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Stakeholder Theory and Managerial Decision-Making: Constraints and Implications of Balancing Stakeholder Interests

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ABSTRACT. Stakeholder theory is widely recognized as a management theory, yet very little research has considered its implications for individual managerial decision-making. In the two studies reported here, we used stakeholder theory to examine managerial decisions about balancing stakeholder interests. Results of Study 1 suggest that indivisible resources and unequal levels of stakeholder saliency constrain managers' efforts to balance stakeholder interests. Resource divisibility also influenced whether managers used a within-decision or an across-decision approach to balance stakeholder interests. In Study 2 we examined instrumental and normative implications of these two approaches. We conclude by considering the contributions of this research.

KEY WORDS: stakeholder management, ethical decision-making, balancing stakeholder interests

The recent rash of corporate scandals has brought more and more attention to the concept of stakeholder management. In short, stakeholder theory argues that the organization has relationships with many constituent groups and that it can engender and maintain the support of these groups by considering and balancing their relevant interests (Clarkson, 1998; Evan and Freeman, 1993; Freeman, 1984; Jones and Wicks, 1999). As many have noted, the theory fosters both instrumental predictions and normative prescriptions (e.g., Hasnas, 1998; Kotter and Heskett, 1992), and has therefore proven to be popular with both those interested in profits and those interested in ethics.

Over the years, scholars have generally been drawn to stakeholder theory's organizational implications and as a result much of stakeholder research has been conducted at the organizational level of analysis. Donaldson and Preston (1995), however, emphasized that "stakeholder theory is managerial in the broad sense of that term" in that it portrays managers as individuals who pay "simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making" (p. 67). Despite this clear focus on managers as the central figures of the theory, very little research has considered individual managerial decision-making in the context of stakeholder management principles. As any organizational decision is ultimately made by an individual, we believe this constitutes a significant gap in this area.

In an effort to address this void, we apply stakeholder theory at the individual level to examine how managers distribute scarce resources among those with claims on the organization, a process known in the stakeholder literature as balancing stakeholder interests. Balancing stakeholder interests is arguably

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the most critical of stakeholder principles as it represents the principal mechanism by which managers "pay attention to," elicit, and maintain the support of stakeholder groups with disparate needs and wants. Although this task is crucial to stakeholder theory, researchers have yet to consider how individual managers actually balance the interests of those who have a stake in the actions of the organization. Subsequently, the objective of this article is twofold. First, we consider factors that shape managers' decisions to balance stakeholder interests, and second, we consider implications of two approaches managers use to balance stakeholder interests.

Balancing stakeholder interests

Balancing stakeholder interests is a process of assessing, weighing and addressing the competing claims of those who have a stake in the actions of the organization. The desire to balance stakeholder interests is the driving force behind such fundamental stakeholder strategies as "keeping score" (Freeman, 1984), prioritizing (Mitchell et al., 1997), and conducting constructive negotiation (Frooman, 1999). While much of the balancing process may be cognitive (at the individual level) or administrative (at the organization level), it ultimately includes behaviors that bring some kind of resolution to conflicting stakeholder needs or requests. Several researchers have examined these kinds of balancing behaviors and have provided many interesting insights. For example, Meznar et al. (1994) considered the withdrawal of companies from South Africa as an act of balancing stakeholder interests and determined that such actions resulted in a negative stock market reaction. Berman et al. (1999) discovered that the balancing of stakeholder interests, what they referred to as the "managerial handling" of five stakeholder relationships (employees, natural environment, diversity, customers/product safety, and community), moderated the relationship between firm strategy and firm financial performance. Similarly, Ogden and Watson (1999) found that in the British water supply industry, expenses associated with improving customer service were negatively associated with current profits but positively correlated with long-term shareholder returns, which suggested to them that efforts to balance stakeholder interests eventually paid-off for all of the stakeholders involved.

While clearly informative, the literature on balancing stakeholder interests has nonetheless focused exclusively on the organization and has yet to consider the individual decision-maker. This is a critical omission for at least two reasons. First, since most organizational decisions are ultimately made by individuals, understanding how managers balance stakeholder interests should have implications for organizational efforts to balance stakeholder interests. Second, stakeholder theory presents the manager as the central figure of a stakeholder approach, and therefore understanding managerial decision-making might be key to understanding not just the balancing of stakeholder interests, but other fundamental principles of stakeholder management, as well. In light of these kinds of potential benefits, this research explores the balancing of stakeholder interests at the individual level of analysis.

To do so, we acknowledge Donaldson and Preston's (1995) claim and assume that managers are individuals interested in balancing stakeholder interests and motivated to do so. Such a position is supported not just by stakeholder theory, but by other literatures, as well. For instance, from a socio-psychological view, the balancing of stakeholder interests represents an institutionalized form of one of the most basic human social activities: sharing. Sharing is widely believed to be a prosocial behavior because it fosters cooperation among individuals, it results in the more efficient deployment of resources in the long-run, and it reduces conflict among individuals and groups (Mussen and Eisenberg-Berg, 1977). Given these kinds of social benefits, it is argued that attributes such as these are evolutionary mechanisms that foster the survival of the species (e.g., Frederick and Wasieleski, 2002). In short, individuals are genetically and socially predisposed to sharing, and thus there is a socio-psychological basis for assuming that managers are naturally inclined to distribute and balance resources among stakeholders.

Second, from an economic perspective, the "incomplete contracting" literature (Ezzamel and Watson, 1997; Garvey and Swan, 1994; Hart, 1995; Kay and Silbertson, 1995) argues that distributing resources in a relatively equal fashion among relevant

interests is critical for managerial survival. As a matter of legitimacy, if a manager does not at least occasionally meet the claims of certain stakeholders groups, he or she will lose the support of those groups. Thus, it is in a manager's own personal interests to ensure that stakeholder interests are balanced at least to some extent.

Given this kind of broad theoretical support, we accept stakeholder theory's argument and assume that managers are generally motivated to balance stakeholder interests and are generally interested in doing so. Nevertheless, we also recognize that managers do not always achieve this end. We believe that this is the case because situation-specific factors can arise that constrain managerial efforts to balance stakeholder interests. In Study 1 we identify two of these factors, resource divisibility and relative stakeholder saliency, and examine their influence on managerial decisions about an organizational resource.

Study 1: Constraints on the balancing of stakeholder interests

Resource divisibility

The centrality of balancing stakeholder interests in stakeholder theory is a reflection of the fact that stakeholders regularly place competing claims on the organization's resources (Freeman, 1984; Hosseini and Brenner, 1992). Whether the resources are capital, profits, effort, or time, stakeholders can and do disagree about how or where each should be utilized. Ultimately, the manager decides how to allocate a resource, but it is only recently that scholars have explored how managers make resource allocation decisions. Most research in the area has focused on identifying tactics or strategies used to allocate resources, and has demonstrated that individuals generally learn resource allocation strategies quickly, perform better when conditions are certain as opposed to uncertain, and, when facing repeated interactions in a fixed period of time, tend to share more resources early in the relationship while holding on to resources later in case unexpected contingencies should arise (Langholtz et al., 1993, 2003).

Within the resource allocation literature, some have considered the possibility that the divisibility of the resource can influence resource allocation behaviors. While it is theoretically possible to divide most commodities, resource divisibility refers to the overall cost of actually doing so (i.e., the transaction costs of selling the commodity and splitting the revenues). Allison et al. (1992) demonstrated that an equal allocation was more likely to result among group members when the resource was easily partitioned. Similarly, Parks et al. (1996) discovered that when adventitious resources were easily divisible, individuals were more inclined to share them with friends and with acquaintances. While researchers have yet to consider the kind of large allocations that managers make across diverse sets of groups and individuals, we suggest that even at this scale managers are still inclined to balance stakeholder interests and that the divisibility of the resource acts as a constraint on their ability to do so. In short, we propose that the more a resource is or is perceived to be easily divided, the more a manager will distribute the resource equally among the relevant stakeholders and thereby balance their interests. This argument is presented in the following hypothesis:

Hypothesis 1.1. Highly divisible resources will lead to more balanced stakeholder interests than will highly indivisible resources.

Relative stakeholder saliency

Managers can be constrained not only by the divisibility of the resource, but also by the nature of the stakeholder claims on that resource. While a manager may have a natural inclination to balance the interests of all stakeholder groups associated with a particular decision, the validity of one or more stakeholder claims to the resources in question may require that that stakeholder's claim take precedence over all others. Mitchell et al. (1997) offered stakeholder saliency as a means of conceptualizing and measuring the validity of stakeholder claims. They defined stakeholder saliency as the extent to which a stakeholder is powerful, legitimate, and the claim is urgent, and suggested that stakeholder saliency helps managers to identify who and what really matters in any given stakeholder decision. Agle et al. (1999) empirically tested some of those claims by examining how CEO perceptions of stakeholders influenced

critical organizational outcomes. They discovered that CEOs' perceptions of stakeholder power, legitimacy, and urgency influenced CEO perceptions of stakeholder saliency, but found little evidence to support the notion that stakeholder saliency influences such outcomes as profitability, employee relations, community relations, or environmental stewardship.

With regards to this study, we rely on Mitchell et al.'s (1997) rationale and suggest that managers assess every relevant stakeholder and balance their interests according to the relative saliency of their claims. Granted, over the long-term, one stakeholder group may be perceived as more salient than other groups. On a decision-by-decision basis, though, relative saliency can vary based on the power, legitimacy, and urgency of the stakeholders' claims in that specific circumstance. So while a manager may view stockholders, for example, as the most salient stakeholder in the larger organizational strategy, on any specific decision, the needs of the stockholders may be preempted by the urgency of another powerful and legitimate stakeholder group's claim. In this sense, the relative inequality of the saliency of relevant stakeholders can constrain a manager from fully balancing stakeholder interests on the associated decision or decisions. Accordingly, we suggest that to the extent the relative saliency of the relevant stakeholders is equal, the more apt a manager will be to balance stakeholder interests on that decision. In contrast, the more unequal or lopsided the relative saliency of the relevant stakeholders, the less likely the manager will be to balance stakeholder interests. This argument is presented in the following hypothesis.

Hypothesis 1.2. Stakeholder claims of relatively equal saliency will lead to more balanced stakeholder interests than will stakeholder claims of relatively unequal saliency.

Stockholder group membership

Embedded within discussions of stakeholder saliency are issues associated with ownership, an area that has received a great deal of attention in the stakeholder literature. Some have suggested that because of their unique fiduciary interests stockholders (owners) maintain special status and are or should be afforded certain perquisites in managerial decision-making (e.g., Goodpaster, 1991). Others have suggested that since all stakeholders have their own unique characteristics, stockholders are no different than every other stakeholder, and therefore they do not and should not receive any sort of preferential treatment simply because of their membership in this group (e.g., Boatright, 1994). While this debate has primarily focused on the normative implications of stockholder status, it has noteworthy implications for the balancing of stakeholder interests. We acknowledge the possibility that stockholder group membership, the mere fact that one of the stakeholders involved are owners of the firm, might influence a manager's decision-making. Of course, much of the influence afforded by membership in the stockholder group could be reflected in the saliency of that group's claims. Subsequently, when referring to the influence of stockholder group membership, we refer to an influence over and above that of the relative saliency of their specific claims, an influence rooted in any inherent and independent value of being an owner of the firm. If managers do afford unique privileges to certain stakeholders simply because of their membership in the stockholder group, then stockholder group membership should skew any distribution of resource in favor of the stockholders, thus leaving the set of stakeholder interests less balanced than if only other non-owner groups were involved. Given such a possibility, we therefore consider the effects of stockholder group membership in the following hypothesis.

Hypothesis 1.3. There will be a significant difference in the balance of stakeholder interests between decisions that involve stockholders/owners and those that do not.

Balancing approaches

Stakeholder theorists have noted the importance of balancing stakeholder interests, but little has been written about the methods that managers can use to accomplish this goal. We argue that, generally

speaking, managers balance stakeholder interests by employing either a within-decision approach or an across-decision approach. The within-decision approach represents a literal interpretation of the stakeholder admonition to balance stakeholder interests. A manager employing the within-decision approach faces every decision as a singular and independent unit. With regard to that unit, the manager is aware of the relevant stakeholder groups and their interests and influence related to that decision. The manager then attempts to balance the interests of those stakeholders within the bounds of that decision and tries to satisfy the demands of each stakeholder as if that decision were the only decision to be considered.

While the within-decision approach represents a strict interpretation of the stakeholder approach, the across-decision approach is more consistent with the spirit of stakeholder management. The stakeholder approach draws from the "open systems" literature (Freeman, 1984), which assumes that the organization exists in a complicated network of relationships where simple cause and effect predictions cannot explain the myriad influences shaping organizational outcomes (Barnard, 1938; Buckley, 1968; Katz and Kahn, 1978; Senge, 1990). Moreover, the open systems perspective recognizes that relationships also have temporal dimensions, and that organizations are impacted by elements of the system with as much temporal variety (immediate versus delayed, instantaneous versus prolonged) as they have positional variety (Ackoff, 1999). The across-decision approach applies this open systems perspective to the tactical deployment of stakeholder theory – it focuses on balancing stakeholder interests across the system (a series of decisions over time) rather than on a decision-by-decision basis. A manager who adopts the across-decision approach might completely sacrifice the interests of a particular stakeholder on several decisions, but would then compensate that stakeholder on a future decision or series of decisions. The manager would not ignore stakeholder relationships, but would instead take a long-term perspective toward developing and maintaining those relationships. Ultimately, each stakeholder group would be given the attention, resources, and accommodations that it requires, not on every single decision, but rather in the overall scheme of organizational activity.

We contend that both the within-decision and across-decision approaches are theoretically valid means of balancing stakeholder interests, and therefore managers are willing and able to use both. Nevertheless, natural inclinations to address conflict (Thomas, 1992) motivate managers to resolve stakeholder concerns when they arise, and since the divisibility of the resources holds implications for how quickly managers can address their stakeholders' concerns, resource divisibility affects the choice of one approach over another. When a resource can be easily divided, a manager can seize the opportunity to balance the resources on that decision and through the within-decision approach immediately satisfy the demands of those stakeholders. In contrast, when resources are highly indivisible, the difficulty of balancing stakeholder interests on that particular decision will instead lead the manager to choose a long-term approach, an across-decision approach. Granted, individual managers may vary in the extent to which they balance stakeholder interests, but to the extent they do balance stakeholder interests, we believe that the approach they use will depend on the divisibility of the resource in question.

Hypothesis 1.4. To the extent that managers balance stakeholder interests, the more indivisible the resource the more managers will employ an across-decision approach rather than a within-decision approach.

Method

Sample

Ninety-three students enrolled in the full-time MBA program of a large U.S. institution on the West coast completed the instrument on a voluntary basis during a break between course sessions. On average the participants required 10-15 minutes to answer all of the items. Sixty-three men and 30 women completed the exercise. The average age was 28.9 (SD = 4.1) and the average tenure in business was 6.1 years (SD=3.5). They represented several functional areas including finance, accounting, information technology, human resources, sales, and others.

Design

We tested our hypotheses using an experimental vignette (Appendix A) in which participants divided found monies among three stakeholder groups. The experiment utilized a three-factor partially nested design. The first factor was resource divisibility (divisible/indivisible) and the second factor was relative stakeholder saliency (equal/unequal). The nested factor was stockholder group membership (stockholder/non-stockholder), which was nested within the condition of relatively unequal stakeholder saliency.

The first segment of the vignette described a manager who had sold a piece of property for the firm and had been asked to distribute the incoming funds ($100,000). The manager had been presented three possible outlets for the money (a fund for increasing stockholder dividends, a scholarship program run by the employees, and a community group youth program) and was now asking the study participant for guidance. Participants were informed that the company had other pieces of property and that a similar decision might be made again in the near future. After making a recommendation, the participants then continued to the second segment of the vignette where they learned that 1 week later the manager had indeed sold another piece of property and was facing the same allocation decision once again. Thus, the participants responded to two identical decision situations, once after the sale of the first piece of property and then again after the sale of the second piece of property. We provided this second decision opportunity to gain insights into the participants' long-term intentions regarding the balancing of stakeholder interests, but we limited the decision opportunities to two in order to better isolate the factors that influence single decisions. Prior to distributing the survey, we conducted several rounds of pre-testing with business school students to confirm that the manipulations functioned as intended.

Measures

Independent variables

Resource divisibility was manipulated through the comments of a vice president of accounting, an individual with no direct authority over either the decision-maker or the participant. In the indivisible resource version of the vignette, the vice president encouraged the decision-maker to "write one check." In the divisible version, he encouraged the decision-maker to divide the money however she wanted. We manipulated perceptions of the resource rather than the resource itself to avoid the confounding effects of comparing categorically different resources.

The relative saliency of stakeholder claims was manipulated in several statements that characterized the groups and their claims. In the equal saliency version, the three claims (stockholder dividend fund, employee scholarship fund, and community youth program) were presented with a commentary about their similarity: "As the two of you review these options it becomes apparent the each request has equal merit." In the two unequal saliency versions, each claim was accompanied by a specific commentary about its saliency. In the stockholder-favored version, the decision-maker learned that the chairman of the board had identified dividends as his top priority, while the employees' organization and the community groups' organization were mismanaged. In the employee-favored version, the decision-maker learned that the chairman was not very interested in dividends, that the community group's organization was mismanaged, but that the employees' organization was a well-run and well-respected program.

Dependent variables

The balance of stakeholder interests was operationalized as the extent to which the participants distributed the monies equally among the three stakeholder groups over the two decision situations. At the conclusion of the first segment of the vignette, respondents were asked to complete the following statement: "I would give. . ." The participants were thus encouraged to list a stakeholder group or groups with a dollar amount to be given to them. We used an open format because it did not insinuate how the money should be distributed, and thus it was more likely that the participants would respond freely. After the participants read the second segment of the vignette, they were asked to complete this same statement again. We then used a formula to create the balance of stakeholder interests measure. Following Allison's (1978) logic of measures of inequality, we

determined the total amount of money given to each group and calculated the standard deviation across the groups. Scores could range from 0 (perfectly balanced) to 115.47 (perfectly unbalanced).

Stakeholder balancing approach was operationalized as the extent to which a manager divided monies on a decision-by-decision basis or across the two decisions. To measure this variable, we added the absolute values of the differences of the distribution to each stakeholder group from segment 1 to segment 2. We then subtracted 100 to center this figure. Scores could range from −100 (a within decision approach) to 100 (an across decision approach).

Manipulation check

To validate the vignette's conditions with the test sample, respondents answered two questions on 7-point Likert scales (1 strongly disagree, 7 strongly agree). The first focused on resource divisibility, "The VP of accounting would prefer that the money was *not* divided among the three groups." The second, taken from Agle et al.'s (1999) measure of saliency, checked the stakeholder saliency manipulation, "The claims of these three groups were essentially the same."

Results

Manipulations

Those who received conditions involving high divisibility were significantly more inclined to believe that the money could be divided ($F = 88.05$, $p = 0.00$). Similarly, those who received versions of the vignette where conditions indicated relatively equal stakeholder saliency were more inclined to view their claims as essentially the same ($F = 12.99$, $p = 0.00$). Finally, neither manipulation influenced the other ($F = 0.15$, $p = 0.70$; $F = 0.17$, $p = 0.68$), which indicated that the manipulations functioned as intended. With regards to the nested factor, those receiving a stockholder-favored version did not see a difference in relative saliency as compared to those who received an employee-favored version ($F = 0.76$, $p = 0.52$).

Hypotheses tests

We analyzed the first three hypotheses using ANOVA. In our test of Hypothesis 1.1 (Table I), resource divisibility significantly influenced the extent to which participants balanced stakeholder

TABLE I

Study 1: Anova results and cell means

Effect	*F*	Condition	*n*	Balance of stakeholder interests[a]	
				Cell mean	SD
Resource divisibility	7.66**	Highly indivisible	46	92.25	29.58
		Highly divisible	47	76.39	33.29
Relative saliency	5.68*	Unequal	63	88.84	31.37
Stockholder group membership	2.52	Favoring stockholders	33	94.75	30.66
		Favoring employees' group	30	82.33	31.37
		Equal	30	74.57	32.71
Divisibility×relative saliency	0.48	Highly indivisible/unequal	29	96.56	29.15
		Highly divisible/unequal	34	82.25	32.11
		Highly indivisible/equal	17	84.90	29.70
		Highly divisible/equal	13	61.07	32.57

[a] 0 = Balanced, 115.47 = Unbalanced.

*$p < 0.05$.

**$p < 0.01$

interests across the two decision opportunities ($F = 6.80$, $p = 0.01$). This supported Hypothesis 1.1. Similarly, relative saliency significantly predicted the balancing of stakeholder interests ($F = 8.80$, $p < 0.01$) and thereby provided support for Hypothesis 1.2. To test Hypothesis 1.3, we compared cells where relative stakeholder saliency was unequal. While those receiving the condition where stockholders were perceived as more salient were somewhat less inclined to balance stakeholder interests, this difference was not significant ($F = 2.35$, $p = 0.13$). Power analysis (Cohen, 1988) indicated that the design could easily detect large effects (0.88) and had considerable capacity to detect medium effects (0.50). Given these results, we concluded that there was no support for Hypothesis 1.3.

To test hypothesis 1.4, we conducted linear regression. To account for the influence of individual tendencies to balance stakeholder interests, we used the balancing of stakeholder interests as a control variable. We then examined the influence of resource divisibility. Resource divisibility significantly ($p < 0.01$) influenced the approach used to balance stakeholder interests – the more indivisible the resource, the more the managers employed an across-decision approach to balancing stakeholder interests (Table II). This provided support for Hypothesis 1.4.

TABLE II

Study 1: Effects of resource divisibility on stakeholder balancing approach

Variables	Stakeholder balancing approach	
	Model 1	Model 2
Balancing of stakeholder interests	0.73**	0.79**
Relative saliency		0.01
Resource divisibility		0.23**
ΔR^2		0.05
ΔF		5.23**
R^2	0.54	0.59
Adjusted R^2	0.53	0.57
F	104.97**	41.74**

$n = 93$.
**$p \leq 0.01$.

Discussion

Results of this study suggest that while individual managers may be inclined to balance the interests of the organization's stakeholders, the divisibility of the resource and the relative saliency of the stakeholders' claims constrain their efforts to do so. At an abstract level, these findings support one of stakeholder theory's central tenets, which is that managers are actively engaged in balancing the interests of their relevant stakeholders. At a more practical level, the findings explain why a manager who is genuinely interested and driven to balance stakeholder interests may not do so on one particular decision or set of decisions. So while managers may not be able to change the nature of their resources or their stakeholders' saliency, understanding the factors that shape these kinds of decisions nevertheless establishes a point from which we can begin to improve managerial behaviors.

These findings also provide insights into a central controversy of stakeholder management. We considered the possibility that stockholder group membership might influence the balancing of stakeholder interests in that group's favor, but discovered that stockholder group membership did not have a significant effect on resource allocation beyond that explained by resource divisibility and stakeholder salience. Perhaps this was the case because the concept of stakeholder saliency accounts for any special considerations afforded to members of the stockholder group, but it is also just as reasonable to suggest, as many scholars have done, that stockholders do not receive special treatment simply because of who they are. Clearly, stockholders have a unique status, but in this study their unique status did not translate directly into special treatment from managers.

Finally, we considered the approaches that managers use to balance stakeholder claims and suggested two possible approaches to balancing stakeholder interests, a within-decision approach and an across-decision approach. The findings demonstrated that managers use both approaches depending upon the conditions of the particular decision-making situation. This suggests that not only are managers

interested in balancing stakeholder interests, but that they are prepared to do so in different ways. In this case, when conditions would not facilitate a short-term approach to balancing stakeholder interests, these managers were willing and able to adopt a long-term approach. This point is particularly interesting in that stakeholder theory claims both instrumental and normative implications of its elements, and therefore these two different approaches to balancing stakeholder interests may hold very different instrumental and normative implications for managers. This possibility was the basis for Study 2.

Study 2: Instrumental and normative implications of different approaches to balancing stakeholder interests

Instrumental implications

According to stakeholder theory, considering and satisfying a stakeholder group is instrumentally valuable for the organization because it garners legitimacy and trust from that group and thereby improves the likelihood that the organization will achieve its goals (Hill and Jones, 1992; Jones, 1995). To this end, research has suggested that adopting the stakeholder approach to management is beneficial to the organization's bottom line (e.g., Anderson and Frankle, 1980; Belkaoui, 1976; Berman, et al., 1999; Bowman, 1978; Kotter and Heskett, 1992; Preston, 1978).

While instrumental value is often considered in terms of dollars and cents (e.g., Ogden and Watson, 1999) we note that it could also be considered in terms of legitimacy (Phillips, 2003; Post et al., 2002). Legitimacy is "the generalized perception or assumption that the actions of an entity are desirable, proper, or acceptable within some socially constructed system" (Suchman, 1995, p. 574). Conceptualizing instrumental value as legitimacy de-emphasizes profitability and calls attention to the importance of support or approval from critical stakeholders. Recognizing more than just financial achievements, legitimacy views validation, continuity, and survival as fundamental measures of success.

While the core principles of stakeholder theory suggest that any approach to balancing stakeholder interests is instrumentally valuable in this sense, we believe that the across-decision approach is more instrumentally valuable than the within-decision approach. The within-decision approach incurs costs associated with finding and implementing balanced solutions for every decision while the across-decision approach does not. The across-decision approach merely requires that managers remember previous distributions and maintain balance in the long run – an approach that is less expensive in terms of search and analysis. We theorize that to the extent that managers are aware of the difference between the two approaches and sense (if only tacitly) a greater efficiency and greater effectiveness in the across-decision approach long term, they perceive the across-decision approach to be more instrumentally valuable than the within-decision approach. For the decision-maker, instrumental value is critical for both organizational and individual outcomes. The manager is employed to see the organization survive, but he or she also holds personal objectives. For this reason, managers are motivated to create instrumental value not only for the organization (financial rewards, brand image, etc.), but also for themselves (financial rewards, career advancement, etc.), as well. Subsequently, we offer hypotheses that account for the impact of these two approaches for both the organization and the individual manager.

Hypothesis 2.1. The across-decision approach to balancing stakeholder interests will be more instrumentally valuable for the organization than the within-decision approach.

Hypothesis 2.2. The across-decision approach to balancing stakeholder interests will be more instrumentally valuable for the individual manager than the within-decision approach.

Normative implications

Scholars have spoken about the normative aspects of the stakeholder approach from its earliest incarnations (e.g., Dodd, 1932). At its theoretical foundation, the stakeholder approach assumes that the organization's relationships with its stakeholders are inherently valuable and therefore must be treated as such in the operation and management of the organization. Consequently, the approach suggests that by valuing these stakeholder groups, managers

are acting morally and ethically (Carroll, 1989; Jones and Wicks, 1999).

Although both approaches legitimately balance the interests of stakeholders, we suggest that managers committed to stakeholder management will perceive the across-decision approach as morally more appealing. The crux of our argument is found in Goodpaster's description of the stakeholder paradox. Goodpaster (1991) argued that a manager's fiduciary responsibility to stockholders is inherently different from his or her responsibilities to other stakeholders because stockholders have entrusted capital to the manager for the return of profits. In any given series of decisions, both the within-decision and the across-decision approaches address the interests of all stakeholders, but the across-decision approach achieves comparable results without the added costs of balancing all relevant interests on every decision. Thus, decisions reached from an across-decision approach are less costly and therefore meet the manager's fiduciary responsibilities to the owners more efficiently. It stands to reason, then, that regardless of the manager's philosophical orientation (utilitarian, Kantian, etc.), if both approaches are able to address the non-owner stakeholders' interests equally but one can more fully meet the manager's fiduciary responsibilities, that approach will be perceived as more ethical. Hence, we offer the following:

Hypothesis 2.3. The across-decision approach to balancing stakeholder interests will be perceived as more ethical than the within-decision approach.

Method

Sample

The participants in this study were 87 managers enrolled in three different evening MBA strategy courses at a large mid-western university. The instrument was distributed during regular class sessions as a voluntary activity. Thirty-seven of the participants were females (43%). As a group, their average age was 31.3 years (SD=5.8), their average tenure in their organizations was 4.1 years (SD=3.2), and they represented seven distinct functional areas (finance, information technology, human resources, management, marketing, research and development, and operations).

Design and measures

The instrument included three vignettes (Appendix A). The first vignette examined instrumental value for the organization. Participants were asked to assume the role of a manager in a fictitious company and were then presented two other companies as potential partners: one that tended to "compromise over a series of decisions" and one that tended to "compromise on every individual decision." Consistent with our view of instrumental value as legitimacy, instrumental value for the organization was measured by asking the participants to select one company over the other as a partner. Instrumental value was also measured on a 5-point Likert scale as the extent to which the participants preferred working with each company.

The second vignette examined instrumental value for the individual. In the vignette, two managers had to allocate 8 hours of available overtime to two employees, each of whom wanted to work 8 hours of overtime. The within-decision manager suggested that both employees work 4 hours of overtime while the across-decision manager suggested that one employee work 8 hours of overtime this weekend and that he would guarantee the other employee 8 hours of overtime in the future. As in the first vignette, instrumental value was measured by having the participants indicate their preference for one manager as their supervisor over the other. Instrumental value was also measured on a 5-point Likert scale as the extent to which the participants would prefer working for each manager.

The third vignette was a 1×2 between-subjects design. The factor was balancing approach (within-decision/across-decision). In the vignette, Beta-Omega, a large oil company, faced two decisions. In the first decision, the company was considering whether or not to build a large on-shore apartment complex for its employees that, according to the local government, would negatively impact the local ecosystem. In the second decision, Beta-Omega was considering whether or not to layoff employees by plugging and abandoning an offshore well that was just breaking even but was having a negative influ-

ence on the local government's tourism efforts. In the within-decision version of the vignette, Beta-Omega decided to build a smaller apartment complex and to keep the well open for six more months while contributing money to the local government's tourism efforts (a compromise on both issues). In the across-decision version, Beta-Omega first complied with the local government by not building the apartment complex, and then sided with the employees by keeping the well open. Participants completed two items as manipulation checks to confirm that they understood to what extent the stakeholder groups would benefit from Beta-Omega's decisions. Perceived ethicality was measured on a 5-point Likert scale as the extent to which the participant thought Beta-Omega's decisions were ethical.

We recognized the possibility that a participant's preference for any given stakeholder group might influence his or her responses in the final vignette. Therefore, in the last section of the questionnaire we asked, "How much consideration do you think managers should give the following groups?" Participants were instructed to allocate 100 points between six stakeholder groups: stockholders, government, employees, community, suppliers, and customers. We then measured relative preference for the employee group as the points allocated to employees divided by the points allocated to both the employee group and the government, and controlled for its influence in the analysis.

We pre-tested the entire instrument with 21 managers from a separate evening MBA class. Based on their feedback, we made minor changes in the verbiage and presentation of each of the vignettes.

Results

Results from the first vignette are presented in Table III. Sixty-one percent expressed a preference for the across-decision company, a statistically significant ratio ($t = -2.08$, $p = 0.04$). Recognizing that a forced choice could exaggerate very slight preferences, we examined participants' evaluations of each company. The mean response for the across-decision company was 3.24 compared to 2.92 for the within decision company. This more favorable evaluation of the across-decision company was statistically significant ($t = 2.12$; $p = 0.04$). We also examined differences in each participant's evaluation of each company (paired samples t-test). The mean difference in participants' responses was 0.32 (SD = 1.79), which yielded a marginally significant t-value of 1.68 ($p = 0.10$). These results indicated that the forced choice question did not exaggerate small preferences but reflected a statistically significant preference for the across-decision approach as compared to the within-decision approach. These results provided support for Hypothesis 2.1.

The results of the analysis of the second vignette are presented in Table IV. Sixty-three percent of participants chose the across-decision manager, a statistically significant ratio ($t = 2.78$, $p = 0.01$). The across-decision manager received a mean evaluation of 3.55 while the within-decision manager's mean evaluation was 3.15. This difference was also significant ($t = 1.97$; $p = 0.04$). The paired samples t-test yielded a statistically significant value of 2.65 ($p = 0.01$). These results provided strong evidence for Hypothesis 2.2.

To test Hypothesis 2.3, we analyzed the manipulation checks and removed those who did not fully understand how each stakeholder group had benefited from Beta-Omega's decisions. We also removed the responses of two participations

TABLE III

Study 2: Analysis of instrumental aspects – t-tests of organizational instrumentality

	Across-decision company	Within-decision company
With whom would you prefer to work?		
Responses	53	34
Percentage	61%	39%
t-test	$t = -2.08$ ($p = 0.04$)	
To what extent would you prefer working with:		
n	87	87
Mean	3.24	2.92
Standard deviation	0.95	1.05
Two sample t-test	$t = 2.12$ ($p = 0.04$)	
Paired sample difference	0.32	
Paired sample standard deviation	1.79	
Paired sample t-test	$t = 1.68$ ($p = 0.10$)	

TABLE IV
Study 2: Analysis of instrumental aspects – t-tests of individual instrumentality

	Across-decision manager	Within-decision manager
With whom would you prefer to work?		
Responses	55	32
Percentage	63%	37%
t-test	$t = 2.78$ ($p = 0.01$)	
To what extent would you prefer working with:		
n	87	87
Mean	3.55	3.15
Standard deviation	0.89	0.88
Two sample t-test	$t = 1.97$ ($p = 0.04$)	
Paired sample difference	0.40	
Paired sample standard deviation	1.41	
Paired sample t-test	$t = 2.65$ ($p = 0.01$)	

who failed to properly allocate points to the stakeholder groups. Of the 63 participants ultimately included in this analysis, 31 received the within-decision version and 32 received the across-decision version. We analyzed this data using regression analysis (Table V). The regression model contained the control variable, relative preference for the employee group, and the independent variable, balancing approach (0 = within-decision approach, 1 = across-decision approach). Even when controlling for relative preference for the employee group, balancing approach significantly influenced the perceived ethicality of the situation ($p = 0.02$). Those who received the across-decision version were significantly more inclined to see Beta-Omega's decisions as ethical than those who received the within-decision version. These results supported Hypothesis 2.3.

Discussion

This study explored the instrumental and normative implications of two different approaches to balancing stakeholder interests. In these situations, the across-decision approach proved to be more instrumentally valuable for both the organization and the individual manager than the within-decision approach. While this design did not address the specific reasons underlying this preference, we speculate that managers have a tacit knowledge of the added costs associated with a within-decision approach and view the across-decision approach as a more efficient way of achieving desired outcomes. Regardless, it is interesting to note that when given two viable options for balancing stakeholder interests, managers selected the approach that is more consistent with the spirit of stakeholder management. This provides some evidence of a managerial pragmatism – perhaps in the day-to-day grind of business managers recognize that decisions must be made quickly and opportunities to rectify any imbalances that might occur will be available in the future.

The across-decision approach was also perceived to be more ethical than the within-decision approach. This finding is particularly intriguing given the other possible outcomes. For example, if participants had perceived no ethical difference between the two approaches, this would suggest that a manager could theoretically choose either approach without jeopardizing his or her ethical standing. Alternatively, if participants had perceived that the within-decision approach was a more ethical approach, this would have suggested that managers must choose between the instrumental value of the across-decision approach (per Hypotheses 2.1 and 2.2) and the normative value of the within-decision approach. In such a case, managers would truly have to choose between profits and ethics. As it was, though, the across-decision approach was perceived to be a more ethical approach for balancing stakeholder interests. This indicates that what is instrumentally valuable for a manager or an organization is also perceived by managers to be the most ethical course of action. This is contrary to a "profits versus ethics" perspective and echoes one of stakeholder management's central premises: good ethics is good business (Bowie, 1999; Donaldson and Preston, 1995; Hill and Jones, 1992; Jones, 1995).

General discussion

Using stakeholder theory as our basis, we assumed that managers are interested in and motivated to balance stakeholder interests, but that certain factors

TABLE V
Study 2: Normative implications of two balancing approaches

Variables	Perceived ethicality	
	Model 1	Model 2
Relative Preference for Employees	−0.07	−0.03
Balancing Approach		.30*
ΔR^2		0.09
ΔF		6.00*
R^2	0.01	0.09
Adjusted R^2	−0.01	0.06
F	0.26	3.12*

$n = 63$.
$^{*}p \leq 0.05$.

constrain their efforts to do so. The results of the first study suggested that resource divisibility and relatively unequal levels of stakeholder saliency indeed constrain managers from balancing stakeholder interests, but the mere fact that one set of stakeholders was owners of the company did not influence this process. The findings further suggested that resource divisibility impacts whether a manager will try to balance stakeholder interests with a within-decision approach or an across decision-approach. The second study demonstrated that, while both are theoretically valid approaches to balancing stakeholder interests, the across-decision approach generates more instrumental value and is perceived to be more ethical than the within-decision approach.

This research is not without limitations. First, in each study the participants were low to mid-level managers, and therefore it is unclear to what extent the findings can be generalized to higher-level managers (e.g., executives). In response, we point out that the participants were representative of a large population of managers to whom stakeholder principles are theorized but research has yet to explore. In this sense they fulfilled a specific research purpose. Moreover, the sample demonstrated diversity along numerous demographics, which suggests that the results might be generalizable to managers at all levels in the organization. Future research can examine this point further.

Second, the research utilized vignettes, which have been criticized because of their artificial and overly simplistic nature (Weber, 1992). Indeed, these vignettes, particularly those in study 2, focused on very specific conditions, and it can be difficult to draw general conclusions based on such finite situations. Nevertheless, scholars agree that vignettes are justified when research on a topic is in its early exploratory stages, when a large degree of control is necessary to isolate complicated relationships, and/or when the sensitive nature of a topic does not lend itself to in-depth exploration (Cavanagh and Fritzsche, 1985). In this case, each of these conditions applied. Moreover, the vignettes were carefully designed, pre-tested and checked to enhance their validity. For these reasons, we believe that their use was theoretically justified and empirically defensible. Still, future studies could use methodologies that more accurately reflect ''real world'' experiences to verify and further these findings.

Despite its limitations, the research makes several contributions to the stakeholder literature. First, this study demonstrates the value of focusing stakeholder theory on the individual decision-maker. While stakeholder researchers tend to position the organization as the hub of the stakeholder network, stakeholder theory is perhaps more accurately depicted with the manager, the principal decision-maker, in the center. In such a model, the principles of stakeholder management apply to individuals first and then to the organization. By addressing the individual manager as the central decision-maker this research draws attention to this critical distinction and encourages more research at this level of analysis, whether it be in this particular area or any area related to stakeholder management.

Second, this research reveals some of the potential value found in exploring the descriptive aspects of stakeholder management, an area that has largely been overlooked by stakeholder researchers (Donaldson and Preston, 1995). While stakeholder theory does indeed predict great economic and moral outcomes, we argue that there is also much to be gained by understanding the processes by which managers and organizations make stakeholder decisions. While we believe that descriptive information

is valuable in its own right, we also note that because of the purported interrelatedness of the different aspects of stakeholder management (Jones and Wicks, 1999), exploring the descriptive aspects of stakeholder management might also generate unique instrumental and normative insights, too. In short, the potential benefits of exploring the descriptive aspects of stakeholder management exist at many levels.

Lastly, these findings provide insights for the practice of management. For example, the findings support the argument that managers are inclined to balance the resources entrusted to them among their various stakeholders. This may seem contrary to what appears in the media to be the most recent trends, but it does suggest that the principles of stakeholder management are the norm, and that those acts that fill the headlines represent exceptional behaviors. In addition, these findings provide the manager practicing stakeholder management with concepts and language for explaining and justifying his or her resource allocation decisions, particularly when those decisions appear to one stakeholder group or another to be contrary to the principles of the stakeholder approach. Lastly, the results are encouraging because they suggest to managers that even though certain factors of their decision-making situation may constrain one attempt to balance stakeholder interests, their stakeholder obligations can still be fulfilled. In this research we considered just two approaches for achieving this goal, but to the extent that managers are able to adapt to these kinds of circumstances, their options may be limitless.

In conclusion, we feel that describing the factors that shape managerial decisions about the distribution of resources is an important endeavor – not only for those stakeholders who stand to gain directly from the resource distribution, but also for society as a whole. This research suggests that despite what might be currently described as a crisis of confidence among stakeholders everywhere, we can take some encouragement in evidence that paints managers as individuals who are generally interested and motivated to balance resources among stakeholders. The key is to identify those factors that limit a manager's ability to do so and to plan accordingly.

Appendix A

Study 1 vignette

You're sitting in your office when Joan, another manager at GunderAll and a good friend of yours, knocks on your door. As she sits down across from your desk, she explains ''Our division recently sold one of our abandoned warehouses, and I'm responsible for distributing the $100,000 we made in the sale of that building. I'm considering three different possible outlets for the money, but I can't seem to make up my mind. I need your advice.'' She then explains her three options:

1. One of her co-workers has suggested that some or all of the money be added to next quarter's dividend payment to stockholders. (nothing) (The new Chairman of the Board has identified dividends as his top priority, so this would mean a great deal to him and to the stockholders of the organization) (The Chairman of the Board has said that he thinks dividends are meaningless, so this would not mean much for him or the stockholders of the organization).
2. Another co-worker has suggested that some or all of the money should be given to a college scholarship program that was developed and is administered by the employees. (nothing) (You know, though, that the program has had serious funding problems and will probably die very soon regardless of whether or not they get any more funds) (The program has sent dozens of kids to college and is a very highly regarded program.)
3. A third co-worker has suggested that some or all of the money should be given to a youth development program run by a local community group. (nothing) (However, you saw on the local news last night that the leaders of this program are under investigation for the misuse of funds).

(As the two of you review these options it becomes apparent the each request has equal merit. Each group would benefit by receiving additional funds

and each group has a valid claim to this money. Furthermore, in the short run the company will get about the same amount of economic and 'PR' advantage no matter how the money is distributed.)

As the two of you discuss the situation, the phone rings. On the line is the vice president of accounting. He asks, "Is Joan there?" You turn the phone over to Joan. She listens for a few minutes, says, "OK," and then hangs up the phone. She then turns to you and says, "That was the VP of accounting. He knows that I'm supposed to distribute this money and he wants me to (feel free to divide the money however I want to) (avoid dividing up the money – he only wants to write one check)."

As you consider these options one last time, you remember that the company has four other abandoned warehouses so it is *very likely* that she will have to make this same decision again in the near future. Joan then turns to you and asks, "What should I do?"

What will you recommend? Given the requests of the stockholders, the employees' group, and the community group, what would you do with the money?

(WEEK #2) Today you checked your voice mail and found a message from Joan. She called to express her gratitude – she distributed the money exactly as you suggested and everything turned out great. She also wanted you to know that GunderAll sold a second warehouse and therefore she is required to distribute another $100,000. Once again, she wants you to make a recommendation on how to distribute the funds. In her message, she says that she'll call back this afternoon to get your advice.

Apparently, word about Joan's request has leaked out because following her voice message are four others. The first is from a stockholder who wants you to take this opportunity to increase the stockholders' dividends. The second is from an employee who wants you to give the money to the employee's scholarship program. The third is from a member of the community youth program who wants you to give the money to them, and the last message is from the VP of accounting reminding you that the money (can be divided any way you want to) (shouldn't be divided – he only wants to write one check).

Joan will be calling back soon. Once again, you have requests from the stockholders, the employees, and the community. What will you recommend this time?

Study 2 vignettes

Instrumental aspects: Organizational

You are a manager at Storit, a manufacturer of shipping cartons. Your company has developed an entirely new kind of carton that is much cheaper to make and much stronger than any other carton available. The carton has been tested in the lab, but now management wants to enter into an agreement with a Storit customer to test the product in the field. You will be in charge of this testing phase, and based on lab tests, it appears that whichever customer you select as the 'test' organization will have a tremendous short-term competitive advantage. You've narrowed your decision to two firms in the same industry: Company A and Company B. The companies are essentially the same in all respects. However, you know from experience that they make decisions very differently: Company A prefers to compromise over a series of decisions while Company B tries to compromise on every individual decision. In other words, when faced with several difficult decisions, Company A asks those parties who are involved to give-up what they want on one decision so that they can get what they want on another decision. Company B, on the other hand, tries to make their decisions one at a time, asking those who are involved to give-in a little bit on every decision.

Instrumental aspects: Individual

Two employees have both volunteered to work 8 hours of overtime this weekend. The budget, though, will only allow for 8 hours of overtime total per weekend. One supervisor, John, has suggested, "Let one of them work the first 4 hours, and let the other one work for the second 4 hours." Another supervisor, Larry, has suggested, "Let one of the employees work this weekend, and we'll guarantee the other employee 8 hours of overtime work the next time."

Normative aspects

Beta-Omega, a large petrochemical company, was faced with two difficult decisions. First, Beta-Omega had an offshore oil well in northern Alaska and they wanted to build a $1 M on-shore apartment complex to house those employees (and their families). They knew that such a complex would drastically reduce employee travel expenses and would improve morale, but the government was opposed

to the idea from the beginning. The government had indisputable proof that the apartment complex would cause irreparable damage to that particular ecosystem, and so they were pleading with Beta-Omega not to build the complex. In a separate situation, Beta-Omega was trying to determine whether or not to close an existing offshore oil well, KR4, in southern Alaska. KR4 had been functioning for over 35 years, but in the past few years the oil supply had begun to dwindle and the oil collected was just barely covering the oil well's expenses. The government believed that this particular drill, because it was near the cruise ship sailing lines, decreased tourism revenues in southern Alaska by about $1 M. They felt that by closing the oil drill they could bring more tourists to the area. On the other hand, the employees at KR4, fearful of losing their jobs, argued that as long as the oil well was making money, it should be kept open. Beta-Omega ultimately made two decisions. In the first situation, they spent only $500,000 and built a much smaller apartment complex than the one originally proposed thereby minimizing the damage to the ecosystem and yet allowing their employees a place to live. In the second situation, [they decided to give KR4 six more months to become more profitable. They then donated $500,000 to the government to help improve tourism in the area.] [they decided to comply with the government's request and not build the apartment complex. In the second situation, they guaranteed the employees that as long as KR4 was pumping oil it would remain open.]

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