Chapter 12
Toward Responsive Corporate Governance:
Engaging Stakeholders from Beyond

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ABSTRACT

Since the early 1980s, globalisation has deeply affected the way in which corporations typically conduct their affairs. This is true not only for business organisations that are active in the OECD countries but also for those operating in the emerging markets of the less affluent parts of the world. New social and ethical perspectives have become relevant for management strategy and have highlighted the need to acknowledge the existence of stakeholders—old and new—in a way that may benefit the interests of firms as well as those of local communities and society at large. In this chapter we argue that of all possible stakeholders the ones beyond the present periphery of the firm have the most potential for its long-term survival. Responsive corporate governance, therefore, will seek to engage with stakeholders from beyond.

PARADIGM SHIFT IN MANAGEMENT STRATEGY

Economic globalisation seriously took off after the fall of the Berlin Wall in November 1989, when the number of participants in the global market grew almost overnight from one billion and a half to six billion people—thus tremendously expanding the possibilities for trade and consumption. The globalising economy has come with the discovery of new management territories to be explored for companies operating from multiple nations, including the so-called emerging economies of the BRICS countries: Brazil, Russia, India, China, and South Africa (Guest, 2011). New social and ethical perspectives, sometimes embodied in new codes of conduct, have become relevant and have prioritized the need to deal with stakeholders in a way that may benefit the interests of firms in the long run as well as those of local communities and society at large (Van Tulder & Van der Zwart, 2006; Crane & Matten, 2010; Griseri & Seppala, 2010; Chandler & Werther, 2013). This shift in perspective is a trend in management strategy that we refer to as a move toward responsive corporate governance.

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The story of the role of stakeholders in management strategy starts, of course, with the work of Edward Freeman and with the huge impact of this prominent American business school professor. In 1984 Freeman published his seminal book, *Strategic management: A stakeholder approach.* Freeman explicitly addressed a corporate audience, for which he defined the concept of "stakeholder" as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Freeman's own objective was pragmatic: to provide corporate managers with an instrument for dealing with the important, unexpected changes that were taking place in society at the time. From the 1960s onwards, corporations had been confronted with new groups, events, and issues that until then were not part of standard corporate affairs and which the traditional managerial view of the firm was not able to address. For Freeman, the stakeholder approach was a way to make managers more responsive to these changes in the world outside. This new approach intended to make not only traditional interest groups (owners, customers, employees, and suppliers) but also these newly emerging groups (governments, competitors, consumer advocates, environmentalists, special interest groups, and the media) relevant for management strategy development. Freeman's main message was that every single one of these groups of stakeholders could play an equally vital role in the success of the business enterprise (Freeman, 1984, p. 25).

A few years later, Freeman's stakeholder approach took off in a slightly new direction to become the hallmark of corporate social responsibility or CSR. It was increasingly used to describe and clarify the responsibilities of corporations towards society with a growing concern for social, ethical, and environmental issues. Subsequently the concepts of "stakeholder management" and "multi-stakeholder dialogue" have come to play a central role in discussions concerning CSR (Clarkson, 1995; Jones & Wicks, 1999; Kakabadse, Rozuel, & Lee-Davies, 2005; Waddell, 2005, 2011; Kakabadse & Morsing, 2006; Visser, 2011; Blowfield & Murray, 2011; Crane, Matten, & Spence, 2013; Beal, 2014).

A CHANGING GLOBAL ENVIRONMENT TO DEAL WITH

Since the publication of Freeman's book, the environment for doing business has again changed dramatically. We now live in the era of globalisation (Barber, 1995; Friedman, 1999, 2005; Van Seters, De Gaay Fortman, & De Ruijter, 2003), in which the combined effect of a demographic explosion and a fundamental makeover of the world economy is becoming more and more visible (Rischard, 2002). Following World War II, the reconstruction of infrastructure and industrial production in Europe and Japan paved the way for the reestablishment of an integrated global trade system. Initially, during the Cold War period, there were three different worlds. They were divided in political terms and mirrored the struggle between two economic systems—capitalism and communism. The first world of capitalist countries was based on private enterprise and a free market; the second world of communist countries was based on state ownership and central planning of production; while the third world referred to the rapidly rising number of postcolonial countries that economically belonged to neither capitalism nor communism, but were wooed by either side. Both the second and the third world had its own reason, seemingly valid at the time, for not joining the economic system of the first world (Sachs, 2005, 2009). However, after the end of the Cold War, the global economy experienced a sharp upturn. Because now only one economic system, i.e., capitalism, was left, it became possible to think of the world as a whole. Hundreds of millions of people in Eastern Europe, but also in Africa, Asia, and South America, had to orient themselves to this one remaining economic system.

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