic value co-creation for multiple stakeholders. Ferrero is a privately-held, family-run confectionary firm with world-wide revenues of 6 billion Euros from products such as Nutella, Tic-Tacs, and Rocher chocolates. Ferrero's value offer to consumers offsets higher prices than the competitors' offers by attending to other aspects of consumers' utility functions in providing: product innovation, quality and freshness; a unique consumption experience; and the sense of belonging to the big Ferrero Italian family. Moreover, Ferrero's suppliers in both developed and developing countries are subject to strict certification requirements, auditing processes and legal requirements – assured by continuous institutional monitoring – the negatives of which are offset for suppliers by long-term, high volume, trust-

based relationships characterized by co-operation, reliability, transparency and economic convenience for both sides. Ferrero does not donate financial resources directly to the poorer communities from the firm sources worldwide. Instead, it focuses on supporting long-term local development by creating employment, offering training, improving health and hygienic conditions, and increasing respect for human rights. Both the firm's profits and the stakeholders' different utility functions benefit from these innovative business approaches.

3.5 Some practical considerations to apply the value co-creation paradigm

In each of the examples above – publicly held Southwest Airlines and family owned Ferrero SpA – top managers acted as both stewards and as innovation-seeking entrepreneurs. As stewards, their behavior was guided by a collective, cooperative approach, wherein “the steward's interests and utility motivations are directed to organizational rather than personal objectives” (Davis et al., 1997). As innovation-seeking entrepreneurs, they were constantly searching for new opportunities for creating stakeholder value, and especially for co-creating new value for two or more stakeholder groups simultaneously. This requires, in part, continual efforts to identify and understand the utility functions of each group of potential stakeholders, and the differences in these utility functions that may exist for prominent segments within each group. It also requires, in part, what Kirzner (1993; 1997) labels "pure entrepreneurial judgment"; that is, an ability to see opportunities for exchange in new ways that increase the value received by participants even when a particular value opportunity has yet to be perceived by potential participants (i.e., when their needs/values remain latent).

When top managers act as stewards and innovation-seeking entrepreneurs on behalf of stakeholders, as just described, the stewards and stakeholders together become an *organizational decision-making system* such as those explained in the behavioral theory of the firm (Cyert & March, 1963). The top management stewards in this system exhibit "betweenness" centrality, which refers to how many times an actor rests between two others who are themselves disconnected (Freeman, 1979; Wasserman and Faust, 1994). They are the link between customers and suppliers, shareholders and employees, customers and employees, and so on. In network terms, top management stewards, with their high degree of betweenness centrality, act

as brokers by bringing together disconnected segments of the network and by bringing diversity and new ideas to the network (Bodin, et al. 2006; Prell, 2003; Brass, 1992;). In the same way, rethinking the behavior of the managers and the organizations, as described above, allows to search for new ways to create value maximizing both the internal and external wealth organizational environment. To effectively make decisions under stakeholders' groups' constraints - as described before, characterized by multiple and varied goals – the managers need to adopt tools which explicitly recognize the heterogeneity of stakeholders' groups utility functions both between different groups and inside the same groups. So, each stakeholder's group can be viewed as composed of multiple sub-segments characterized by different utility functions and value drivers. This means that, for example, the CEO evaluate as important different things in respect to workers. For these reasons, managers need to consider both the sub-segments of each stakeholder's group and the structure of the utility function of each of them in terms of value drivers, which are able to increase their satisfaction.

Applying this model permits managers to maximize the wealth of each stakeholder's group and increase the value of the corporations simultaneously and in a sustainable way.

3.6 Discussion and Implications

I have outlined a model where, just as companies compete for customers and for shareholders, they also must compete for other stakeholders such as employees and suppliers.

Yet stakeholder groups are different, and each type of stakeholder may value different things. Thus, one task of top managers is to identify what things each stakeholder group values, and how they prioritize those things they value. Only then can top managers innovate to provide new or better value to two or more stakeholder groups and thereby relax the constraints from those groups. In my model, in fact, stakeholders together are to be viewed as an organizational decision-making system (Cyert and March, 1963) managed by a steward/entrepreneur who explicitly recognizes the multi-attribute utility functions of different stakeholders' groups and is able to simultaneously satisfy them by a stakeholder synergy approach.

One key aspect of this model is that shareholders are not granted an automatic priority in their claims over other primary stakeholders. Instead, top managers are stewards of the overall wealth co-created for all stakeholder groups, and depending on the context one or another stakeholder group may receive more or less attention and more or fewer benefits than another. Moreover, each stakeholder group in a system has the capacity for action (i.e., moving into another organizational decision-making system). I now turn to some implications of this model regarding stakeholder relationships in different contexts, what level of performance can and should be expected when firms co-create value with multiple stakeholders and the ethics of a value co-creation approach to business sustainability.

3.6.1 The Role of Context for Stakeholder Relationships

In some contexts building ongoing relationships with stakeholders will be important, but in other cases, and perhaps primarily, the delivery of value to the stakeholder will be most important in ensuring the stakeholder's willing cooperation. That is, just like in competition for customers or for shareholders, delivering value to a stakeholder group may or may not involve building a relationship; instead, the primary determinant of stakeholder commitment is usually value delivered.

Whether an ongoing relationship is necessary or not depends in part upon the characteristics of the exchange. Trusting, ongoing relationships are important when firm–stakeholder exchanges involve sunk cost commitments and information asymmetries, and therefore the threat of opportunism (Williamson, 1981). In such cases, high levels of trust can substantially reduce agency costs and transaction costs (Aoki, 1988; Hill, 1995; Jones, 1995). Yet in many other situations, that do not involve ongoing commitment or hidden information, a simple commodity type exchange can occur. In such cases, trust is unnecessary and a simple value-based, commodity type exchange can take place. Therefore, firms need to focus on creating the right level of trust in firm-stakeholder relationships (Wicks, et al., 1999), and resist "overspending" on trust.

3.6.2 How Good is “Good” Performance for Value Co-Creating Firms?

Most research in strategic management focuses on firm financial performance as the primary dependent variable (e.g., Meyer, 1991; Richard et al., 2009). Yet scholars who have examined the tendency of our field to search for and then recommend imitation of extremely high performing firms have identified problems with this financial performance-centric view. Denrell (2005), for example, argued that extremely high performing firms are more likely to have taken excessive risks and to have achieved their performance through luck; those firms with managers who take more prudent risks, on the other hand, will not exhibit such extreme results. This argument was supported by the work of Sanders and Hambrick (2007), who determined that firms with management teams that "swing for the fences" by choosing extremely high-risk strategies tend also to have extreme performance outcomes. And while some of these firms, through luck, perform extremely well, the majority performs poorly and the average performance of these high risk-taking firms is actually lower than that of firms with managers who are more prudent.

This "extremely high performance means that a top manager took too much risk but was lucky" argument suggests that managers who create maximum short-term value – for themselves and/or their stockholders – are either taking too much risk now or are borrowing from their firm's future, both of which reduce the firm's sustainability. Commitment to increasing value for each stakeholder group prevents this sort of myopia, and even though financial performance will not be as high as that of the “lucky risk-taking firms,” innovative stakeholder value creation synergies may nevertheless produce performance well above average and do so in firms that are more sustainable. In short, the most sustainable firms are those with managers who act as stewards by successfully using entrepreneurial innovation to increase all stakeholders’ utilities. In other words, my model underlines that firms with managers who act as stewards and value co-creating entrepreneurs have the lowest risk of failure and therefore are most sustainable.

3.6.3 Ethics and Corporate Social Responsibility (CSR)

CSR is a general construct upon which many people and stakeholders can and do disagree. It is therefore difficult to organize all stakeholders to pursue a particular CSR effort (Hardin, 1962), and it is also difficult to hold any one manager or firm responsible for the failure of a particular

CSR initiative.

So how can one manager or firm behave in a manner that is ethical with regard to responsibility to society? One way is by striving to provide the greatest value possible to all of the firm's stakeholders. According to normative stakeholder theory, all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake, and not merely because of its ability to further the interests of some other group, such as the shareowners (Donaldson and Preston, 1995). The “competing for stakeholders” approach I have just outlined is practical, because it emphasizes meeting particular needs as expressed by each stakeholder group. It is ethical, because it views each stakeholder group's needs (that is, what they value) as intrinsically important. And it is instrumental, because a firm that is successful in providing value to every stakeholder group will likely be able to sustain itself longer than firms which do not provide as much value overall or which do not provide value to every stakeholder.

Moreover, recent contributions underline that the way in which customers value certain attributes can affect business-level strategy on the revenue and cost sides (Donnet et al., 2007) and, in particular, that the way in which different customers (i.e., by gender, income, demographics) value particular CSR characteristics may directly affect the performance of the corporation (McWilliams et al., 2010). According to McWilliams et al. (2010), “CSR strategy can be a valuable complement to a differentiation strategy, enhancing the value of the reputation and/or the brand of the firm”.

3.7 Conclusions

The role of business regarding sustainability and Sustainable Development has usually been discussed as “responsibility” to society, whereby responsibility is defined as the need to eliminate negative effects of the business (Carpenter and White, 2004). This is a defensive approach. Regarding a more active approach, however, it is important to know how businesses can contribute to the wealth- or benefit-creation goals of each category of prospective stakeholders.

I have developed a model which changes many business logics: from a single financial objective maximization to a shared value co-creation; from the care of a single shareholder utility function to the balancing of different stakeholders' expectations. This underlines the need to recognize an explicit inclusion of a sustainable approach in the business models of the corporation. To do this the managers need to act as stewards who take care of different stakeholders' expectations, creating shared value by a co-creation activity and maximizing the value of the corporation, by satisfying different stakeholders' expectations.

My model explicitly refers to an alternative model to manage the stakeholders' utility functions based on both: the recognition of different stakeholders' groups and sub-segments and the comprehension of the nature/weight of the different attributes/value drivers which determine the individual goals of each of them. Each stakeholders' group, in fact, can be viewed as composed of multiple segments which show differences in their utility functions (e.g. different kinds of employees may have different expectations in order to satisfy the same main objective). For this reason, the activities developed by the firms need to consider all these aspects of building a sustainable business model which is able to create and deliver value in a simultaneous way for all primary stakeholders, implicitly including the shareholders' interests. This is the way in which my model works.

“Accept challenges, so that you may feel the exhilaration of victory”

G. S. Patton

Chapter IV

Classifying Primary Stakeholders' Multiple Utility Sources: An Exploratory Study

I gathered data from the five primary stakeholder groups – investors, customers, employees, suppliers, and the general public – and developed inductive, empirical taxonomies of utility sources found in the multi-attribute utility functions of each group. Viewing top managers as stewards of, and entrepreneurs within the organizational decision-making system that is composed of the firm’s primary stakeholders, I take an initial step toward showing how managers’ actions can simultaneously increase utility for two or more primary stakeholder groups and, thereby, increase the long-term sustainability of the firm.

4.1 Introduction

Simon (1964) argued that organizations must, by their nature, have multiple goals that actually should be viewed as constraints on top managers. That is, although top managers may label one or another of the constraints they face as “the” organizational goal, efforts to optimize on that goal can take place only within the operating space remaining after considering the minimum requirements of other key constraints. The implications of Simon’s (1964) argument for achieving business sustainability are clear: sustainability requires, at the very least, meeting the minimum needs of the firm’s essential stakeholder groups.

Yet over the past few decades the practitioner and scholarly focus has been narrower, emphasizing nearly exclusively the single goal of maximizing for-profit firms’ financial performance (Harrison et al., 2010; Zollo et al., 2009). Such a single-minded aspiration – whether toward the profit goal or a different goal – is inconsistent with Simon’s (1964) argument and with firms’ long-term viability. The exclusive pursuit of financial performance, for example, has contributed to many business failures, whether through incentive-induced top management frauds (e.g., Harris and Bromiley, 2007; O’Connor et al., 2006) or as an antecedent to the recent U.S. subprime mortgage crisis (Purnanandam, 2011). This over-emphasis on one goal, among many, is the antithesis of business management toward sustainable firms.

“The adoption of business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; van Kleef & Roome, 2007) is largely recognized as the concept of business sustainability and it involves firm viability, both

now and in the future.

Achieving business sustainability requires instead that top managers: (1) return to the core assumption of the behavioral theory of the firm, that they must satisfy multiple goals that serve as constraints on their firms' survival (Cyert and March, 1963; Simon, 1964); (2) strive to create increasing value for each primary stakeholder group, just as they must strive to create value for consumers (Priem, 2007); and (3) operate as stewards of, and entrepreneurs within, the organizational decision making system that is composed of the firm's principal stakeholders (Augier and Sarasvathy, 2010).

The result is a view wherein top managers must address multiple stakeholder goals and, potentially even better for the firm, have the opportunity to act as entrepreneurs in creating value above the minimum levels required for stakeholder participation. Managers' super-ordinate goal is to attract and retain exceptional primary stakeholders, and even more to obtain their commitment and effort toward system-wide value co-creation. This increases the system's resiliency and, in turn, the business firm's sustainability.

Harrison et al. (2010, p. 61-63) advanced the stakeholder literature through their recent argument that those firms which better understand the utility functions of their stakeholders have an advantage, because of the resulting "better understanding of the minimum requirements of a stakeholder". I agree, and moreover think that an understanding of primary stakeholders' multi-attribute utility functions gives a firm the opportunity to entrepreneurially create value for multiple primary stakeholder groups simultaneously.

In this paper I take a step toward understanding the base multi-attribute utility functions of the five primary stakeholder groups – stockholders, customers, employees, suppliers and the general public (Clarkson, 1995). I use multidimensional scaling and cluster analysis to develop five unprompted, inductive empirical taxonomies of stakeholder utility categories – one for each primary stakeholder group. I then compare these taxonomies as a first step in identifying potential for value co-creation opportunities that could increase utility for multiple stakeholder groups simultaneously. The next section provides a brief theoretical background. I then present my results and discuss their implications.

4.2 The theoretical background

Harrison et al. (2010) argue that managers' understanding of stakeholders' utility functions is advanced through a "managing for stakeholders" approach when firms "allocate both value and decision-making influence widely across their primary stakeholders (Freeman et al., 2007)". Although such an approach can result in what seems to be overinvestment in some stakeholders, this "overinvestment" is more than recaptured when the trust it engenders in stakeholders – together with "(1) a history and expectation of fair distribution of value to stakeholders, and (2) a history of giving voice to stakeholders as managers make strategic decisions" (Harrison et al., 2010, p. 63) – prompts stakeholders to reveal the intricacies of their utility functions. Such revelations then allow the firm to either: increase its efficiency in dealing with stakeholders; increase stakeholders' desire to work with the firm; increase the firm's innovations in providing value to stakeholders; or improve the firm's ability to handle the unexpected (Harrison et al., 2010).

For my purposes, the necessity of delivering at least minimum value to each primary stakeholder constrains managers' decision-making, as indicated by Simon's (1964) discussion of companies' multiple goals functioning as constraints. Moreover, the stakeholder situation is a "multi-person" one, wherein one primary stakeholder's goal is another's constraint. Following this logic, I can assume that the "dominant" profit maximization objective of the firm's shareholders is constrained by other stakeholders' goals, which are indicated in their utility functions. Although stockholders are firm stakeholders, typically with objectives based on utility functions that value things like return, risk and investment horizon, they also must receive at least some minimum value proposition in order to continue their participation in the system. In this sense, stockholders are no more central or necessary for a sustainable firm than are other primary stakeholders such as customers, suppliers and employees (Clarkson, 1995). To the extent that a top manager is able to innovate and thereby provide new or better value to a stakeholder group, including to stockholders, the constraint from that particular stakeholder group is relaxed. Moreover, one might expect that there is some potential for synergies in value creation among multiple stakeholders (e.g., Alchian and Demsetz, 1972).

The process through which managers can increase their firms' sustainability involves firms "competing" for stakeholders and stakeholders simultaneously "competing" for firms. This challenges several commonly held assumptions about how top managers should deal with stakeholders. For example, in my view primary stakeholders' goals – represented by their utility functions – are not necessarily competing and, therefore, need not be "balanced" or treated sequentially by top managers. Instead, managers can entrepreneurially create new value for two or more primary stakeholders, simultaneously, through value creation innovations that "increase the size of the pie" for those system members (Gulati and Wang, 2002; Priem, 2007). Simultaneous value creation for multiple stakeholders involves satisfying multiple stakeholders with the same action by using more or differing aspects of each stakeholder group's utility function. While there are times when sequential attention to stakeholder goals will be necessary (e.g., Greve, 2008; Reynolds et al., 2006), value creation for multiple stakeholders also can be accomplished by attending to the multiple goals of various stakeholders in new and innovative ways.

One example of simultaneous value creation for multiple stakeholders can be seen in the iconic U.S., low-fare airline, Southwest. Southwest's initial approach to synergistically increasing value for multiple stakeholders simultaneously was (and still is) unique for its time. The airline's value proposition involved multiple sources of passenger utility – low-cost, frequency, and fun. These positives offset the negative, "no-frills" aspect of Southwest flights for passengers (e.g., no seat assignments), while Southwest's low cost per seat mile – due to no seat assignments, rapid turnaround, only one class of plane, and employee flexibility – simultaneously increased Southwest's shareholders' utility with steady earnings and a consistently increasing stock price. To further support its low-cost strategy, Southwest also offered its employees an innovative value proposition: they would perform a broader scope of work activities than did the employees of full-fare airlines, but they also would be empowered to make decisions, and the airline would try hard to make sure they had fun and enjoyed their work. Again, by addressing other aspects of employees' utility functions beyond salary, Southwest was able to cross-train employees in multiple jobs while nevertheless increasing their overall utility and simultaneously increasing utility for Southwest's passengers and shareholders. Southwest became an extremely popular

employer that could select the best employees. Although well-known now, these were innovative ideas when Southwest began flying in 1971.

This example shows that it is possible to generate value for two or more primary stakeholders simultaneously; it isn't always necessary to allocate the limited resources of the corporation to some stakeholders at the expense of the others. Instead, one can search for the best mix of stakeholders' economic and non-economic utility attributes which can be simultaneously satisfied by the resources of the corporation. This may increase "the size of the pie" (Gulati & Wang, 2002; Priem, 2007) because of benefits such as: 1) higher trust (Pirson & Malhotra, 2010; Davis et al., 2000; Barney & Hansen, 1994) and stronger commitment in the long-term stakeholders' relationships with the corporation (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987); 2) a more effective resource allocation related to the better comprehension of what really counts for stakeholders and the relative weights applied in the utility maximization approach (Harrison et al., 2010); 3) increased stakeholder reciprocity (see Donaldson & Dunfee, 1994; Phillips & Johnson-Cramer, 2006; Bosse, Phillips & Harrison, 2009); 4) improved organizational legitimacy and reputation judgment (Bitektine, 2010); and 5) the embedding of the stakeholder management approach into the firm's culture (Jones, Felps & Bigley, 2007).

Surprisingly few studies have examined primary stakeholders (Clarkson, 1995) as representing constraints for the firm (Reynolds, Schultz & Hekman, 2006, is an exception). Freeman et al. (2010) and Parmar et al.'s (2010) review concluded that stakeholder theory provides a useful framework that helps explain how firms can create shared value. Yet they also concluded that key questions remain to be answered, including: "How can firms create different types of value for different stakeholders" (Parmar et al., 2010: 432)? This type of value creation requires a new managerial role – the manager as a steward and an innovation-seeking entrepreneur – and an explicit recognition of the different, multi-attribute utility functions of primary stakeholder groups. I take a first step toward identifying these utility functions next.

4.3 Methods

In order to co-create value for their primary stakeholders, managers need an understanding of the utility functions of different stakeholders – that is, “what stakeholders want” and “what creates value for them”. Obtaining data about that is difficult because stakeholders may not be forthcoming about their preferences. For this reason, I gathered primary data and based my methodology on an established, inductive process using multidimensional scaling and cluster analysis that did not “prompt” the respondents in any way and thereby minimized demand characteristics in their responses (e.g., Priem, et al., 2002; Voges, et al., 2004; Ketchen & Shook, 1996; Kruskal & Wish, 1978). Next, I provide an overview of the field procedures.

4.3.1 Overview

Phase 1 - Listing utility sources. I first asked members of each stakeholder group to think about all of the factors that they consider when they are deciding whether or not to begin or continue a “business relationship” with a specific company, and to make a comprehensive list of all the factors that they consider in making their decision. This general question was formulated in a slightly different way for each stakeholders’ group because the nature of the business relationship with the corporation is different and this directly affects the utility’ sources of different stakeholders³. I did not use words directly linked to value creation or sustainability so as not to affect the replies of each stakeholder group.

Phase 2 - Generating the similarity matrix. I next collapsed similar sources listed by different stakeholders to produce an aggregated listing of all mutually-exclusive utility sources self-identified by each stakeholder in each stakeholder group sample. These sources were then printed on cards and the different stakeholders were asked individually to sort the sources into

³ The investors were asked to think about all of the factors that they consider when they are deciding whether or not to invest in stock for a particular company. The employees were asked to think about all of the factors that they consider when they are deciding whether or not to work for a particular company. The suppliers were asked to think about all of the factors that they consider when they are deciding whether or not to sell their products to a particular company. The customers were asked to think about all of the factors that they consider when they are deciding whether or not to purchase a needed durable consumer good (for example, a television, washing machine or automobile) from a particular company. The general public actors were asked to think about all of the factors that they consider when evaluating the positive effects of a particular company on the external environment (local community, collectivity and institutions).

groups, based on similarity/dissimilarity judgments (sets of index cards were prepared for each sample). This method of collecting self-identified sources of utility reduces demand characteristics that otherwise would be present if sample sources or categories were provided during data collection⁴. Following the data collection, the groupings for each sample were transferred to a similarity matrix. A “1” was placed where pairs of utility sources were in the same group, and a “0” for those pairs that were placed in different groups. The individual matrices were then aggregated for each stakeholder into a single matrix that showed the number of times each pair of sources was assigned to the same category across the number of individuals in that sample. This aggregate number ranges from “0” to the maximum number equaling the number of stakeholders in each sample.

Phase 3 - Labeling the dimensions. Next, I performed multidimensional scaling analyses (MDS – Kruskal & Wish, 1978) to determine and identify the underlying dimensions that the stakeholders used to classify the sources of their utility (previous research has used MDS for similar purposes, such as Buckko, 1996; Werner, Brouthers & Brouthers, 1996; Priem et al., 2002; Voges et al., 2005). The task of labeling MDS dimensions is difficult and imprecise⁵ (Hair et al., 1987). MDS output provides dimensions which indicate the degree to which an object represents one characteristic rather than another, and the dimensions are frequently labeled based on those objects that appear at the extremes of the dimensions. I addressed this labeling concern by following Hair et al.’s (1987) suggestions to validate the dimensions labels by asking executives to interpret the dimensions by inspecting the spatial maps. In addition, I followed the recommendations of Ketchen & Shook (1996) and used multiple techniques to identify the most appropriate number of dimensions such as the level of stress that different numbers of dimensions present, the scree plot of the inter-distance correlation against the number of

4 Each stakeholder was asked to "group the cards into as many groups as may be necessary to properly reflect the similarities and differences among the utility sources your group identified. When you are finished, similar sources should be grouped together, while dissimilar sources should be in different groups." Each stakeholder was asked to perform this task individually and was able to ask clarification questions during the process. When satisfied with their groupings, the individual paper-clipped each of the groups together and rubber banded their set of groupings before returning them to the researcher (see Hair et al., 1987, p.357, for a description of this process of obtaining similarity, or “confusion,” data).

5 “It is always important to remember that the dimensions in any scaling solution are merely coordinate systems used to locate a set of points. As such, they may or may not have substantive meaning” (Jacoby, 1991:37).

dimensions for each sample and, lastly, I interpreted the dimensions based on the attribute anchors.

Phase 4 - Dimension validation. Following the dimension labeling task, I validated the MDS results and dimension labels from each sample. Following Voges, et al., (2004), I used the MDS results from each dimension to identify the utility sources with the most extreme MDS scores (i.e. those at each extreme of each dimension). I then asked individuals from the same stakeholder group to rank each of the extreme utility sources along each dimension using a five-point Likert scale. The validation data ratings for these utility source dimensions were then tested for differences across the high and low dimension sources using nonparametric Mann-Whitney U tests. Finding consistent classification of the sources of utility based on each dimension increases confidence in the MDS dimensions (Voges, et al., 2004).

Phase 5 - Cluster Analysis. Lastly, to inductively derive a classification of utility's sources of each stakeholder group, the MDS analysis was integrated by a cluster analysis, following the recommendation of Hair, Anderson, Tatham & Black (1987). Identifying clusters of like objects is another frequent objective of using MDS, and while visual examination of the graphic results of the MDS output can be used to identify similar objects, "great care must be taken when using this technique" to avoid misinterpretation (Hair et al., 1987: 369; Jacoby, 1991). Recognizing some limitations linked to this methodology (Aldenderfer & Blashfield, 1984), I followed Ketchen & Schook (1996) and I chose to use a dual-stage clustering method to increase the validity of the solution (Milligan & Sokol, 1980; Punj & Stewart, 1983) and multiple techniques to identify clusters. I used the Ward's minimum variance technique (Ward, 1963) – a hierarchical agglomerative clustering method – the Average Linkage Method (ALM) (Sokal & Michener, 1958), and the K-Means algorithms. These cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984). To increase the confidence of the cluster solutions, I compared the cluster classifications across clustering methods at the individual item grouping level, and by examining the dendrograms for each method, I determined how the items were grouped together at various levels of cluster solutions. Similarities in cluster numbers and composition across these different techniques would indicate that the overall validity of the solution is increased (Milligan & Sokol, 1980; Punj & Stewart, 1983). Furthermore, if I find convergence in the clusters across these different techniques, I will

know that the clusters are a result of the data rather than an artifact of the clustering algorithm used.

4.3.2 Samples

The main goal of this process consists of a better understanding of how the corporation can co-create value for each primary stakeholder's group (see Clarkson, 1995 for the distinction between primary and secondary stakeholders) – including the shareholders – effectively maximizing the overall stakeholders' utility. I gathered data from 335 MBA students enrolled at public and private universities in the United States. These respondents were placed into one of the five stakeholder groups (investors, employees, suppliers, customers, and the general public⁶) based on their self-reported prior experience as a member of that stakeholder group. Following Clarkson (1995), I included the General Public category as a “general” category in which the firms can recognize primary stakeholders – like the collectivity and the government – following their own characteristics. The demographic characteristics of each stakeholder group's respondents will be described next.

4.4 Data Analysis and Results

I next provide the sample details, analysis and results for each stakeholder group: investors, employees, customers, public actors, and suppliers.

4.4.1 Investors Sample

The investors involved in the Phase 1 listing task consisted of 21 stock market investors with an average age of 30 and an average tenure of 5 years in their respective industries and positions. All held at least an undergraduate degree at the time of the study. There were 18 males and 3 females. At the time of the study, the investors represented widely different industries and firms

⁶ The General Public category is represented by all the actors like the society/collectivity and the government who cannot be included in the others categories.

of varied sizes. The investors involved in the Phase 2 listing task consisted of 38 stock market investors with similar characteristics to those involved in Phase 1.

Phase 1: Listing Utility Sources. Each investor performed this task individually, after an opportunity to ask clarification questions. The lists they created were submitted to three experts (two strategic management Ph.D.s and one top-level HR manager) who examined them and eliminated redundancies. The lists of the three organizational experts then were compared, and differences were resolved through discussion, to produce a single comprehensive list of mutually-exclusive utility sources. The investors produced a set of sources that totaled over 170 items. When redundancies were eliminated, the total for the Investors Sample was 34 utility sources (Table 1).

Table 1 - 34 Sources of utility perceived by Investors

1	advice from people I know	18	Increasing Institutional buying
2	amount available to invest	19	innovative products
3	analyst recommendations	20	insider information
4	board of directors	21	management team
5	cash flow	22	management team tenure together
6	company business model	23	news on the company
7	company differentiation	24	overall industry outlook
8	company financial ratios	25	overall macro economic conditions
9	company guidance	26	overall market price level
10	current stock price	27	personal knowledge of the company
11	Debt	28	public opinion of the company
12	dividend yield	29	recent acquisitions by the company
13	earnings per share	30	Regulatory changes
14	expected revenue growth	31	risk
15	fit with my portfolio	32	stock price volatility
16	history with the stock	33	The 52-week high/low stock prices
17	I use the company products	34	trading volume of the stock

Phase 2: Generating the Similarity Matrix. Next, I prepared index cards, where each set of cards was comprised of individual note cards, each of which contained one source from the reduced list as determined in Phase 1. Those cards were then grouped by each investor individually based on judgments of similarity/dissimilarity (see Hair et al., 1987:357, for a detailed description of this process of obtaining similarity, or “confusion,” data). Following the data collection, the groupings for each investor in the sample were transferred to a similarity matrix. Using the 34 self-identified sources of utility, a 34 x 34 half-diagonal matrix was prepared for the MDS analysis. This aggregate number ranged from “0” to “38”⁷.

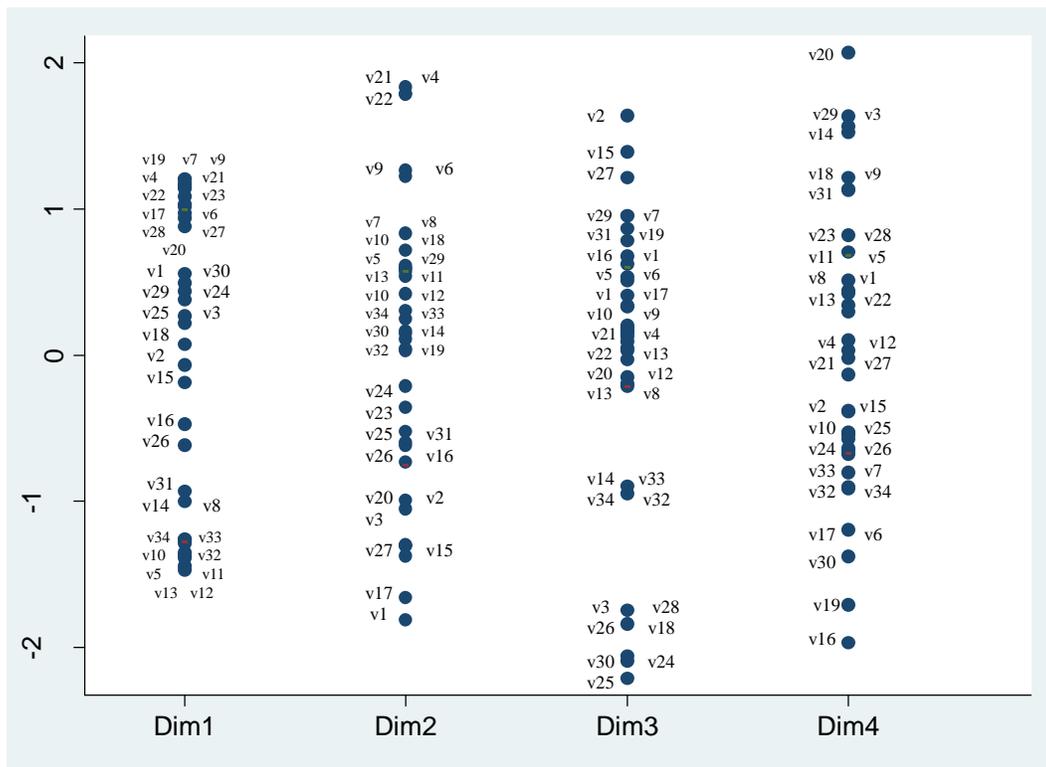
Phase 3: Dimension Identification. I next used multidimensional scaling techniques (MDS - Kruskal & Wish, 1978) to determine the number of the dimensions investors used in sorting the sources of utility. Previous research has used MDS for this purpose (Buckko, 1996; Werner et al., 1996) and it has been shown to be an appropriate method (see Priem et al., 2002; Voges et al., 2004). The first of three steps in the dimension identification phase is the examination of stress values. To provide stress values, the matrix data were analyzed using the SAS ProcMDS program. Stress indices for MDS solutions of 1, 2, 3 and 4 dimensions were 0.42, 0.25, 0.13 and 0.09, respectively (see Kruskal, 1964). The three-dimensional solution exhibited a better fit for this data than did the two-dimensional solution ($R^2 = .94$ vs. $R^2 = .84$), but the fit improvement leveled off somewhat for four dimensions, and even more for five dimensions. However, the goodness-of-fit criterion by itself is not sufficient to choose the appropriate dimensionality for the model (Kruskal & Wish, 1978). This was integrated by the examination of the scree plot and the anchors in each dimension for three and four-dimensional solutions, in determining the appropriate number of dimensions. These highlighted that the three-dimension configuration had no clear interpretation. Following the recommendations of Kruskal and Wish (1978) I used an extra dimension which permitted a cleaner interpretation of the dimensions and the overall configuration.

Based on the stress test, scree plot, parsimony relative to the four- and five-dimensional solutions, and the more likely ease of interpretation (Cattell, 1966; Kruskal & Wish, 1978), the four-dimensional solution was selected for further analysis. The four-dimensional solution is

⁷ The maximum number is equal to the number of investors in the phase II sample.

sufficiently comprehensive to capture the differences with which investors distinguish sources of utility, while maintaining interpretability (Fit-criterion = 0.09 and R2 = 0.96). The 34 utility sources identified by the investors are shown in Figure 8, as they are positioned on each dimension.

Figure 8 Investors' sources of utility in four dimensions



Dim1. Future products-prospects/Financial Indicators. Dim2. Quality of Management-Board/Personal Knowledge and External Advices. Dim3. Personal Investing Needs/Macro-economy and Regulation. Dim4. Information/Experience with the stock.

v1. Advice from people I know; v 2. Amount available to invest; v 3. Analyst recommendations; v 4. Board of directors; v 5. Cash flow; v 6. Company business model; v 7. Company differentiation; v 8. Company financial ratios; v 9. Company guidance; v 10. Current stock price; v 11. Debt; v 12. Dividend yield; v 13. Earnings per share; v 14. Expected revenue growth; v 15. Fit with my portfolio; v 16. History with the stock; v 17. I use the company products; v 18. Increasing Institutional buying; v 19. Innovative products; v 20. Insider information; v 21. Management team; v 22. Management team tenure together; v 23. News on the company; v 24. Overall industry outlook; v 25. Overall Macro-Economic conditions; v 26. Overall market price level; v 27. Personal knowledge of the company; v 28. Public opinion of the company; v 29. Recent acquisitions by the company; v 30. Regulatory changes; v 31. Risk; v 32. Stock price volatility; v 33. The 52-week high/low stock prices; v 34. Trading volume of the stock.

Dimension one was labeled "Future products-prospects/Financial Indicators". The investors used this dimension to distinguish among sources of utility that were related to conditions such as Innovative Products, Company Differentiation and Company Guidance versus conditions such as Earnings Per Share, Dividend Yield, Debt, Cash Flow and Stock Price Volatility. Dimension two was labeled "Quality of Management-Board/Personal Knowledge and External Advices". The investors used this dimension to distinguish among sources of utility such as the Management Team, Management Team Tenure Together and Board of Directors, versus conditions such as Advice from People they know and Personal Use of the Company Products. Dimension three was labeled "Personal Investing Needs/Macro-economy and Regulation". The investors used this dimension to distinguish among sources of utility such as Amount Available to Invest and Fit with their own Portfolio versus conditions such as Overall Macro-Economic Conditions, Overall Industry Outlook and Regulatory Changes. Dimension four was labeled "Information/Experience with the stock". The investors used this dimension to distinguish among sources of utility such as Insider information and Recent acquisitions by the company versus conditions such as History with the stock.

Phase 4: Dimension Validation. To provide further validation of the dimensions developed by the Investors Sample, I asked a subgroup of investors to perform a task designed to validate the four dimensions developed by the Sample 1 investors, and their labels. The dimensions and labels resulting from the first sample were recognized by the second group, and Mann-Whitney U tests showed they were partially successful in rating uncertainty sources using these dimensions (D_1 U=5, $p=0.28$; D_2 U=0, $p=0.1$; D_3 U=3, $p=0.6$; D_4 U=0, $p=0.1$).

Phase 5: Cluster Analysis. Identifying the underlying dimensions used by investors in classification does not in itself provide a taxonomy. I turn to that next. I used the MDS analysis to indicate that the investors distinguished among utility sources by positioning them along dimensions reflecting their expectations in order to the Future products-prospects/Financial Indicators, Quality of Management-Board/Personal Knowledge & External Advices, Personal Investing Needs/Macro-Economy & Regulation and Information/Experience with the stock.

The MDS analysis indicated that the investors distinguished among utility sources by positioning them along four dimensions. Clustering these sources using the MDS output (i.e., the four

coordinates for each utility source) allowed us to identify which categories actually are meaningful to the investors, and to achieve a more parsimonious classification system. However, few limitations are linked to the biases associated with clustering algorithms (Aldenderfer & Blashfield, 1984). I recognized these limitations of cluster analysis and to overcome these I followed the recommendations of Ketchen & Shook (1996), using a multi-stage clustering procedure to ensure the validity of our solution (Milligan & Sokol, 1980; Punj & Stewart, 1983).

I first evaluated the correlations among the four dimensions. These indicate that the variables are uncorrelated. Second, Average Linkage Method (Sokal & Michener, 1958) yielded an R^2 (.71) and CCC (2.28) of the Average Linkage output which suggested a five-cluster solution (Everett et al., 1996). Using the RMS distribution output from SAS, a jump in the value of the coefficient implies that two relatively dissimilar clusters have been merged. Aldenderfer & Blashfield (1984) point out that, given this, the number of clusters prior to the jump is the most probable solution. This orientation in a four cluster solution, however, needs to be integrated with the analysis of the cubic clustering criterion (CCC) and t^2 (PST2) statistics using the Average Linkage Method. These statistics are useful in determining the number of clusters in the data. Values of the cubic clustering criterion greater than 2.0 indicate good clusters (Sarle, 1983). A CCC value of 2.28 would indicate that using four clusters is an appropriate solution.

Third, a different method of cluster analysis was generated using the first analysis' cluster means as the initial conditions for an iterative, point kernel procedure called k-means clustering. The two different cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984). However, a strong agreement across these different techniques has been underlined: 32 of the 34 utility sources were classified in the same clusters for both the Average Linkage and k-means analyses. This increases confidence in the reliability of the final cluster solution. The values of the cubic clustering criterion (CCC) and pseudo F (PSF) statistics using the K-Means method provides further confidence in the five-cluster solution with a Pseudo F Statistic of 18.31, an overall R^2 of 0.65, and a Cubic Clustering Criterion of 2.83.

Finally, using the Ward's Method shows a change in r-squared levels off and the total r-squared is .69 at the five-cluster solution. This finding is consistent with the initial approaches, and further indicates that a five-cluster solution is the most appropriate.

Grouping comparisons. Thirty-two of the 34 sources were classified in the same clusters for both the Average Linkage and k-means analyses ($\text{corr} \geq .90$, $p < .001$), 33 of the 34 sources were classified in the same clusters for both the Average Linkage and Ward's Method analyses ($\text{corr} > .90$, $p < .001$), and 32 of the 34 sources were classified in the same clusters for both the k-means and Ward's Method analyses ($\text{corr} > .90$, $p < .001$). This shows that there is a pattern in the underlying data, rather than in the method of analysis, and increases confidence in the reliability of the final cluster solution. I wanted to compare the item groupings at the individual level. By examining the dendrogram for each of the methods, I can see which items are grouped together at the five-cluster solution. To add validity to this comparison, I used a five clustering solution, Ward's Method (Ward, 1963). The actual groupings of individual sources of utility into clusters by the different methods provided striking similarities across these very different clustering techniques.

Cluster Labeling. The clusters were labeled by two strategy Ph.D.s and one top-level HR manager based on the utility sources they contained (Table 2). For instance, the first cluster contained utility sources such as News on the company, Public Opinion of the company, Insider Information and Analyst recommendations. The cluster was labeled "News and Recommendations". The second cluster contained utility sources such as expected revenue growth, trading volume to the stock, stock price volatility, debt, cash flow, earnings per share, company financial ratios, dividend yield, risk, the 52-week high/low stock prices and current stock price. The cluster was labeled "Financial & Trading Data ". The third cluster contained utility sources such as management team, board of directors, management team tenure together, company business model, company differentiation and company guidance. The cluster was labeled "Management Qualifications & Business Strategy". The fourth cluster contained utility sources such as overall macro-economic conditions, regulatory changes, overall industry outlook and increasing institutional buying. This cluster was labeled "Industry Dynamics & Macro - Economy". The fifth cluster contained utility sources such as Amount available to invest, Fit with my portfolio, History with the stock, Personal knowledge of the company, Advice from people I know and I use the company products. This cluster was labeled "Personal knowledge and advice".

Table 2 Clusters of Sources of Utility (Investors)

<p>Cluster 1 - News and recommendation</p> <p>News on the company, Public Opinion of the company, Insider Information, Analyst recommendations</p>	<p>Cluster 4 - Industry Dynamics & Macro - Economy</p> <p>Overall macro-economic conditions, Regulatory changes, Overall industry outlook, Increasing institutional buying</p>
<p>Cluster 2 - Financial & Trading Data</p> <p>Expected revenue growth, Trading volume to the stock, Stock price volatility, Debt, Cash flow, Earnings per share, Company financial ratios, Dividend yield, Risk, The 52-week high/low stock prices, Current stock price</p>	<p>Cluster 5 - Personal knowledge and advice</p> <p>Amount available to invest, Fit with my portfolio, History with the stock, Personal knowledge of the company, Advice from people I know and I use the company products</p>
<p>Cluster 3 - Management Qualifications & Business Strategy</p> <p>Management team, Board of directors, Management team tenure together, Company business model, Company differentiation, Company guidance</p>	

4.4.2 Employees Sample

The sample involved in Phase 1 consisted of 28 employees with an average age of 27 and an average tenure of 4 to 5 years in their respective positions and industries. All held at least an undergraduate degree at the time of the study. The group consisted of 17 males and 11 females. At the time of the study, the employees represented widely different industries and firms of varied sizes. The sample involved in Phase 2 consisted of 48 employees with similar characteristics to those involved in Phase 1.

Phase 1: Listing Utility Sources. The employees produced a set of sources that totaled over 238 items. When redundancies were eliminated, the total for the Customers Sample was 40 utility sources (Table 3).

Phase 2: The Similarity Matrix. Using the 40 self-identified sources of utility, a 40 x 40 half-diagonal matrix was prepared for the MDS analysis. This aggregate number ranged from “0” to “48”⁸.

⁸ The maximum number is equal to the number of investors in the phase II sample.

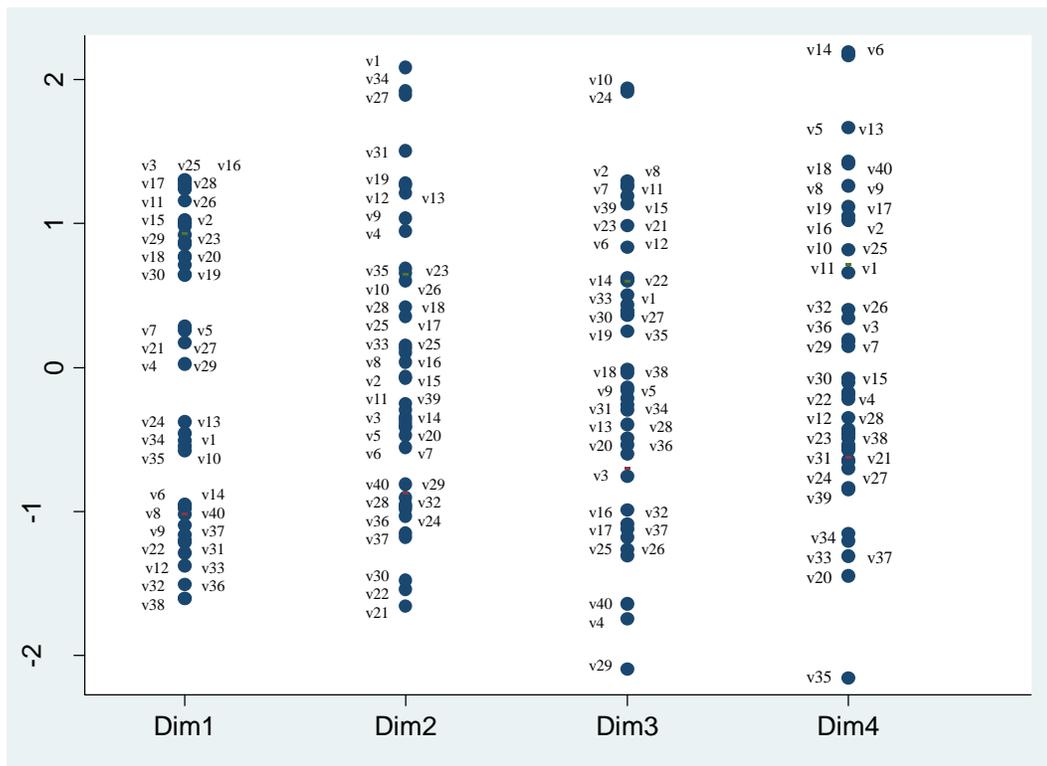
Table 3 - 40 Sources of utility perceived by Employees

1	Accessibility of executives	21	How much travel?
2	Benefits	22	International operations?
3	Challenging work	23	Job security
4	Clear goals/expectations	24	Location
5	Clothing/attire	25	My ability to influence others
6	Community involvement	26	My level of responsibility
7	Commute time	27	My supervisor
8	Company reputation	28	Opportunities for advancement
9	Company values	29	Opportunities for innovation
10	Company's future	30	Opportunities for travel
11	Compensation	31	Organizational structure
12	Corporate governance	32	Service/product provide
13	Current employees'opinion of the company	33	Size of the company
14	Environmentally friendly	34	Team structure
15	Flexible work schedule	35	Training program
16	Following my talent passion	36	Type of customer
17	Freedom to be myself	37	Use of technology
18	Friendly environment	38	What industry?
19	Good co-workers	39	Work hours
20	How much stress?	40	Would I purchase from this company?

Phase 3: Dimension Identification. I next used multidimensional scaling techniques (MDS - Kruskal & Wish, 1978) to determine the number of the dimensions customers used in sorting the sources of utility. To provide stress values, the matrix data were analyzed using the SAS ProcMDS program. Stress indices for MDS solutions of 1, 2, 3 and 4 dimensions were 0.42, 0.23, 0.14 and 0.09, respectively (see Kruskal, 1964). The three-dimensional solution exhibited a better fit for this data than did the two-dimensional solution ($R^2 = .92$ vs. $R^2 = .88$), but the fit improvement leveled off somewhat for four dimensions, and even more for five dimensions. As said for the investors sample, the goodness-of-fit criterion by itself is not sufficient to choose the appropriate dimensionality for the model (Kruskal & Wish, 1978). This needs to be integrated by the examination of the scree plot and the anchors in each dimension for three and four-dimensional solutions, in determining the appropriate number of dimensions. These highlighted

that the three-dimension configuration had no clear interpretation. Following the recommendations of Kruskal and Wish (1978) I used an extra dimension which permitted a cleaner interpretation of the dimensions and the overall configuration. Based on the stress test, scree plot, parsimony relative to the four- and five-dimensional solutions, and the more likely ease of interpretation (Cattell, 1966; Kruskal & Wish, 1978), the four-dimensional solution was selected for further analysis. The four-dimensional solution is sufficiently comprehensive to capture the differences with which investors distinguish sources of utility, while maintaining interpretability (Fit-criterion = 0.09 and R2 = 0.96). The 40 utility sources identified by the employees are shown in Figure 9, as they are positioned on each dimension.

Figure 9 Employees' sources of utility in four dimensions



Dim1. Job challenge & empowerment/Company & Industry Characteristics. Dim2. Quality leadership & teamwork/International opportunities. Dim3. Location-Future/Trust in Corporate Vision-Innovation. Dim4. Social Involvement/Professional Development. v1. Accessibility of executives; v2. Benefits; v3. Challenging work; v4. Clear goals/expectations; v5. Clothing/attire; v6. Community involvement; v7. Commute time; v8. Company reputation; v9. Company values; v10. Company's future; v11. Compensation; 12. Corporate governance; v13. Current employees' opinion of the company; v14. Environmentally friendly; v15. Flexible work schedule; v16. Following my talent passion; v17. Freedom to be myself; v18. Friendly environment; v19. Good co-workers; v20. How much stress?; v21. How much travel?; v22. International operations?; v23. Job security; v24. Location; v25. My ability to influence others; v26. My level of responsibility; v27. My supervisor; v28. Opportunities for advancement; v29. Opportunities for innovation; v30. Opportunities for travel; v31. Organizational structure; v32. Service/product provide; v33. Size of the company; v34. Team structure; v35. Training program; v36. Type of customer; v37. Use of technology; v38. What industry?; v39. Work hours; v40. Would I purchase from this company?

Dimension one was labeled "Job challenge & empowerment/Company & Industry Characteristics". The employees used this dimension to distinguish among sources of utility that were related to conditions such as Following my talent passion, Challenging work, My ability to influence others, Freedom to be myself and Opportunities for advancement versus conditions such as What industry?, Service/product provide and Type of customer. Dimension two was labeled "Quality leadership & Teamwork/International opportunities". The employees used this dimension to distinguish among sources of utility such as Accessibility of executives, Team structure and My supervisor versus conditions such as how much travel?, international operations? and Opportunities for travel. Dimension three was labeled "Location-Future/Trust in Corporate Vision-Innovation". The employees used this dimension to distinguish among sources of utility such as Company's future and Location versus conditions such as Opportunities for innovation, Clear goals/expectations and Would I purchase from this company?. Dimension four was labeled "Social Involvement/Professional Development". The employees used this dimension to distinguish among sources of utility such as Environmentally friendly and Community Involvement versus conditions such as Training program.

Phase 4: Dimension Validation. To provide further validation of the dimensions developed by the Employees Sample, I asked a subgroup of employees to perform a task designed to validate the four dimensions developed by the Sample 1 employees, and their labels. The dimensions and labels resulting from the first sample were recognized by the second group, and Mann-Whitney U tests showed they were partially successful in rating uncertainty sources using these dimensions (D_1 $U=0$, $p=0.02$; D_2 $U=0$, $p=0.05$; D_3 & D_4 correct order but sample too small for test).

Phase 5: Cluster Analysis. I first evaluated the correlations among the three dimensions. These indicate that the variables are uncorrelated. Average Linkage Method (Sokal & Michener, 1958) yielded an R^2 (.67) and CCC (1.3) of the Average Linkage output which suggested a five-cluster solution. This is supported by the K-means clustering with a Pseudo F Statistic of 16.86, an overall R^2 of 0.64, and a Cubic Clustering Criterion of 0.93. Furthermore, despite the two different cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984), an agreement across these different techniques has been underlined: 36 of the 40 utility sources were classified in the same clusters for both the Average

Linkage and k-means analyses. This increases confidence in the reliability of the final cluster solution. Finally, using the Ward's Method shows a "jump" in R-squared at the five-cluster solution with a value of 0.67 and a CCC value of 1.57. This finding is consistent with the initial approaches, and further indicates that a five-cluster solution is the most appropriate.

Grouping comparisons. Thirty-six of the 40 sources were classified in the same clusters for both the Average Linkage and K-means analyses (corr=.99, $p<.001$), 39 of the 40 sources were classified in the same clusters for both the Average Linkage and Ward's Method analyses (corr=.90, $p<.001$), and 35 of the 40 sources were classified in the same clusters for both the k-means and Ward's Method analyses (corr=.90, $p<.001$). This shows that there is a pattern in the underlying data, rather than in the method of analysis, and increases confidence in the reliability of the final cluster solution.

Cluster Labeling. The clusters were labeled basing on the utility sources they contained (Table 4). For instance, the first cluster contained utility sources such as Accessibility of executives, Team structure, My supervisor, Training program, Organizational structure, Corporate Governance and Size of the company. The cluster was labeled "Leaders' accessibility & organizational design". The second cluster contained utility sources such as Challenging work, My level of responsibility, How much stress, Opportunities for advancement, Following my talent passion, Freedom to me myself, My ability to influence others, Clear goal & expectations and Opportunities for innovation. The cluster was labeled "Job challenge/opportunities". The third cluster contained utility sources such as Benefits, Commute time, Compensation, Flexible work schedule, Job security, How much travel, Opportunity for travel, Work hours & Location. The cluster was labeled "Compensation/benefits/hygiene factors". The fourth cluster contained utility sources such as Company reputation, Community involvement, Company's future, Environmentally friendly, Good co-workers, Current employees opinion, Company values, Clothing attire and Friendly environment. The cluster was labeled "Company's value & reputation". The fifth cluster contained utility sources such as International operations, Service product provide, Type of customer, Use of technology, What industry and Would I purchase from this company. The cluster was labeled "Company's product & industry".

Table 4 Clusters of Sources of Utility (Employees)

<p>Cluster 1 - Leaders' accessibility & organizational design</p> <p>Accessibility of executives, Team structure, My supervisor, Training program, Organizational structure, Corporate Governance and Size of the company</p>	<p>Cluster 4 - Company's value & reputation</p> <p>Company reputation, Community involvement, Company's future, Environmentally friendly, Good co-workers, Current employees opinion, Company values, Clothing attire and Friendly environment</p>
<p>Cluster 2 - Job challenge/opportunities</p> <p>Challenging work, My level of responsibility, How much stress, Opportunities for advancement, Following my talent passion, Freedom to me myself, My ability to influence others, Clear goal & expectations and Opportunities for innovation</p>	<p>Cluster 5 - Company's product & industry</p> <p>International operations, Service product provide, Type of customer, Use of technology, What industry and Would I purchase from this company</p>
<p>Cluster 3 - Compensation/benefits/hygene factors</p> <p>Benefits, Commute time, Compensation, Flexible work schedule, Job security, How much travel, Opportunity for travel, Work hours & Location</p>	

4.4.3 Customers Sample

The sample involved in Phase 1 consisted of 25 customers with an average age of 29 and an average tenure of 4 years in their respective positions and industries. All held at least an undergraduate degree at the time of the study. The group consisted of 15 males and 10 females. At the time of the study, the customers represented widely different industries and firms of varied sizes. The sample involved in Phase 2 consisted of 52 customers with similar characteristics to those involved in Phase 1.

Phase 1: Listing Utility Sources. The customers produced a set of sources that totaled over 150 items. When redundancies were eliminated, the total for the Customers Sample was 32 utility sources (Table 5).

Phase 2: The Similarity Matrix. Using the 32 self-identified sources of utility, a 32 x 32 half-diagonal matrix was prepared for the MDS analysis. This aggregate number ranged from “0” to “52”⁹.

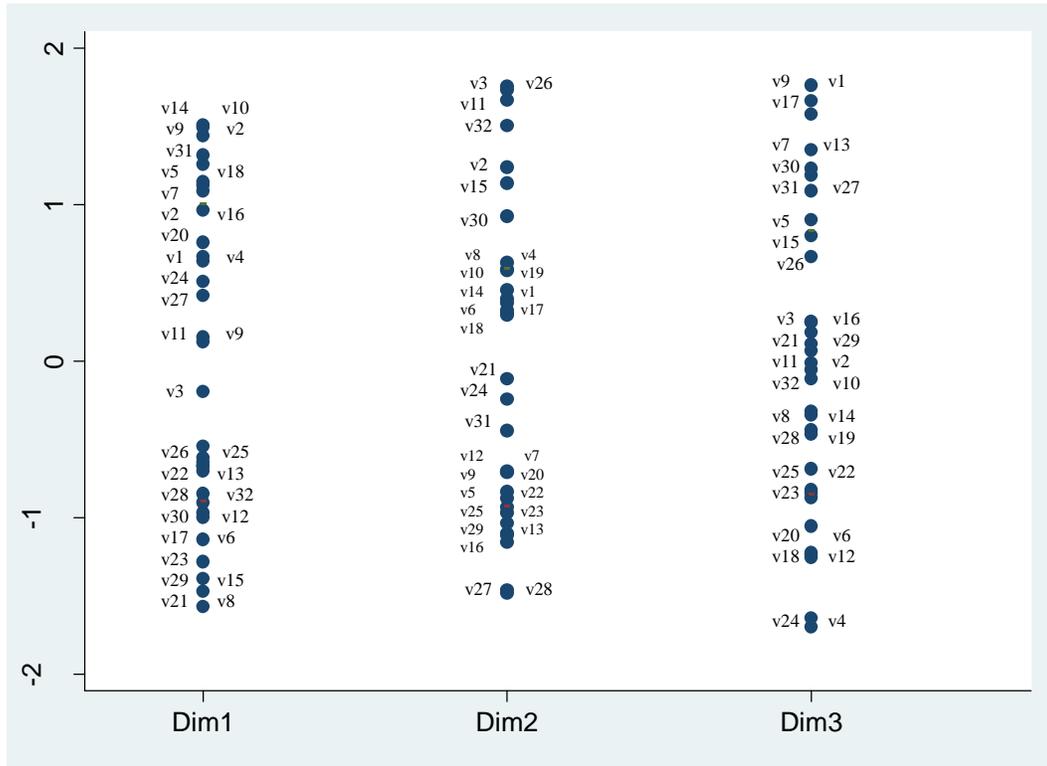
⁹ The maximum number is equal to the number of investors in the phase II sample.

Table 5 - 32 Sources of utility perceived by Customers

1 Advertising	17 Location/accessibility
2 Advice from salesperson	18 My previous experience
3 After sales service	19 Options of family and acquaintances
4 Anticipated use experience	20 Perceived product value
5 Brand reputation	21 Price
6 Breadth of selection	22 Product durability
7 Company image	23 Product features
8 Convenience of upgrading	24 Product importance to me
9 Country of origin	25 Product quality
10 Customer reports	26 Return policy
11 Customer service	27 Status symbol
12 Ease of use	28 Style/design
13 Environmentally friendly	29 Technological advance
14 Expert reviews	30 Time for delivery
15 Financing	31 Trust in the company
16 History of quality	32 Warranty

Phase 3: Dimension Identification. I next used multidimensional scaling techniques (MDS - Kruskal & Wish, 1978) to determine the number of the dimensions customers used in sorting the sources of utility. To provide stress values, the matrix data were analyzed using the SAS ProcMDS program. Stress indices for MDS solutions of 1, 2, 3 and 4 dimensions were 0.44, 0.25, 0.15 and 0.11, respectively (see Kruskal, 1964). The three-dimensional solution exhibited a better fit for this data than did the two-dimensional solution ($R^2 = .91$ vs. $R^2 = .82$), but the fit improvement leveled off somewhat for four dimensions, and even more for five dimensions. Based on the stress test, scree plot, parsimony relative to the four- and five-dimensional solutions, and the more likely ease of interpretation (Cattell, 1966; Kruskal & Wish, 1978), the three-dimensional solution was selected for further analysis. The 32 utility sources identified by the customers are shown in Figure 10, as they are positioned on each dimension.

Figure 10 Customers' sources of utility in three dimensions



Dim1. Trusted Advice/Purchase value & Convenience. Dim2. Product-Customer Support/Product design-prestige. Dim3 Information & Accessibility/Perceived Value.

v1. Advertising; v2. Advice from salesperson; v3. After sales service; v4. Anticipated use experience; v5. Brand reputation; v6. Breadth of selection; v7. Company image; v8. Convenience of upgrading; v9. Country of origin; v10. Customer reports; v11. Customer service; v12. Ease of use; v13. Environmentally friendly; v14. Expert reviews; v15. Financing; v16. History of quality; v17. Location/accessibility; v18. My previous experience; v19. Opinions of family and acquaintances; v20. Perceived product value; v21. Price; v22. Product durability; v23. Product features; v24. Product importance to me; v25. Product quality; v26. Return policy; v27. Status symbol; v28. Style/design; v29. Technological advance; v30. Time for delivery; v31. Trust in the company; v32. Warranty.

Dimension one was labeled "Trusted Advice/Purchase Value and Convenience". The customers used this dimension to distinguish among sources of utility that were related to conditions such as Expert Reviews, Customer Reports, Opinions of family and acquaintances, Advice from salesperson and trust in the company versus conditions such as Convenience of upgrading, Price, Financing, Technological Advance and Product Features. Dimension two was labeled "Product-Customer Support/Product Design-Prestige". The customers used this dimension to distinguish among sources of utility such as After sales service, Return Policy, Customer Service and Warranty versus conditions such as Status Symbol and Style/Design. Dimension three was

labeled "Information & Accessibility/Perceived Value". The customers used this dimension to distinguish among sources of utility such as Country of origin, Advertising, Location/accessibility, Company image and Time for delivery versus conditions such as Anticipated use experience, Product importance to me, Ease of use, Breadth of selection and My previous experience.

Phase 4: Dimension Validation. These dimensions were validated as described for investors and employees above ($D_1 U=0, p<0.01$; $D_2 U=0, p=0.07$; $D_3 U=7, p=0.27$).

Phase 5: Cluster Analysis. I first evaluated the correlations among the three dimensions. These indicate that the variables are uncorrelated. Average Linkage Method (Sokal & Michener, 1958) yielded an R^2 (.72) and CCC (1.76) of the Average Linkage output which suggested a four-cluster solution. This is supported by the K-means clustering with a Pseudo F Statistic of 24.62, an overall R^2 of 0.67, and a Cubic Clustering Criterion of 1.88. Furthermore, despite the two different cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984), an agreement across these different techniques has been underlined: 31 of the 32 utility sources were classified in the same clusters for both the Average Linkage and k-means analyses. This increases confidence in the reliability of the final cluster solution. Finally, using the Ward's Method shows a "jump" in R-squared at the four-cluster solution with a value of 0.72 and a CCC value of 1.76. This finding is consistent with the initial approaches, and further indicates that a four-cluster solution is the most appropriate.

Grouping comparisons. Thirty-one of the 32 sources were classified in the same clusters for both the Average Linkage and K-means analyses ($\text{corr}=.99, p<.001$), 32 of the 32 sources were classified in the same clusters for both the Average Linkage and Ward's Method analyses ($\text{corr}=.90, p<.001$), and 31 of the 32 sources were classified in the same clusters for both the k-means and Ward's Method analyses ($\text{corr}=.90, p<.001$). This shows that there is a pattern in the underlying data, rather than in the method of analysis, and increases confidence in the reliability of the final cluster solution. I wanted to compare the item groupings at the individual level. By examining the dendrogram for each of the methods, I can see which items are grouped together at the four-cluster solution. To add validity to this comparison, I used a five clustering solution,

Ward's Method (Ward, 1963). The actual groupings of individual sources of utility into clusters by the different methods provided striking similarities across these very different clustering techniques.

Cluster Labeling. The clusters were labeled basing on the utility sources they contained (Table 6). For instance, the first cluster contained utility sources such as Convenience of upgrading, Ease of use, Breadth of selection, Price, Product durability, Product features, Product quality, Style/design, Technological advance. The cluster was labeled "Product Characteristics". The second cluster contained utility sources such as Advertising, Brand reputation, Company image, Country of origin, History of quality, Status symbol, Trust, Environmentally friendly. The cluster was labeled "Product Reputation". The third cluster contained utility sources such as After sale service, Customers service, Financing, Location/accessibility, Return policy, Time for delivery, Warranty. The cluster was labeled "Customer Care and Support". The fourth cluster contained utility sources such as Advice from salesperson, Anticipated use experience, Expert reviews, My previous experience, Opinions of familiars, Perceived product value, Product importance to me, Customer reports. The cluster was labeled "Product Knowledge".

Table 6 Clusters of Sources of Utility (Customer Sample)

<p>Cluster 1 - Product characteristics</p> <p>Convenience of upgrading, Ease of use, Breadth of selection, Price, Product durability, Product features, Product quality, Style/design, Technological advance</p>	<p>Cluster 3 – Customer Care and Support</p> <p>After sale service, Customers service, Financing, Location/accessibility, Return policy, Time for delivery, Warranty</p>
<p>Cluster 2 – Product Reputation</p> <p>Advertising, Brand reputation, Company image, Country of origin, History of quality, Status symbol, Trust, Environmentally friendly</p>	<p>Cluster 4 – Product Knowledge</p> <p>Advice from salesperson, Anticipated use experience, Expert reviews, My previous experience, Opinions of familiars, Perceived product value, Product importance to me, Customer reports</p>

4.4.4. General Public Sample

The sample involved in Phase 1 consisted of 27 general public actors with an average age of 28 and an average tenure of 4 years in their respective positions and industries. All held at least an undergraduate degree at the time of the study. The group consisted of 15 males and 12 females. At the time of the study, the public actors represented widely different industries and firms of varied sizes. The sample involved in Phase 2 consisted of 47 general public actors with similar characteristics to those involved in Phase 1.

Phase 1: Listing Utility Sources. The general public actors produced a set of sources that totaled over 150 items. When redundancies were eliminated, the total for the General Publics Sample was 35 utility sources (Table 7).

Table 7 - 35 Sources of utility perceived by General Public Actors

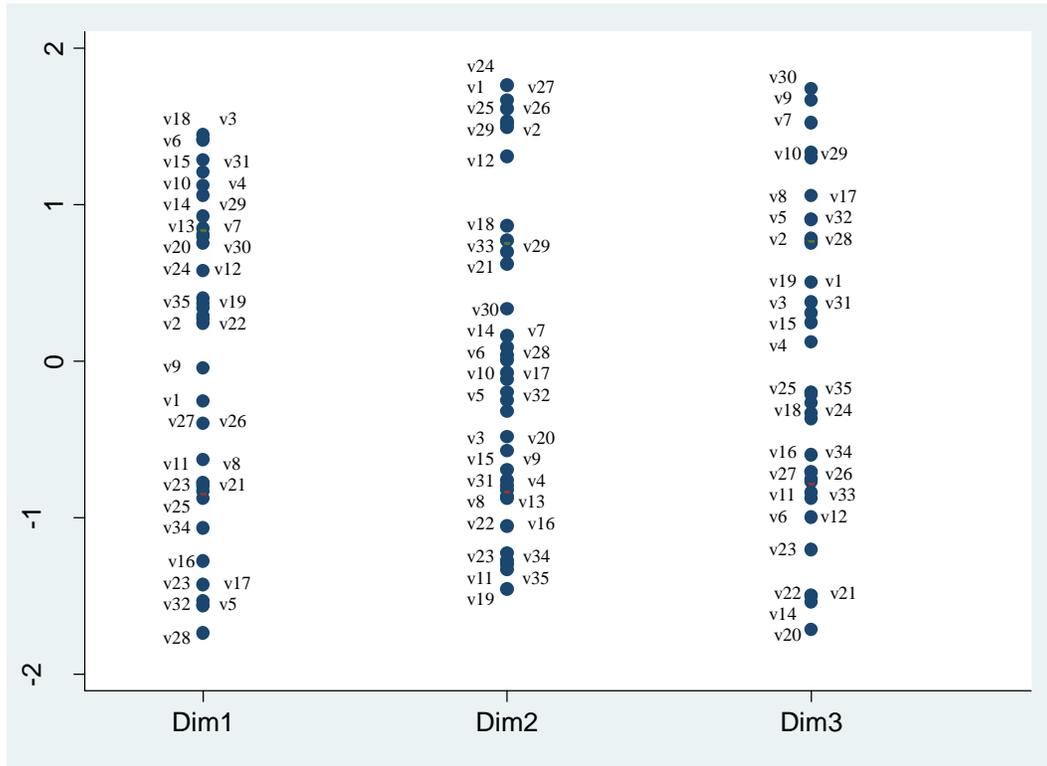
1 Advertising/marketing	19 Global policies
2 Brand image	20 Good conditions for workers
3 Community involvement	21 Innovation
4 Company ethics	22 Labor relations
5 Company financial stability	23 Management policies
6 Company friendliness	24 Product effects on consumers
7 Company reputation	25 Product price
8 Company size	26 Product quality
9 Company's affiliations	27 Product/service quality
10 Corporate image	28 Profitability
11 Crisis Management	29 Public opinion
12 Customer service	30 Recent news about company
13 Diversity	31 Social responsibility
14 Employee friendliness	32 Stock price
15 Environmental friendliness	33 Suppliers
16 Executive team performance	34 Top Management
17 Financial stability	35 Transparency
18 Friends experiences with the company	

Phase 2: The Similarity Matrix. Using the 35 self-identified sources of utility, a 35 x 35 half-diagonal matrix was prepared for the MDS analysis. This aggregate number ranged from “0” to “47”¹⁰.

Phase 3: Dimension Identification. I next used multidimensional scaling techniques (MDS - Kruskal & Wish, 1978) to determine the number of the dimensions general public actors used in sorting the sources of utility. Stress indices for MDS solutions of 1, 2, 3 and 4 dimensions were 0.48, 0.25, 0.15 and 0.11, respectively (see Kruskal, 1964). The three-dimensional solution exhibited a better fit for this data than did the two-dimensional solution ($R^2 = .9$ vs. $R^2 = .83$), but the fit improvement leveled off somewhat for four dimensions, and even more for five dimensions. Based on the stress test, scree plot, parsimony relative to the four- and five-dimensional solutions, and the more likely ease of interpretation (Cattell, 1966; Kruskal & Wish, 1978), the three-dimensional solution was selected for further analysis. The 35 utility sources identified by the general public actors are shown in Figure 11, as they are positioned on each dimension.

¹⁰ The maximum number is equal to the number of investors in the phase II sample.

Figure 11 General Public sources of utility in three dimensions



Dim1. Corporate Social Responsibility/Financial Strength. Dim2. Product Value/Management policies-transparency. Dim3. Reputation & Public Image/Human resources policies.

v1. Advertising/marketing; v2. Brand image; v3. Community involvement; v4. Company ethics; v5. Company financial stability; v6. Company friendliness; v7. Company reputation; v8. Company size; v9. Company's affiliations; v10. Corporate image; v11. Crisis Management; v12. Customer service; v13. Diversity; v14. Employee friendliness; v15. Environmental friendliness; v16.Executive team performance; v17. Financial stability; v18. Friends experiences with the company; v19. Global policies; v20. Good conditions for workers; v21. Innovation; v22. Labor relations; v23. Management policies; v24. Product effects on consumers; v25.Product price; v26. Product quality; v27. Product/service quality; v28. Profitability; v29. Public opinion; v30. Recent news about company; v31. Social responsibility; v32. Stock price; v33. Suppliers; v34. Top Management; v35. Transparency.

Dimension one was labeled "CSR/Future Strength". The general public actors used this dimension to distinguish among sources of utility that were related to conditions such as Friends experiences with the company, Community involvement, Company friendliness, Environmental friendliness and Social Responsibility versus conditions such as Profitability, Company financial stability, Stock price and Financial stability.

Dimension two was labeled "Product Value/ Management policies-Transparency ". The general public actors used this dimension to distinguish among sources of utility such as Product effects

on consumers, Advertising/marketing, Product/service quality, Product price and Product quality versus conditions such as Global policies, Transparency, Crisis Management, Management policies and Top Management. Dimension three was labeled "Reputation-Public Image/Human Resources Policies". The general public actors used this dimension to distinguish among sources of utility such as Recent news about company, Company's affiliations, Company reputation, Corporate image and Public opinion versus conditions such as Good conditions for workers, Employee friendliness, Innovation, Labor relations and Diversity.

Phase 4: Dimension Validation. These dimensions were validated as described for the samples above ($D_1 U=0, p<0.001$; $D_2 U=0, p<0.01$; $D_3 U=0, p<0.01$).

Phase 5: Cluster Analysis. I first evaluated the correlations among the three dimensions. These indicate that the variables are uncorrelated. Average Linkage Method (Sokal & Michener, 1958) yielded an R^2 (.74) and CCC (0.08) of the Average Linkage output which suggested a five-cluster solution. This is supported by the K-means clustering with a Pseudo F Statistic of 22.37, an overall R^2 of 0.74, and a Cubic Clustering Criterion of 0.64. Furthermore, despite the two different cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984), an agreement across these different techniques has been underlined: 33 of the 35 utility sources were classified in the same clusters for both the Average Linkage and K-means analyses. This increases confidence in the reliability of the final cluster solution. Finally, the Ward's Method supports a five-cluster solution with a value of 0.74 and a CCC value of 0.08. This finding is consistent with the initial approaches, and further indicates that a five-cluster solution is the most appropriate.

Grouping comparisons. Thirty-three of the 35 sources were classified in the same clusters for both the Average Linkage and K-means analyses ($\text{corr}=.99, p<.001$), 35 of the 35 sources were classified in the same clusters for both the Average Linkage and Ward's Method analyses ($\text{corr}=.90, p<.001$), and 33 of the 35 sources were classified in the same clusters for both the k-means and Ward's Method analyses ($\text{corr}=.90, p<.001$). This shows that there is a pattern in the underlying data, rather than in the method of analysis, and increases confidence in the reliability of the final cluster solution.

Cluster Labeling. The clusters were labeled basing on the utility sources they contained (Table 8). For instance, the first cluster contained utility sources such as Advertising/marketing, Brand image, Customer service, Innovation, Product effects on consumers, Product price, Product quality, Product/service quality and Suppliers. The cluster was labeled "Company Quality/Image". The second cluster contained utility sources such as Company friendliness, Employee friendliness, Friends experiences, Good conditions for workers, Diversity and Labor relations. The cluster was labeled "Work Environment Satisfaction". The third cluster contained utility sources such as Community involvement, Company ethics, Company reputation, Trasparency, Company image, Environmental friendliness, Global policies, Public opinion, Recent news on the company and Social responsibility. The cluster was labeled "CSR". The fourth cluster contained utility sources such as Executive team performance, Crisis management, Management policies and Top management. The cluster was labeled "TMT Quality". The fifth cluster contained utility sources such as Financial stability, Company financial stability, Profitability, Stock price, Company's affiliation and Company size. The cluster was labeled "Financial Stability".

Table 8 Clusters of Sources of Utility (General Public)

<p>Cluster 1 – Company Quality/Image Advertising/marketing, Brand image, Customer service, Innovation, Product effects on consumers, Product price, Product quality, Product/service quality and Suppliers</p>	<p>Cluster 4 – TMT Quality Executive team performance, Crisis management, Management policies and Top management</p>
<p>Cluster 2 – Work Environment Satisfaction Company friendliness, Employee friendliness, Friends experiences, Good conditions for workers, Diversity and Labor relations</p>	<p>Cluster 5 - Financial Stability Financial stability, Company financial stability, Profitability, Stock price, Company's affiliation and Company size</p>
<p>Cluster 3 - CSR Community involvement, Company ethics, Company reputation, Trasparency, Company image, Environmental friendliness, Global policies, Public opinion, Recent news on the company and Social responsibility</p>	

4.4.5 Suppliers Sample

The sample involved in Phase 1 consisted of 14 suppliers with an average age of 29 and an average tenure of 4 to 5 years in their respective positions and industries. All held at least an undergraduate degree at the time of the study. The group consisted of 9 males and 5 females. At the time of the study, the suppliers represented widely different industries and firms of varied sizes. The sample involved in Phase 2 consisted of 35 suppliers with similar characteristics to those involved in Phase 1.

Phase 1: Listing Utility Sources. The suppliers produced a set of sources that totaled over 98 items. When redundancies were eliminated, the total for the Suppliers Sample was 28 utility sources. (Table 9).

Table 9 - 28 Sources of utility perceived by Suppliers

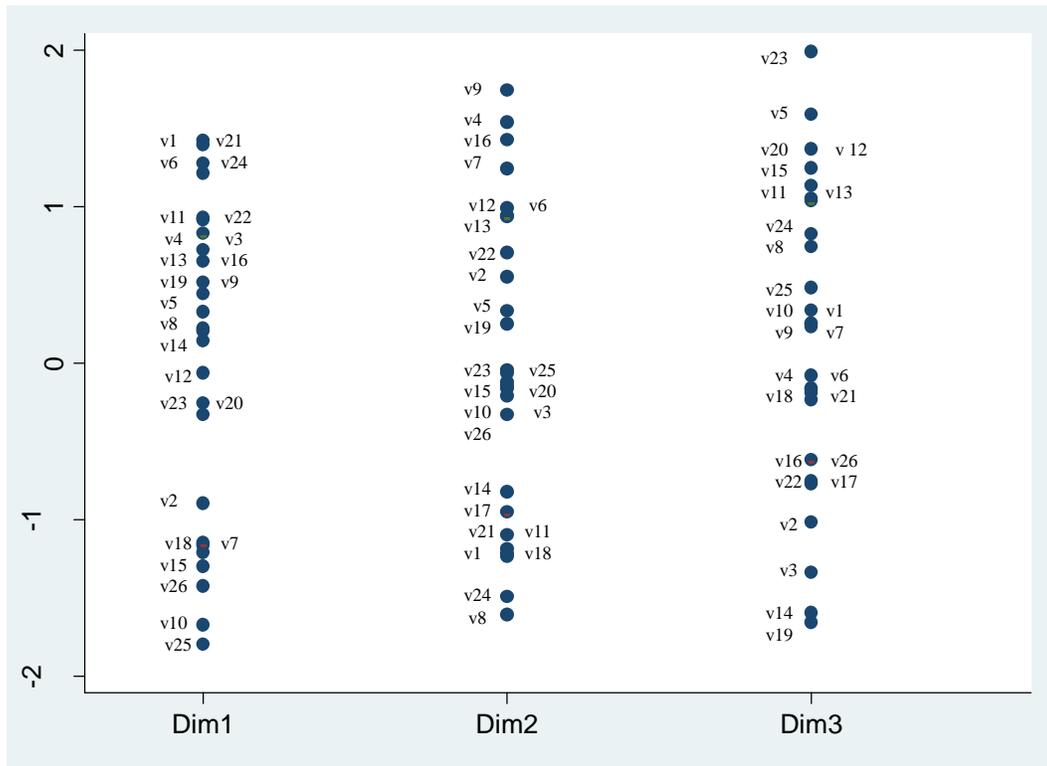
1	Anticipated transaction costs	15	Customer's management team experience
2	Awareness of customer's brand	16	Customer's networks/connections
3	Clarity of customer's strategic direction	17	Customer's private/public status
4	Customer product fit/compatibility	18	Customer's product line
5	Customer size	19	Customer's product service reputation
6	Customer/supplier fit	20	Customer's reputation
7	Customer's advertising channels	21	Customer's technical understanding of product
8	Customer's certification demands	22	Customer's time in business
9	Customer's credit reliability	23	future sales expectations/projections
10	Customer's end customer	24	Number of current suppliers to customer
11	Customer's environmental friendliness	25	Personal relationship with buyer
12	Customer's financial stability	26	Profit margin
13	Customer's geographic location	27	Quality of customer's website
14	Customer's industry	28	Recent news about customer

Phase 2: The Similarity Matrix. Using the 28 self-identified sources of utility, a 28 x 28 half-diagonal matrix was prepared for the MDS analysis. This aggregate number ranged from “0” to “35”¹¹. However, during the data analysis process 6 outliers were identified and removed. Despite this, negative CCC and overall low R^2 suggested some problems in the utility sources themselves. I analyzed the sources in depth and found that two were listed by only one respondent and appeared to be industry specific (the Certification’s Demand and the Customer’s Networks/Connections). These sources were removed and the overall reliability of the model increased.

Phase 3: Dimension Identification. I next used multidimensional scaling techniques (MDS - Kruskal & Wish, 1978) to determine the number of the dimensions suppliers used in sorting the sources of utility. Stress indices for MDS solutions of 1, 2, 3 and 4 dimensions were 0.48, 0.26, 0.17 and 0.14, respectively (see Kruskal, 1964). The three-dimensional solution exhibited a better fit for this data than did the two-dimensional solution ($R^2 = .85$ vs. $R^2 = .75$), but the fit improvement leveled off somewhat for four dimensions, and even more for five dimensions. Based on the stress test, scree plot, parsimony relative to the four- and five-dimensional solutions, and the more likely ease of interpretation (Cattell, 1966; Kruskal & Wish, 1978), the three-dimensional solution was selected for further analysis. The 26 utility sources identified by the general public actors are shown in Figure 12, as they are positioned on each dimension.

¹¹ The maximum number is equal to the number of investors in the phase II sample.

Figure 12 Suppliers sources of utility in three dimensions



Dim1. Anticipate-Future benefits & costs/Information about customer. Dim2. Customer-Product Fit/Credit history. Dim3. Customer size & Personal Relationship/ Customer knowledge level.

v1. Anticipated transaction costs; v2. Awareness of customer's brand; v3. Clarity of customer's strategic direction; v4. Customer product fit/compatibility; v5. Customer size; v6. Customer/supplier fit; v7. Customer's advertising channels; v8. Customer's credit reliability; v9. Customer's end customer; v10. Customer's environmental friendliness; v11. Customer's financial stability; v12. Customer's geographic location; v13. Customer's industry; v14. Customer's management team experience; v15. Customer's private/public status; v16. Customer's product line; v17. Customer's product service reputation; v18. Customer's reputation; v19. Customer's technical understanding of product; v20. Customer's time in business; v21. Future sales expectations/projections; v22. Number of current suppliers to customer; v23. Personal relationship with buyer; v24. Profit margin; v25. Quality of customer's website; v26. Recent news about customer.

Dimension one was labeled "Anticipate/future benefits/costs". The suppliers used this dimension to distinguish among sources of utility that were related to conditions such as Anticipated transaction costs, Future sales expectations/projections and Customer/supplier fit versus conditions such as Quality of customer's website, Customer's environmental friendliness, Recent news about customer, Customer's private/public status and Customer's advertising channels.

Dimension two was labeled "Customer Product Fit/Credit History". The suppliers used this dimension to distinguish among sources of utility such as Customer's end customer and

Customer product fit/compatibility versus conditions such as Customer's credit reliability and Profit margin.

Dimension three was labeled "Customer size & personal relationships/Customer knowledge level". The suppliers used this dimension to distinguish among sources of utility such as Personal relationship with buyer and Customer size versus conditions such as Customer's technical understanding of product and Customer's management team experience.

Phase 4: Dimension Validation. These dimensions were validated as described for the samples above ($D_1 U=0, p<0.05$; $D_2 U=0, p=0.1$; $D_3 U=0, p=0.1$).

Phase 5: Cluster Analysis. I first evaluated the correlations among the three dimensions. These indicate that the variables are uncorrelated. Average Linkage Method (Sokal & Michener, 1958) yielded an R^2 (.8) and CCC (1.42) of the Average Linkage output which suggested a five-cluster solution. This is supported by the K-means clustering with a Pseudo F Statistic of 20.32, an overall R^2 of 0.76, and a Cubic Clustering Criterion of 1.41. Furthermore, despite the two different cluster procedures use extremely dissimilar algorithms and approaches to clustering (Aldenderfer & Blashfield, 1984), an agreement across these different techniques has been underlined: 25 of the 26 utility sources were classified in the same clusters for both the Average Linkage and K-means analyses. This increases confidence in the reliability of the final cluster solution. Finally, the Ward's Method supports a five-cluster solution with a value of 0.8 and a CCC value of 1.41. This finding is consistent with the initial approaches, and further indicates that a five-cluster solution is the most appropriate.

Grouping comparisons. Twenty-five of the 26 sources were classified in the same clusters for both the Average Linkage and K-means analyses ($\text{corr}=.99, p<.001$), 26 of the 26 sources were classified in the same clusters for both the Average Linkage and Ward's Method analyses ($\text{corr}=.90, p<.001$), and 25 of the 26 sources were classified in the same clusters for both the k-means and Ward's Method analyses ($\text{corr}=.90, p<.001$). This shows that there is a pattern in the underlying data, rather than in the method of analysis, and increases confidence in the reliability of the final cluster solution.

Cluster Labeling. The clusters were labeled basing on the utility sources they contained (Table 10). For instance, the first cluster contained utility sources such as Anticipated transaction costs, Credit reliability, Financial stability, Future sale's expectations and Profit margin. The cluster was labeled "Quality of the Business". The second cluster contained utility sources such as Environmentally friendly, Private/public status, Product service's reputation, Customer's reputation, Quality of the web site, Recent news, Customer's advertising channels and Awareness of customer's brand. The cluster was labeled "Customer Reputation". The third cluster contained utility sources such as Technical understanding of the product, Personal Relationship with the buyers, Management Team Experience and Clarity of Strategic Direction. The cluster was labeled "Customer Experience". The fourth cluster contained utility sources such as Customer fit/compatibility, Customer/supplier fit, Customer/end customer, Product line and Number of current supplier. The cluster was labeled "Product line fit". The fifth cluster contained utility sources such as Time in business, Geographic location, Customer size and Customer's industry. The cluster was labeled "Customer Location and Size".

Table 10 Clusters of Sources of Utility (Suppliers)

<p>Cluster 1 – Quality of the business</p> <p>Anticipated transaction costs, Credit reliability, Financial stability, Future sale's expectations and Profit margin.</p>	<p>Cluster 4 – Product Line Fit</p> <p>Customer fit/compatibility, Customer/supplier fit, Customer/end customer, Product line and Number of current supplier.</p>
<p>Cluster 2 – Customer Reputation</p> <p>Environmentally friendly, Private/public status, Product service's reputation, Customer's reputation, Quality of the web site, Recent news, Customer's advertising channels and Awareness of customer's brand.</p>	<p>Cluster 5 – Customer Location and Size</p> <p>Time in business, Geographic location, Customer size and Customer's industry.</p>
<p>Cluster 3 – Customer Experience</p> <p>Technical understanding of the product, Personal Relationship with the buyers, Management Team Experience and Clarity of Strategic Direction.</p>	

4.5 Discussion and Implication

Identifying innovative business models that can increase the utility of multiple stakeholder

groups simultaneously represents a viable, long-run way to overcome the risks and limitations of short-run and single-minded business models focused solely on financial performance maximization. A first step for managers pursuing such innovation is developing knowledge about primary stakeholders' multi-attribute utility functions (Harrison et al., 2010) and the value drivers on which those utility functions are based (Parmar et al., 2010). Improving the overall utility of primary stakeholder groups can increase the size of the pie for everyone (Gulati & Wang, 2002; Priem, 2007) because of better satisfaction, commitment and trust among the primary stakeholders (Pirson & Malhotra, 2010; Davis et al., 2000; Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan & Shelby, 1994; Dwyer et al., 1987) and because of the many benefits linked to a successful stakeholder care (Sisodia et al., 2007; Choi & Wang, 2009; Freeman et al., 2010; Harrison et al., 2010; Parmar et al., 2010). This, in turn, increases long-term business sustainability because when value is actively created for and with primary stakeholder groups they are more likely to engage in cooperative behavior when confronting problems. The taxonomies I developed of the utility sources for all five primary stakeholder groups represent a first step toward tools for managers interested in the simultaneous creation of value for multiple primary stakeholder groups.

My research presents the first empirical taxonomies I know of that identify comprehensive categories of utility sources viewed as important by each primary stakeholder group and which, therefore, may be useful in increasing primary stakeholders' satisfaction and, in turn, their commitment. Table 11 summarizes the utility category labels I found for each primary stakeholder group. My results show that, while each primary stakeholder group has identified some different utility categories, they also hold some utility categories in common. For example, management quality and accessibility is an important utility category shared by investors, employees and the general public. This category therefore represents an opportunity for initiatives that could increase the utility of these three stakeholder groups together. Similarly, various aspects of product characteristics, quality and value form an important utility category shared by customers, employees and the suppliers, which again offers opportunities for simultaneously increasing multiple stakeholders' utility. But overlapping utility categories among primary stakeholders are not necessary for managers to consider opportunities for simultaneous value creation for multiple stakeholders. For example, improving utility in the job

challenge/opportunity category valued by employees could simultaneously create utility in the work environment/satisfaction category valued by the general public and in the customer care and support category valued by customers.

Table 11 - Sources of utility for all five primary stakeholders

Investors	Employees	Customers	Suppliers	General Public
Financial & Trading Data			Quality of the business	Financial Stability
Management Qualifications & Business Strategy	Leaders' accessibility & organizational design			TMT Quality
Personal knowledge and advice		Product Knowledge	Customer Experience	
	Company's value & reputation	Company Reputation	Customer Reputation	Company Quality/Image
	Company's product & industry	Product characteristics	Product Line Fit	
News and recommendations				
Industry Dynamics & Macro - Economy				
		Customer Care and Support		
				Work Environment Satisfaction
				CSR
			Customer Location and Size	
	Job challenge/opportunities			
	Compensation/benefits/hygiene factors			

Ferrero Spa represents a real example of the synergic value co-creation approach. It maximizes the overall utility of employees, customers, and the general public, focusing on the product characteristics, and quality and value delivered. Its value proposition is unique because it's based on values such as product innovation, quality, and freshness. This delivers value because it is based on the unique consumption experience and the sense of belonging to the big Ferrero Italian family (see Chapter III for more details).

4.5.1 General Implications

The initial evidence concerning the sources of utility favored by each primary stakeholder group suggests that managers have opportunities to effectively create shared, long-run value by focusing on increasing the overall utility of multiple stakeholder groups together. This would involve, first, developing a deep understanding the multi-attribute utility functions of all primary stakeholders. Furthermore, a shift in traditional business logic is required: from an emphasis on maximizing a single financial objective to an emphasis on shared value creation for multiple primary stakeholders. This approach goes beyond sequential concern over one and then another single stakeholder group's utility function. And it goes beyond "balancing" stakeholders potentially conflicting expectations. Instead, it involves efforts to simultaneously create value for two or more stakeholder groups, as I discussed for Southwest Airlines. To accomplish this, managers would need to act as stewards, caring for different stakeholders' expectations simultaneously and creating shared value for multiple stakeholders through innovative activities that increase the long-term viability of the corporation. If successful, this approach would directly affect the long term sustainability of the corporation because of higher primary stakeholder commitment (Pirson & Malhotra, 2010; Davis et al., 2000; Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987) and stronger relationships with all primary stakeholders (Orlitzky et al., 2003; Freeman et al., 2010; Parmar et al., 2010).

4.5.2 Limitations and implications for future research

My study has a number of limitations that must be kept in mind when interpreting the results, and these limitations represent opportunities for future research. In particular, I have only identified baseline, or generic, utility categories for each primary stakeholder group. It is likely that each primary stakeholder group's multi-attribute utility function may exhibit within-group heterogeneity, similar to the customer segments common in the customer stakeholder group. Additional research with larger samples may be able to identify the degree of this heterogeneity – and which segments are large enough to warrant attention – within each primary stakeholder group. Moreover, primary stakeholder groups' multi-attribute utility functions may differ somewhat across industries. While my multiple industry sample helps generalizability, industry-

specific studies are needed to identify industry differences in stakeholder utility functions. Similarly, stakeholder groups' multi-attribute utility functions may differ across countries, so country-specific studies are also called for to see which utility sources are common across countries and which are specific to particular countries. Moreover, although I took pains to ensure that all respondents had experience as a member of the stakeholder group to which they were assigned, my sample is more educated and younger than the U.S. general public, customers and employees, and these differences in age and education may affect the results for those primary stakeholder groups. Finally, mine is an inductive classification study. An important next step will be to determine the weightings given by stakeholder groups to specific utility categories in different contexts.

Notwithstanding these limitations, my work represents a first step in examining opportunities for value creation for multiple primary stakeholders, which requires recognizing what factors contribute to the multi-attribute utility functions of each primary stakeholder group. Even this first step has identified important implications for managerial behavior and for future practice that I hope may be useful in increasing long-run business sustainability.

“Courage is not absence of fear, but rather the judgment that something else is more important than fear”

A. Redmoon

Chapter V

***The model in action: a real example of value co-creation
in an Italian SME***

The recent world financial collapse clearly shows that the adoption of the business model focused on the value creation just for specific stakeholders' categories is not sustainable in a long-run perspective, because the short-run private benefits are created at the expense of the public long-run benefits. The adoption of the single-minded approach causes the corporation to fail because of the incapability to effectively maximize the overall utility of their primary stakeholders. To overcome these situations a new business approach needs to be developed. My model (see chapter III) is based on three key mechanisms:

- a) the new role of the manager - from “self-objectives enhancing” to “organizational wealth maximization”. So, he can be assimilated to a steward (Davis et al., 1997; Donaldson et al., 1991) - who maximizes the firm's value under the constraints of stakeholders' utility functions – and to an innovation seeking entrepreneur (Shane et al., 2000) – who takes care of each stakeholder group, searching for innovative ways to better deliver them value.
- b) The better comprehension of the stakeholders' utility sources. In order to co-create value for their primary stakeholders, managers need an understanding of the utility functions of different stakeholders – that is, “what stakeholders want” and “what creates value for them” – following the Harrison et al. (2010) approach.
- c) The new approach to the value creation process of the corporations. The steward manager can entrepreneurially create value for two or more primary stakeholders, simultaneously, through value creation innovations that “increase the size of the pie” for those system members (Gulati and Wang, 2003; Priem, 2007).

As shown in the chapter III, the adoption of this sustainable business model directly affects the trust and commitment of multiple stakeholders, increasing the “size of the pie” (Gulati et al., 2003; Priem, 2007) and the sustainability of the corporation which is able to implement “business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining, and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; van Kleef & Roome, 2007). This may be grounded in reality by my synergic approach to the value co-creation in which the steward entrepreneur generates shared value by a single action maximizing the overall utility of the primary stakeholders of the corporation, without compromising the utility of some of them.

Despite the example presented in the previous chapters showing the model acting in big corporations, the specific characteristics of the managerial role as steward entrepreneur may suggest that a small- and medium-sized environment might represent the natural landscape in which the model effectively exploits its potential. For the specific characteristics of SMEs (see Jenkins, 2006; Spence, 2000; Tilley, 2000; Holliday 1995 for a detailed analysis) and their nature-based entrepreneurs (Lahdesmaki, 2005), a sustainable business model based on my synergic approach to value co-creation may represent the intrinsic orientation of their business strategy. For this reason, I develop a case study focusing on a medium Italian firm¹² which bases its own business model on what I called the synergic approach to the value co-creation. The Italian choice is directly linked to the important role that the SMEs play in this country. There are approximately 65 SMEs per 1000 inhabitants in Italy, which is substantially above the EU27 average of 40¹³. In line with this, the relative importance of SMEs for the Italian economy exceeds by far the EU average. 80.9% is the share of persons employed and 71.7% is the share of value added accounted for by SMEs in Italy, which are above the EU27 shares.

Figure 13 SMEs, Employment and Value Added in Europe

	Enterprises			Employment			Value added		
	Italy		EU-27	Italy		EU-27	Italy		EU-27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	3 731 348	94.6%	91.8%	7 292 281	46.9%	29.7%	219	32.6%	21.0%
Small	189 294	4.8%	6.9%	3 351 855	21.6%	20.7%	155	23.0%	18.9%
Medium-sized	20 151	0.5%	1.1%	1 935 295	12.5%	17.0%	108	16.1%	18.0%
SMEs	3 940 793	99.9%	99.8%	12 579 431	80.9%	67.4%	482	71.7%	57.9%
Large	3 096	0.1%	0.2%	2 961 028	19.1%	32.6%	190	28.3%	42.1%
Total	3 943 889	100.0%	100.0%	15 540 459	100.0%	100.0%	672	100.0%	100.0%

Data refer to the non-financial business economy (NACE C-I, K) and represent estimates for 2008. The estimates have been developed by EIM Business and Policy Research, based on 2006 Eurostat Structural Business Statistics figures.

Source: Eurostat, elaborated by EIM.

¹² In Italy they account for 99.9% of all enterprises, contributing up to 80.9% of employment (CEC, 2009)

¹³ Source: Eurostat SBS data base, 2004 and 2005 data.

5.1 Theoretical background and propositions

According to the European Commission (Commission of the European Communities, 1996), SMEs are defined as enterprises which: have fewer than 250 employees; have an annual turnover not exceeding 40 million Euro, or an annual balance-sheet total not exceeding 27 million Euro; and conform to the criterion of independence. Many differences exist between large and smaller firms not just in terms of size. Their idiosyncrasies suggest that they differ in nature as well as in size from the large corporations (Holliday 1995:2) and they cannot be considered as “small big firms” (Tilley, 2000).

Yet, small- and medium-sized businesses have been distinguished from larger companies by such criteria as financial turnover, assets, market share, numbers employed, and ownership (Curran and Blackburn, 2001; Lepoutre and Heene, 2006). Furthermore, several characteristics distinguish SMEs from big corporations in terms of: owner – managed; independent; multi – tasking; firefighting, cash limited; personal relationships; and Informality (see Spence, 1999 for an exhaustive review). I better explain this in the sections next.

The SMEs characteristics. The organizational culture based on manager-owner values, the strategic orientation of the firm characterized by a tacit and informal approach rather than an explicit and formalized one, the central role of the manager-owner, the personal and trust-based relationships, the informality, and the co-operation, are some of the main characteristics which characterize the SMEs profile (Tilley, 2000; Johnson and Scholes 1997; Holliday, 1995; Sathe, 1983). According to Lloyd-Reason & Mughan (2002), qualities of entrepreneurship, flexibility, and product development motivated by the need to generate growth and to challenge both existing markets and existing players, are the main strengths of the business models of small- and medium-sized enterprises. However, adding to this, informal structures, insufficiently developed administrative and accounting procedures and unsystematic, sometimes erratic, decision-making processes, compounded by the inability or unwillingness to delegate responsibility to more experienced managers represent their main weaknesses. Many constraints are linked to the small and medium dimensions of these firms such as: limited financial resources, inadequacies of management competencies and marketing effort, lack of specialized skills, weaknesses in external information and regulatory compliance, limited organizational structure, rigidity to

change, and lack of strategic vision and un-formalized procedures rather than formalized ones (Tanabe and Watanabe, 2005; Scozzi et al., 2005). For these reasons, “Small firm owner-managers are commonly occupied with issues of day-to-day survival rather than strategic planning” (Spence, 1999: 165; Frenz 1993, Hutchinson and Chaston, 1994). The SMEs’ behavior has been largely recognized as directly linked to their size (Wilkinson, 1999). However, many specific characteristics – internal and external - directly affect their conduct (Lahdesmaki, 2005; Spence, 1999). For my purpose, there are three macro-areas on which we may focus our attention:

- the *personal and trust based relationships* rather than contractual ones play an important role in the decision-making process of the SMEs. They represent the main factors which guide the strategic orientation of the firm (Lahdesmaki, 2005; Spence, 1999, 2000). This is linked to the strong interconnectedness of the SMEs with their local surroundings (Curran and Blackburn, 1994) and the community in which they operate (Spence, 1999).
- the *ownership structure* is directly linked to the *autonomy* by which the decisions are made and their legitimacy. For this reason, SMEs are characterized by a high degree of flexibility and adaptability which increase their speed to quickly respond to the external changes (Jenkins, 2006; Goffee and Scase, 1995).
- the *central role of the entrepreneur or “owner–manager”*. He represents the vital center of the firm, around whom rotates the culture and the values of the organization (Jenkins, 2006). His psychological characteristics and his individual personality directly affect the style of management and the informality of the governance structure (Bolton, 1971).

The trust-based relationships in SMEs and Social Capital. The personal and informal dimensions on which the relationships are based in the SMEs in terms of personal contact between the owner-manager, employees, suppliers, customers, and even competitors, enable the building of trust relationships (Spence, 1999; see also Spence and Lozano, 2000). Furthermore, there is a high degree of interrelation within their environment or communities in which they operate (Murrillo and Lozano, 2006; see also Enderle, 2004).

The literature largely recognizes the importance of informal relationships, trust, and solidarity for small business development (Granovetter, 2000) because the value of these relationships is one

of the composite parts of social capital which represents a valuable asset for small- and medium-sized firms (Spence et al., 2004). According to Perrini (2006), while the stakeholder theory is more appropriate for large corporations, the theory of social capital better fits with the characteristics of SMEs. This is because this concept is directly linked to the intangible assets of reputation, trust, legitimacy, and consensus (Habisch et al., 2001; Putnam, 1993, 2000; Spence et al., 2003, 2004) which represent intangible assets on which the long-term performance of SMEs and the SMEs embedded into the local community (see Adler and Kwon, 2002 for more details) are based (Russo and Tencati, 2009; Spence et al., 2004; Tencati et al., 2004).

The social capital can be defined as “the goodwill available to individuals and groups. Its source lies in the structure and content of the actor’s social relations. It affects the flow from the information, influence, and solidarity it makes available to the actor” (Adler and Kwon, 2002:23). Moreover, it “refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them” (Putnam, 2000:19).

The central role played by the informal relationships and the reputation for the small- and medium-sized firms directly affect their ability to act guided by ethical values such as honesty and integrity (Spence, 1999, 2004). So, the way in which the small- and medium-sized firms create value for their stakeholders directly affects their social capital and, in turn, their long-run survival because of the many benefits directly linked to stakeholders’ engagement (see Chapter II and III of this work for more details) and for the importance that the informal/trust-based relationships and the reputation play in the small- and medium-sized firms.

The key role of the entrepreneur in the SMEs. Many definitions of “entrepreneur” have been developed in the literature (Zimmerer and Scarborough, 2005; Sharma and Chrisman, 1999) and many profile characteristics have been underlined (Barringer and Ireland, 2008; Barrow and Brown, 1997; McClelland, 1961). Most of them may be summarized in (for more details see Southiseng and Walsh, 2010): moderately risk oriented, desire for responsibility and for feedback, future oriented in searching for opportunities and looking ahead, and able to evaluate people and achievements.

The central role played by the entrepreneur in SMEs is largely recognized in the academic literature and it is linked to different aspects such as: the future growth paths of the corporations (Burke and Jarrat 2004; Gray 2000; Maki and Pukkinen 2000); the relationship between owner-manager personal values, business strategy, and enterprise performance (Haugh et al., 2003; Koley and Meredith, 1997); and the managerial performance linked to the procedural informality, practicality, and cooperation which directly affect the organizational culture (Spence, 1999).

The entrepreneur in the SMEs assumes specific characteristics. He usually represents the owner-manager and his profile is characterized by a certain degree of freedom to run the business (Jenkins, 2006; Spence, 2000) and independence (Quinn, 1997). This represents a key aspect of ethics in small businesses (Jenkins, 2006). Entrepreneurs guide the corporation through their personal values because of their autonomy in exercising their discretion (Hemingway and Maclagan, 2004). So, according to Jenkins (2006), the owner-manager in SMEs can be viewed as the driver and implementer of values. He is responsible for many business tasks at one time (Spence, 1999) and maximizing profit is the standard image of the small business owner-manager (Spence and Rutherford, 2000).

The specificity of sustainability in SMEs. The personal dimensions which guide the business relationships and the specific role played by the manager-entrepreneur directly affect the way in which the SMEs manage sustainability - or what most of them called Corporate Social Responsibility (Spence, 2007). This is almost tacit (Spence and Lozano, 2000; Jenkins, 2004; Moore and Spence, 2006; Murrillo and Lozano, 2006) and the main managerial responsibility is represented by the owner-manager (Spence, 2007). For this reason, the personal motivations rather than the marketing, strategic, or public relations approaches (Jenkins, 2004; Spence, 2000; Spence et al., 2000) represent the main input to adopt a firm's sustainable orientation. Adding to this, their involvement in the local community (Spence et al., 2004; Tencati et al., 2004), the primary role played by social capital and informal relationships for the success of the firms (Spence et al., 1999; 2004) and the importance of the employees for their success (Jenkins, 2004; Spence et al. 2004) represent the main factors which directly affect their approach to business sustainability. For the un-codified approach to sustainability, the SMEs are sometimes assumed to perform poorly in this field (Jenkins, 2006). However, the characteristics presented above

clearly show that sustainability issues in SMEs may be viewed as an intrinsic orientation of the corporation rather than an explicit investment.

The propositions. The key role in the SMEs is played by the entrepreneur or owned-manager who guides the corporation inspired by his own values and style. In doing so, he directly affects the organizational culture and the strategic orientation of the firm. Furthermore, the stakeholder relationships for the SMEs “may be based on a more informal, trusting basis and characterized by intuitive and personal engagement with less of a gap between the relative power and influence of company and stakeholder” (Jenkins, 2006).

As said before, good relationships with the key stakeholders directly affect the social capital of SMEs and, in turn, their long-term profitability. Furthermore, the entrepreneurs’ decisions are guided by their own values and motivations for being in businesses which are far more complex and socially motivated, than for purely financial reasons (Jenkins, 2006; Spence and Rutherford, 2000).

For these reasons, the main variable on which the entrepreneurs’ decisions are based may be represented by the aspiration to guarantee the long-term firm’s survival rather than the single-minded objective to maximize the firm’s financial performance. In doing so, the SME may need to effectively satisfy its main responsibility, which may be viewed in “the responsibility for the creation of a good working environment where diversity is encouraged, the fair distribution of wealth in a community, and the protection of the environment” (Jenkins, 2006:243).

Adding to this, according to the stewardship theory; the steward’s interests and the utility motivations are directed to organizational rather than personal objectives” (Davis et al., 1997). This means that the ownership-entrepreneur increases his own satisfaction achieving the organizational goals which, in the case of SMEs, may overlap the personal ones. Hence,

Proposition 1 – The role of the owner-manager may be more likely viewed as a steward-entrepreneur in SMEs than in the large corporations.

The long-term profitability and survival of SMEs is directly linked to the value of their social capital which is directly affected by the effectiveness of the stakeholders' relationships and their capability to deliver the shared value. Hence,

Proposition 2 - The SMEs are more likely to adopt a sustainable business model based on a synergic approach to the value co-creation than the large corporations.

5.2 The company and its values

5.2.1 The company profile

Palm Spa is an Italian family owned corporation managed by eight brothers and successfully operating in the wood pallet sector. Founded in 1960 by Guido Barzoni, the familiar roots represent the main factors which guide the strategic decisions of the corporation. The brothers Primo, Antonio, Lorenzo, and Maurizio, each provided their initial letter to create in 1985 the name PALM. The key numbers of the firm can be view in terms of: more than 60 employees, total area of 30,000 square meters, production area of 4000 sm, product's capacity of 80000m³ of wood for 2.5 million pallets.

The core business of the firm consists of design, manufacturing, sales, recovery, and reprocessing of the pallets. However, the success of the company has been based on the differentiation strategy: the products are realized through the principles of eco-design. This strategy allowed the corporation to obtain a competitive advantage shifting the main key factor of the industry: from price to quality. I better discuss this next.

In 2010, Palm decided to implement a horizontal diversification strategy to better exploit its own core competencies. It entered into a new business area with the brand Palm Design which consists of modular components with a low environmental impact, obtained by the Green Pallet © Palm and the eco-design principles.

5.2.2 The industry

The company operates in the industry of the packaging through the production of wood pallets. This segment represents 67% of the industry volume and shows an increasing trend for both turnover and the number of companies.

The pallet can be viewed as a wood package and its main purpose is to protect different products. For this reason, more attention is given to price rather than quality. This represents the main variable considered in the purchasing decisions process of the customers. Despite this, the packaging is very important because it directly affects the quality of the product it contains. The following example may better explain this. We can use the same pallets to transport containers which contain chemical substances or food. In this case, they directly affect the products they protect because of the direct contact between the package and the products. This explains the choice of the Company to adopt production systems which are able to maximize the quality rather than the product price. However, the industry is characterized by an intense competition based on price and product standardization. The main problem linked to this is the progressive formation of a secondary market in which the pallets – which are considered as commodities – are traded, bought, and sold at a lower price without quality and compliance standards. This confirms the scarce attention of the consumers to the pallet quality, even if it will directly affect the quality and the right preservation of the products it contains.

5.2.3 The core values of the company

Since it was born, sustainability represents the core value which guides the overall business. It is explicitly recognized either in the company's mission “Production of goods and/or innovative logistics solutions based on “Total Sustainability” which encompasses its three main dimensions: economic, social, and environmental. This, for Palm, means enhancing the economic equilibrium through the valorization of the knowledge and the skills of the people, and a high attention to the environment” and in its vision “to promote the Italian excellence in the pallets innovation - based on the sustainability and the eco-compatibility - and become a 100% sustainable company by 2020 to meet the needs of the people and the planet”.

The aim to create shared value/wealth plays a central role in the strategic orientation of the company and it is included in the Code of Conduct adopted in 2004. This is divided into four categories and each of them explains the company's own principles and the way in which it needs to act. In particular:

Section I - Who you are is your choice

1. We design, build, and sell wood packaging and components to deliver value to customers and to maximize their satisfaction. This is possible by producing a product which is designed: to reduce its environmental footprint, to promote the wood which come from forests managed in a sustainable way, and to recover and regenerate the used pallet to reuse many times.
2. Therefore we try to sell our products at the highest quality and for the right price.
3. Our destiny is directly linked to the capability of the corporation to effectively satisfy their customers. Moreover, our company is a community of people sharing the same values, who work together with the purpose of improving our society.

Section II - Doing well today means adding value to what we are

4. All people have equal dignity. Everyone deserves to be treated with the same respect and education. We believe that together, we can share the desire to succeed in our own work if everyone is valorized with "his" commitment, "his" responsibility, "his" history, and “his” wealth of experience.
5. Our work is a value and it represents the basis for our professional growth. Every day we hope to learn something new, to grow and improve our own personal satisfaction, investing part of our revenue in the search for continuous improvement.

Section III - If you add a little, and you usually do this, the little will become much

6. We remember our rights, but also our duties. We know the economic value of time and this knowledge helps us to grow in responsibility.

7. We face the real problems with courage and we believe that for every problem there is always a solution which is able to create shared value. We know that some problems are linked to internal organizational factors which can be solved by our ability to communicate with sincerity and mutual availability to each other.

8. We know that each of us is working hard to ensure that our company always operates within the laws and always has fair and transparent behavior towards customers, employees, suppliers, banks, and the state. We are inspired by the values of Corporate Social Responsibility and Sustainability.

IV. We offer consumers friendly products that contribute to the protection of forest and biodiversity

9. We need to thank our community for our success. Creating sustainable long-run value represents the main aim of the corporation. This is possible by a sustainable corporate culture which is able to meet the needs of the market and our customers without compromising the happiness of future generations.

5.3 The model in action

The success of Palm is the result of the adoption of a sustainable business model which is able to create value not just for a few stakeholders at the expenses of the others but for all primary stakeholders in the meantime. Generating and delivering shared value – through sustainability - represents the main strategic goal of the corporation. In the next section, I am going to underline the way in which Palm built its sustainable business model, highlighting the linkages between the main components of my model in terms of: the new role of the manager; the better comprehension of stakeholders' sources of utility, and the synergic approach to value co-creation.

5.3.1 *The role of the manager*

“The mission of the manager is to take care of the survival of the corporation in the long run, searching for new ways to create and deliver value, not just for himself but for the corporation, as a whole”. (Primo Barzoni – Palm’s president).

The creation of value not only for shareholders but also for employees, customers, and society in general represent the main aim of the Corporation. To do this, there are two principles which guide the managerial decisions: the centrality of the human dimension; the creation of a network of people, businesses, and institutions which believe in the power of a network of relationships as a means to co-create value.

Different dimensions – economic and non-economic – need to be integrated to exploit the opportunity to create sustainable value. To do this, the economic value of the business objective needs to be supported by objectives which are able to increase the utility of all primary stakeholders involved in the organization.

Every year, management looks at the needs of the employees to integrate them in the strategic plan of the corporation. Moreover, the human dimension is valorized because of the direct support to the business activities of people with disabilities. New market needs are discovered to innovate, every year, the firm’s value proposition. This encompasses tangible and intangible characteristics such as the eco-compatibility, the quality of the wood, the certification of the material rows, the respect of the human dimension and so on. These factors are directly linked to a continuous relationship between management and its suppliers, employees, shareholders, customers, and the community. The aim is to generate shared long-run value not just for the shareholders but for all stakeholders.

5.3.2 *The stakeholder sources of utility and the value co-creation process*

A better understanding of “what stakeholders really want” to maximize their utility represents the first step to the synergic approach to the value co-creation process. The utility sources need to be

evaluated according to the strategic choices and the characteristics of the corporation (business and corporate strategies, characteristics of the specific business unit). In this case, the strategic choice of Palm is to differentiate itself from the competitors offering a unique value proposition (see Porter & Cramer, 2006) which is based on high quality products rather than a on low price. It is the result of an innovative way to create shared value/wealth which involves all primary stakeholders of the corporation.

As I saw in the industry analysis, the price plays a key role for the customers. The strategic choice of Palm - to offer products which satisfy the specific quality and compliance standards – may divide the market into two portions: the segment of those who are sensitive to characteristics such as eco-compatibility, the quality of the wood, the production process followed by the product, and so on; and the other customers, who mostly pay attention just to the price as the main variable. Clearly, the sources of utility are different: the first segment may evaluate as important all those activities directly linked to assure that the product satisfies specific standards such as environmental and qualitative characteristics. The second segment increases its utility when the price decreases or when different activities related to that are developed. To increase their utility, two different actions were developed according to the different sources of utility: the production of the GreenPallet, which is the result of a production process which directly involved the entire production chain; the transparency price policy, which shows the customers each component which compose the final price.

The GreenPallet is the result of specific actions which involve each single step of the production process. In particular, four main steps can be viewed:

- Products development and design - the "Ecodesign"

The principles of eco-design allow a reduction of the weight and volume of the pallet. This, in turn, guarantees a reduction of wood utilization and environmental impact linked to the transportation service.

- The procurement and the supply chain

The company uses raw materials - spruce and pine - which come from Northern Europe eco-sustainable forests, according to the criteria of the FSC (Forest Stewardship Council) and PEFC (Program for Endorsement of Forest Certification schemes).



- The production process

In the production cycle the following are used: energy from renewable sources; vehicles with low environmental impact for the movement of the goods; many certification systems, such as the packaging phytosanitary certification (FITOK) and certification of the range (PALOK); the permission to repair and prepare for the reuse of the used pallets; the application of RFID technology for tracking pallets throughout its physical life cycle, monitoring and reporting of the greenhouse gas emissions in the Palm supply chain (Carbon Footprint Supply Chain); and the social certification checked and approved by consumers. Adding to this, the company seeks to encourage the reuse of pallets – after a specific process is applied from the corporation – with the aim to minimize the environmental impact.

- The logistics system: pallet zero kilometer

This was reflected in the initiative to plant poplar trees in areas near the production plant with two objectives: promoting economic development and agricultural land; and reducing the environmental impact which will be higher if the trees come from farther areas. This production system is able to maximize either the utility of the society, because of the minimization of the environmental footprint of the corporation. In 2010, Palm reduced its CO2 emissions 24% from 2007 to 2009.

Specific attention is given to the employees of the corporation. They are the main strength on which Palm bases its long-term competitiveness. “Everything needs to be built around the people. The human dimension has to be assumed as the main guide for each managerial decision” (P. Barzoni – the Palm’s president).

Each employee plays an active role in the corporation because of the importance which the corporation recognizes as the human dimension. Each of them has a contract for an unspecified length of time and their personal effort is primarily linked to themselves rather than to the corporation. For example, when an employee is involved in an association or has to do an interview for some communications channels – he will use his own name and his own responsibility rather than the company’s name or the name he is representing. The flexible working time and the work life balance are diffused practices in the corporations. Adding to this, the human dimension is also valorized by the Onlus Palm Work & Project. This social cooperative was founded with the aim to create shared value for society through the valorization of the "human dimension" and the social integration of the people. The organization's mission is "to create harmony between the economic system, the environment, society, and the local territory" through the recognition of work as an inalienable human right and as a means to valorize the people. It is addressed to the people with disabilities who recognize the primary role to manage many activities which support the Palm core business (for example, the management and the implementation of the communication activities to promote the Palm’s products - web-marketing and communications, call center, Eco-store, - the design of some product lines (Eco-design), and the creation of eco-friendly products for the retail market.

These activities maximize the utility of all of those employees who evaluate as important: the recognition of the human dimension in the work environment; the active role rather than a passive one; the importance of human relationships; and the specific corporate values such as environmental sustainability.

The shareholders are represented by the family, so their main utility source is not just the profit but the value creation which guarantees the survival of the corporation in the long run. The approach underlined above effectively worked for thirty years and it seems able to generate and deliver value for many extra years.

5.4 Discussion and conclusion

According to Porter and Cramer (2006), to transform the sustainability in opportunity and create sustainable value in the long run, a social dimension in the firm's value proposition needs to be developed. The principle of business sustainability – and of sustainable development, in general - emphasizes the necessity to involve the stakeholders and the society in the value creation process of the corporations to generate shared wealth without compromising the capability of future generations to satisfy their needs. Despite that large attention has been paid to this phenomenon, very little is known about the way in which the corporations can include the sustainability principle in their business models.

Palm Spa represents an application of the model of synergic value co-creation I proposed. The steward entrepreneur explicitly recognized the primary stakeholder's sources of utility as an opportunity to exploit, generating and delivering value in an innovative way by a unique value proposition.

This includes the more important characteristics that create value for all primary stakeholders. First of all, the value of environmental sustainability encompasses the entire product cycle. In this way, a unique value proposition is offered to those customers who recognize the value of environmental sustainability and their utility is increased. In doing so, their higher satisfaction directly affects their trust in the corporation and for this reason they are able to recognize a “premium prize” for the firm's products and a stronger long-term commitment in the exchange relationship. So, this positive economic performance - sustainable in the long run – increases the shareholders satisfaction and maximizes their utility.

The ethical value of the corporations and the valorization of the human dimension represent the factors which the employees evaluate as important. The familiar environment, the sustainability path of the corporation and the quality of contractual conditions – economic and non-economic - play an important role in the utility maximization of the employees rather than a higher salary or the quantity of benefits. A balanced mix between them represents the main utility sources which management needs to satisfy to generate value for the employees.

The continuous social effort is developed because of the activity of the social cooperative - founded with the aim to create shared value for society through the valorization of the "human dimension" and the social integration of the people – and the high attention to the environment and to the reduction of the corporate's negative effects on it. "Create harmony between economy and ecology through social-economic goods and services" represent the main reason of the social effort of the corporation (P. Barzoni - President Palm Spa).

All these variables – economic and non-economic - are satisfied by a synergic action of the steward entrepreneurs, with the aim to maximize the overall utility of two or more primary stakeholders of the corporation. All the sources of utility individuated by the manager are satisfied in a simultaneous way and the value is created for all of them and not just for some of them at the expense of the others.

The higher satisfaction directly affects the wealth of the stakeholders – including the shareholders – because of many benefits in terms of: the higher stakeholders' trust and reciprocity in respect to the corporation; a more co-operative stakeholders' relationship between each other and in respect to the external environment, because their wellness is increased; a higher commitment by the stakeholders because of an explicit recognition of their higher wealth generated by the firm. In the meantime, the corporation developed a more effective resources allocation capability related to the better comprehension of what really counts for stakeholders, a higher organizational legitimacy and reputation judgment, and a stakeholders oriented company culture.

All these benefits increase “the size of the pie” (Gulati and Wang, 2003; Priem, 2007) to share not just with the shareholders but with all stakeholders. For these reasons, the synergic approach to the value co-creation may represent a useful tool to maximize the overall stakeholders' utility and to increase the organizational wealth.

“To understand the heart and the mind of a person, look not at what he has already achieved, but at what he aspires to.”

K. Gibran

Chapter VI

Reflection and Discussion

6.1 Discussion

The role of business regarding sustainability and Sustainable Development has usually been discussed as “responsibility” to society, whereby responsibility is defined as the need to eliminate the negative effects of business (Carpenter and White, 2004). This is a defensive approach. Regarding a more active approach, however, it is important to know how business can contribute to the wealth- or benefit-creation goals of each category of prospective stakeholders. This is the way in which my model works, directly referring to the sustainability of the business, which may be viewed as the “business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future” (IISD, 1992; see also Roome, 1998; van Kleef & Roome, 2007). Thus, the fundamental sustainability issue involves firm viability, both now and in the future. Moreover, “a sustainable enterprise is one that contributes to sustainable development by delivering simultaneously economic, social, and environmental benefits – the so-called triple bottom line” (Hart et al., 2003). According to Porter and Cramer (2006), it can be viewed as an opportunity when the interconnection between business and society is directly recognized in the value proposition of the corporations.

For this reason, I refer to Sustainable Business Management (SBM) as the “management of business that recognizes its embeddedness in social, environmental, and economic systems, and focuses on management and relationships to meet the environmental, social, and economic requirements of many different stakeholders in its networks” (Roome, 1998; Van Kleef & Roome, 2007:44). So, business sustainability directly refers to the capability of the corporations’ strategy to involve stakeholders defined as those internal and external to the firm who “can be affected by or can affect the achievement of the firm’s objectives” (Freeman, 1984). Many benefits have been identified as accruing to firms that engage effectively with their stakeholders (Post et al., 2002; Graves et al., 2004; Berman et al., 2007; Hillman and Keim, 2001; Sisodia et al., 2007; Choi et al., 2009; Freeman et al., 2010; Harrison et al., 2010; Parmar et al., 2010), and there is considerable empirical support for a positive relationship between stakeholder engagement and firm financial performance (Orlitzky et al., 2003; Freeman et al., 2010; Parmar et al., 2010). Some proposed benefits of engaging with stakeholders include (for a more extensive recognition see Freeman et al., 2010 and Parmar et al., 2010): a greater willingness of stakeholders to engage

in efforts on the firm's behalf (Choi et al., 2009; Harrison et al., 2010; Zollo and Coda, 2009; Laplume et al., 2008; McWilliams et al., 2006); a higher legitimacy of the business in the eyes of different stakeholders (Hannan and Freeman, 1977; Aldrich et al., 1994; Deephous et al., 1995; Washington et al., 2005; for more details see Bitektine, 2010); easier access for the firm to stakeholders' resources (Aldrich and Pfeffer, 1976) and lower costs of information search (Cyert and March, 1963; March and Simon, 1958); and better capability of the corporations to create wealth (Post et al., 2002), stabilize returns minimizing the risk (Graves et al., 1994), increase their own reputation (Puncheva, 2008) and flexibility (Harrison et al., 1996). Moreover, this represents an incentive for managers to co-create value with stakeholders to enhance the shareholders' goals (Hill et al., 1992); a positive effect on the firm's competitive advantage (Hillman et al. 2001; Choi et al., 2009; Surroca et al., 2010); a higher trust of the stakeholders (Harrison et al., 2010; Barney and Hansen 1994); and a better capability to acquire a better comprehension of the stakeholders' utility functions (Harrison et al., 2010).

Furthermore, the traditional business models show many limitations to create value for multiple stakeholders in a long-run perspective in terms of ineffective resources allocation (Harrison et al., 2010; Coff, 1999; Pfeffer, 1981; Porter, 1980). They cause a lack of attention for some groups which may decrease their satisfaction and, in turn, their commitment in the long-run, resulting in a negative effect on some dimensions such as: the relationships between organization and stakeholders (Orlitzky, Schmidt and Rynes, 2003; Roman, Hayibor and Agle, 1999); the organizational legitimacy and the reputational judgment (Bitektine, 2010); and the reciprocity (see Donaldson et al., 1994; Philips et al., 2006; Bosse et al., 2009), trust (see Pirson & Malhotra, 2010; Davis et al., 2000; Barney & Hansen, 1994), and commitment in the long-term stakeholder's relationship with the corporation (Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987).

Thus, business success, measured as sustainability, depends upon top managers' ability to balance the competing needs of different stakeholders (Clarkson, 1995; Freeman, 1984; Donaldson and Preston, 1995; Porter and Cramer, 2006). So, stakeholder analysis is a fundamental step toward understanding and analyzing the diverse range of potentially conflicting stakeholders' interests (Friedman and Miles, 2004, 2006; Harrison et al., 2010; Prell et al., 2007). However, some key questions remain to be answered, including: "How can firms create different

types of value for different stakeholders” (Parmar et al., 2010: 432)?”, “how can firms increase their sustainability by the adoption of sustainable business models?” and “how can corporations develop sustainable business models?” This is the way in which my model works.

I took a step toward answering the questions above by: 1) incorporating stakeholder utility functions as constraints in an organizational decision-making system (the firm); and 2) moving beyond the ideas of stakeholder prioritization models (Mitchell et al., 1997; Jensen, 2002; Beekun et al., 2005; Easley et al., 2006) or that stakeholders different utility functions can be addressed sequentially (Harrison et al., 2010); 3) offering a complementary approach that is also managerially centered, but emphasizes the potential for innovations that create value simultaneously for two or more stakeholders and thereby increase firm sustainability.

In particular, my model is based on three main basics:

- a) the new role of the manager as a steward - entrepreneur;
- b) the better comprehension of the stakeholders’ utility sources;
- c) the synergic approach of the value creation process to the corporations.

The adoption of this kind of business model directly affects the trust and commitment of multiple stakeholders, increasing the “size of the pie” (Gulati et al., 2003; Priem, 2007) and the sustainability of the corporation (IISD, 1992; see also Roome, 1998; van Kleef & Roome, 2007).

The value is created for two or more primary stakeholders following a simultaneous approach by which the corporations effectively satisfy their utility sources by a unique value proposition. Thus, I show that effectively replying to all primary stakeholders and increasing their utility represents a viable, long-run way to overcome the limitations of the more common, short-run and single-minded business model focused solely on financial performance maximization.

The first step to implement my model is represented by a better knowledge of the structure of the primary stakeholder’s multi-attribute utility functions (Harrison et al., 2010) and the value drivers on which their utility functions are based (Parmar et al., 2010). Improving the overall utility of all corporation stakeholder groups may increase the “size of the pie” for everyone

(Gulati & Wang, 2003; Priem, 2007) because of better satisfaction, commitment, and trust among the primary stakeholders (Pirson & Malhotra, 2010; Davis et al., 2000; Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan & Shelby, 1994; Dwyer et al., 1987) and because of the many benefits linked to successful stakeholder care (Sisodia et al., 2007; Choi & Wang, 2009; Freeman et al., 2010; Harrison et al., 2010; Parmar et al., 2010). This, in turn, increases long-term business sustainability because value is actively created for and with different stakeholders groups. In this way managers can co-create value by satisfying aspects of stakeholders' heterogeneous utility functions.

In doing so, I developed the taxonomies of the utility sources for all five primary stakeholder groups. It represents an important first step toward a tool for managers interested in stakeholder value co-creation. In particular, my research represents the first empirical taxonomies developed to highlight the sources which each stakeholder group evaluates as important and which are able to increase their satisfaction and, in turn, their commitment. Looking at the results, each primary stakeholder group has shown different utility sources, but my results may provide managers with some initial insight regarding opportunities for value co-creation for multiple stakeholder groups. However, while each primary stakeholder group has identified some different utility categories, they also hold some utility categories in common. For example, management quality and accessibility is an important utility category shared by investors, suppliers, employees and the general public. This category therefore represents an opportunity for initiatives that could increase the utility of these three stakeholder groups together. Similarly, various aspects of product characteristics, quality and value form an important utility category shared by customers, employees and the general public, which again offers opportunities for simultaneously increasing multiple stakeholders' utility. But overlapping utility categories among primary stakeholders are not necessary for managers to consider opportunities for simultaneous value creation for multiple stakeholders. For example, improving utility in the job challenge/opportunity category valued by employees could simultaneously create utility in the work environment/satisfaction category valued by the general public and in the customer care and support category valued by customers. These are just some of the combinations of utility sources which may be used to increase the overall utility of two or more primary stakeholders simultaneously. Furthermore, the qualitative case study shows the way in which the steward entrepreneur may explicitly recognize the

primary stakeholder's sources of utility as an opportunity to exploit, generating and delivering value in an innovative way by a unique value proposition. It represents a real example of synergic value co-creation in which the utility sources of the primary stakeholders are effectively satisfied in a simultaneous way rather than a traditional approach.

Yet, my dissertation causes a shift in some traditional business logics: from maximizing a single financial objective to shared value co-creation; and from sequential concern over a single shareholder group's utility function, or the balancing of different stakeholders expectations, to simultaneous value creation for two or more stakeholder groups as I discussed for Southwest Airlines. This directly affects the long-term sustainability of the corporation and the "size of the pie" (Gulati & Wang, 2003; Priem, 2007) because of the higher commitment (Pirson & Malhotra, 2010; Davis et al., 2000; Gundlach et al., 1995; Achrol et al., 1990; Anderson & Weitz, 1992; Morgan and Shelby, 1994; Dwyer et al., 1987) and the stronger relationship with all primary stakeholders (Orlitzky et al., 2003; Freeman et al., 2010; Parmar et al., 2010).

6.2 Contributions and future research paths

As said above, I have developed a model which changes many business logics: from a single financial objective maximization to a shared value co-creation; and from the care of a single shareholder utility function to the balancing of different stakeholders expectations. The involvement of the primary stakeholders and the knowledge of their utility sources increase the sustainable profile of the corporations according to the business sustainability concept and improve the capability of the corporations to create shared value maximizing the overall utility of all the primary stakeholders. This causes the rethinking of the managerial role that needs to moderate the shareholders' pressure on the financial performance maximization and take care of the stakeholders' satisfaction to increase their commitment and the long-term survival of the corporation, increasing the "size of the pie."

My model explicitly refers to an alternative model to manage the stakeholders' utility functions based on both: the recognition of different stakeholders' groups and sub-segments and the comprehension of the nature/weight of the different attributes/value drivers which determine the

individual goals of each of them. Each stakeholder's group, in fact, can be viewed as composed of multiple segments which show differences in their utility functions (e.g. different kind of employees may have different expectations according to the satisfaction of the same main objective). For this reason, a sustainable business model - which is able to create and deliver value in a simultaneous way for all primary stakeholders – is aimed to satisfy the needs of the primary stakeholders through a better understanding of their main sources of utility.

In other words, each stakeholder group can be identified by a specific utility function (Hill and Jones, 1992; Harrison et al., 2010) or by separate utility functions where segments are present within the group. For this reason, identifying and classifying the components of those utility functions would be an important step for researchers and for practitioners managing stakeholders, because the firm is required to “take into account its relationship with specific stakeholder groups as it sets corporate direction and formulates its strategies” (Roberts and King, 1989).

This suggests that the first step in managing stakeholder relationships is to better understand the single stakeholder's utility functions in terms of value drivers/attributes and their relative importance for each stakeholder group. Although Harrison et al. (2010) have argued that trust is an essential ingredient for the sharing of utility function information between the corporation and its stakeholders (Harrison et al., 2010), together with reciprocity (Bosse et al., 2009) and the degree of salience of each stakeholders group (Mitchell et al., 1997), I advocated a different approach. Instead, the characteristics of the exchange must be considered before investing in trust, and it is the value offered to each stakeholder group that is most important in obtaining their commitment irrespective of exchange characteristics.

Introducing the concept of an organizational decision-making system in the framework of stakeholder theory provides a new perspective for examining “real world” management decisions regarding stakeholder constraints using well-known constructs such as bounded rationality, sequential attention to goals, quasi-resolution of conflict, uncertainty avoidance, problemistic search and organizational learning, among others (Augier and Sarasvathy, 2010). Moreover, ethics and moral obligations – long recognized but infrequently discussed in strategy scholarship (Bernard, 1938; Hosmer, 1987, 1994) – can be reintroduced to the prioritization models by which managers satisfy stakeholders' demands (Mitchell et al., 1997). It may be that, given the different

values held by different stakeholders, a competing for stakeholders approach is most likely to result in sustainability for the individual firm and, when aggregated across many firms, in sustainability for society.

Finally, my model clearly shows that sustainable business is not in contrast with the value creation process of the corporation, neither with their profit (Friedman, 1970) but it generates a better allocation of resources and the simultaneous satisfaction of shareholder and stakeholder. Moreover, many literature gaps have been fulfilled, highlighted by Parmar et al. (2010), in terms of: an integrated theoretical model which explains how the corporations can create value for different stakeholders increasing its long-term sustainability and what the value means for different stakeholders' groups.

Despite the important contributions highlighted above, further research needs to be addressed in order to better understand the linkages between the variables of my model.

A better comprehension of the nature of the activities/policies that managers need to develop to implement the model I proposed has to be developed. Each single stakeholder's group/segment is characterized by different utility sources which can be satisfied by different managerial policies. These sources may be viewed in terms of entrepreneurial opportunities for value co-creation among multiple groups and how the value created for different stakeholders can be effectively measured by the corporation represents interesting areas for future research (following the approach proposed by McWilliams et al., 2010).

Furthermore, Pirson et al. (2010) found that the trustworthiness varied across different stakeholder types has been directly affected the nature of the relations they have with the corporation. In the same way, I may suppose that the effectiveness of the model may be affected by the nature of the relationship with different stakeholders. Following this approach, it represents a viable path for future research.

Finally, more contributions need to be focused on to better determine whether firm size, age, country, and industry affect the relationships in the model.

6.3 Limitations

My study has a number of limitations, some of them shown above, that must be kept in mind when interpreting my results, and these limitations represent opportunities for future research. In particular, it is likely that each primary stakeholder group's multi-attribute utility function may exhibit some within-group heterogeneity, similar to customer segments common in the customer stakeholder group. Additional research with larger samples may be able to identify the degree of this heterogeneity – and which segments are large enough to warrant attention – within each primary stakeholder group. Moreover, primary stakeholder groups' multi-attribute utility functions may differ somewhat across industries. While my multiple industry samples helps generalizability, industry-specific studies are needed to identify industry differences. Similarly, stakeholder groups' multi-attribute utility functions may differ across countries, so country-specific studies are also called for to see which utility sources are common across countries and which are specific to particular countries. Finally, mine is an inductive classification study. An important next step will be to determine weightings given by stakeholders to specific utility categories in different contexts.

My work represents a first step in examining the value co-creation approach: recognizing what factors contribute to the multi-attribute utility functions of each primary stakeholder group. Yet, even this first step has identified important implications for managerial behavior and for future practices that are likely to increase long-run business sustainability.

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