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Beyond Stakeholder Utility Function: Stakeholder Capability in the Value Creation Process

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Abstract In spite of the thousands of articles on stakeholder theory, research on value creation has had a shorter history and narrower breadth. Only a few studies have researched value creation from stakeholder perspective looking at how stakeholders appropriate value or the processes or activities by which stakeholders create value. Consequently to date, certain questions still remain unanswered regarding how a firm should treat stakeholders in order to create value. Several questions arise specifically from the stakeholder's side: What does "value" mean for a particular group of stakeholders and how do firms create these different types of value? How do we measure the value created by stakeholders? The purpose of this paper is to answer these questions from Amartya Sen's Capability Approach, identifying and measuring stakeholders' capabilities in the value creation process. Stakeholder Capability is the adequate concept for understanding stakeholder welfare rather than the utility function concept. The empirical evidence comes from an in-depth case study of the company The Grobo Group and its stakeholders. According to the results, the following stakeholder capabilities are relevant to value creation: being employable, being autonomus, being innovative, being entrepreneurial, being responsive, being socially integrated, being emphatic, being "green" and being healthy.

Keywords Stakeholder theory · Value creation · Empirical model · Amartya Sen · Capabilities · Corporate Social Responsibility

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Introduction

One of the main issues in stakeholder theory is the creation of value and trade in stakeholder–firm relationships (Freeman et al. 2010). 'Stakeholder Theory is about value and trade and how to manage the business effectively. "Effective" can be seen as "create as much value as possible"' (Freeman et al. 2010, p. 9). Despite thousands of articles on stakeholder theory, research on the creation of value and trade is fairly recent and relatively limited (Freeman et al. 2010; Walsh 2005; Jones and Wicks 1999).¹

Thus far, only a few studies have examined value creation from the stakeholder perspective (Post et al. 2002; Harrison et al. 2010; Bosse et al. 2009), how stakeholders appropriate value (Coff 1999, 2010; Blyler and Coff 2003) and the processes or activities through which stakeholders create value (Post et al. 2002). Consequently, even today, certain questions such as how a firm should treat stakeholders to create value or what 'value' means to stakeholders in the value creation process remain unanswered. In particular, from the stakeholder's perspective, the following questions are relevant: What does 'value' mean for a particular group of stakeholders? How do firms create these different types of value?

According to Harrison et al. (2010), stakeholders' value should be understood in terms of stakeholder welfare. Why? Stakeholders would choose those options or opportunities that increase their welfare in the value creation process. Moreover, firms should identify the opportunities

¹ This paper focuses on stakeholder theory as it was conceptualised as a strategic management theory (Freeman 1984). Stakeholder theory is mainly concerned on value creation and trade, and not on Corporate Social Responsibility (CSR) (Freeman et al., 2010; Harrison et al., 2010).

67 that increase stakeholder welfare and manage stakeholder
68 relationships based on how their actions affect or are
69 affected by stakeholders' welfare; that is, the firm should
70 be successful at creating value if it is able to increase
71 stakeholder welfare. Thus, stakeholder welfare, conceptu-
72 alising stakeholder value, becomes central to understanding
73 the process of value creation in the firm.

74 Stakeholder utility function, a recent concept that was
75 proposed by Harrison et al. (2009, 2010), seeks to under-
76 stand stakeholder welfare and identify opportunities for the
77 firm in the value creation process. However, despite its
78 benefits, the concept of utility function has traditionally led
79 to some problems pertaining to content (informational
80 basis) and measures (complete ordering and observed
81 preference) (Sen 2002, 2003), thereby making it difficult
82 for the concept of stakeholder utility function to adequately
83 represent stakeholder welfare.

84 To overcome these problems, I propose the concept of
85 stakeholder capability based on Sen's Capability Approach
86 (SCA) to understand and identify stakeholder welfare in
87 the value creation process. As opposed to the utility con-
88 cept, SCA broadens the informational basis by including
89 agency and freedom, thereby emphasising motivational
90 complexity, plurality and diversity of behaviour (commit-
91 ment to principles), stakeholders' temporality of prefer-
92 ences. Moreover, the research and the advances on the
93 techniques and tools that measure capabilities overcome
94 the main measurement problems identified in the utility
95 function concept. Therefore, in this paper, I aim to identify
96 and measure stakeholder capability based on SCA and to
97 conceptualise stakeholder welfare in the value creation
98 process.² In this way, I expect to contribute to the currently
99 limited body of literature on stakeholder value creation and
100 trade, specifically with regard to the conceptualization of
101 stakeholder welfare in the value creation process.

102 Since neither prior empirical research nor any related
103 theory exists currently, I have conducted an inductive, in-
104 depth case study, combining both qualitative data from
105 grounded theory and quantitative data from structural
106 equation modelling, to identify and measure stakeholder
107 capabilities in the value creation process. The inductive
108 case study deals with the Los Grobo Group and its stake-
109 holders in Buenos Aires, Argentina. This case study was
110 selected for two main reasons: First, it is a typical case
111 study for a firm that innovates in the value creation process.
112 Second, the firm-stakeholder relationships are significant
113 and important in the value creation process, which is
114 convenient and suitable for obtaining information and

drawing conclusions on stakeholder processes in creating 115
firm value. This case also provides rare and valuable access 116
to information and stakeholders. 117

118 The remainder of this paper is structured as follows. In
119 the first part of the paper, I review previous studies on
120 stakeholder theory in the value creation process, high-
121 lighting the main problems with the stakeholder utility
122 function concept. Straightforward, I define the concept of
123 stakeholder capability that brings in SCA in the context of
124 stakeholder theory. I also justify the adequacy of the
125 capability approach in the context of firm-stakeholder
126 relationships and how it overcomes the main identified
127 problems. The third part describes the research setting,
128 research methodology and the main stages of the research.
129 The fourth part provides the main results of the business
130 case study and the identification of stakeholder capabilities
131 followed by their measurement. The paper concludes with
132 a discussion of the results and suggestions for future
133 research.

134 Stakeholder Theory and Value Creation

135 Since the publication of the book 'Strategic Management:
136 A Stakeholder Approach' in 1984, thousands of papers and
137 books have been published on stakeholder theory. Several
138 issues, topics and challenges have been highlighted over
139 the years, such as the problem of stakeholder identification,
140 stakeholder legitimacy and evaluation of their claims, the
141 appropriate role of the firm or society and the taxonomy of
142 stakeholder theories (Scherer and Patzer 2011). However,
143 despite abundant research on the subject, one of the main
144 aspects of stakeholder theory is still relatively underde-
145 veloped, that is, the aspect of value creation and trade.
146 Freeman et al. (2010) stated, 'A stakeholder approach to
147 business is about creating as much as value as possible for
148 all stakeholders' (p. 28). Hence, this paper will focus on
149 value creation and trade with a pragmatic approach
150 (Freeman 2010; Freeman et al. 2010).³

151 The Concept of Value Creation

152 Value creation is a central theme in the field of strategic
153 management and it has received considerable attention at
154 both the micro (individual and group) and the macro
155 (organisation and society) levels (Lepak et al. 2007; Priem
156 2007). Nevertheless, there is little consensus on what value

2FL01 ² My focus will be on value creation and not on value appropriation.
2FL02 Lepak et al. (2007) and Coff (1999) amongst others have distin-
2FL03 guished two sides: value creation and value appropriation. In this
2FL04 paper, my focus will be only on the value creation side and not on
2FL05 value appropriation.

3FL01 ³ I do not consider any type of distinction (if stakeholder theory may
3FL02 be normative, instrumental or descriptive) in my approach to value
3FL03 creation because this distinction supports the separation thesis (Jones
3FL04 et al. 2002; Scherer and Patzer 2011). Freeman et al. (2010) has
3FL05 proposed an integration thesis for the value creation process and a
3FL06 pragmatic approach.

157 creation is, how it can be achieved, what ‘value’ means or
 158 how it can be defined (Bowman and Ambrosini 2010;
 159 Lepak et al. 2007). In the field of strategic management,
 160 ‘value’ has been defined in several ways, such as ‘the
 161 amount that buyers are willing to pay for what a firm
 162 provides them’ (Porter 1985, p. 38) or ‘properties of pro-
 163 ducts or services that provide utility’ (a good review of the
 164 origins of the term ‘value’ is given in Ramirez 1999).
 165 Value has been studied from a variety of perspectives such
 166 as human resources, marketing and entrepreneurship, and
 167 from the perspective of multiple disciplines such as eco-
 168 nomics, sociology and psychology. Examples of theories
 169 that describe value creation are the value chain activities
 170 (Porter 1985), Schumpeter’s (1942) theory of creative
 171 destruction, the resource-based theory of the firm (Barney
 172 1991) and transaction cost economics (Williamson 1975).
 173 One theory that is differentiated from most is stakeholder
 174 theory (Freeman 1984; Freeman et al. 2010).

175 The stakeholder theory approaches value creation from a
 176 perspective that is different from other strategic manage-
 177 ment theories: Value creation activities and processes have
 178 to be understood based on the firm’s crucial relationships
 179 with its stakeholders (Freeman et al. 2010; Post et al.
 180 2002). Post et al. (2002) stated that ‘stakeholder view
 181 posits that the capacity of a firm to generate sustainable
 182 wealth over time, and hence its long-term value, is deter-
 183 mined by its relationships with critical stakeholders’ (Post
 184 et al. 2002, p. 89). Post et al. (2002) argue that a particular
 185 factor that differentiates a stakeholder from a non-stake-
 186 holder is his/her contribution to value creation. According
 187 to them, ‘the stakeholders in a firm are individuals and
 188 constituencies that contribute, either voluntarily or invol-
 189 untarily, to its wealth-creating capacity and activities, and
 190 who are therefore its potential beneficiaries and/or risk
 191 bearers’ (Post et al. 2002, p. 52). Stakeholders are defined
 192 by their contribution to the value creation in the firm
 193 (Freeman et al. 2010). Hence, I define stakeholders as
 194 groups or individuals who contribute, whether substantially
 195 or not, to the value creation process of the firm. Thus,
 196 stakeholders can be customers, employees, suppliers,
 197 investors, financiers and other groups that contribute,
 198 whether substantially or not, to the value creation in the
 199 firm. Consistent with my interest in value creation, I
 200 include stakeholders that are traditionally close to the
 201 firm’s operations (such as employees and customers) and
 202 others, such as NGOs, as long as they contribute to the
 203 value creation of the firm. I acknowledge that who is a
 204 stakeholder may vary depending on firm’s strategy.

205 In comparison to other theories of strategic manage-
 206 ment, stakeholder theory takes both a broader and a longer
 207 term view of the targets of value creation. Rather than
 208 focusing almost exclusively on the customers of the orga-
 209 nisation (as is traditional in strategic literature, see Priem

210 2007), it focuses on many potential targets of value crea-
 211 tion such as suppliers, employees and NGOs. Therefore,
 212 for the stakeholder theory, the purpose of the organisation
 213 is to create and distribute value in different ways for many
 214 different stakeholders, including, for example, earnings for
 215 owners, payments for employees, services to customers and
 216 taxes to society (Freeman et al. 2010). The basic idea of
 217 stakeholder theory is that the firm has to satisfy key
 218 stakeholders continuously over time to create value.
 219 Therefore, the firm, in order to achieve high performance,
 220 adopts a broader strategy-making perspective, including
 221 the needs and demands of multiple stakeholder groups.

222 Moreover, the firm needs to satisfy stakeholder interests,
 223 and this satisfaction enables the firm to create value. Which
 224 interests need to be satisfied for the firm? The stakes that
 225 allow both the firm and the stakeholders to create value.
 226 For determining what is valuable and how value is per-
 227 ceived by the stakeholder, we should consider that value is
 228 a subjective concept (Bowman and Ambrosini 2007), is not
 229 a single phenomenon, is multifaceted and can be different
 230 for each stakeholder group. Stakeholders have different
 231 views on what is valuable because they have multi-
 232 dimensional stakes and different relationships with the
 233 firm. Hence, ‘stakeholder value’ means different things to
 234 different stakeholders and to a firm’s customers, suppliers,
 235 employees, NGOs and investors. Competing interests may
 236 exist amongst stakeholders and they may have alternative
 237 conceptions on what is valuable. For example, investors
 238 may favour any value-creating activity that increases short-
 239 term profits, whereas environmentalists may prefer only
 240 those value-creating activities that preserve the environ-
 241 ment. However, Freeman et al. (2010, p. 27) argued,
 242 ‘stakeholder stands alone in the process of value creation.
 243 The stakes of each stakeholder group are multifaceted and
 244 inherently connected to each other’. Creating value
 245 requires a joint effort by all stakeholders with implicit
 246 knowledge that their stakes are multifaceted and inter-
 247 connected. Coordinating this effort is one of the principal
 248 tasks for managers. Despite the different and multi-
 249 dimensional aspects of stakeholder value, we need to
 250 identify a definition for value. What does ‘value’ mean for
 251 stakeholders? What does ‘value’ mean for a particular
 252 group of stakeholders and how do firms create these dif-
 253 ferent types of value? What is ‘stakeholder value’?

254 These questions need to be adequately answered and
 255 addressed if we want to understand how firms create value
 256 in stakeholder theory. I expect to address these questions in
 257 the following sections of the paper.

258 Stakeholders’ Welfare and Stakeholder Utility Function

259 According to Harrison et al. (2010), stakeholders’ value
 260 should be understood in terms of stakeholder welfare

261 because stakeholders would choose those options or
 262 opportunities that increase their welfare in the value crea-
 263 tion process. Hence, the firm should identify stakeholder
 264 welfare and manage stakeholder relationships by identify-
 265 ing how its actions affect or are affected by stakeholder
 266 welfare. Stakeholder value, represented as stakeholder
 267 welfare, thus becomes central to understanding the process
 268 of value creation in the firm.

269 What is stakeholder welfare? How can stakeholder
 270 welfare be defined?

271 Traditionally, strategic management and organisational
 272 theory have referred to utility theory and the notion of
 273 marginal utility for determining welfare and explaining
 274 value (Lepak et al. 2007). The most common usage of the
 275 term ‘value’ is based on the idea of utility. The utility
 276 function essentially states that consumers (in our case,
 277 stakeholders) spend their income (resources, money,
 278 attention) to maximize the satisfaction or utility from the
 279 outcomes. Total utility refers to the satisfaction derived
 280 from the position or election, and marginal utility refers to
 281 either the satisfaction that people receive from obtaining
 282 one extra unit of the goods or the satisfaction lost by giving
 283 up one unit.

284 Harrison et al. (2010) embraced the traditional concept
 285 of the utility function in stakeholder theory and defined the
 286 term ‘stakeholder utility function’ as a way to understand
 287 welfare and value in the following manner: ‘stakeholder
 288 preferences for different combinations of tangible and
 289 intangible outcomes resulting from actions taken by the
 290 firms’ (2010, p. 62). According to Harrison et al. (2010),
 291 the stakeholder utility function is an adequate concept to
 292 represent stakeholder welfare considering the inefficiency
 293 of the market system (Harrison et al. 2010). In an ineffi-
 294 cient market, according to Barney (1986), different
 295 expectations concerning the future value of strategy can
 296 lead the firm to obtain above-normal returns when the
 297 strategy is implemented. Value creation opportunities are,
 298 by definition, uncertain and connected to the possession of
 299 unique information or resources related to a firm’s value
 300 expectations, which in turn become different implementa-
 301 tion strategies. In the case of stakeholders, different value
 302 expectations included in stakeholder utility functions lead
 303 to different opportunities for the firm for value creation.
 304 ‘Differences in individual stakeholders’ utility functions
 305 give rise to market imperfections which in turn, give rise to
 306 value creation opportunities’ (Harrison et al. 2009, p. 2).

307 Therefore, according to Harrison et al. (2010), identi-
 308 fying the stakeholder utility function will present oppor-
 309 tunities for value creation. How? Stakeholder utility
 310 function could determine the preferences of the stakeholder
 311 to design a new innovative offer beyond the price or pay-
 312 ment that makes stakeholders accept what was not avail-
 313 able previously.

314 ‘For example, when a prospective customer or
 315 employee rejects a take it or leave it offer, based on
 316 price, the firm does not gain detailed knowledge of
 317 that actor’s utility function. It would be helpful for
 318 the firm to know in what ways it could change the
 319 offer to get the opposite reaction from that.’ (Harrison
 320 et al. 2010, p. 64).

321 Because of the stakeholder utility function, the firm can
 322 articulate ways for improving stakeholder welfare using
 323 new exchange offers that incentivize stakeholders either to
 324 work with the firm or to create value. Referring to the
 325 utility function, Harrison et al. (2010) indicated that the
 326 firm should seek to understand both the factors that drive
 327 utility and the weightings that stakeholders assign to these
 328 factors.

329 Shortcomings of the Concept of Utility Function

330 Despite the benefits, the concept of utility function con-
 331 ceals some problems regarding the content and the mea-
 332 sures that affect its theoretical adequacy in representing
 333 welfare. Sen (1999, 2003), amongst other economists, has
 334 emphasised the concept’s shortcomings by arguing that
 335 welfare is mainly a valuation activity and the utility
 336 function concept is an insufficient and shallow criterion of
 337 happiness or desire fulfilment in judging a person’s well-
 338 being or welfare. Amartya Sen argued,

339 ‘Wellbeing is a matter of valuation, and which hap-
 340 piness and the fulfilment of desire or even utility may
 341 well be valuable for the person’s wellbeing, they
 342 cannot—on their own or even together—adequately
 343 reflect the value of wellbeing ... Utilitarianism does not
 344 assign value properly and it is at best a consequence
 345 of valuation. The need for valuation in assessing
 346 wellbeing demands more direct recognition.’ (2003,
 347 p. 62).

348 Specifically, Amartya Sen criticised two main aspects.
 349 First, he criticised the limited basis of information of the
 350 utility function. According to Amartya Sen, utility does not
 351 adequately represent welfare because it has a limited basis
 352 of information. For example, it does not include situations
 353 where the individual chooses an outcome with overall
 354 utility that makes his/her situation worse by committing to
 355 certain values. This case is common in stakeholder–firm
 356 relationships, when a customer chooses to commit to some
 357 values that make his/her current situation worse (for
 358 example, when a customer stops buying a product that
 359 has low environmental standards). This also occurs in sit-
 360 uations where a stakeholder promotes certain causes, even
 361 though the importance attached to these causes is not
 362 reflected in an advancement of his/her well-being or

363 welfare. Furthermore, utilitarianism, which further applies
 364 the idea of utility, considers only those things that one can
 365 consume and determines that one's welfare depends only
 366 on the fact that one's choices are completely tied to one's
 367 own goals and not the goals of others (i.e. the conditions
 368 stipulating that one's welfare depends on one's own self
 369 and does not decrease if others suffer).

370 Second, regarding the weighting factors of the utility
 371 function, the following three main issues arise: the
 372 impossibility of the complete ordering of weighting factors,
 373 impossibility of utility scale and issue of observed prefer-
 374 ence. First, Sen (2003) argues that a complete ordering of
 375 preferences for an individual (in our case, stakeholder)
 376 could be impossible. How can an individual order all the
 377 possibilities? How can an individual assign weights to an
 378 overall ranking? A person thus described may be 'rational'
 379 in the limited sense of revealing no inconsistencies in his
 380 behaviour choice, but would not be able to consider all of
 381 the different options carefully. Therefore, the concept of
 382 utility function, as has been defined in previous stakeholder
 383 studies (Harrison et al. 2009), would be neither plausible
 384 nor efficient: How can we know the stakeholder utility
 385 functions for all stakeholders if we are not even aware of
 386 our own? Second, it is not possible to end up with a utility
 387 scale because the utility concept is an ordinal concept, not a
 388 cardinal one. This means that the utility of a particular
 389 product or service cannot be measured using a numerical
 390 scale bearing economic meaning, but only alternative
 391 bundles (combinations) of goods can be ordered, such as
 392 'be worse than, equal to, or better than the other'. This
 393 implies that it is very difficult to make interpersonal
 394 comparisons of utility because we do not have a utility
 395 scale to compare individuals, or stakeholders in our case.
 396 The third and final issue is how to observe ordinal prefer-
 397 ence relationships in the real world. The challenge of the
 398 revealed preference theory partially lies in determining
 399 what bundles of goods were foregone, when individuals
 400 were being observed selecting particular bundles of goods,
 401 because they were less preferred. Without this observation,
 402 it is very difficult or almost impossible to determine prefer-
 403 ences. This is important, particularly in the case of
 404 stakeholder observed preferences, because it means that the
 405 stakeholder preferences are revealed only when they buy or
 406 sell a product and cannot be revealed in advance. This
 407 makes it more difficult or even impossible to obtain a
 408 stakeholder utility function in advance.

409 To overcome these problems, Sen (2003) argued that a
 410 more valuation-oriented approach is required to represent
 411 welfare instead of utility. Sen (2003) expressed this issue as
 412 follows:

413 'It is therefore arguable that since the claim of utility
 414 to be the only source of value rests allegedly on

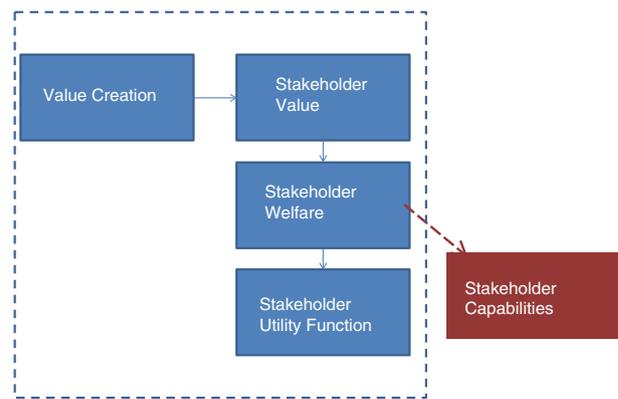


Fig. 1 Stakeholder capabilities proposal

identifying utility with welfare or wellbeing it can be criticized both:

1. On the grounds that wellbeing is not the only thing that is valuable.
2. on the grounds that utility doesn't adequately represent wellbeing. In so far as we are concerned by people's achievements, utility achievements are partial'. (p. 68)

Sen (2003) presented a new and alternative theory of well-being or welfare based on the concept of capability: the capability approach. His approach contrasts with other approaches that focus welfare or well-being on utility, income, expenditure, consumption or basic needs fulfilment. In Sen's (2003) approach, the concept of welfare or well-being should be understood in terms of people's capability to function, that is, their effective opportunities to undertake the actions and activities that they want to engage in, or to be the person they want to be. Capability is based on valuation activity that focuses on the concept of agency and freedom, which is understood as the ability to formulate goals, commitments and values, and to choose amongst different options. The concept of agency emphasises the importance of achievement in well-being in that formulating goals, having several open possibilities and choosing one option all have some intrinsic value beyond the well-being produced with the outcome of choice: 'respecting the agency aspect points out the appropriateness of going beyond a person's wellbeing into his or her evaluation commitments, etc.' (Sen 2003, p. 41). Sen (2003) also solved the two main problems mentioned previously (richer informational basis and the measurement problems) using this approach; therefore, I propose a capability approach to understand stakeholder welfare and stakeholder value in terms of stakeholder capabilities rather than stakeholder utility functions. Figure 1 summarises this proposal graphically.

450 In the next section, I will explain Sen's (2003) approach
451 towards stakeholder theory (stakeholder capabilities) in
452 greater detail.

453 The Concept of Stakeholder Capability

454 The Capability Approach can be defined as a broad nor-
455 mative framework for evaluation and assessment of indi-
456 vidual well-being, welfare and social arrangements
457 (Robeyns 2005). This approach has been related to various
458 fields such as Economics, Public Policy, Public Develop-
459 ment and Philosophy (see, in particular, Sen 1999; Gaert-
460 ner 1993; Nusbaum and Sen 1993), and more recently to
461 Business Ethics (Giovanola 2009) and Corporate Social
462 Responsibility (Renouard 2011); however, it has never
463 been related to stakeholder theory.

464 In the case of stakeholder theory, stakeholder capabili-
465 ties can be defined as the stakeholders' effective opportu-
466 nities to undertake actions and activities with the firm that
467 they want to choose to engage in the value creation pro-
468 cess. I have underlined both 'the firm' and 'the value
469 creation process', because it is specific and restricted to
470 stakeholder capabilities developed with the firm in the
471 value creation process, rather than capabilities developed
472 in any other general situations. Stakeholder theory as a
473 strategic management theory underlines its objective as the
474 creation of value. The capability approach referred to
475 stakeholder theory aims to understand firm-stakeholder
476 relationships not only in terms of resource-based capabil-
477 ities, including money or any other type of economic
478 resource, but also in terms of the effective opportunities
479 that stakeholders can exploit with these resources in the
480 context of firm-stakeholder relationships. According to
481 Amartya Sen, economics should be about developing the
482 capabilities of people through increasing their available
483 options.

484 The concept of stakeholder capability consists of several
485 interrelated concepts, mainly entitlements and function-
486 ings, each of which is important for stakeholder well-being
487 or welfare, which also considers conversion factors. In the
488 words of Sen (2002), capabilities are potential function-
489 ings. Functionings are beings and doings. The difference
490 between functioning and capability is similar to the dif-
491 ference between achievement and the freedom to achieve
492 something, or the difference between outcome and
493 opportunity.

494 'A functioning is an achievement, whereas a capa-
495 bility is the ability to achieve. Functioning is, in a
496 sense, more directly related to living conditions, since
497 they are different aspects of living conditions.
498 Capabilities, in contrast, are notions of freedom, in

the positive sense: what real opportunities you have 499
regarding the life you may lead.' (Sen 2002, p. 36). 500

Functionings and capabilities are mutually dependent; 501
capabilities depend on existing functionings and both are 502
important for understanding stakeholder welfare and 503
behaviour. The conversion factors enable the consideration 504
of a number of social features such as social norms and 505
social interdependencies or constrains. In this sense, 506
stakeholder welfare cannot be understood independently 507
from concern for others or the actions of other stakehold- 508
ers. There are also individual conversion factors that 509
consider human diversity, that is, race, gender, ethnicity or 510
geographical location. The capability approach explicitly 511
acknowledges human diversity and Sen (2003) has criti- 512
cised inequality approaches that assume that all people 513
have the same types of utility functions or are influenced in 514
the same way and to the same extent by the same personal, 515
social and environmental characteristics. 516

The concept of stakeholder capability emphasises two 517
main aspects that were not considered previously in 518
stakeholder behaviour: first, the intrinsic value of choice 519
and, second, the temporality and dynamism of expectations 520
and preferences of stakeholders. The first aspect, the 521
intrinsic value of choice, implies two levels of well-being 522
on stakeholder choice; the first pertains to setting different 523
objectives or goals and the second pertains to selecting 524
amongst different options. Sen's approach embraces how 525
stakeholders identify what is valuable and gives due credit 526
to the things that stakeholder's value most. Therefore, 527
stakeholder capabilities consider situations where the 528
stakeholders commit to lost causes (for example, an NGO 529
pursuing an environmental campaign against a large com- 530
pany) or when stakeholders choose situations that worsen 531
their current monetary situation. In both cases, stakeholders 532
choose amongst different options to formulate their own 533
goals and objectives, and to commit to certain values or 534
objectives. This implies an ethical dimension if we 535
understand ethics as a way to flourish human welfare. 536

The second aspect pertains to temporality and dyna- 537
mism. The capability concept considers the current and 538
future dynamism of individuals, that is, their aspirations, 539
desires and preferences, and tackles not only what they 540
actually are but also what they want to be or not. The 541
dynamic dimension, in the concept of capability, empha- 542
sises the processes, possibilities and opportunities to 543
develop a stakeholder's future well-being. This implies that 544
stakeholder well-being is understood in a dynamic manner 545
by capturing the stakeholder's long-term objectives, aspi- 546
rations and preferences. 547

These two aspects enable us to explain stakeholder 548
behaviour in a more realistic way because they include 549
more complete and rich information regarding stakeholder 550

551 value. Therefore, I propose that the firm should focus on
 552 stakeholder capabilities rather than stakeholder utility
 553 functions to understand stakeholder well-being and value
 554 in the value creation process. This leads to the following
 555 question: What stakeholder capabilities should the firm
 556 focus on?

557 New Focus: Stakeholder Capabilities

558 According to Sen, the identification of fundamental capa-
 559 bilities is always context dependent. This implies that the
 560 idea of a fixed list of capabilities that can be applied in
 561 advance is not possible. The participatory method in which
 562 stakeholders themselves are those who determine what is
 563 valuable for them is an adequate method for the identifi-
 564 cation of stakeholder capabilities. This is the first time that
 565 SCA will be identified and measured in the context of
 566 stakeholder's relationships; therefore, it is not possible to
 567 suggest a tentative list of capabilities. Accordingly, our
 568 research design will consider this fact in the next section.

569 Methodology

570 The research methodology depends on the objective, nature
 571 of the subject of the investigation and investigators' control
 572 over events. In our case, the research phenomenon was
 573 highly complex; it is contextual in the sense that I did not
 574 have any control over the study object. Here, case research
 575 method is the most appropriate as it permits to interact with
 576 the participants through multiple methods (interviews,
 577 document analysis, participant observation and direct
 578 observation) and permits the combination of qualitative
 579 and quantitative methods (Eisenhardt 1989), which is
 580 particularly necessary in our case. The case research
 581 method is therefore selected for this paper.

582 The measurement of capabilities is one of the most
 583 difficult aspects of Sen's approach (Kuklys 2005; Alkire
 584 2005). The identification and measurement of capabilities
 585 and functionings present a number of methodological
 586 problems such as the selection of relevant functionings,
 587 measurement of these functionings at an individual level
 588 and aggregation of these functionings and capabilities in a
 589 measurable scale of individual welfare. All these problems
 590 were adequately treated in the data analysis and measure-
 591 ments following recent studies (Krishnakumar and Ballon
 592 2008; Alkire 2005; Anand and van Hess 2006; Di Tomasso
 593 2007). Therefore, in order to overcome these problems, I
 594 followed the study by Krishnakumar and Ballon (2008).

595 I structured the research into two main phases as fol-
 596 lows. In the first phase, that is, the qualitative part, I
 597 identified the relevant functionings and capabilities, fol-
 598 lowing the participatory method. The participatory method

599 is a satisfactory qualitative method for identifying capa-
 600 bilities and functionings in new areas (Alkire 2002). It is an
 601 inductive analysis procedure that entails the involvement of
 602 stakeholders to identify capabilities. An inductive approach
 603 is particularly appropriate for examining emerging phe-
 604 nomena (Strauss and Corbin 1990), permits flexibility for
 605 unanticipated events and is more suitable for building
 606 grounded theory. In the second phase, that is, the quanti-
 607 tative part, I aimed to 'measure' the capabilities identified
 608 using the structural equations model based on Anand and
 609 van Hess (2006) and Krishnakumar and Ballon (2008).

Case Selection

610 The business case pertains to the Los Grobo Group. The
 611 Los Grobo Group, one of the leading companies in the
 612 agricultural sector in Argentina, produces and sells soy-
 613 bean, wheat and corn, and has revenues of over US\$
 614 180 million, 364 employees and more than 1,000 associ-
 615 ated companies. The Los Grobo Group has diversified its
 616 business in different geographical locations (Brazil, Uru-
 617 guay and Paraguay) with vertical integration along the
 618 value chain, from the origin of seeds (through a biological
 619 company, Bioceres) to pasta products (Molinos Canepa). It
 620 has two divisions, the raw material division (comprising
 621 Los Grobo Agropecuaria, Los Grobo Fideicomiso, Prose-
 622 me Pampeana, Chain Services and Los Grobo SGR y
 623 Bioceres) and the industrial division (that sells flour
 624 through Molino Canepa and Los Grobo Inversora and Los
 625 Grobo Agroindustrial).

626 The case of the Los Grobo Group was selected mainly
 627 due to two main reasons. First, the Los Grobo Group is
 628 considered a highly innovative company, both from an
 629 organisational and a technological perspective (Yin 2003),
 630 in the Argentine agricultural business sector. The Los
 631 Grobo Group introduced innovations in technological and
 632 knowledge management by renting land (as opposed to
 633 owning land); introducing new roles based on knowledge
 634 (called RZ or RT) (organisational innovation), which per-
 635 formed new functions related to technical knowledge for
 636 the agro business; introducing new technologies of infor-
 637 mation processing on markets and products; and profes-
 638 sionalising the functions. To recognise its innovation, the
 639 Los Grobo Group has received numerous awards in recent
 640 years, such as the Amcham Prize (2009) and the Emp-
 641 rendedor Solidario Award by Foro Ecu mico Social
 642 (2006)⁴. The Los Grobo Group has been able to create
 643 value through innovation. Moreover, it has been successful
 644 in introducing innovations in the value creation process of
 645 the firm.
 646

⁴ Please checked at <http://www.losgrobo.com.ar>

647 Second, the Los Grobo Group business model enables
 648 the development of strong relationships with stakeholders.
 649 The Los Grobo Group business model requires direct
 650 relationships with stakeholders in a frequent and consistent
 651 manner because of the powerful IT and training pro-
 652 gramme imparted to stakeholders. As a result, the business
 653 model and value proposition of the Los Grobo Group
 654 require trust and good relationships with stakeholders.

655 In such programmes, access to stakeholders becomes
 656 direct and easy, which is convenient and suitable for
 657 obtaining information and drawing conclusions on stake-
 658 holder processes in the creation of firm value. This case
 659 provides unique access to information and to stakeholders.

660 Data Collection

661 I used several data sources: (1) extensive archives including
 662 business publications, internet sources and corporate materi-
 663 als; (2) semi-structured interviews with executives and
 664 managerial positions at several levels; (3) semi-structured
 665 interviews with stakeholders; and (4) survey questionnaires
 666 conducted with all stakeholders (mainly employees, cus-
 667 tomers, NGOs and suppliers) in the Los Grobo Group.

668 In the first data collection exercise, I conducted primary
 669 interviews with the CEO, CSR director, commercial/sales
 670 director and finance director. The main objective of these
 671 interviews was to understand the company's strategy and
 672 value creation process, and its innovative practices and poli-
 673 cies. According to Freeman (1984), we should focus on the
 674 strategic programmes that aim to develop the company's
 675 strategy and create value for both the company and its
 676 stakeholders. In the Los Grobo case, I analysed the six strate-
 677 gic programmes at Los Grobo and understood the role of
 678 stakeholders in the value creation process. At this stage, I
 679 selected 45 stakeholders (managers, employees, customers,
 680 suppliers and NGOs) to identify and understand the capabil-
 681 ities that the strategic programmes generated. The selection of
 682 the 45 stakeholders was based on a mix of contribution,
 683 importance, role, experience and duration of the stakeholders
 684 in the value creation process. I conducted semi-structured
 685 interviews that were recorded and transcribed.

686 Based on these semi-structured interviews, I identified
 687 the stakeholder capabilities and the items corresponding to
 688 each stakeholder capability. I designed a questionnaire
 689 comprising 55 items, which were classified into the fol-
 690 lowing four main parts:

- 691 1. The type of relationships
- 692 2. The type of participation and activities on the strategic
693 programme
- 694 3. The benefits from the strategic programme (short term
695 and long term)

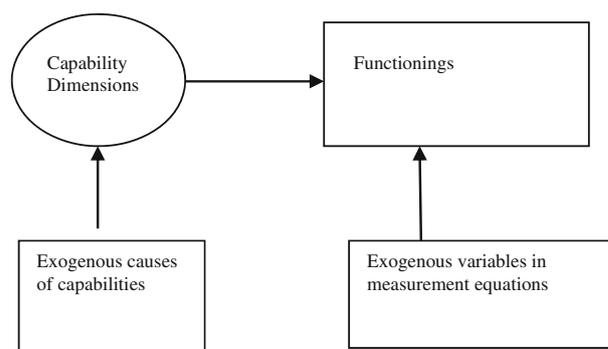


Fig. 2 Structure of theoretical framework of capabilities

4. The possibilities of the stakeholder after the strategic programme

696 The survey was sent through email and intranet facilities of
 697 Los Grobo to the 3,500 stakeholders who were identified as
 698 contributors in the value creation process. A special
 699 webpage was created to manage the survey (responses)
 700 from October 2008 to March 2009, and received 364
 701 answers.
 702
 703

Data Analysis

704 In the first stage of identification of capabilities, the data
 705 were analysed in an iterative process as prescribed for the
 706 participatory method (Glaser and Strauss 1967). I codified
 707 the interview using comparative analysis. I used the soft-
 708 ware programme AQUAD for identifying the relevant
 709 functionings and capabilities. The AQUAD programme
 710 helped to determine and identify capabilities through an
 711 iterative process that comprised separating the segments
 712 pertaining to the same subject, with the added difficulty of
 713 finding fragments of varying length and those that applied
 714 the distinction between recording units (pieces that allude
 715 to the same theme or topic) and enumeration units (unit on
 716 which the measurement is performed). I followed the cri-
 717 teria suggested by Robeyns (2003) to identify a list of
 718 capabilities in a specific context such as explicit formula-
 719 tion, methodological justification, sensitivity to the context,
 720 different levels of generalisation, and exhaustion and non-
 721 reduction.
 722

723 For measuring capabilities, I used the R software for
 724 statistical methods (analysis of covariances and tests)
 725 using confirmatory factor analysis and structural equa-
 726 tion modelling. I followed the main model by Krish-
 727 nakumar and Ballon (2008) that provides a structure of
 728 the general capabilities in which capabilities are divided
 729 into functionings, entitlements and conversion factors
 730 (Fig. 2).

731 **Results**

732 I can divide the results of the Los Grobo case into two main
733 parts: In the first part, I present the identification of
734 stakeholder capabilities in the value creation process and,
735 in the second part, I present the measurement of such
736 capabilities.

737 **Part A: Identification of Stakeholder Capabilities**

738 In order to identify the stakeholder capabilities, we first
739 need to understand the value creation process of the com-
740 pany. The Los Grobo Group focused its exponential growth
741 on technical and technological innovation (TICS) and on
742 organisational innovation (its special network approach of
743 organisation). Its strategy has been to add value to the
744 agricultural commodity business model by providing ser-
745 vices through its relationships with stakeholders to the
746 extent that the Los Grobo Group defines itself as a service
747 company, rather than as a producer or seller of grains, that
748 is, a service company that considers all stakeholders with
749 whom it interacts:

750 'We are a company that processes and produces
751 grains, but fundamentally we are a service company.
752 We facilitate the process of creating value for the
753 stakeholders with whom we interact. We participate in
754 different stages of the food chain, coordinating and
755 articulating the various players involved - producers,
756 suppliers, scientists and technicians.' (CEO, 47 years)

757 In order to explain Los Grobo business model, I use
758 Porter's value chain framework to identify the firm-logic
759 value creation of the firm (Stabell and Fjeldstad 1998;
760 Bowen and Ambrosini 2000). Value chain analysis is a
761 method for decomposing the firm into strategically impor-
762 tant activities that have an impact on both cost and value.
763 Therefore, in value chain activities, it is easy to combine
764 the strategic programmes, factors and drivers influencing
765 value creation and involvement of stakeholders.

766 Los Grobo has implemented six strategic programmes
767 that add value and reduce cost in the value chain: (1)
768 Technological Development Programme, (2) Knowledge
769 Management Programme, (3) Sociedad de Garantia
770 Reciproca (SGR) Programme, (4) Environmental Pro-
771 gramme, (5) Canquepa Programme and (6) Quality of Life
772 Programme.

773 I briefly describe the main objectives, content and
774 stakeholder participation in each strategic programme as
775 follows:

776 (1) *Technological Development Programme*. The pro-
777 gramme's targets included employees, customers and

suppliers. The objective of the programme was to 778
increase control of information within the Los Grobo 779
Group, reduce the cost of connection and improve the 780
speed of transmission of information. Consequently, 781
the programme was able to reduce costs and improve 782
efficiency in all production activities, in both con- 783
nectivity and speed, and provided support in man- 784
agement decision making. This programme enabled 785
the geographical expansion of the firm in four 786
countries and in over 12 regions. The programme 787
improved upon the overall internal decision-making 788
processes by reducing the decision-making time, 789
accelerating the flow of information amongst stake- 790
holders and improving management control over 791
operations. The programmes implemented were Risk 792
Analysis (Risk Calculation Programme) and specific 793
applications such as Resource Planning (ERP) for 794
decision making. Overall, all software programmes 795
had an impact on the value chain, specifically on 796
production activity (higher productivity), which low- 797
ered transaction costs and increased trust amongst 798
stakeholders. 799

(2) *Knowledge Management Programme*. The objective 800
of the knowledge management programme was to 801
assist and provide knowledge to those who needed it 802
through training and formation, generating new 803
knowledge at each stage of the agricultural activity. 804
The training programme was called Grobogestion and 805
comprised several courses for all types of stakehold- 806
ers (including employees, customers, suppliers and 807
NGOs), such as financial, tax, legal, economic and 808
health courses. The Grobogestion programme was 809
managed in a systematic manner, analysing the 810
requests and demands of stakeholders on the one 811
hand and the budget and priorities at that time on the 812
other. The Grobogestion programme was evaluated in 813
a systematic manner (customer surveys, customer 814
satisfaction, quality of training, degree of satisfaction, 815
work climate, etc.). The stakeholder benefits were 816
related to higher commitment and productivity, 817
greater degree of trust and lower transaction costs. 818

(3) *SGR Programme*. This programme offered the oppor- 819
tunity to obtain financial funds and credit facilities at 820
very favourable terms for over 350 stakeholders in the 821
Los Grobo network (SMEs) (customers, suppliers and 822
competitors), government guarantees at a rate that is 823
approximately half of the market rate, that is, 4 %, 824
and savings of one million U.S. dollars in 1 year to 825
the stakeholder network. Furthermore, this pro- 826
gramme offered innovative financial products for 827
agricultural activities by incorporating the capital 828
markets to fund operations for exchange and discount. 829

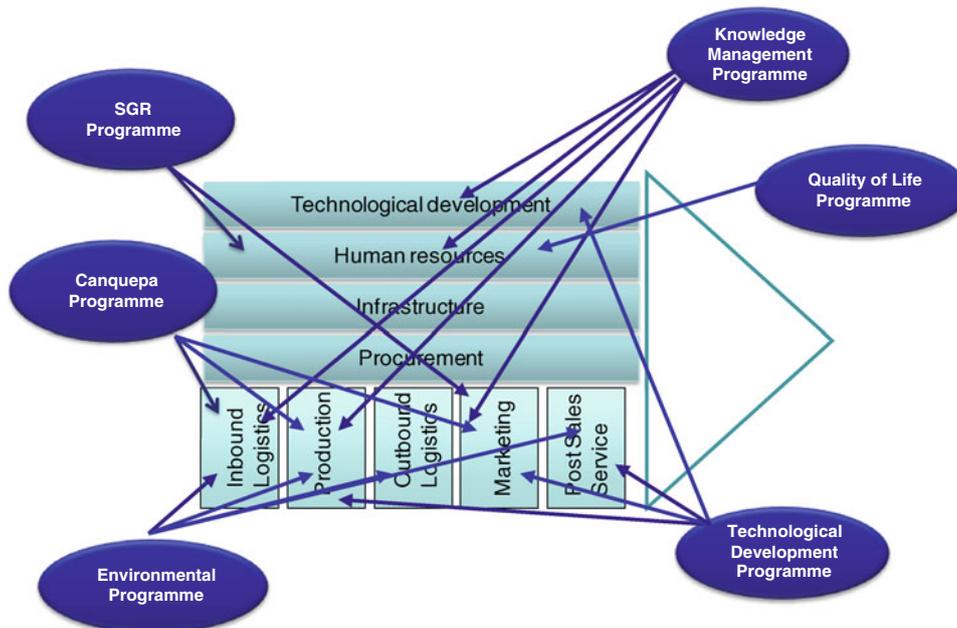


Fig. 3 Strategic programmes in the value chain

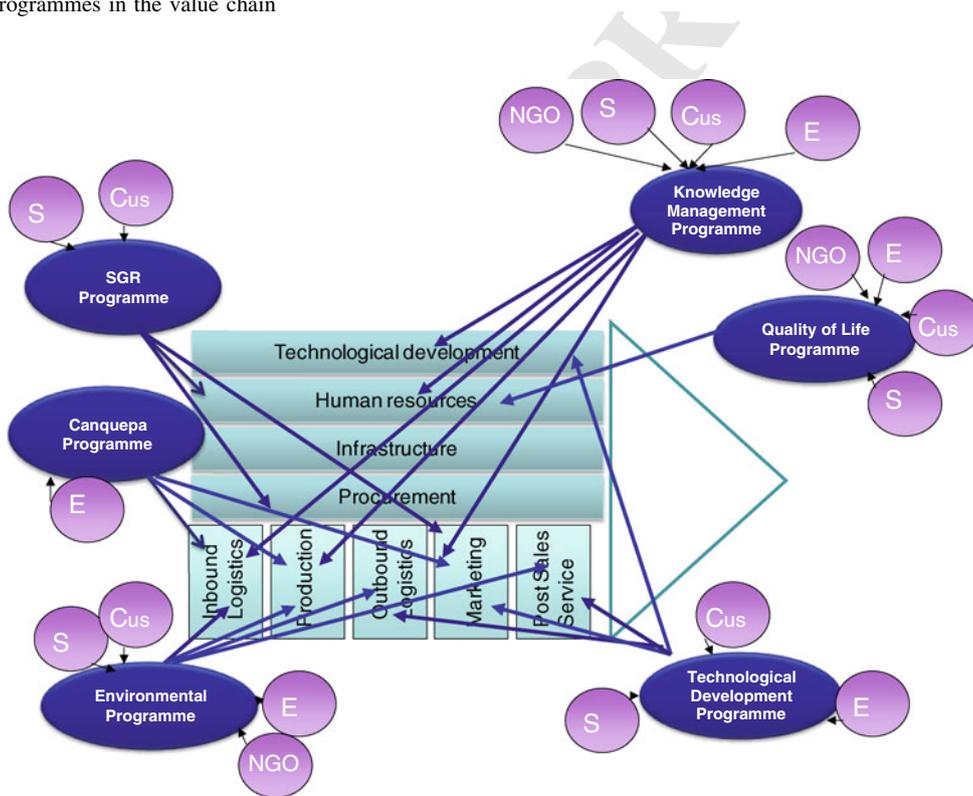


Fig. 4 Strategic programmes in the value chain and stakeholders

830 The benefits of this programme resulted in higher
 831 stakeholder commitment.
 832 (4) *Environmental Programme*. The objective of the
 833 programme was to improve environmental standards

834 throughout the value chain. The company created and
 835 introduced its own environmental standards such as
 836 Agrolimpio (recycling of cans and bags: 80 tons of
 837 waste indirectly from agricultural activity) and an

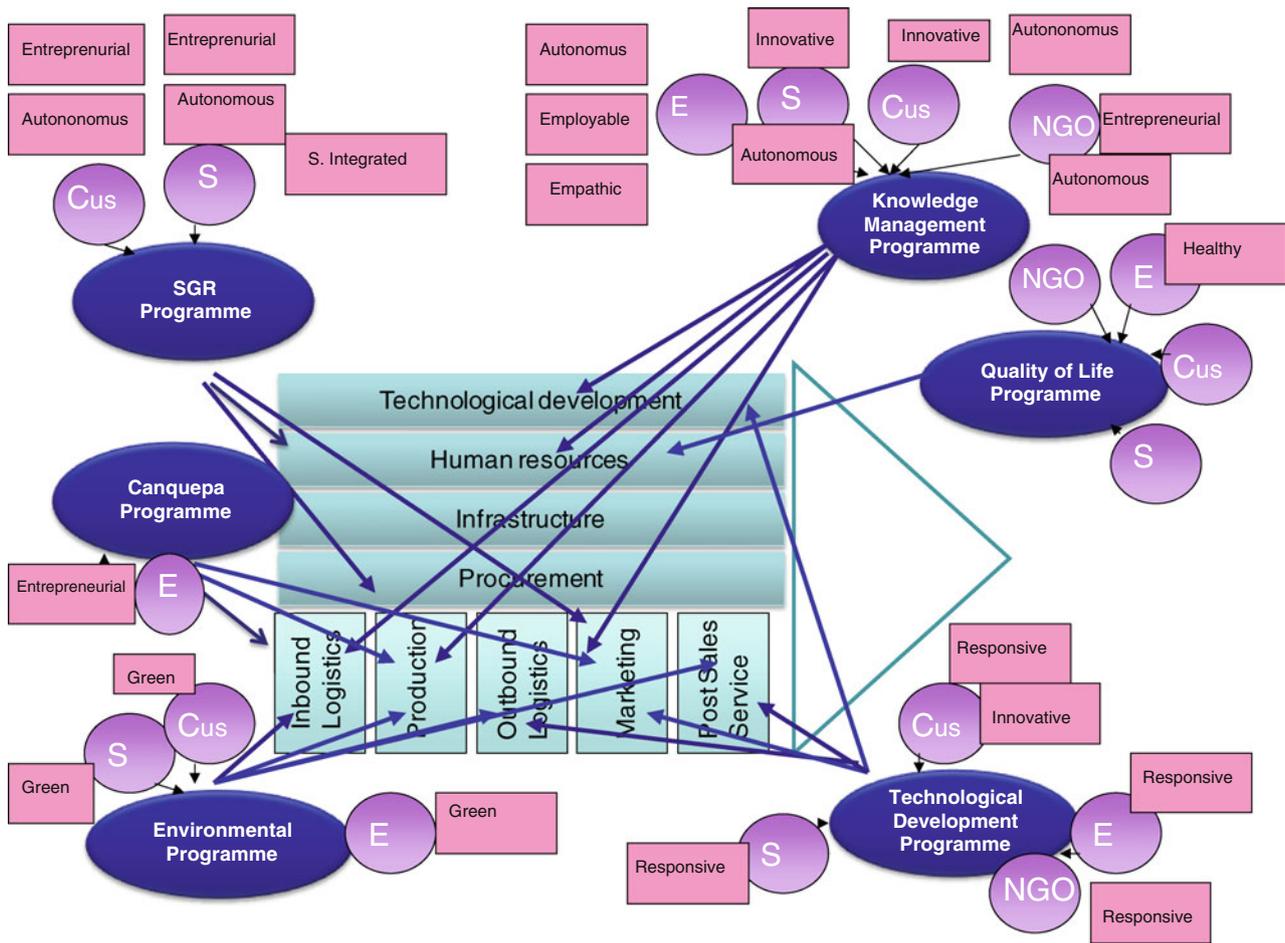


Fig. 5 Stakeholder capabilities identified in the value chain

Table 1 Stakeholder capabilities by each strategic programme and stakeholder group

| Programme | Employees | Customers | Suppliers | NGOs |
|--------------------------------------|--|------------------------------------|--|------------------------------------|
| SGR Programme | | Be entrepreneurial Be autonomus | Be entrepreneurial Be autonomus Be socially integrated | |
| Knowledge Programme | Be autonomus Be employable Be empathic | Be innovative Be autonomus | Be innovative Be autonomus | Be entrepreneurial Be autonomus |
| Canquepa Programme | Be entrepreneurial | | | |
| Environmental Programme | Be green | Be green | Be green | |
| Technologica Development Programmell | Be responsive | Be innovative Be responsive | Be innovative Be responsive | Be responsive |
| Quality of Life Programme | Be healthy | | | |

838 index, The Agro-Eco-Index (environmental indicators
839 of land use). The Los Grobo Group regularly checked
840 and controlled all the materials and resources used to
841 match Agro-Eco Index standard. Moreover, The
842 Grobo Agro-Eco Index was accepted as an industry-

843 wide environmental standard and is now used by
844 other agricultural companies.
845 (5) *Canquepa Programme*. This is a programme in which
846 the group’s employees can invest in one company’s
847 (Canquepa) core business: trading activity. In 2007,

Table 2 Stakeholders' capabilities by stakeholder group

| | |
|-----------|------------------------|
| Employees | Be empathic |
| | Be employable |
| | Be autonomous |
| | Be entrepreneurial |
| | Be responsive |
| | Be green |
| | Be healthy |
| Customers | Be autonomous |
| | Be entrepreneurial |
| | Be innovative |
| | Be responsive |
| | Be green |
| Suppliers | Be autonomous |
| | Be responsive |
| | Be socially integrated |
| | Be innovative |
| | Be entrepreneurial |
| | Be green |
| NGOs | Be autonomous |
| | Be responsive |
| | Be entrepreneurial |

848 27 employees participated in the programme and
 849 earned a profit of 71 % on trading grains. Canquepa
 850 guaranteed the entire initial investment by employees
 851 (investment is recovered by the company). In 2008,
 852 over 100 employees participated in this project. The
 853 main benefits identified by employees were a higher
 854 degree of trust and commitment towards the
 855 company.

856 (6) *Quality of Life Programme*. This programme aimed to
 857 create healthy physical habits amongst employees and
 858 stakeholders. The programme comprised planned
 859 talks and conferences on healthy habits and interest-
 860 ing topics, such as sports. Some of the main initiatives
 861 under this programme included Sports Day, '5 per
 862 day' (fruits and vegetables five times a day), smoke-
 863 free office, free and voluntary vaccination campaign,
 864 and discussion rounds on health prevention (with the
 865 participation of the Foundation Cardiovascular of
 866 Buenos Aires).

867 The Los Grobo Group formulates and implements its
 868 strategy through these six strategic programmes and by
 869 managing stakeholder relationships. In Fig. 3, I show the
 870 six strategic programmes in the Los Grobo value chain.

871 In Fig. 4, I show the stakeholder groups (customers,
 872 suppliers, employees and NGOs) that were involved in the
 873 six strategic programmes. I found that all programmes
 874 involved more than one stakeholder group to make these
 875 programmes work.

876 Once I understood the value activities and stakeholder
 877 groups involved, I identified the stakeholder capabilities in
 878 the value creation process through the six strategic pro-
 879 grammes. What do stakeholders value in the value creation
 880 process of the firm using these strategic programmes?
 881 What is stakeholder behaviour in the value creation
 882 process?

883 Stakeholder Capabilities and the Value Creation
 884 Process

885 By using the participatory method, the capabilities were
 886 identified by stakeholders themselves in the value creation
 887 process through the six strategic programmes as shown in
 888 Fig. 5.

889 Moreover, in each strategic programme, some specific
 890 stakeholder capabilities were identified for each stake-
 891 holder group involved (see Table 1).

892 On clustering the capabilities by content and stakeholder
 893 groups, the following capabilities are obtained: employee
 894 capabilities, customer capabilities, supplier capabilities and
 895 NGO capabilities. See Table 2 for the clustering of capa-
 896 bilities by stakeholder groups.

897 Hence, the respective capabilities for each stakeholder
 898 group are determined as follows:

- 899 – For employees, I found seven capabilities: *be employ-*
 900 *able, be autonomous, be empathic, be entrepreneurial,*
 901 *be responsive, be healthy and be green.*
- 902 – For customers, I found five capabilities: *be innovative,*
 903 *be autonomous, be entrepreneurial, be responsive and*
 904 *be green.*
- 905 – For suppliers, I found six capabilities: *be innovative, be*
 906 *autonomous, be entrepreneurial, be responsive, be*
 907 *socially integrated and be green.*
- 908 – For NGOs, I found three capabilities: *be autonomous,*
 909 *be entrepreneurial and be responsive.*

910 The first comment on the results is to indicate that
 911 some stakeholder capabilities were the same for all
 912 stakeholder groups, whereas others were different. The
 913 capabilities that were the same for all four stakeholder
 914 groups are as follows: *be autonomous, be entrepreneur-*
 915 *ial and be responsive.* However, we found some
 916 capabilities that were specific to certain stakeholder
 917 groups. For employees, these specific capabilities were
 918 to *be empathetic and be employable*; for both suppliers
 919 and customers, these were to *be innovative*; and for
 920 suppliers, these capabilities were to *be socially inte-*
 921 *grated in society.*

922 Stakeholder capabilities and definitions and some quotes
 923 from the stakeholders will be provided in the following
 924 section.

| | | | |
|-----|--|--|------|
| 925 | Stakeholder Capabilities | | 975 |
| 926 | The capability <i>be autonomous</i> can be defined as the stakeholder's ability to set goals and to be accountable for achieving them. One employee said, 'In Los Grobo, I have learnt that through consensus, I can set my goals and am able to achieve them' (Employee, 30 years old, Sales Department). | | 976 |
| 927 | | | 977 |
| 928 | | | 978 |
| 929 | | | 979 |
| 930 | | | 980 |
| 931 | | | 981 |
| 932 | The capability <i>be entrepreneurial</i> is understood as the ability to initiate new aspects in one's business: | | 982 |
| 933 | | | 983 |
| 934 | 'The Company offered to participate in the same business as Los Grobo and to create new businesses. I always wanted to invest and start up a business, but I was very risk averse. Now, thanks to the Canquepa programme, I know how to manage my anxiety and risk. Now, I can invest in the same business than Los Grobo.' (Employee, 35 years old, Sales Department) | | 984 |
| 935 | | | 985 |
| 936 | | | 986 |
| 937 | | | 987 |
| 938 | | | 988 |
| 939 | | | 989 |
| 940 | | | 990 |
| 941 | The capability <i>be responsive</i> is perceived by several stakeholders as the ability to respond to others' demands and requests. This capability involves self-initiative, empathizing and resolving conflicts of interest in business. 'I think it is important to know what customers want... What is more... I care about them and sometimes I anticipate what they need' (Supplier, 45 years old). | | 991 |
| 942 | | | 992 |
| 943 | | | 993 |
| 944 | | | 994 |
| 945 | | | 995 |
| 946 | | | 996 |
| 947 | | | 997 |
| 948 | The capability <i>be employable</i> evaluates the experience gained through training and education, mainly through the Grobogestion programme. The capability <i>be employable</i> can be defined as the ability of the employee to be hired by other companies in the industry. It considers the circumstances in the event that an employee was fired and the probability that the employee would be hired by another company. The type of knowledge generated and the application of the tools learned through Grobogestion were adequate and appreciated by employees and the industry. Regarding this capability, an employee said, 'Thanks to Grobogestion, I know how to better analyse results of agrochemical aspects and I am better prepared: I can do more things better than before' (Employee, 32 years old, Production Department). Another employee argued the importance of the future: | | 998 |
| 949 | | | 999 |
| 950 | | | 1000 |
| 951 | | | 1001 |
| 952 | | | 1002 |
| 953 | | | 1003 |
| 954 | | | 1004 |
| 955 | | | 1005 |
| 956 | | | 1006 |
| 957 | | | 1007 |
| 958 | | | 1008 |
| 959 | | | 1009 |
| 960 | | | 1010 |
| 961 | | | 1011 |
| 962 | | | 1012 |
| 963 | | | 1013 |
| 964 | 'After the Grobogestion training, I know that I have the latest knowledge, it will be useful not only here but also in the future and it would have been difficult to obtain in another company. In Argentina, agricultural companies in general offer few courses and training.' (Employee, 35 years old, Legal Department) | | 1014 |
| 965 | | | 1015 |
| 966 | | | 1016 |
| 967 | | | 1017 |
| 968 | | | 1018 |
| 969 | | | 1019 |
| 970 | The capability <i>be empathic</i> is defined as being able to relate to others in an effective manner, mainly in teamwork, as noted through the following testimonial, 'I didn't know how to work in groups before. Now, with training in skills learned in this business has helped me a lot, I think | | 1020 |
| 971 | | | 1021 |
| 972 | | | 1022 |
| 973 | | | 1023 |
| 974 | | | |
| | this is important to work in a business environment and to deal with others' (Employee, 28 years old, Financial Department). | | |
| | The capability <i>be (or being) socially integrated</i> considers that the company is 'officially in society'; this means that the company pays taxes and has all the official documents according to government regulations to run the business. A supplier recognised this capability as important for being able to do additional business with more companies 'By starting working with Los Grobo they asked for my documents. I had to update some... Now I can work with more companies' (Supplier, 45 years old). | | |
| | The capability <i>be innovative</i> is defined as the ability to introduce new ways of doing things and using new methods, new technologies and/or new raw materials for positively influencing the sale of products or services. A supplier said, | | |
| | 'The possibility to do new things which enables me to improve my day-to-day management skills is higher when I work in Los Grobo than in other firms. This has an impact on my own performance, so I want to continue working here even if I am not compensated as well as I expect.' (Supplier, 47 years old). | | |
| | This capability was observed not only for suppliers but also for customers. | | |
| | The capability <i>be green</i> (the ability to respect the environment) can be defined as the ability to deal with the environment and the community. One employee recognises stakeholder capability as 'I did not know the full impact of certain business practices, thanks to the environmental program I've learned a lot, especially on a day to day basis... Now I can apply them on a day-to-day basis.' (Employee, 24 years old, Purchasing Department). | | |
| | Finally, the capability <i>be healthy</i> can be defined as the abilities, skills and knowledge that the stakeholder acquires on achieving good health. This capability has been developed mainly through the Quality of Life programme. An example of this is a discussion round on Healthy Diet for employees: 'The daily meal in the dining room is balanced and helps me to be in good shape and remain healthy' (Employee, 48 years old, Purchasing Department). Furthermore, regarding the discussion rounds on diseases such as high cholesterol or diabetes, some customers and suppliers had similar viewpoints, 'I learnt so much in such talks, I couldn't go if they were located in Buenos Aires.' (Supplier, 37 years old) | | |
| | | | |
| | Part B: Measurement of Stakeholder Capabilities | | |
| | The second part pertains to the measurement of stakeholder capabilities. I have used structural equation modelling, | | |

Table 3 Measurement model: employee capabilities

| Factor name | Measurement item | Standardised loading >0.40 | Z-statistic | Composite reliability (Cronbach's α) 0.70 |
|-----------------|-------------------|----------------------------|-------------|---|
| Employable | Knowledge | 0.76* | | 0.82 |
| | Applications | 0.84*** | 6.90 | |
| | Tools | 0.80* | | |
| | Experience | 0.77** | | |
| Autonomous | Contribution | 0.78** | | 0.79 |
| | Consensus | 0.66*** | 6.18 | |
| Entrepreneurial | Deal Uncertainty | 0.82* | | 0.72 |
| | Finance | 0.94*** | 7.64 | |
| Responsive | Initiative | 0.82*** | 9.85 | 0.76 |
| | Exchangeability | 0.61* | | |
| | Interest Conflict | 0.77*** | 9.40 | |
| Green | Knowledge | 0.65* | | 0.84 |
| | Voluntaries | 0.76*** | 9.28 | |
| | Ideas | 0.73* | | |
| Emphatic | Communication | 0.51* | | 0.77 |
| | Team work | 0.67* | | |
| | Motivation | 0.88*** | 5.92 | |
| | Leadership | 0.78*** | | |
| Healthy | Housing | 0.95*** | 7.81 | 0.78 |
| | Diet | 0.88* | | |
| | Food | 0.72* | | |
| | Good habits | 0.77* | | |
| | Knowledge | 0.73*** | 5.15 | |

*** $P < 0.001$; ** $P > 0.01$; * $P > 0.05$

1024 which is a combination of factor analysis and path analysis.
 1025 I followed the two-stage procedure recommended by
 1026 Anderson and Gerbing (1988). In the first stage, the mea-
 1027 surement model was estimated using confirmatory factor
 1028 analysis to test whether the constructs exhibited sufficient
 1029 reliability and validity. The second stage identified the
 1030 structural model that best fit the data and tested the
 1031 hypothesised relationships between constructs.

1032 Table 3 summarises the results of confirmatory factor
 1033 analysis on the measurement model for employees, Table 4
 1034 for customers, Table 5 for suppliers and Table 6 for NGOs.
 1035 The measurement items for each construct (factor) are
 1036 presented and the standardised factor loadings and their
 1037 associated Z-statistics, where applicable, are reported;
 1038 composite reliabilities and the variance extracted are also
 1039 listed. The standardised factor loadings are all above 0.57

(the recommended minimum in social sciences is usually
 0.40) (Ford et al. 1986). The composite reliabilities, anal-
 ogous to the Cronbach's α values, are above the recom-
 mended minimum of 0.70. Thus, all constructs demonstrate
 good internal consistency and reliability.

For the structural model, I tested the following models:
 (a) the null model, in which no relationships are posited;
 (b) the measurement model, that specifies the relationships
 between functionings and capabilities; and (c) the struc-
 tural model, that shows the influence of the latent variables
 (capabilities) on one to another. Table 7 summarises the
 goodness-of-fit statistics of the models.

The results indicated that the measurement model pro-
 vides a better fit than the null model (significant difference
 in Chi 2). As Table 7 shows, the overall fit of the mea-
 surement model is good: values close to or above 0.90 on

Table 4 Measurement model: customers' capabilities

| Factor name | Measurement item | Standardised loading >0.40 | Z-statistic | Composite reliability (Cronbach's α) 0.70 |
|-----------------|-------------------|----------------------------|-------------|---|
| Innovative | Knowledge | 0.79** | 5.90 | 0.80 |
| | Applications | 0.83*** | | |
| Autonomous | Contribution | 0.55* | 6.18 | 0.77 |
| | Consensus | 0.76*** | | |
| Entrepreneurial | Deal uncertainty | 0.82** | 7.64 | 0.82 |
| | Finance | 0.84*** | | |
| Responsive | Initiative | 0.87*** | 9.40 | 0.78 |
| | Exchangeability | 0.61* | | |
| | Interest conflict | 0.81*** | | |
| Green | Knowledge | 0.67* | 9.28 | 0.72 |
| | Voluntaries | 0.80*** | | |
| | Caring | 0.78** | | |
| | Communication | 0.65* | | |

*** $P < 0.001$; ** $P > 0.01$;
* $P > 0.05$

Table 5 Measurement model: suppliers' capabilities

| Factor name | Measurement item | Standardised loading >0.40 | Z-statistic | Composite reliability (Cronbach's α) 0.70 |
|---------------------|-------------------|----------------------------|-------------|---|
| Innovative | Tools | 0.82* | 6.03 | 0.81 |
| | Knowledge | 0.84*** | | |
| Autonomous | Contribution | 0.68* | 6.23 | 0.71 |
| | Consensus | 0.86*** | | |
| Entrepreneurial | Deal uncertainty | 0.82* | 7.67 | 0.87 |
| | Finance | 0.84*** | | |
| Responsiveness | Initiative | 0.77*** | 9.40 | 0.74 |
| | Exchangeability | 0.65* | | |
| | Interest conflict | 0.77*** | | |
| Green | Knowledge | 0.58* | 9.34 | 0.77 |
| | Voluntaries | 0.80*** | | |
| | Caring | 0.77* | | |
| | Communication | 0.65* | | |
| Socially Integrated | Knowledge | 0.61* | 7.85 | 0.77 |
| | Responsibility | 0.78*** | | |
| | Communication | 0.77* | | |

*** $P < 0.001$; ** $P > 0.01$;
* $P > 0.05$

1056 the goodness-of-fit index (CFI) or the RMSEA above 0.80.
1057 Also, in table 7, the structural model displays good fit with
1058 all CFI above 0.90 and the RMSEA above 0.80.

Based on this analysis, it can be said that stakeholder's capabilities were identified and measured in the value creation process of the Los Grobo Group.

1059
1060
1061

Table 6 Measurement model: NGO's capabilities

| Factor name | Measurement item | Standardised loading >0.40 | Z-statistic | Composite reliability (Cronbach's α) 0.70 |
|-----------------|-------------------|----------------------------|-------------|---|
| Autonomous | Contribution | 0.73** | 6.18 | 0.73 |
| | Consensus | 0.76*** | | |
| Entrepreneurial | Deal uncertainty | 0.82** | 7.64 | 0.81 |
| | Finance | 0.94*** | | |
| Responsive | Initiative | 0.82*** | 9.85 | 0.75 |
| | Exchangeability | 0.61* | | |
| | Interest conflict | 0.79*** | | |

*** $P < 0.001$; ** $P > 0.01$;* $P > 0.05$ **Table 7** Model statistics

| | χ^2 | df | CFI > 0.90 | RMSEA > 0.80 |
|-------------------|----------|-----|------------|--------------|
| Employees | | | | |
| Null model | 12,068.7 | 217 | | |
| Measurement model | 463.6 | 122 | 0.92 | 0.72 |
| Structural model | 626.8 | 169 | 0.95 | 0.82 |
| Customers | | | | |
| Null model | 9,876.1 | 187 | | |
| Measurement model | 333.1 | 138 | 0.92 | 0.78 |
| Structural model | 354.2 | 157 | 0.96 | 0.81 |
| Suppliers | | | | |
| Null model | 8,789.1 | 172 | | |
| Measurement model | 451.6 | 122 | 0.91 | 0.85 |
| Structural model | 597.5 | 167 | 0.94 | 0.87 |
| NGO | | | | |
| Null model | 7,843.2 | 121 | | |
| Measurement model | 455.2 | 90 | 0.91 | 0.80 |
| Structural model | 522.1 | 110 | 0.93 | 0.81 |

CFI = >0.90 good fit

RMSEA > 0.80 good fit

1062 Discussion

1063 Understanding the nature of the value creation process is at
 1064 the heart of strategic management (Grimm and Smith
 1065 1997) and stakeholder theory, and is one of the main the-
 1066 ories of strategic management. My study has focused on
 1067 understanding what constitutes stakeholder welfare and
 1068 how it can be measured in the value creation process of the
 1069 firm. My conceptualisation of stakeholders' value and
 1070 stakeholders' welfare is based on stakeholder capabilities
 1071 rather than on stakeholder utility functions, which enables
 1072 us to understand what 'value' means for a particular group

of stakeholders, and how the value created by stakeholders
 is measured (beyond the accounting and financial
 measures).

There are three main findings of this study. First,
 stakeholder capabilities have shown a new evaluative space
 on stakeholder welfare, which the concept of utility does
 not consider; this space contains dimensions such as
 autonomy or empathy. This evaluative space arises from
 richer and complex assumptions regarding stakeholder
 behaviour: this is what stakeholder value is in a global
 sense and what stakeholders value as a whole (what they
 have considered to be worth it). This new evaluative aspect
 comes from the evaluation of stakeholders themselves and
 has been identified through a participatory method. The
 participatory method itself is ethical because it captures
 stakeholders' well-being and describes what stakeholders
 consider as human well-being and what enables them to
 progress towards achieving it. The results highlight the
 ethical dimension not only by content but also by method.
 Therefore, in our results, the ethical and strategic dimen-
 sions appear intertwined in the value creation process and
 we could confirm that both dimensions are important and
 necessary in the value creation process. The capability
 approach enables us to understand how and to what extent
 these dimensions are intertwined.

Our results confirm that value creation is multi-dimen-
 sional and multi-contextual (ethical, social and economic)
 and my research adds to the studies that understand
 stakeholder behaviour and their stakes as being multi-
 dimensional (Rowley and Moldoveanu 2003).

Second, the capabilities approach enables us to under-
 stand, from the stakeholders' perspective, how value is
 created for each stakeholder group through stakeholder
 welfare. This is precisely one of the main objectives of
 stakeholder theory (Freeman et al. 2010). In my research,
 each stakeholder group, whether it is employees, custom-
 ers, suppliers or NGOs, identifies its own capabilities. It is

worth mentioning that some capabilities are similar for all the four stakeholder groups. This result indicates that stakeholders, at a certain level, appraise, evaluate and estimate the same capabilities and implies that some common objectives, expectations and values may coincide amongst stakeholder groups. This is an important finding because all stakeholder research has been focused on differentiating one group from another, while there is a paucity of research focusing on similarities amongst stakeholders. Such information, based on the equality of capabilities, is very helpful to company managers when they make decisions regarding programmes in the value creation process. This has been precisely stated as one of the main tasks of managers, 'to find a way to develop programmes, policies, strategies, even products and services that satisfy multiple stakeholders simultaneously' (Freeman et al. 2010, p. 53). Once the stakeholder capabilities are known, the manager could design strategic programmes that could be shared by those stakeholders that appraise the same programmes in order to offer 'solutions to issues that satisfy multiple stakeholders simultaneously' (Freeman et al. 2010, p. 53). For example, the manager could design an innovative programme that simultaneously satisfies both customers and suppliers if both these stakeholders have been identified as having the capability to innovate. Therefore, capabilities could help to determine where the intersection of stakeholder interests occurs, as mentioned by Freeman et al. 2010: 'The very idea of managing stakeholders is predicated on the fact that the process of value creation is about finding the intersection of interest for primary stakeholders' (Freeman et al. 2010, p. 52).

This result highlights the common stakeholder interests amongst two or more different options. Hence, based on stakeholder capabilities, the firm could ask the following questions to determine what capabilities may coincide for two or more stakeholder groups for one or two options: What do customers and suppliers appraise in the long term? How responsive are suppliers and customers to innovation rather than to price? Therefore, the firm can fine-tune its strategies and tactics to offer what is important to several stakeholder groups, rather than simply offering a price (which might be expensive to the firm) or utility (that stakeholders do not value).

Our results also suggest how the firm should treat stakeholders in the value creation process. The findings presented here suggest that a firm could promote stakeholder welfare if it develops and strengthens stakeholder capabilities. For example, in the case of employees, this means that if the firm promotes stakeholder capabilities (*be employable, be empathic, be autonomous or be healthy*), it will enhance stakeholder welfare and will simultaneously create value. Therefore, the role of a manager could be

redefined to include the identification and promotion of stakeholder capabilities in the value creation process when he designs and implements programmes.

Finally, regarding the type of capabilities, I suggest that stakeholders (employees, customers and suppliers) increasingly appraise business-context dimensions related to knowledge, innovation and abilities to achieve business goals. This finding confirms the stakeholder theory as conceptualised in its origins because it is mainly a strategic management theory. This finding also suggests that stakeholders appreciate and value the aspect that enhances their role in the business (specifically, their role in its own value creation process) rather than in social or environmental objectives/programmes.

All capabilities with a high score on the strategic programme, Grobogestion, are related to the creation of knowledge in the stakeholder network. This finding suggests that stakeholders appreciate and appraise capabilities that make them more productive and better at developing their business throughout their own value creation process. This result is aligned with those of the most strategic management studies that emphasise the role of knowledge in the value creation process (Kogut and Zander 1996).

Overall, this study also contributes to the existing scant literature on stakeholder theory by analysing stakeholder behaviour in the value creation process from the stakeholder perspective. Thus far, only a few previous studies have analysed and understood stakeholder behaviour in terms of cooperation or value creation; therefore, this literature has focused mainly on categorising stakeholders and on explaining when and how stakeholders influence the firm (describing strategies to achieve their own interests) in cases of confrontation and crisis.

Limitations of the Scope of This Research

This study aims to understand and measure stakeholder capabilities in the value creation process. This research aims neither to prescribe stakeholder capabilities nor to indicate the conditions or preconditions for the emergence of stakeholder capabilities. Rather, our study describes stakeholder capabilities in the Los Grobo Group at one particular point in time.

The scope of this research has four main limitations. First, this study has focused on the process of value creation of the firm, but does not consider instances of stakeholder crisis and confrontations. Second, this study has primarily focused on the stakeholder perspective, studying stakeholder behaviour from the stakeholder perspective, and has overlooked the firm's internal processes and systems associated with identifying and developing stakeholder capabilities; this could be a potential subject for future research. Third, this study did not measure the firm's

1214 performances and economic results (accounting and
1215 financial) of the impact of stakeholder capabilities; there-
1216 fore, future research should tackle these aspects and comb-
1217 bine both measures. Fourth, one stakeholder group, the
1218 shareholders, has not been considered in our study.
1219 Shareholders have received a lot of attention in past studies
1220 on economic and financial value. Therefore, I decided to
1221 focus on other groups of stakeholders that have received
1222 little attention on aspects of value beyond the economic
1223 and financial ones. However, future studies should consider
1224 these stakeholder groups as important when combining
1225 economic and financial value with other types of stake-
1226 holder value.

1227 Concluding Remarks and Future Research

1228 In this paper, I identified and measured the following
1229 stakeholder capabilities in the value creation process of an
1230 agricultural company: *be employable, be autonomus, be*
1231 *innovative, be emphatic, be responsive, be entrepreneurial,*
1232 *be socially integrated, be healthy and be green.* These
1233 stakeholder capabilities have conceptualised stakeholder
1234 welfare and have showed what stakeholders value or con-
1235 sider worthwhile in the value creation process, rather than
1236 simply stakeholder utility function to represent welfare.
1237 This research enables us to understand what 'welfare'
1238 means for a particular group of stakeholders and how to
1239 measure the value created by stakeholders (beyond the
1240 accounting and financial measures) based on the capabili-
1241 ties identified.

1242 The analysis of the case study reveals three main results:
1243 first, the ethical and strategic dimensions in the value
1244 creation process are intertwined, not only in the content but
1245 also in the process through which these were obtained (the
1246 participatory method). On considering the type of the
1247 capabilities identified, I find that most are business related
1248 such as *be employable, be autonomous, be innovative, be*
1249 *entrepreneurial or be responsive.* This confirms the
1250 stakeholder theory as conceptualised in its origins in strate-
1251 gic management theory, and the business-related context
1252 is the key for stakeholders.

1253 Second, certain stakeholder capabilities were the same
1254 for some stakeholder groups; therefore, we found that some
1255 of the objectives, values or expectations of different
1256 stakeholders coincide. Stakeholder theory has focused on
1257 the differences, but not on these coincidences, amongst
1258 stakeholder groups in value creation and trade. Based on
1259 these stakeholder coincidences, it would be possible to
1260 design new cooperative strategic programmes for all
1261 stakeholder groups.

1262 Finally, my research suggests a new role for the firm
1263 based on new ways to understand stakeholder behaviour.

The firm should identify stakeholder capabilities and
manage stakeholder relationships based on their knowledge
of how stakeholders' actions influence or are influenced by
stakeholder capabilities. Because stakeholders would
choose those options or opportunities that would increase
their capabilities in the value creation process, the firm
could create value if it is able to increase and satisfy
stakeholder capabilities.

According to Freeman et al. (2010), the key to the future
of stakeholder research is to look for real and complex
stakeholder behaviours:

'To create value for stakeholders, executives must
understand that business is fully situated in the realm
of humanity. Businesses are human institutions pop-
ulated by real, live, complex human beings. Stake-
holders have names and faces and children. They are
not mere placeholders for social roles.' (p. 29)

Our research also extends the work of other stakeholder
researchers dissatisfied with the strict behavioural assump-
tions underlying economic models of managerial and firm
behaviour (Donaldson and Preston 1995; Jones 1995; Jones
and Wicks 1999); stakeholders are assumed to have stable
preferences based only on (economic) utility maximization,
which guides their behaviour.

I am aware that this research has obvious limitations in
generalising the outcomes from a single case study as
presented above. Moreover, some limitations of the scope
have been adequately indicated in the paper because the
focus is on the stakeholder perspective, and the missing
link is that between the accounting-economic value (per-
formance), the capabilities identified and the factors and
causes of stakeholder capabilities.

However, at the same time, the findings and richness of
the data raised and answered interesting questions about
value creation in the context of stakeholder relationships
and its measurement. Notwithstanding the above limita-
tions, I believe that this study has made a valuable con-
tribution to the literature on value creation in stakeholder
theory. It is noteworthy that this is the first empirical study
on SCA in the context of stakeholder theory, and is
therefore a contribution in itself. Future research could
overcome the main limitations of scope, as already men-
tioned, generating multiple case studies to further test the
conclusions of this case.

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