The Collaborative Enterprise

A Stakeholder Model Uniting Profitability and Responsibility

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Business is caught in a struggle between escalating demands for social responsibility versus urgent needs for profitability to survive a more competitive world. With the onset of a new economic system based on knowledge rather than capital, this conflict can be resolved by viewing stakeholders as partners who create economic and social value through collaborative problem-solving. The mission of business can thereby be redefined to serve both capital and society by integrating stakeholders into a more productive whole—a 'collaborative enterprise'. Three forms of evidence are presented to explore the validity of this model: (1) trends indicate the rise of working partnerships that benefit both stakeholders and the corporation; (2) results from a computer simulation suggest that stakeholder collaboration increases benefits for all parties; and (3) survey data shows that a sample of 540 managers generally accept stakeholder collaboration but are confused about its implications. The paper concludes by defining principles of the collaborative enterprise, and argues that this perspective offers a more legitimate and productive theory of the firm for a knowledge age.

- Corporations
- Collaboration
- Stakeholders
- Capitalism
- Social responsibility
- Profitability
- Knowledge

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TWO CONCEPTS CENTRAL TO THE CONDUCT OF BUSINESS—CORPORATE PROFITABILITY and social responsibility—have co-existed in an uneasy tension throughout industrialisation. Many captains of industry advocated a form of social responsibility long ago, even during the heyday of robber-baron capitalism (Dodd 1932). As a reaction to the dominance of profit, social responsibility rose to prominence in the 1960s and '70s, often to the point of conducting social audits (Corson and Steiner 1974). And the stakeholder model followed to gain wide acceptance (Clarkson 1998). But, despite this century-long struggle to redirect business toward social goals, most companies continue to focus on money, with scant attention to social concerns.

For example, the well-accepted tenet of balancing stakeholder interests (Baumhart 1968) was abandoned by most American corporations during the 1990s. Average CEO pay rose almost 30% annually to several million dollars per year, while employee wages stagnated at less than 1% of this amount. The same companies often fired tens of thousands of workers, even while their firms were reasonably profitable. Competitive pressures may have justified these actions, but it came as little surprise to see that corporations still favour financial interests rather than the balanced treatment of current stakeholder theory.

This paper presents a crucial variation on the stakeholder model and supporting evidence showing that the onset of a knowledge economy may resolve the long-standing conflict between profitability and responsibility. As we will see, knowledge is an unusual resource because it encourages co-operation as a strategic means of creating value for all involved. This insight advances stakeholder theory by recognising stakeholders as **partners who create both economic and social value through collaborative problem-solving**.

Rather than being passive recipients of responsible treatment, modern stakeholders work with managers to improve their own welfare while also enhancing corporate profitability. Among progressive companies noted in this paper, managers, employees, customers, business partners, local governments and shareholders pool knowledge to raise understanding; they share a common commitment to the success of *their* enterprise; and engage in joint problem-solving to improve both economic and social performance.

If this tentative conclusion holds with further study and experience, a theory of the firm may gain ascendancy in which wealth creation arises directly out of integrating stakeholders into a productive whole—a 'collaborative enterprise'. Companies could then claim legitimate status as true corporate citizens that serve both the economic and social functions of society.

Bridging the clash between capital and society

The conflict between capital and society seems to persist because the views of scholars and managers often polarise between profit-making versus social responsibility.

Conflicting views of stakeholder theory

The problem is vividly seen in the clash between the profit-centred model inherited from the industrial past and the social responsibility model that was introduced in the 1960s. Profit-making may create social benefits indirectly, but, from the viewpoint of managers committed to making money, stakeholders are simply a means to the end of financial gain. The social responsibility model, on the other hand, usually ignores productivity,

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profit and other economic goals, so it is often condemned as 'doing good'. An editor of *Fortune* magazine asserted, 'Doing good is bad business' (O'Toole 1991).

In their pure form, then, these two positions appear to be mutually exclusive. Profitability and social responsibility seem incompatible because each focuses on opposite halves of the corporation's domain, and they ignore relationships between these two crucial dimensions. Governance thereby becomes a zero-sum game. And because economic realities are considered fundamental to survival, concern for profit often drives out social considerations.

The stakeholder model tries to address this conflict (Freeman 1984; Brummer 1991; Clarkson 1998), but it does not yet define a theory that can do so. Some definitions do recognise the productive role of stakeholders (Preston 1999), and others acknowledge the need for collaboration (Donaldson and Dunfee 1999; Spagnolo 1999; Finnie *et al.* 1998; Freeman 1984). But these concepts have not been developed into a complete theory, and the mainstream of business thought continues to view stakeholders using normative perspectives of social responsibility, business ethics and morality.

Perhaps the most representative view is provided by the 'Consensus Statement' of the 'Redesigning the Corporation Project', which consists of principles roughly similar to the social responsibility view: 'Corporations should monitor the concerns of stakeholders', 'communicate openly', 'distribute benefits equitably', etc. (Clarkson Centre for Business Ethics 1999). A definitive article concluded, 'The ultimate implication . . . is that managers should acknowledge stakeholder interests . . . because it is a moral requirement for the legitimacy of the management function' (Donaldson and Preston 1995), while another prominent work stated, 'The distinctive competence offered by business and society researchers is . . . that we see and are concerned with the rights and claims of [stakeholders]' (Logsdon and Wood 1999). Many others stress this moral dimension (Freeman and Evan 1990), while Brummer (1991) and Trevino and Weaver (1999) noted the resulting confusion.

Conflicting corporate practices

This confusion among scholars may explain why stakeholder theory has not cleared up the similar confusion among managers. It appears self-evident that American corporations exhibit a wide range of behaviour in their stakeholder policies. The harsh treatment of employees noted at the beginning of this paper is common, but there are also examples at the other extreme.

For instance, CalPERS (California Public Employees Retirement System) became famous for using its large stock holdings to hold CEOs accountable for their financial performance, but it has often swung toward social responsibility with a vengeance. In 1986, the fund sold its holdings of firms doing business in South Africa to oppose the apartheid regime, which resulted in a loss of $590 million in transaction costs. In 2000, the fund was thinking of selling tobacco stocks for social reasons, at another loss of $56 million. 'I believe you can make money and do good at the same time', said Philip Angelides, a CalPERS board member. But the board president, William Crist, says 'I'm against making investment decisions based on what's good or bad for society' (Palmeri 2000).

With such uncertainty over the role of stakeholders, it is not surprising that a host of studies shows little relationship between profitability and social responsibility (Harrison and Freeman 1999; Barton *et al.* 1989; McGuire *et al.* 1988; Preston and Sapienza 1990; Cornell and Shapiro 1987; Aupperle *et al.* 1985; Cochran and Wood 1984). Donaldson and Preston (1995) summarised these results as follows: 'There is as yet no compelling

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empirical evidence that the optimal strategy for maximizing . . . financial performance is stakeholder management.' And Morningstar recently reported that the average socially responsible mutual fund underperformed other mutual funds during the period 1995–2000 (Palmeri 2000).

An analysis of stakeholder relations

In an attempt to clear up this confusion, the following analysis examines the various elements that make up the relationship between stakeholders and the corporation.

1. **Conflict resolution.** Much stakeholder analysis focuses on the destructive effects of conflict between stakeholders and managers. For instance, Jones (1995) proposed that firms can reduce costs by avoiding the use of shark repellents, greenmail, outsourcing and other practices that interfere with stakeholder interests.
2. **Equitable treatment.** Some contend that it is productive to treat stakeholders equitably. For example, many firms, such as Ben & Jerry's and The Body Shop, practice social responsibility faithfully and believe it produces corresponding financial gains. This view may be supported by studies showing that organisations enforce subtle norms to balance the benefits each group receives with the contributions they make (Adams 1963). If a stakeholder group is slighted, it may withhold contributions to restore equity, and vice versa.
3. **Market competition.** It is increasingly clear that corporations must compete in different markets to gain the unique resources each stakeholder provides (Prahalad 1994; Jones 1995). Just as firms compete for customers, they must also compete for skilful employees, capable suppliers, etc. Two consultants put it this way: 'Stakeholders . . . are actively wooed all the time by competitors' (Campbell and Alexander 1997).
4. **Political bargaining.** From a political perspective, the corporation is increasingly viewed as a constellation of power centres in which stakeholders can withhold their support to bargain for increasing benefits (Bolman and Deal 1997). Thus, managers must form a political coalition that unites stakeholder interests.
5. **Collaborative problem-solving.** The most powerful approach is provided by the rising importance of learning and knowledge. Stakeholder collaboration does more than resolve conflict, provide equity, gain resources and enlist support: it allows joint problem-solving to increase the firm's ability to serve all concerned (Donaldson and Dunfee 1999; Spagnolo 1999; Halal 1998b; Finnie *et al.* 1998; Freeman 1984). This view is supported by an emerging perspective of 'dialogue' that goes beyond mere discussion to a powerful form of mutual understanding and creative action. Rather than attempt to influence or coerce others, dialogue focuses on deep listening with empathy, expressing hidden assumptions, focusing on common interests, and searching for conceptual breakthroughs (Isaacs 1999).

Taken together, these developments provide a multi-level rationale for a productive form of stakeholder relations. Conflict resolution indicates how destructive costs can be avoided. Equity theory explains why social responsibility may produce commensurate financial benefits. Economics points out the need to compete for stakeholder resources. Political science describes how coalitions among management and stakeholders gain mutual commitment. And organisational learning, knowledge and dialogue explain how stakeholder collaboration can produce creative strategies that benefit all parties.

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It should be noted that all of the above practices may be useful, but only collaborative problem-solving offers a plausible means of actually creating value. Conflict resolution, equitable treatment, market competition and political coalitions may avoid costs and redistribute resources more effectively—but additional value is not created through these processes. When the unique knowledge of various stakeholders is pooled and used to solve corporate problems, however, new practices and strategies emerge that benefit all constituencies—just as entrepreneurship is recognised as the source of economic and social progress. Stakeholder collaboration can be viewed in this light as an extension of the entrepreneur's role to include stakeholders as active partners in value creation.

The crucial role of knowledge

The theoretical rationale explaining this productive role of stakeholder collaboration is emerging now with the onset of the Information Age. Just as the Industrial Revolution shifted the critical factor of production from labour to capital, the Information Revolution is moving the critical focus from capital to *knowledge*. In creative companies, the baton is being passed to 'chief knowledge officers' (CKOs), who gather 'intellectual assets' and encourage 'communities of practice' to apply this strategic resource in innovative ways. One CKO called his system an 'information turbine' because it powered the entire corporation.

The significance of this historic shift is that knowledge behaves differently from capital. Capital consists of tangible assets (factories, land, money, etc.) that are limited and can be used for only one purpose. But knowledge is a fluid, intangible asset that can be transferred at little cost and its value *increases* when shared. Ray Smith, the CEO of Bell Atlantic, who is often called the 'Father of the Information Age', explained: 'In the Information Age, wealth is a function of information, vision, and properties of the mind. Unlike capital, knowledge can't be used up. The more of it you dispense, the more you generate' (Halal 1998b).

This insight explains why collaboration between management and stakeholders is beneficial. Like all partnerships, stakeholder collaboration is a two-way working relationship that combines the capabilities of partners to create added value for their mutual benefit. As shown in Figure 1 and illustrated by the examples that follow, the final result of collaboration is an exchange (Homans 1960) in which the firm gains economic resources while stakeholders gain various benefits. If this relationship can be attained, stakeholder interests are served while the firm simultaneously improves its competitive advantage. Collaborative problem-solving, therefore, offers the key to uniting economic performance and social responsibility.

Three forms of supporting evidence

The following sections describe evidence that generally supports this collaborative theory, using the distinction made by Donaldson and Preston (1995) between empirical, instrumental and normative aspects of the stakeholder perspective. Trends indicate the rise of stakeholder partnerships as observable, empirical facts. Results from a simulation of resource flows among stakeholders and the firm illustrate the instrumental role of collaboration in improving both social and economic performance. And survey data of 540 managers concludes that the majority hold normative views supporting collaborative stakeholder relations.

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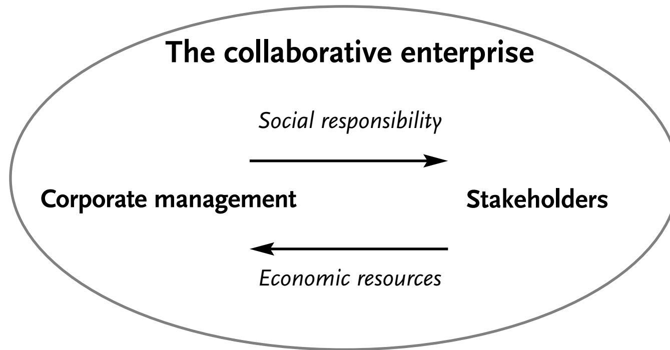

Figure 1 STAKEHOLDER COLLABORATION INVOLVES THE EXCHANGE OF ECONOMIC AND SOCIAL BENEFITS

Trends indicate the rise of stakeholder partnerships

A wave of business alliances is under way in which technology, market access and other assets are integrated. Why all this sudden co-operation, even among competitors? These assets represent various forms of knowledge, and so they can be combined and shared to create new ventures. The Wintel consortium, for instance, is a cluster of hundreds of co-operating firms organised around Microsoft's Windows and Intel's chips. Trends show that similar alliances are forming with employees, customers, suppliers, government and stockholders.

Managers increasingly engage employees in solving business problems because it is estimated that employee knowledge comprises 70% of all corporate assets (Stewart 1995). In many cases, people are organised into complete self-managed business units which are held accountable for performance and left free to choose their co-workers, methods, suppliers and other aspects of the work. At Hewlett-Packard, for instance, employees view this practice as 'running your own business' with all the benefits that implies (Halal 1998a).

Companies are also forging partnerships with customers through 'relationship marketing'. For instance, Dell Computer's direct sales approach 'wires' buyers into the firm's operations, making the client a working partner in creating value. This type of collaboration eliminates salespeople, inventory and retail stores while delivering customised PCs at discount prices.

Companies have learned that collaborative relations with their suppliers can reduce inventories, improve quality, assure timely deliveries, lower costs and develop better product designs. Chrysler and its suppliers, for example, have formed such close working relationships that the company thinks of these partners as an 'extended enterprise' (Dyer 1996).

Business–government consortia have rejuvenated American cities and states, such as Indianapolis and Pennsylvania. Italy has become famous for the productive collaboration of networks of small firms guided by local governments. Singapore is a choice business location because its government provides the most sophisticated information infrastructure in the world.

Collaboration may alleviate the problems caused by today's lightning-fast flows of speculative capital. For example, Warren Buffet and other large investors realise above-average returns with minimal risk by providing 'patient' capital. Rather than dart in and out of investments, they form working relationships that help guide the firm to success.

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We should note that stakeholders may have differing degrees of influence at differing times, and they may not be receptive to forming partnerships for a various reasons. Unions gain strength in tight labour markets, for instance, which makes them less willing to collaborate and more likely to raise demands. While such changes in bargaining power are always occurring, the knowledge economy is moving the firm and its stakeholders toward partnerships because co-operation is now economically efficient, as noted earlier.

The advantages of collaboration run through the above trends. Alliances with other firms are common today because partners find them beneficial. The same is true for other stakeholders, although it may not be as obvious. Employee collaboration can improve financial performance considerably, which then allows employees to share the gains and satisfy higher-order needs for autonomy, esteem, etc. Bringing clients into operations likewise can help firms deliver greater value at reduced costs, which then improves sales and profit. Business–government partnerships provide firms supportive economic conditions while communities benefit from taxes, jobs, etc. And shareholders are usually motivated to assist with corporate strategy because they benefit by improving profitability.

A computer simulation shows that business creates economic and social wealth

These benefits are clarified by a computer simulation of the resource flows between stakeholders and the firm (Halal 1977). After carefully identifying the functions performed by various interest groups, this study estimated the social and economic resources stakeholders invest in their relationship, the costs they incur, and the gains they receive.

A major conclusion is that the resources contributed by stakeholders are greater than the financial investments of shareholders by roughly a factor of ten. Although corporate social functions are usually regarded as economic externalities, they comprise a vast but more subtle world of social capital that has largely eluded corporate management (Bruyn 1977).

The study also shows that all parties can benefit. Business does not simply redistribute resources as a zero-sum game, but is inherently a productive institution that creates value for all its constituencies. This finding highlights what many progressive CEOs have always understood: the essence of a productive enterprise is to create both social and financial wealth.

These results do not prove anything, of course, because they are dependent on the accuracy of the simulation. However, the study incorporated established parameters of business practice, and so the results make a compelling case for the benefits of co-operation.

Survey results show managers favour collaboration but rarely practise it

In an attempt to estimate how managers view these issues, a study conducted in 1995–97 surveyed 540 managers along Likert ten-point scales describing the extent to which 14 stakeholder practices are used in the respondent's company. See Halal 1998a for the survey instrument. The survey was conducted by professionally employed MBA students who circulated the questionnaire to managers they know. Focus groups of three to five managers were also used to confirm validity by ensuring that questions reflected their intended meaning.

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For instance, some academic colleagues challenged the wording of a few questions, such as the statement, 'The company's primary goal is to serve the interests of important stakeholders, including making money for investors.' Their fear was that this statement was too easy to answer positively, and that the real test was to eliminate the qualification 'including making money for investors'. But the focus groups make it clear that this accurately represented stakeholder collaboration because it included both social and financial goals.

In addition to confirming validity, the focus groups were also used to probe for more in-depth understanding which is reported later in the form of representative comments. Reliability was examined using test–retest comparisons with the focus groups, and correlated at R = .86. The sample was predominantly from English-speaking countries and spanned large and small corporations in all industrial groups. Managers from all functional areas were included, with general management making up half of the responses (Table 1). Although this was a sample of convenience rather than random selection, no bias was observed among the students nor the respondents, and the resulting sample does not favour particular characteristics. For these reasons, the data

Table 1 SAMPLE CHARACTERISTICS (n = 540)

		%
Geographic region	US, Canada, UK and Australia	94.9
	Asia and Pacific	8.0
	China	0.2
	Europe	2.0
	Mexico and Latin America	1.8
	Middle East	0.2
Industry	Energy	1.9
	Materials	4.1
	Capital equipment	15.4
	Consumer goods	10.5
	Services	42.7
	Finance	22.4
	Other	2.8
Annual revenue	Small (below US$10 million)	28.1
	Medium (US$10 million –$1 billion)	44.9
	Large (above US$1 billion)	27.0
Total employees	Small (below 100)	26.9
	Medium (100–10,000)	51.8
	Large (above 10,000)	21.3
Manager's position	Finance and accounting	9.8
	Marketing, sales, product development	18.5
	R&D, engineering, IT	12.4
	Manufacturing, logistics, QC	0.4
	HR, OD	5.0
	Legal, PR	3.1
	General management	50.9

R&D = research and development; IT = information technology; QC = quality control; HR = human resources; OD = operational development; PR = public relations

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appears to represent mainstream thought in the late 1990s. The representative nature of the sample is also supported by the fact that the cross-tabulations reveal only minor effects of sample characteristics, as we will see later.

It should also be noted that the conclusions drawn from the study are not based on precise findings but only their broad significance. That is, we were mainly interested in knowing whether the proportion of managers favouring various practices was a minority, a majority, etc., rather than the precise level of practice. We also recognise that many managers may have inflated or deflated judgements about the practices of their firms, so the results should be interpreted more as *attitudes* toward stakeholder relations rather than true measures of corporate practice. Further, one of our key interests is the relative response between questions, which is less sensitive to error.

Means were calculated for each of the 14 practices, and data distributions along the ten-point scales were collapsed into three categories convenient for presenting results: 'not practised' (0–3), 'partially practised' (4–6), and 'fully practised' (7–10). Responses were also examined for significance against the sample characteristics using chi-square tests.

The data for stakeholder practices in general is presented in Table 2 and shows rather striking results: 86% of the sample claim that their company 'strives to co-operate with important stakeholders', and 85% claim 'the company's primary goal is to serve the interests of important stakeholders, including making money for investors'. However, only 54% say they use a formal system to evaluate how well stakeholders are served, and

Table 2 RESPONSES TO GENERAL STAKEHOLDER PRACTICES (PERCENT)

Stakeholder practice	*Not practised (0–3)*	*Partially practised (4–6)*	*Fully practised (7–10)*	*Mean (0–10)*
Stakeholder co-operation. The company strives to collaborate with important stakeholders (e.g. employees, customers, suppliers, distributors, the local community, and possibly other groups).	5	8.6	86.2	8.1
Stakeholder interests. The company's primary goal is to serve the interests of important stakeholders, including making money for investors.	6.4	8.6	85.2	8.2
Stakeholder performance. In addition to profit, performance is evaluated by a system that assesses how well stakeholders are served.	26.7	19.7	53.6	5.9
Stakeholder representation. The board of directors includes employees and other important stakeholders.	38.0	13.9	48.1	5.3
Participative leadership. The leadership style of management is participative in most respects.	13.6	22.4	64.0	6.8
Consensus decision-making. Major decisions are discussed among those concerned to reach consensus.	8.5	20.7	71.7	6.6

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only 48% include stakeholders on the corporate board; 64% favour 'participative leadership' and 72% practise 'consensual decision-making'.

More detailed practices for two primary stakeholders are included in Table 3. Employees do not appear to be closely involved. Only 13% of these managers say their companies use self-managed teams, 36% link pay to performance, 45% provide workers' access to all company information, 23% allow 'teleworking' from home, and 45% conduct attitude surveys periodically. Customers were more strongly supported: 69% of managers solicit the views of their clients, 73% provide useful information rather than inflated claims, and 69% conduct client satisfaction surveys.

The survey included questions about general attitudes, reported in Table 4: 83% of the sample think these practices are needed, and 61% attribute their non-use to 'resistance to change'. In asking, 'When are these practices likely to enter the mainstream?', the modal response was '2000–2005'.

Company size was the only sample characteristic significantly associated with these results. Formal practices (evaluating stakeholder performance, representation on boards, involving clients in policy-making, and measuring employee and customer satisfaction) seem to be more common among large corporations. In contrast, informal practices (participative leadership and consensual decision-making) are more common in small companies. The other sample characteristics showed no association with results, indicating that the data is relatively insensitive to these sample differences. This

Table 3 RESPONSES TO SPECIFIC STAKEHOLDER PRACTICES (PERCENT)

Stakeholder practice	*Not practised (0–3)*	*Partially practised (4–6)*	*Fully practised (7–10)*	*Mean (0–10)*
Employee self-management. Self-managed teams choose their leaders, work methods, co-workers and other aspects of their work.	64.2	22.3	13.5	2.8
Employee accountability. Pay is significantly based on performance incentive systems.	37.5	26.3	36.2	4.9
Employee information. Employees have access to all reasonable company information.	31.5	23.9	44.6	5.5
Employee freedom. Employees can 'telework' from home, in the field and other locations.	55.7	21.0	23.3	3.6
Employee satisfaction. Employee attitude surveys are conducted periodically.	38.9	16.3	44.8	5.2
Client participation. Employees and managers solicit customers' views about products and services.	12.2	18.9	68.9	7.1
Client information. Advertisements and literature provide useful information rather than inflated claims.	12.1	15.2	72.5	7.3
Client satisfaction. Client satisfaction is evaluated by surveys, interviews, etc.	15.8	14.9	69.2	7.2

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Question	Response	%
Do you think these practices are needed?		
	No	4
	Yes	83
	Unsure	14
Why are some firms not using them?		
	Resistance to change	61
	Short-term focus	19
	Ideas are unacceptable	6
	Unsure	14
When are these practices likely to enter the mainstream of business?		
	Already here	11
	2000	41
	2005	22
	Later	9
	Unsure	17

Table 4 GENERAL ATTITUDES (PERCENT)

confirms the claim made earlier that broad conclusions can be validly drawn about general attitudes toward stakeholder relations.

To gauge the meaning behind this data, comments from the focus groups were aggregated into common themes. Respondents expressed a division of opinion on the relative importance of profit versus social interests, usually in strong, emotional terms.

A majority asserted the importance of serving all interests:

- ‘Our goal is to serve all groups equally.’
- ‘The trick is balancing interests. How else could one operate?’
- ‘We do a reasonably good job of reaching out to the various constituency groups inside and outside the corporation.’
- ‘We are constantly told about the need to co-operate and serve our stakeholders.’

But some believe in the primacy of clients:

- ‘Our primary goal is to make sure the client is satisfied.’
- ‘The underlying reason for our efforts is to provide the best product possible for our customers.’
- ‘We work very closely with our clients. We know them and their needs.’

And a few strongly affirm the profit-centred view:

- ‘Profit, profit, profit—for shareholders.’
- ‘The company first develops a product, then establishes a need for it among our clients. It’s vice-versa.’

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Analysis and conclusions

This data suggests that a more sophisticated model of corporate governance may be emerging than is commonly understood.

The most intriguing finding is that stakeholder collaboration combining social and financial goals is generally accepted. This may startle some, but the data is rather clear on this point, even after making allowances for possible inaccuracies in the results. This conclusion is further supported by the finding that such practices are needed and should soon enter the mainstream.

Other prominent sources confirm this view. For instance, a survey of 200 corporate community relations professionals found that 87% of their companies encourage collaboration with local communities (Googins 1999). And *Fortune* magazine's annual rating of 'America's Most Admired Companies' is weighted by how well managers serve their customers, treat their workers and behave toward their communities, in addition to financial measures. It is also worth noting that management pay is increasingly tied to measures of client and employee satisfaction, as well as to financial targets.

But other data in the study points to conflicting views. Social performance is not often measured, stakeholders are rarely represented on the board of directors, and the needs of some groups are frequently slighted. The problem of poor employee involvement is reflected in the results, as well as many notorious events, such as downsizing.

These two faces of the same data suggest that most managers accept the need for collaboration in general terms, but few actually practise it to a serious extent or have made corresponding changes in corporate governance. Stakeholder collaboration seems to be characterised more by good intentions than actual practice. The study does not offer reasons for this gap, but possible causes include the confusion noted earlier over the compatibility of profit versus social responsibility, the vague sense that stakeholder involvement is doing good rather than a competitive advantage, and the tenacious ideological belief that the true mission of business in a capitalist economy is simply to make money.

In an attempt to clarify this murky situation, the following model of stakeholder collaboration is proposed. It consists of three principles derived form the theoretical analysis described earlier, understanding gained from the evidence reported here, and general knowledge in the literature. I make no claims that this model is valid, but simply offer it as a testable hypothesis. It can be thought of as an 'ideal' model in the Weberian sense.

A model of the collaborative enterprise

Principle 1: Sharing information increases the level of trust and understanding.
The first step in building a collaborative enterprise involves pooling the knowledge held by all stakeholders. Because knowledge is now the strategic asset in modern economies, this step in itself increases the supply of this critical resource, which then leads to a clearer understanding of tensions and problems in stakeholder relations, raises the general level of trust, and initiates the search for creative solutions, as described in the following two principles.

This does not mean that sharing knowledge will automatically produce benefits. For instance, revelations of inequitable treatment may prove explosive, leading to an escalation of conflict if not handled successfully. But the sharing of information is an

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essential first step toward constructing sound relationships based on fact rather than misinformation and ignorance. If the realignment of roles indicated by this information can be achieved, as suggested in Principle 2, the way is open to constructive partnerships.

Principle 2: Political coalitions solidify common support.
Political bargaining uses this information to reach agreements defining the role of stakeholders *vis-à-vis* the corporation. Following the features that have been found to characterise productive communities (Etzioni 1995), this implies that stakeholders should be considered integral parts of the extended 'corporate community'. They must be committed to the common success of the enterprise, and a working contract should define their rights and responsibilities. In cases where this is achieved, such as the Saturn Corporation, the problems described earlier involving conflict, fair treatment, etc. are minimised.

Note that corporate community does not imply managers should 'do good' in the philanthropic sense, which is why social responsibility and ethics have had limited effect. Coalition-building implies pragmatic, two-way working relationships. And, because value can be distributed only to the extent it is created, the role of managers is to ensure a match between contributions and rewards. The tendency toward equity discussed earlier, therefore, means that managers should achieve 'balance'—not in the old sense of treating stakeholders equally, but in a more productive way that provides rewards commensurate with contributions.

Principle 3: Collaborative problem-solving creates economic and social value.
If Principles 1 and 2 can be implemented successfully, the corporation can then move toward realising the benefits of collaboration. Serious problem-solving is only possible when there is common understanding, trust and a well-defined working relationship. In addition, some type of participative dialogue must be used to effectively engage members of the extended corporate community in finding creative solutions to common strategic and tactical problems.

The trends described earlier toward stakeholder partnerships offer many examples in which employees, suppliers, customers and other groups collaborate to produce considerable gains for everyone. An especially telling example was provided when the Bonville Power Company started an extensive dialogue with employees, customers, environmentalists and the local community. Here's how the CEO, Peter Johnson, described it:

> We used to view conflict with outsiders as a nuisance. By inviting their participation, our adversaries helped us make better decisions and arrive at creative solutions to intractable problems. Public involvement is a tool that every manager must understand . . . because conflict is inevitable. The only choice is whether to dodge it or learn how to harness it (Johnson 1993).

This model seems to correspond with the behaviour of progressive corporations, such as Saturn, IKEA, Hewlett-Packard and many others (Halal 1998b). For example, BP engages its employees, local communities, clients, business partners and environmentalists in demanding but rewarding efforts to serve the interests of all these groups. John Browne, the CEO, explained the logic: 'These efforts have nothing to do with charity, and everything to do with our self-interests and those of our stakeholders' (Garten 1998).

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Getting from here to there

Of course, there are limitations to this study and the proposed model of stakeholder collaboration. The lack of a random sample precludes precise estimates of stakeholder practices, and the model has not been tested. It is also true that collaborative problem-solving may offer benefits, but it also exacts costs in time and effort.

However, the study does show a way through the prevailing confusion over profitability versus responsibility. Donaldson and Preston (1995) may be correct that stakeholder rights should be recognised to legitimate corporate management, but this moral claim is not likely to be taken seriously until managers see practical benefits. The prevailing rules of institutional conduct for capitalist economies demand financial success, whether we like it or not, and the hard reality is that corporations are economic institutions that must compete successfully in an increasingly turbulent marketplace. That is why Ben & Jerry's, The Body Shop and other 'moral' firms are often forced to compromise their social posture. Countless such experiences over the past decades make it clear that social responsibility alone appears doomed to a marginal role in corporate governance; it will always be pursued half-heartedly by the corporate mainstream; and it will be easily abandoned during times of crisis. Scholarly attempts to add credibility by adorning the social responsibility perspective with stakeholder concepts are not likely to overcome this fundamental obstacle.

This deeply rooted dilemma seems to explain the prevailing status quo. Most businesspeople are primarily concerned about competition and financial results—while scholars, public activists and law-makers press them to pursue social responsibilities. A tacit compromise seems to have evolved in which minimal compliance with social demands is offered as a philanthropic sop to placate society, but this does not solve the underlying conflict. More importantly, powerful forces are escalating the costs of this stalemate to all parties.

A global economy powered by sophisticated information networks has increased the pace of competition and change, making it imperative that business focus even more keenly on its economic performance. Meanwhile, the creative destruction of global capitalism is also causing an unprecedented wave of social disorder, spurring worldwide demands for responsible corporate behaviour that are not likely to be satisfied with mere palliatives. Thus, the central force driving these developments—the Information Revolution—is today heightening the old tension between corporate profitability and social responsibility. Unless some form of resolution is achieved, the most likely outcome is a serious backlash against free markets, capitalism and the business corporation, as today's protests demonstrate.

Fortunately, the very cause of this crisis also offers the possibility of its resolution. As the various forms of evidence in this study illustrate, the Information Revolution now presents the advantages of collaboration to resolve the profitability–responsibility dilemma. If corporations could develop some democratic form of governance able to unify stakeholders' interests into a productive whole, it may then be possible to transform business into a institution that is formally designed to serve both capital and society (Lodge and Walton 1989). Managers would continue to strive for productivity, innovation, profitability and other competitive goals—but they would do so more effectively by harnessing the knowledge of their stakeholders. Conversely, stakeholders would continue to strive for social benefits—but they would achieve more by forming pragmatic working relationships with management.

I also want to suggest that this model of the collaborative enterprise may offer a working test of corporate citizenship. Like individual citizens, corporate citizenship

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cannot simply rest on the self-interest of capital but must be based on a viable social compact that includes both rights and responsibilities. But, as we have just seen, business cannot accept full responsibility for its social impacts using the philanthropic approach that has been proven ineffectual. If the collaborative enterprise model were widely adopted, this pivotal step would comprise a more powerful theory of the firm that links the role of capital to the broader social welfare. The corporation could then claim its legitimate status as a fully productive citizen of society.

This would be a historic achievement, but some obstacles must first be overcome. Clearly, an excessive focus on serving stakeholders would hurt the firm's ability to compete. Can various methods for evaluating stakeholder performance be used to guide the balance between contributions versus rewards? Would plenary meetings of stakeholder representatives be useful in sorting out these competing claims? (See Halal 1998a.)

To make such complex relationships work, a new breed of manager is needed who can inspire stakeholders to share responsibility for the enterprise, consider different points of view, and build bridges between conflicting interests. Can managers be trained in the arts of dialogue and political statesmanship? How will they select responsible stakeholder representatives?

The basic cause of today's continuing conflict between profitability and responsibility is that most managers and scholars do not understand how these two interests can be united. What would be an effective way to resolve this confusion? Is it simply the result of deeply rooted value differences, or are we likely to witness a slow but steady shift toward collaboration as the knowledge economy unfolds?

It will not be easy to reconcile the different interests in business, but this paper suggests that such differences are precisely the forces that fuel the creative process of producing wealth. The diverse functions served by various stakeholders appear to be as essential to the health of corporations as diverse organs are to the health of the human body. It makes little sense to claim that the heart, the brain or the lungs are more or less important because they are all essential components of a biological system. Similarly, it seems clear that shareholders, employees, customers and other stakeholders perform equally essentially functions of the socioeconomic system we call a corporation. If this view proves valid with more study and innovative practice, the formal mission of business may broaden to serve the public welfare represented by all stakeholders, part of which is making money for investors.

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