

BUILDING EXTRA-ORGANIZATIONAL SOCIAL CAPITAL: IS IT A CASE OF SHAREHOLDERS VERSUS OTHER STAKEHOLDERS?

Roger W. Hutt, Morrison School of Management and Agribusiness, Arizona State University, 7001 E. Williams Field Road, Mesa, AZ 85212, 480-727-1055, roger.hutt@asu.edu

ABSTRACT

Shareholder theory and stakeholder theory are two alternative concepts of the corporation and its governance. The primary goal of the firm, according to the shareholder view, is to create wealth for shareholders. Management's objective, then, should be to maximize the market value of the company. The other view of the firm, stakeholder theory, holds that many other parties, in addition to shareholders, have an actual or potential interest in or affect on the business. These other parties include customers, employees, suppliers, bankers and creditors, and the community at large. All of these groups and their concerns need to be addressed. The shareholder view is said to be ebbing as stakeholder theory gains prominence. The challenge of the twenty-first century, then, is for organizations to balance the needs of all stakeholders. The interests of stakeholders are various and potentially contradictory, however, and pleasing all of them is not an easy task. Compromises in addressing the various interests are necessary.

In creating value for its customers, organizations tend to rely on a variety of both external and internal stakeholders. Increasingly, corporations, led by the chief executive officer (CEO), are embracing stakeholder engagement. These engagement practices (e.g., consultation and communication) comprise the formal and informal ways of staying connected to stakeholders. While such dialogue is not new, stakeholder engagement is rising to a new level of importance in many companies. Leadership companies see stakeholder engagement as a critical part of their business strategy. For organizations, a key reason for stakeholder engagement is to build social capital. Still an evolving definition, social capital generally describes the patterns and intensity of networks among people and the shared values and mutual benefits arising from those networks. A shared language is sometimes mentioned as being crucial to the building of social capital.

The topic to be addressed is the CEO's building of extra-organizational social capital, particularly as it relates to stakeholder effect --- the notion that the importance of certain stakeholders varies over time and that new stakeholders may appear. Extra-organizational social capital exists when individuals in the organization make connections with individuals and entities outside of the organization. Questions to be considered include: (1) To what extent do CEOs appear to build social capital with shareholders and other stakeholders? (2) If CEOs build social capital simultaneously with shareholders and other stakeholders, how do they accomplish it? (3) Does building social capital with one stakeholder negate the possibility of building it with another? (4) For a particular stakeholder, how is the appropriate process for building social capital selected? (5) What role does shared language play in the building of social capital? and (6) How are new stakeholders with whom the firm should engage identified?