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Stakeholder theory and practice in Europe and North America: The key to success lies in a marketing approach

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A B S T R A C T

Corporate reputation in Europe and North America is increasingly seen as a function of how firms treat their stakeholders. In the United States, stakeholder theory has been touted as a paradigm of good management; yet despite enlightened stakeholder practice at home, US firms continue to run into problems in Europe. Wal-Mart, Microsoft, and GE have, in one way or another, all been caught off guard when doing business in Europe. This paper suggests that some of the stakeholder relations difficulties encountered by US corporations in Europe can be explained by fundamental cultural and philosophical differences between these regions that affect how stakeholders are viewed and how relations with those groups are managed. In this paper, we examine the historical and socio-political forces influencing stakeholder theory in the US and northern Europe and then use a business-to-business marketing approach to show how US firms might develop an approach to stakeholder relations that fits the northern European environment.

1. Introduction

1.1. When world-views collide

Wal-Mart, the largest retailer in the world, entered Germany in 1998 with great fanfare. Bringing state of the art inventory management, unrivaled product reach, excellent customer service, and great prices, the company's success was assured. Yet a mere 8 years and as many billion dollars later, the company ignominiously exited. Pundits have offered a host of reasons: but largely their failure is attributed to misunderstanding the German consumer, and to developing poor relations with the German government, the unions, and employees (Trumbull & Gay, 2004). Taken together these various themes are subsumed by the wider issue of stakeholder relations: simply Wal-Mart's stakeholder world-view crashed headlong into European *de facto* stakeholder practice.

In the late 1990s, Monsanto thought it had found the perfect seeds for the agricultural communities of the future (MacDonald et al., 2006). They could be genetically modified to resist certain diseases and produce higher yields. However, these seeds were engineered to produce sterile crops, thereby also ensuring that the farmer would need to repurchase seeds every year. The seeds, therefore, became known as 'terminator' seeds, and Monsanto's products suffered from a European Union (EU)-wide media onslaught which argued that the big American firm was coming to destroy the traditional values and jobs that had defined social structure and the European way of life for centuries. Monsanto had ignored an important European practice; many European farmers continue to 'brown-bag' their seeds (the practice of saving and re-using seeds from the previous year's crop), a practice which Monsanto would eliminate by selling genetically modified terminator seeds. Societal rejection in this case was not based on not fulfilling the needs of shareholders as much as failing towards society at large (MacDonald et al., 2006).

In recent years, coffee producers worldwide appear to be making efforts to encourage sustainable coffee production and fair trade practices. Yet, US companies have taken a different approach to that of European firms, especially with regard to collaborating with international organizations. For example, in order to ensure it meets the needs of society, Nestlé has established multilateral relations, working with over 22 fellow coffee producers in a consortium to establish worldwide coffee growing standards (www.nestle.com). However, Starbuck's Corporation's model of collaboration is unilateral, and the company has attracted scathing attacks for exploiting the coffee suppliers in developing regions of the world. *Corporate Watch* dismisses Starbuck's' CSR programs as "a smokescreen to create the illusion of ethics" (Robertson, 2005), adding that the company is committed only to making money for its shareholders.

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The examples above illustrate that there are differences in the perceptions of corporations in US and European societies depending on their handling of stakeholders — the collective name for outside groups including consumer organizations, the community, and competitors. The same measures that contribute to ensuring a strong corporate reputation in North America might not suffice or be irrelevant in the European context (see, for example, Kostova, 1999). In the US companies manage their stakeholders on a case-by-case basis, careful to adapt their actions to the party concerned when necessary; in Europe *stakeholders manage their companies* with those firms being careful to adapt to the societal consensus.

1.2. Why comparing apples to oranges is a bad idea

If the European stakeholder tradition is the 'orange,' then the US CSR-related stakeholder approach is the 'apple.' The US stakeholder approach is linked to the corporate social responsibility movement and strongly normative in nature, rooted in American liberal traditions (see Donaldson & Preston, 1995). As such, it has encountered mixed reactions in Europe. Europe already has its own models of stakeholder management — models that embrace many of the principles espoused by the American stakeholder model but have been in place for many years, in some cases with roots in the 1800s (Habisch & Wegner, 2005).

One of the major European models of corporate governance, often referred to as the European stakeholder model, is the Rhineland model of capitalism. Found in Germany, to some degree in Austria and, in a somewhat different configuration, in several Scandinavian countries, it is an approach that integrates stakeholders into a two-tiered management and governance structure. Permanent board membership at the top level of firms has spots reserved for employee stakeholders and financial institutions (Albert & Gonenc, 1996).

In contrast to this, US firms reserve positions on the board of directors for representatives of institutional investors or major individual shareholders. With the popularization of the stakeholder approach to organizations, US firms are purported to have moved away from a strict shareholder model which focuses solely on maximizing returns for shareholders to one that considers the demands of external groups. However, the fact remains that US corporations are still effectively structured and run within the confines and dictates of the shareholder-primacy model. Other stakeholders have no 'seat at the table' or are only able to influence corporate action when they own a significant proportion of the company's stock (see Neubaum & Zahra, 2006). European corporations, by contrast, have for some time integrated a stakeholder model into their permanent corporate governance structures and strategic management approach.

That the US and Rhineland stakeholder models share a common terminology has served to mask their differences, leading many US firm entering Europe to believe that American practices and perspectives are appropriate in a European context. In this paper we will explain the extent to which the different stakeholder models diverge. The different regions' approaches to stakeholder relations have important consequences for the performance and reputations (and the influence of performance *on* reputation, and *vice versa*) of firms operating in these regions (Mackey, Mackey, & Barney, 2007; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003; Siegel & Vitaliano, 2007; Vogel, 2005). If we are to gain a good understanding of the adaptations required of US companies setting up in Europe, we need to look to the historical, social, political, and philosophical roots of these approaches.

In addition, up to now, there have been few (if any) theoretical contributions in the marketing literature explaining the process by which this adaptation must take place. As a result, there is a need to develop a framework around which US managers launching EU operations might plan their strategies. Thus we apply a marketing process model based on practices familiar to US companies to anticipate and explain the types of challenges firms might encounter when entering Europe; and to find ways to meet the expectations of key European stakeholders (Murray & Montanari, 1986).

2. Contrasting northern European and American stakeholder approaches

2.1. The American stakeholder model

North American firms are expected to consider, and ideally reconcile, two conflicting strategic perspectives: the shareholder-value maximization model and the stakeholder model. The first maintains that the sole purpose of a business is to make money for its shareholders (Friedman, 1970). This view reflects a liberal, individualistic perspective; extending the idea that a corporation is the sum of the individuals involved and, thus, that most actions can and should be primarily considered on the basis of individual motives and decisions (Watkins, 1994). Stemming from the definition of a corporation under common and Roman law as "an artificial being, invisible, intangible, and existing only in contemplation of the law... [possessing] only those properties which the charter of its creation confers upon it, either expressly or incidental to its very existence" (Votaw, 1965: 11), the shareholder maximization approach can be understood as a function of the limited role the corporation can and is expected to play. The corporation operates as an independent agent whose primary responsibility is to increase the value of its shareholders through prudent and effective management of its operations.

The second perspective, coined in the 1960s, is known as the stakeholder approach (Freeman, 1984). The stakeholder approach maintains that a corporation exists to make money for its shareholders but that it must also satisfy the needs of its other stakeholders; those being employees and the community, among others. In extending the responsibilities and the actions of the corporation beyond the limits of the individual and the written law, this perspective implicitly adheres to the idea that a corporation is a social phenomenon and thus has a purpose, opportunity, and an obligation greater than that of its individual members (Freeman, 1984). Although not the first to discuss the concept (see Carroll, 1999; Clarkson, 1995), Freeman (1984) is credited with being the first to define a stakeholder as a group without whose support the firm would cease to exist.

The stakeholder concept has developed to embrace descriptive, instrumental and normative approaches (Donaldson & Preston, 1995); but while most US firms actually adopt a shareholder-value maximizing approach, the stakeholder approach is largely advocated from a normative perspective (Donaldson & Preston, 1995). Because no social constraints are placed upon the corporation unless they are self-imposed — perhaps for the purpose of guarding its reputation and legitimacy in the environments in which it operates (Lamertz, Heugens, & Calmet, 2005) — it is free to adopt or create a moral code best suited to its activity, the maintenance of its corporate reputation, and the personal views of its shareholders and management.

2.2. The European stakeholder model

In our discussion of the European model of stakeholder management we focus on the countries of northern Europe; i.e. Austria, Scandinavia, and particularly, Germany. The reason for this is that the term *stakeholder* in Europe is most commonly understood to characterize the corporate governance approach used by firms in these countries, although slight variations between the countries' approaches do exist. We exclude the British and Irish models as they are generally considered to represent a hybrid between the North American and northern European approaches towards stakeholders. The northern European, and specifically the German (also known as the "Rhineland"), approach to corporate governance is the basis of a