The Contribution of Stakeholder Theory to Supply Chain Management

A Theory Evaluation

Bachelor Thesis

Katherina Wittke

University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands

k.wittke@student.utwente.nl

ABSTRACT

As the attention to supply chain management (SCM) increases, practitioners seek new ways of enhancing their processes. At the same time stakeholder theory has become a central theorem in management literature and practice, and empirics show its relevance to SCM. This paper brings stakeholder theory and SCM together by focusing on the major decision points in supply chain management and evaluating on how stakeholder theory does impact these decisions. The literature on stakeholder theory is reviewed. Then, stakeholder theory is evaluated and positioned within the Life Cycle of Theories. Afterwards, stakeholder theory is applied to the make-or-buy, sourcing strategy, supplier strategy, and contracting decisions. It is found that stakeholders are part of any SCM decision and that the concept of stakeholder salience can act as a junction between stakeholder theory and SCM decision making.

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Keywords

Stakeholder theory, supply chain management, decision making, theory evaluation

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1 INTRODUCTION

During the last decades supply chain management as a field of study has received increasing attention. (Thomas & Griffin, 1996, p.1; Sinclair, 2010, p.1) This is due to the fact that supply chain management and its adjoining functions are a major source of savings, and supply chain matters are at a firm's core, since every firm usually buys goods and/or services as well as sells such. (Monczka et al., 2008, pp. 6-7)

The supply chain is defined as the total journey of materials as they move from initial suppliers through to final customers. (Monczka et al., 2008, pp. 7, 9) Accordingly, supply management is depicted as the "identification, acquisition, access, positioning and management of resources and related capabilities an organization needs […] in the attainment of its strategic objectives." (Flynn et al., 2006 in Monczka et al., 2008, p.12)

Moreover, supply chain management contributes to customer value creation by improving firm performance. (Monczka et al., 2008, pp. 6-7) Michael Porter's concept of the value chain (1980) supports this assumption. The value chain is seen as a set of processes through which a constellation of actors work together to continuously innovate in a way that produces value for customers. (Freeman & Liedtka, 1997, p. 288)

Multiple theories have arisen in an attempt to explain the complex tasks, elements and processes embedded in the field.

In general, theories aim at explaining certain phenomena. They may be defined as a set of ideas that suggest or present as possibly true the general principles or ideas that relate to a particular subject[1], or "a set of assumptions, propositions, or accepted facts that attempts to provide a plausible or rational explanation of cause-and-effect (causal) relationships among a group of observed phenomenon".[2]

One theory that has been given a huge amount of attention and importance during the last decades is stakeholder theory. (Laplume et al., 2008, p. 1153) It has first been depicted in detail by R. E. Freeman as an approach to strategic management in 1984, which basically considers multiple stakeholders (as opposed to solely shareholders) when it comes to decision making, and focuses on value creation for these groups which have a stake in the firm. (Laplume et al., 2008, p. 1153; Freeman & Parmar, p. 39) Stakeholders are those groups which can affect or are affected by the achievement of an organization's objectives (Freeman, 2010, p. 49).

Stakeholder theory has already been widely used within the supply chain context in order to explain supply chain issues. (Genovese et al., 2013, p.23) This makes perfect sense, since the supply chain is central to value creation, as briefly mentioned above. . (Monczka et al., 2008, pp. 6-7; Freeman & Liedtka, 1997, p. 288)

The current paper aims at extending this approach by applying stakeholder theory to specific major decision points in supply management:

- Make or buy decision
- Sourcing strategies
- Supplier strategies
- Contracting

These decision points fairly comprise the main considerations in developing a supply chain management strategy, which is predominantly concerned with the fulfilment of customers' orders. (Tan, 2001, p. 44)

Frohlich et al. (1997) identified three supply chain management strategies: innovator, marketeer, and caretaker. All three focus on fulfilling customers' orders, but by different means. "While innovators emphasize rapid new product introduction and design changes, marketeers offer broad product lines and caretakers focus on offering the lowest price." (Tan, 2001, p. 44)

Evidently, cost, speed or time-to-market, quality, and variety matters are of relevance to the respective SCM strategies. These variables fairly depend on decisions made related to insourcing or outsourcing (make-or-buy decision), multiple or single sourcing (sourcing strategies), supplier strategies, and contracting. But, how do certain business theories impact these decisions?

This paper seeks to add to the current base of knowledge, by reviewing the current literature related to stakeholder theory and SCM critically, and applying relevant parts of theory to practical SCM decision making, since there is currently a lack of knowledge on how certain business management theories, in this case stakeholder theory, actually affect supply chain management decisions.

Furthermore, although some stakeholders have a strong influence in helping a firm gain and sustain competitive advantage, they also capture much of the value created. (Rothaermel, 2013, p. 19) Thus, understanding the relationship between stakeholder theory and supply chain management is beneficial to both ends: Firms enhance the sustainability of their competitive advantage, and stakeholders gain value.

In sum, a more profound knowledge on stakeholder theory and how it concurs to supply chain management may enhance business' processes, facilitate decision making, boost value creation and performance.

Therefore, stakeholder theory will firstly be introduced, from its original roots through its main assumptions, statements, hypotheses and empirical findings, to criticism and evolutionary tendencies.
Following, a general assessment of stakeholder theory according to Vos & Schiele's (2014) determining criteria of theory will be executed.
Stakeholder theory will be applied to the mentioned decision points respectively, illustrating to what extent stakeholder theory does impact these major decisions.
The paper will conclude in a discussion, demonstrating an answer to the research question, and suggestions for further research.

[1] http://www.merriam-webster.com/dictionary/theory
[2] http://www.businessdictionary.com/definition/theory.html

2 STAKEHOLDER THEORY

2.1 Stakeholder theory as a novel perspective on strategic management

The term *stakeholder* emerged in 1963 from a ground breaking memorandum at the Stanford Research Institute, which argued that managers "needed to understand the concerns of shareholders, employees, lenders and suppliers, in order to develop objectives that stakeholders could support". (Sinclair, 2010, p.1) *Stakeholders* are further defined as any group within or outside an organization that has a stake in the organization and/or its performance (Daft, Murphy & Willmott, 2007, p.692) or affects strategic decision making within an organization. (Boselie, 2010, p.14)

This introduced a novel view on organizations' purpose, which opposed the prevalent neoclassical understanding of business, which argued that solely stockholders need to be considered by managers when making decisions. (Parmar et al., 2010, p.405)

Subsequently, R. E. Freeman was the first to apply the term to strategic management and detail the idea of stakeholder theory and according management in his 1984-publication "Strategic Management: A Stakeholder Approach". (Sinclair, 2010, p.1; Parmar et al., 2010, p. 405; Donaldson & Preston, 1995, p.65; Laplume et al., 20008, p. 1157)
According to Freeman et al. (2010) stakeholder theory was designed to solve three problems which had arisen throughout the last decades, and aims at improving our understanding of value creation and how it is traded, connecting ethics and capitalism, and help managers deal with these matters. (Freeman et al., 1997, pp. 405-406; Parmar et al., 2010, p. 404)
It addresses *the problem of value creation and trade*, the *problem of ethics of capitalism*, and the *problem of managerial mindset*. (Parmar et al. 2010, p. 405)

Stakeholder theory was hence introduced as an approach towards strategic management, and can nowadays be found in an enormous amount of managerial publications contributing to different fields of business knowledge. (Donaldson & Preston, 1995, p.77)

Further, stakeholder theory encompasses facets of descriptive, normative, managerial as well as instrumental theory. . (Freeman, 1999, p.233; Sinclair, 2010, p.1; Freeman et al., 2004, p.364) Donaldson & Preston (1995, pp. 66) claim that its core is normative, while Freeman (1999, p. 234) argues that it is built on instrumental premises.

Descriptively, organizations are claimed to have stakeholders. From an instrumental perspective firms that consider their stakeholders' interests are said to be more successful than those that do not. The field which examines why firms should give regard to their stakeholders is the normative perspective. (Donaldson & Preston, 1995, pp. 70-73; Freeman, 1999, p.233)

2.2 Value creation as the foundation of business, and several groups with a stake in the organization

In addition, several assumptions underlie stakeholder theory.

The whole idea stems from the presumption that business is an integral part of society rather than an institution that is separate and purely economic in nature. (Freeman & Liedtka, 1997, p.286), and that "managerial actions have the potential to affect a broad range of people" and that "pursuit of corporate objectives can be easily disrupted by the actions of unexpected groups" as indicated by real cases, such as the global financial crisis of 2007-2008. (Parmar et al. 2010, p.404)

Thus, there are groups within and outside the organization, which are affected by the organization, are interested in the organization's success, or affect the organization in some way. (Laplume et al., 2008, p. 1157)

In addition, the interests of different stakeholders can be balanced. - Shareholders or stockholders of corporations are one major exemplary group with an obvious stake in a firm. (Freeman & Liedtka, 1997, p. 287; Parmar et al., 2010, pp. 405; Laplume et al., 2008, p. 1153; Freeman, Wicks & Parmar, 2004, p.364)

It is further assumed that value creation is necessary for business operations, and it is a business' purpose to serve the interests of society. (Freeman, Wicks & Parmar, 2004, p.364-368) Hence, profit maximization is not a business' core object.

Furthermore, managing stakeholders and their interests is suspected to enhance profits. (Parmar et al., 2010, p. 420; Donaldson & Preston, 1995, p. 67)

Moreover, one has assumed a separation of "good ethics" and "good business", which stakeholder theory aims to joint. (Parmar et al., 2010, p. 415)

In an attempt to analyse the stakeholder value chain, Freeman & Liedtka (1997, pp. 293) identified five other assumptions:

(1) Firm interest and stakeholder interests move together. When the firm does well, its stakeholders do well.
(2) Value creation dominates value capture.
(3) Any party that benefits from the value chain needs to invest in its drivers.
(4) Stakeholders must interact.
(5) Businesses are means to achieve stakeholder purposes.

Stakeholder theory has been established on these premises. It had become common sense that value creation must lay within an organization's focus; that customers, employees, suppliers, the government, and more are essential to business success. (Freeman & Liedtka, 1997, p. 286) Freeman started to connect morality with business as a logic consequence to the mutual influence of an organization and its stakeholders.

2.3 Bilateral organization-stakeholder relationships and the positive effect of stakeholder management on business performance

The main variables of stakeholder theory comprise the *organization* or *corporation*, and its *stakeholders*, which usually include but are not limited to employees, suppliers, shareholder, customers, government, and competitors (Freeman, 2010, pp. 16-17), and need to be identified by each firm respectively. To determine a firm's stakeholders one needs to assess which groups are impacted by the firm's actions and decisions, and which groups do influence the firm. (Boselie, 2010, p.14; Laplume et al., 2008, p. 1157, Parmar et al, 2010, p. 406,412)

As one can see in Figure 1, the relationships between the firm and the respective stakeholders are bilateral, i.e. the stakeholder influences the firm, and the firm affects the stakeholder. Every group with interest in the firm, which might even be involved in an enterprise, expects to obtain some benefit from it. For instance customers receive value from the organization, and the organization in turn gains financial aid from its customers. Further, there is no one major stakeholder with priority over the others. (Donaldson & Preston, 1995, pp.68)

One may further differentiate between internal and external stakeholders, or primary and secondary ones.

Those stakeholders within a firm, i.e. employees, managers, and owners are depicted internal stakeholders, while those outside of the organization, e.g. suppliers, customers, and the government, are defined as external stakeholders.
Moreover, primary stakeholders are crucial to a business' survival, while secondary stakeholders have no formal claim on the firm; Firms merely ensure to not do them any harm. (Parmar et al., 2010, p.412)

Friedman and Miles (2002) further differentiate among 4 types of stakeholder relationships (p. 7), since no one firm-stakeholder relationship entirely resembles another. These are differentiated on two features: First, whether a relationship is compatible or incompatible in terms of ideas and interests. Second, whether a relationship is necessary (internal to a social structure, such as an organization) or contingent. (pp. 5-6) Figure 2 illustrates the resulting configurations (necessary-compatible, contingent-compatible, contingent-incompatible, and necessary-incompatible) and the associated stakeholder types.(Friedman & Miles, 2002, p.8)

Shareholders for instance belong within the necessary-compatible quadrant, due to compatible interests of the firm and this stakeholder: profits, and the necessity of their relationship, since they "work together" within one organizational context.

Nevertheless, the main hypotheses of stakeholder theory are that value maximization for customers enhances performance (Parmar et al., 2010, p. 420; Donaldson & Preston, 1995, p. 67, 71), that paying attention to stakeholder relationships will in the end maximize shareholder value as well (Freeman, 1999, p. 235), and that business needs stakeholders in order to exist. (Parmar et al., 2010, p.412)
This constitutes the stakeholder framework and its hypotheses.

2.4 Evaluating stakeholder theory according to Vos & Schiele (2014): A lack of operationalization

But to what extent can 'stakeholder *theory*' be termed theory? Does it fulfil the criteria which constitute a theory?

Following Vos & Schiele (2014, pp. 2-3) a theory fulfils at least the following determining characteristics: Not only does it need to include units, laws, boundaries, system states, and explain why certain events occur. But, it should also encompass several research operation criteria, i.e. propositions, hypotheses, empirical indicators, and empirical research. (Vos & Schiele, 2014, pp.4-6)

In this section I will analyse briefly whether stakeholder theory, as stated by Freeman and further developed by various academics, is in fact a theory, by matching its features to Vos & Schiele's criteria. A *theory* needs to fulfil all of the above mentioned requirements.

2.4.1 *Theory Development criteria*

The firm and stakeholders (e.g. customers, suppliers, employees, shareholders) are named as *units* in stakeholder theory. In detail, it suggests that the *relationships* between a business and the stakeholders are adopted as units. (Parmar et al., 2010, pp.405)

Stakeholder theory proposes bilateral relationships between the firm and its stakeholders, based on interdependent exchange of inputs from stakeholders, such as their interests, expectations/obligations, financial aid, labor, etc., and outputs of the firm, such as profits, products, social engagement, and more benefits. (Donaldson & Preston, 1995, pp. 68)

Stakeholder theory is bound to an organization and its environment. The variables, i.e. the actors involved are defined. But, stakeholders are hard to identify due to a too broad definition. Further, the theory is bound to a state where all stakeholders are treated equally. (Parmar et al., 2010, p. 407) Overall, the boundaries are fairly vaguely stated, and neither time nor value limitations are clearly defined.

Figure 1 presents the only applicable system state of stakeholder theory. It shows the interdependence between the organization and its stakeholders.

The instrumental perspective of stakeholder theory examines *how* firms can be more successful by incorporating stakeholder management. (Donaldson & Preston, 1995, p. 71) Further, the normative perspective investigates the *reason* for considering stakeholder theory. (Donaldson & Preston, 1995, p. 71) Hence, stakeholder theory does in fact encompass the

"Why" of a theory, aiming at explaining certain causal relationships. But, it does not sufficiently explain why certain *events* occur. It merely tends to describe events, relationships and states (of business). It states that a company is linked to its stakeholders and depends on them for business success and survival. (Freeman, 1984; Freeman & Liedtka, 1997, p.286; Thomsen et al., 2012, p. 286)

2.4.2 *Research Operation Criteria*

Stakeholder theory does not offer a set of testable propositions, majorly due to a lack of measurable indicators.

Stakeholder theory comprises some implicitly stated hypotheses, the major one of which has been stated previously: There is a positive relationship between value maximization and business profits. (Parmar et al., 2010, p. 420; Donaldson & Preston, 1995, p. 67)

Complementary, when incorporating a stakeholder approach, stakeholder satisfaction serves as an indicator of organization's performance. (Daft et al., 2007, p. 692)

Research concerned with stakeholder theory has been conducted numerously. (Donaldson & Preston, 1995, p.65) Most empirical research focuses on whether or not, or to what extent stakeholder management impacts corporate performance. (Donaldson & Preston, 1995, pp.67,71) Since a positive relation between the two has been suggested, researchers seek to either verify or falsify this hypothesis.

In sum, there is not sufficient evidence to prove stakeholder theory to be a theory according to Vos & Schiele's (2014) criteria. It is a theory in development at the most. "Stakeholder theory" lacks testable propositions, measurable indicators for empirical research, and is rather to be seen as an approach toward strategic management than a theory, even though it incorporates features of descriptive, normative and instrumental theory. (Donaldson & Preston, 1995)

Jones & Wicks (1999, p. 210) also argue that stakeholder theory in its current facets (descriptive, normative or instrumental) is incomplete. They call for the need of a 'convergent stakeholder theory'. And Key (1999, p. 319) supports this argumentation by claiming that Freeman limited his assertions to providing a ``generalizable/testable approach to managerial strategic decision making," while stakeholder theory should and could ideally provide a new theory of the firm.

2.5 **Main statements: A business depends on its stakeholders**

Stakeholder theory was presented as managerial, intimately connected to the practice of business, of value creation and trade. It is said to have re-invented the practice of value creation and trade. (Freeman, 2000 in Laplume et al., 2008, p. 1158)

It is observed that an organization has stakeholders beside shareholders, as mentioned antecedent, which have a stake in the firm. Shareholders undeniably are interested in a firm's success, are impacted by its actions, and do have an influence on the firm. But also customers, employees, suppliers, and other groups are likely to have a certain interest in the firm's success, may be impacted by it or may impact it (bilateral relationship). Thus, an organization should be concerned with all its constituents' interests, not only those of their shareholders. (Laplume et al., 2008)

In contrast to neoclassical economics, which argues that an organization seeks profit maximization, R.E. Freeman claims that "every business creates, and sometimes destroys, value for customers, suppliers, employees, communities and financiers. [3] (Freeman, Argandoña, 2011, p. 10)

The idea that business is about maximizing profits for shareholders, in his opinion, is outdated and does not work very well, as the recent global financial crisis has demonstrated. The 21st Century is one of *Managing for Stakeholders*." (Freeman, [3])

Thus, stakeholder theory sees a business' purpose in maximizing value for its stakeholders. (Thomsen et al., 2012, p. 286) Focusing on value creation is key to effective management in today's world of entangled relationships. (Freeman & Liedtka, 1997, pp. 294-295)

Value for stakeholders may have the form of economic extrinsic value (collaboration among employees), intangible extrinsic value (e.g. recognition, training, etc.), psychological intrinsic value (generated by the agent himself, e.g. satisfaction), intrinsic value (e.g. operational learning), transcendent value (e.g. acquisition of virtues), and value consisting of positive or negative externalities. (Argandoña, 2011, pp. 8-9)

Moreover, stakeholder theory mainly states that a business' survival is dependent on the management of stakeholder relationships, of which business is made up of. A business' job is to maximize value for its stakeholders. (Freeman, 1984; Thomsen et al., 2012, p. 286;) Additionally, stakeholder relationship management is considered a moral endeavour. (Phillips et al., 2003, p. 487, 489)

It is evident that companies do affect groups beside their shareholders, and hence an obligation for companies arises to minimize negative externalities, and act in the best interest of stakeholders, as long as it does not hinder the business' success. (Branco & Rodrigues, 2007, p. 14)

Adopting stakeholder relationships as a unit of analysis is supposed to enhance the effectiveness of dealing with the three problems of business mentioned above.[4] (Parmar et al., 2010, p. 405, 418)

When categorizing stakeholders, or narrowing them down to the most important ones - in an attempt for stakeholder salience - one tends to distinguish groups according to

[3] http://redwardfreeman.com/stakeholder-management/
[4] The problem of value creation and trade, the problem of the ethics of capitalism, the problem of managerial mindset

attributes as power, legitimacy, and urgency, as presented by Mitchell et al.(1997).

Parent and Deephouse (2007, p. 2) describe the framework as follows:

Mitchell et al.'s model brings together three important stakeholder attributes (social science concepts) to identify and emphasize certain stakeholders: power, legitimacy, and urgency. Stakeholder salience is defined as ''the degree to which managers give priority to competing stakeholder claims'' (Mitchell et al., 1997,p. 854).

"Power is the (potential) ability of stakeholders to impose their will on a given relationship through coercive, utilitarian, or normative means (Etzioni,1964). A legitimate stakeholder is one whose actions and claims are seen as appropriate, proper, and desirable in the context of the social system (Suchman, 1995). Urgency is the degree to which a stakeholder believes its claims are time sensitive or critical. Mitchell et al. (1997) developed a typology of eight types based on whether or not a stakeholder has power, legitimacy, and/or urgency." (Parent and Deephouse, 2007, p.2) This typology is illustrated in Figure 3.

Employees for instance are legitimate and powerful stakeholders, but their interests are mostly not quite so urgent.

2.6 Empirical Findings

2.6.1 *Method: Literature Review Approach*

The current paper is in essence a literature review, summarizing and evaluating the current knowledge base on stakeholder theory (1984-2013).

Further, the acquired knowledge will be applied to the major decision points in Supply Chain Management, illustrating how stakeholder theory influences these decisions.

A systematic literature search according to the respective items of this research precedes this literature review, to ensure its relevant and relatively concise content.

I searched in academic engines, i.e. ScienceDirect, Scopus, Emerald Insight, Google Scholar, and through the University of Twente library website, for terms such as "stakeholder", "theory", "supply chain management", "empirical", "make-or-buy", and more.

The numerous results - the respective searches usually issued multiple thousands of results, including articles and/or books - were then further narrowed down by their relevance to the current research. The papers' relevance was assessed by the engine's sorting ("sort by relevance") and filters ("Business", "Management", "Economics", "Psychology", "Social Sciences") and my personal perception of the respective article's abstract and content. I did not focus on the number of citations. For empirical findings, I searched within the results for "stakeholder AND theory", with keywords such as "empirical", "practice" or "empirics".

2.6.2 *Evidence from practice supports stakeholder theory's assumptions*

Business theories usually aim to describe business processes and more (descriptive theories), and propose 'best practices' (instrumental theories). They tend to be tested in practice, and either be validated or falsified. Accordingly, a number of empirical studies have been conducted, building on stakeholder theory.

Key (1999, p. 323) mentioned that "Miles (1987) empirically demonstrated that awareness to external stakeholders and external issues and in turn, responsiveness to these [in fact does have] positive effects on both corporate social performance and corporate economic performance."

It was further found that firms that deal with CSR issues on the board tend to engage with customers, employees and external stakeholders. Additionally, board responsibility for CSR and stakeholder engagement are positively related to firm performance, at least financially. This phenomenon is more likely observed in stakeholder-centred countries (e.g. Germany) rather than shareholder-centred countries (e.g. USA). (Ayuso et al., 2007, pp. 13, 16)

When it comes to defining stakeholder salience, Ackermann and Eden (2011, pp. 190-191) found that definitions of power and interest for instance can be quiet constraining for managers in practice. They tend to spend much energy on finding answers fitting the definitions, rather than focusing on their perceptions. The same research further argues that "one of the most difficult aspects of considering stakeholders in strategy making was legitimizing the activity". It seemed that top managers felt uncomfortable with this analysing and 'manipulating' their stakeholders. In general Ackermann and Eden's research "supports the need for using techniques that are grounded in theory to provide a procedurally rational way for TMTs to conduct conversations that were clearly difficult for many teams, but which allowed them to exploit their wealth of knowledge to discuss, analyse and agree actions about managing stakeholders more effectively." (Ackermann & Eden, 2011, p. 193)

And Kujala et al. (2012, p. 63) claimed that even though Mitchell et al.'s model for stakeholder salience proves useful in practice, salience tends to change over time during a conflict of interests, because stakeholder actively strive to increase their salience. Their study also "confirms that stakeholders are likely to cooperate with stakeholders who have similar interests." (p. 63)

Additionally, researchers such as Berrone, Surroca & Tribo (2007); Clarkson (1995); Godfrey (1995); and Moore (2001) support instrumental stakeholder theory with their empirical research, showing that managers pay attention to stakeholders who have power in relation to the firm (Laplume et al., 2008, p. 1161)

Last but not least, Beierle (2002) found that stakeholder-based decision-making tends to result in high quality decisions. (p. 747)

This is just an extract of empirical findings on stakeholder theory. But, it shows that stakeholder theory is actually applicable to business practice, and that its assumptions, statements and hypotheses are likely to prove well-founded.

Especially the implementation of a stakeholder approach has been proven to be positively related to business performance. Nevertheless, stakeholder theory criticism similarly finds encouragement in empirics. For instance stakeholder salience has been found to be problematic in practice, as suggested by critics.

2.6.3 *Stakeholder pressure pushing toward 'green supply'*

As aforementioned, suppliers are considered stakeholders to organizations, even though stakeholders may vary throughout differing organizations. Hence, in this section I present empirical findings on stakeholder theory related to suppliers and purchasing.

Gualandris and Kalchschmidt (2014, p. 94) argue that increasing demands from a variety of stakeholders have driven companies to adopt *sustainable supply chain management*. Hence, evidently stakeholders do have an impact on supply chain management decision making, and seem to be a driver of 'green supply'. Giunipero et al. (2012, p. 262) and Schneider et al. (2012 , p. 254)'s research support this argument.

According to Reuter et al. (2012, p. 279) a firm's public orientation is found to have a significant positive impact on the sustainability prevalence in supplier selection decisions, whereas a shareholder and customer orientation impact sustainability prevalence significantly negative. Moreover, shareholder orientation seems to drive cost prevalence in supplier selection, whereas customer orientation does not lead to an increased cost focus.

Conversely, Markmann et al. (2012, p. 1815) claim that "the variety of stakeholders involved in managing supply chains, such as suppliers, manufacturers, retailers, logistics service providers, infrastructure providers like port authorities, as well as national and international governmental institutions contributes to the *complexity* and susceptibility of supply chains." Consequently, flows of goods are disrupted. One may conclude that the involvement of quiet numerous actors in the supply chain tends to increase supply risks.

Hence, also concerning SCM the empirical findings are two-edged. This excerpt of the empirical literature shows that while it is found that stakeholders do in fact influence SCM decision making, it is also claimed that stakeholders may have a negative effect on the supply chain.

2.6.4 *The empirical progressive development of stakeholder theory*

Stakeholder theory has, as mentioned above, first been depicted in 1984. Ever since then a continual development has taken place through numerous academics adding to the knowledge base, enhancing and testing the initial "theory". Today stakeholder theory holds a central place in management theory. (Harrison et al., 1999, p. 483)

In this section I will classify stakeholder theory within the Life Cycle of Theories, according to its development and features.

I would position stakeholder theory in the end of the second stage of the Life Cycle of Theories. This is due to the fact, that I consider stakeholder theory's theoretical and empirical construction to have taken place. But, I do not assume it to have passed through the second stage yet. During the second stage a theory poses propositions, empirical indicators and hypotheses, and is tested in practice. Even though stakeholder theory is already being tested empirically, it lacks general well formulated and/or measurable hypotheses, propositions and indicators, as mentioned earlier. (Vos & Schiele, 2014, pp.8-9)

Thus, I consider stakeholder theory to be empirically progressive but theoretically degenerating. Even though stakeholder theory's predictions are supported by empirics, it does not offer unexpected facts or create novel theoretical insights. (Vos & Schiele, 2014, pp.8-9)

Further research needs to be conducted empirically, as well as theoretically. Theorists should pause for a while and develop stakeholder theory especially in terms of research operation criteria before moving forward. Even Harrison et al. (1999) claim that researchers need to find more robust ways of measuring stakeholder effects. (p. 484)

It seems that stakeholder theory's foundation is largely being taken for granted and research focuses on developing, challenging and testing a premature theory. As to say it in Key's (1999, p. 320) words: "[…] The elements are present to create a fuller richer theory. However, as it is presented by Freeman and developed by other scholars, it does not do this."

2.7 Stakeholder Theory: A two-sided blade

In sum, in this section I have described how stakeholder theory was introduced as a novel view on the organization and its strategic management. A focus was put on stakeholders, such as employees, customers and suppliers rather than solely shareholders, for strategic management and decision making. Business and morality have been brought together. It is claimed that a business' success depends on the management of its stakeholders' interests.

Despite the concept's appellation, stakeholder theory is found to lack a number of features which compose a theory according to Vos & Schiele (2014). It is either a theory in development, or rather a valuable conceptual framework than a theory.

On the one hand, stakeholder theory offers useful concepts on descriptive, normative, instrumental, and managerial layers, and shows applicability to several business areas (empirical research). On the other hand, it lacks research operation criteria, insufficiently differentiates between stakeholder groups (Harrison et al., 1999, p. 480; Friedman & Miles, 2002, p. 15), and does not adequately segregate theoretical and empirical research as well as between theory types (normative, descriptive, instrumental). (Harrison et al., 1999, pp. 483-484)

2.8 Contrasting theories, stakeholder theory's continual theoretical development and its steady contribution to business

As mentioned above, stakeholder theory first and foremost contradicts neoclassical economics, the traditional economic theory of the firm and the input-output model. (Donaldson & Preston, 1995, p.68)

"In neoclassical economics economic value is [simply] created when the price that consumers pay for goods and services is greater than the cost of producing them." (Argandoña, 2011, p. 2) It traditionally focuses on corporate profits rather than value creation for stakeholders.

Following the input-output model, "investors, employees, and suppliers are depicted as contributing inputs, which the "black box" of the firm transforms into outputs for the benefit of customers." (Donaldson & Preston, 1999, p. 68) This differs from stakeholder theory in that it gives major importance to customer's interests. In stakeholder theory all stakeholders' interests and aspirations are of equal importance, and are to be treated equally. (Parmar et al., 2010, p. 407)

Additionally, it particularly differs from Friedman's (2007) 'shareholder theory' of the corporation, and his sentiment on corporate social responsibility.

Friedman (2007, p. 173) argues that business as an artificial person cannot be assigned responsibilities. If it were to invest any money in social responsibility, it would be the stockholder's (or customers', ore employees') money. (p. 174) Hence, in the end private person's money is spend on social responsibilities, and thus they are taking responsibility, not the firm. In his words, "there is one and only one social responsibility of business – to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud". Stakeholder theorists in contrast clearly claim that business has to take social responsibility, due to its potential impact on large groups of people. (Parmar et al. 2010, p. 404)

Furthermore, it competes with Agency theory in that it extends its idea. Shankman (1999, p. 320) claims that "agency theory is at best a narrow form of stakeholder theory".

As briefly mentioned before, stakeholder theory is currently on a path focused on theoretical development and empirical research. While some practitioners apply a premature theory to practice, others discuss its weaknesses and aim to improve it.

I do expect R. E. Freeman and further academics and/or practitioners to take on the criticism and advance stakeholder theory to a point where it trespasses its current status of a conceptual framework and actually incorporates the full body of a business theory throughout the coming few years.
The theory's contribution to business will steadily continue to grow, in my opinion. There is no way for business associates to longer be ignorant toward their stakeholders' interests and the positive impact that stakeholder management may convey for a firm.

3 STAKEHOLDER SALIENCE AS A LINK BETWEEN STAKEHOLDER THEORY AND THE DECISION POINTS IN SUPPLY MANAGEMENT

3.1 Make or Buy: Organizational indicators outweigh stakeholder interests

A major principle SCM decision is the 'make-or-buy' decision. It deals with the choice among 'insourcing' or 'outsourcing', where insourcing means that an organization makes a good/service internally which it needs for its operations, and outsourcing refers to buying this good or service from an external supplier. (Monczka et al., 2008, p.158)

While it is an essential strategic decision, which needs to fit the overall corporate and functional strategy of an organization (Monczka et al., 2008, p. 158), cost efficiency largely remains the primary origin of outsourcing developments and driver for outsourcing. (Fill &Visser, 2000, p. 44)

Figure 4 illustrates the main drivers for outsourcing. Quality, cost, finance, core-business, as well as cooperation issues are object to the make-or-buy decision. (Fill & Visser, 2000, p. 44)

Even though stakeholder theory does not explicitly relate to the respective SCM decision points, and does not state certain measures to take accordingly, it is evident that stakeholders do influence the make-or-buy decision.
Decision makers are stakeholders, and so are managers, employees, customers, shareholders and suppliers. As defined before, anyone who is impacted by the organization or

impacts it is a stakeholder. Thus, anyone with a say in the firm (hence influences it) is a stakeholder him-/herself. Further anyone who is considered in the decision making process is a stakeholder (because they obviously are relevant to the decision and hence influence the decision or are influenced by its outcome).

But how do stakeholders perceive the make or buy decision and which stakeholders should be regarded in the decision?

Customers for instance may appreciate price reductions resulting from cost cuts due to outsourcing. But, if price reduction comes along with quality losses, for instance, customers may face an unbearable trade-off, and decide to terminate purchases.

Employees, another primary stakeholder, tend to identify with the company they work for. (Stuart, 2002, pp. 33, 38) Hence, a firm needs to consider whether or not outsourcing will be in their interest. Outsourcing core capabilities (which will probably reduce positions), or outsourcing to morally doubtful suppliers for instance will most likely discontent this stakeholder group, and have a negative effect on business.

Concepts of stakeholder salience give an indication of which stakeholders need to be included in the decision. As aforementioned, stakeholder salience is determined by a stakeholder's power, legitimacy and urgency. (Mitchell et al., 1997, p. 854). An organization thus ought to evaluate which stakeholder's interests are most legitimate and urgent and who possesses most power.

The decision makers themselves are undoubtedly the most powerful stakeholder in decision making. This includes SC management as well as shareholders, owners and top management. Their interests nonetheless are not necessarily more urgent or legitimate then those of other stakeholders. They ought to consider stakeholders whose interests are in fact time sensitive, such as customers and their demands.

Related to the make-or-buy decision, the organization's goals however seem to outweigh any external stakeholders' interests, since the decision whether to produce a good internally or purchase it from a supplier is dominated by cost, quality, technology and other considerations.

3.2 Sourcing Strategies: Ensuring supply and minimizing risks to meet stakeholder interests

The second major decision point of SCM is the choice for a sourcing strategy, for those items the firm purchases. A firm needs to decide whether to source from a single source or multiple sources. (Treleven & Schweikhart, 1988) This decision may depend on business strategy (e.g. single sourcing would fit a Just-in-time approach), on a product's strategic importance and supply risk, or other features. (Treleven & Schweikhart, 1988; Kraljic, 1983)

Even though one may further differentiate between global and international or even domestic sourcing strategies (Monczka et al., 2008, p. 188), components sourcing, and more, I will focus on the debate between single and multiple sourcing in this section. This is because I consider the decision between single and multiple sourcing as overarching the others, since no matter what sourcing strategy according to origin/location (global, international, domestic) or 'entirety' of purchased items (components or finished goods), a decision needs to be made on how many suppliers to source from. This decision is central.

"Multiple sourcing refers to a vendee purchasing an identical part from two or more vendors", while "single sourcing is having one source by choice ". (Treleven et al., 1988, p. 96)

Peter Kraljic (1983) presented a matrix (Figure 5) which categorized products by their strategic importance and their supply risk (availability, number of suppliers, competitive demand, substitution possibilities). (p.110) According to him, each category required a differing sourcing strategy. (p.112) All items were categorized accordingly into one of the following quadrants:

Strategic (high profit impact, high supply risk),
Bottleneck (low profit impact, high supply risk),
Leverage (high profit impact, low supply risk),
Non-critical (low profit impact, low supply risk).

The question which needs to be answered is: Which stakeholders do impact this decision and to what extent?

Maintaining the stakeholder salience view on SCM decision making, according to Kraljic (1983) suppliers obviously constitute the most salient stakeholder. Suppliers and potential suppliers determine the sourcing market: how many suppliers can I source a certain item from? How reliable are the respective suppliers? How many substitutes are there?

Hence, it is suppliers who greatly determine an item's 'supply risk'. Another powerful stakeholder in this context is the government which imposes laws, regulations, subsidies and more, which shape the market and the potential of new entrants.

The strategic importance or profit impact of an item is most likely influenced by customers, which determine prices through demand. For this factor they present the most important stakeholder, whose interests need to be aderessed.

Again, managers and/or decision makers do certainly have a stake in the sourcing strategy decision.

Thus, suppliers, the government and customers play a central role when deciding on a sourcing strategy, according to an approach which aligns Kraljic's matrix (1983) and Mitchell et al.'s (1997) model of stakeholder salience.

In addition, Treleven et al. (1988) identifies the risks and benefits associated with either single or multiple sourcing.

He states that "before entering into a single sourcing arrangement, the potential single source is typically evaluated on quality, delivery, […] cost", and reliability (p. 97). This supports the assumption of the salient supplier.

Further, single sourcing typically exposes to a greater probability of disruption of supply than multiple sourcing (p. 99), which relates to customer interests. Customers expect for demand to be met. Disruption of supply would discontent them.

The ultimate decision naturally depends on the respective organization. Sourcing strategies vary within industries as well as within one organization. (p. 112) Additionally, costs and internal objectives remain critical to the decision. The decision between single and multiple sourcing needs to ensure supply while minimizing risks for the company, by ensuring supplier reliability and quality for instance.

3.3 Supplier Strategies: Choosing a partner over an acquaintance to satisfy the majority of stakeholders

When having decided for a sourcing strategy, the next question concerns what kind of relationship an organization wants to or even needs to establish with its suppliers.

A firm can choose to establish a partnership for instance, driving continual improvements, fair pricing and trust. One could also choose to keep the distance, if the purchased item is of lesser importance and the supply base ensures high competition and sourcing opportunities. Kraljic's matrix (1983) offers implications for such decisions.

Partnerships are most beneficial when supply risk, which constitutes of number of suppliers (vendor mix), extent of contractual coverage, regional spread of supply sources, competitive demand, make-or-buy opportunities, storage risks, substitution possibilities and availability of scarce materials (pp. 110, 112) is high.

But, to what extent does stakeholder theory impact this decision?

Again, there are no explicit assumptions as to how stakeholder theory influences the supplier strategy.
Nevertheless, suppliers are stakeholders, and so are shareholders and customers. And in the choice for a supplier strategy I consider them to be as crucial as in the sourcing strategy decision. The supplier strategy ought to ensure supply and satisfy customer, shareholder and supplier interests.

Williamson (1991) once linked customer responsiveness to supplier strategy. Since customer responsiveness can be considered a means of satisfying customer interests, his arguments are relevant for the connection of supplier strategy and stakeholder theory. Answering the question of which supplier strategy best meets the interests of suppliers and customers (two major stakeholders), will shed light on the relation between supplier strategy and stakeholder management.

Customer responsiveness has two dimensions: variety and lead time, where greater variety and shorter lead times serve customer responsiveness. (Williamson, 1991, pp. 75-76)

Williamson (1991) emphasizes that a supplier strategy of 'preferred customer/supplier' best suits the flexibility and long-term bargaining required for customer responsiveness. An organization hence chooses one supplier to concentrate the bulk of their purchases to. Through this kind of loyalty, buyer importance and value increases in the supplier's perception. (pp. 80-81) Logically, suppliers, buyers and customers should be content. Through such close relationships, initiatives for quality developments, price reductions and new product development are also facilitated, fitting the respective corporate strategy.

This approach would quiet fit stakeholder theory, since the supplier strategy of 'preferred customer/supplier' contents a firm's major stakeholders (customers and suppliers), usually contributes to objectives achievement and does not harm any other stakeholder. In addition, shareholders should also be satisfied, since business success is in their best interest.

3.4 Contracting according to the organization's environment

Now that I have described how stakeholder theory applies to the make-or-buy, sourcing strategy and supplier strategy decisions, the focus lies on SCM contracting, and to what extent stakeholders are impact this decision.

"A contract is a legally binding agreement that is the result of an offer and acceptance, with an agreed consideration." (Monczka et al., 2008, p. 329)

Contracts primarily differ in their duration (short- or long-term contracts), and/or in their content, and/or in their pricing mechanism (fixed-price or cost-based contracts) when it comes to SCM.

Long-term contracts usually ensure continuing supply, grant buyers access to supplier technology, to cost price information, allow suppliers to reach economies of scale, and offers suppliers better information for planning. (Monczka et al., 2008, pp. 337-338)

On the other hand, they among others hold the risks of supplier opportunism, of choosing the wrong supplier (for the long-run), and supplier volume uncertainty (e.g. Due to forecasting errors). (Monczka et al., 2008, pp. 338-339)

In fixed-price contracts a fixed price is agreed for a good or service for the long-run. The parties may add the possibility to escalate or re-determine prices at some point, or include incentives, where any cost-savings are shared among the buyer and the supplier. (Monczka et al., 2008, pp.334-335)

Cost-based contracts alternatively relate prices to actual costs.

Each type of contract has its risks and benefits. Contractors (from the buyer's perspective) need to consider market uncertainty, contract duration (the longer the contract's validity, the harder to estimate future prices), the degree of trust between buyer and seller, the process or technology uncertainty, supplier's ability to impact costs, and the total value of the purchase when selecting either fixed-price or cost-based contracting. (Monczka et al., 2008, p.336)

In sum, fixed-price contracts fit a stable environment, and pass risks to the supplier, while cost-based contracts should be used in more uncertain environments, where costs are difficult to predict. (Monczka et al., 2008, p.351)

The decision is thus dependent on the respective organization, its objectives and trends in its environment. All of these factors are impacted by stakeholders, mainly suppliers, customers, competitors and the government. Hence, again stakeholders are part of the decision. The organization needs to ensure supply as mentioned before. As long as this is adhered to, decision makers are quiet unrestricted in their contracting choices. They solely have to assess the alignment between contract type, the desired buyer-supplier relationship, and the mentioned environmental ascendancies.

If the contract choice does not fit the mentioned factors, costs/spending may exceed estimates and perhaps actual turnover, which in the worst case leads to business failure.

Nevertheless, the environmental factors which affect the contracting decision are determined by stakeholders (customers, competitors, suppliers, the government, and more). Which stakeholder is the most 'salient' to the decision needs to be evaluated by the respective firm. But, suppliers and customer interest again play a major role, since suppliers are the counterparty to negotiate the contract with (hence they partly determine its longevity and content), and customer's demand once again partly shapes future prices.

4 STAKEHOLDERS ARE INVOLVED IN EVERY SCM DECISION

The current thesis aimed at assessing to what extent stakeholder theory has an influence on supply chain management, by broadly presenting the theory, evaluating on whether or not it actually is a theory according to the depicted criteria, and applying stakeholder theory to the major decision points in SCM.

This literature review found that

(1) Stakeholder theory as first detailed by R. E. Freeman (1984), puts value maximization for stakeholders into the focus of strategic management, and is one of the first approaches toward management to combine business and morality, rather than restricting business to profit maximization;
(2) Stakeholder theory does not wholly encompass the criteria of a theory as formulated by Vos & Schiele (2014), and can thus not be justified to be a theory by the current research. It is argued to be an approach, as it was originally intended to be, or perhaps a theory of premature state;
(3) Stakeholder theory finds applicability to the decision points of supply chain management. It became evident that stakeholders (managers, employees, customers, suppliers,…) are always involved in decision making, and need to play a role, due to their interrelation with and importance to or even within the organization;

This paper implies that at least one stakeholder is always involved in SCM decision making. This is because anyone in an organization that makes a decision is in itself a stakeholder by definition, and any group of human beings which need to be regarded for a decision is a stakeholder as well.

When it comes to the mentioned decision points it is most important to ensure supply, and to differentiate between stakeholders for instance according to Mitchell et al. (1997), in order to focus on 'salient' stakeholders' interests for the respective decision.

This further implies preceding analyses of the environment (competition, market structure, opportunities and threats, government, and more) to understand the forces in place, and the stakeholders involved in the company and the respective decision. In addition, stakeholders need to be categorized to assess which stakeholder interests need to be addressed first. Then, purchased items need to be categorized, for instance according to Kraljic (1983), to evaluate on which sourcing and supplier strategy to choose for the respective items. Nonetheless, the make-or-buy decision and contracting will further highly depend on a business's strategy and internal assessment of organizational indicators.

It was shown that stakeholders do impact business survival, and that they are already considered in general SCM decision making (empirical findings). Further, it was argued that stakeholders are part of any SCM decision.

Nonetheless, this literature review was bound to several limitations. First, the conduction of the paper was bound to a timeframe of 10 weeks, which limited the working time invested in the research.

Second, this is solely a literature review including an excerpt of the literature conducted on SCM and stakeholder theory. Further, the access to particular resources was limited due to accessibility by search engines and at libraries.

Lastly, this is a theoretical research without novel empirical data or similar clear evidence. The conclusion and implications are theoretical constructs arising from common sense, logic and the literature presented.

Further research needs to be conducted, connecting stakeholder theory to the decision points of SCM, and empirically testing to what extent stakeholder theory does impact SCM decision making. The findings will most definitely further enhance Supply Chain Management processes and its contribution to overall business success.

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7 APPENDICES

Figure 1. The stakeholder view of the firm (Freeman, 2010)

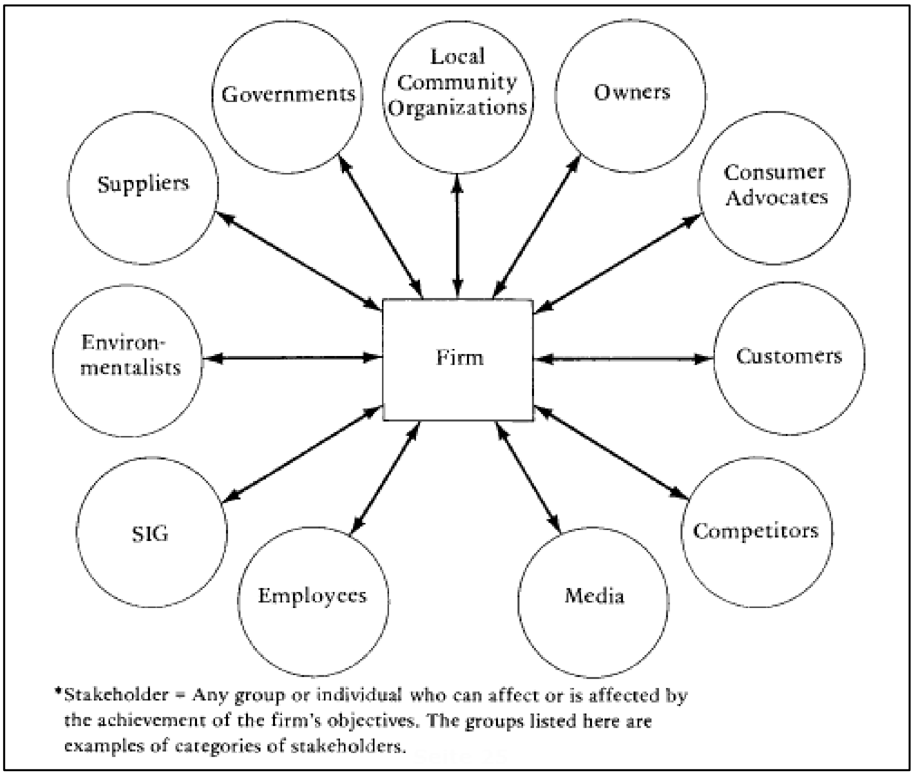

Figure 2. Stakeholder configurations and associated stakeholder types (Friedman & Miles, 2002)

	Necessary	*Contingent*
	A	**B**
Compatible	■ Shareholders ■ Top management ■ Partners	■ The general public ■ Companies connected through common trade associations/ initiatives
	D	**C**
Incompatible	■ Trade unions ■ Low-level employees ■ Government and their agencies ■ Customers ■ Lenders ■ Suppliers and other creditors ■ Some NGOs	■ Some NGOs ■ Aggrieved or criminal members of the public

Figure 3. A model of stakeholder salience (Parent & Deephouse, 2007)

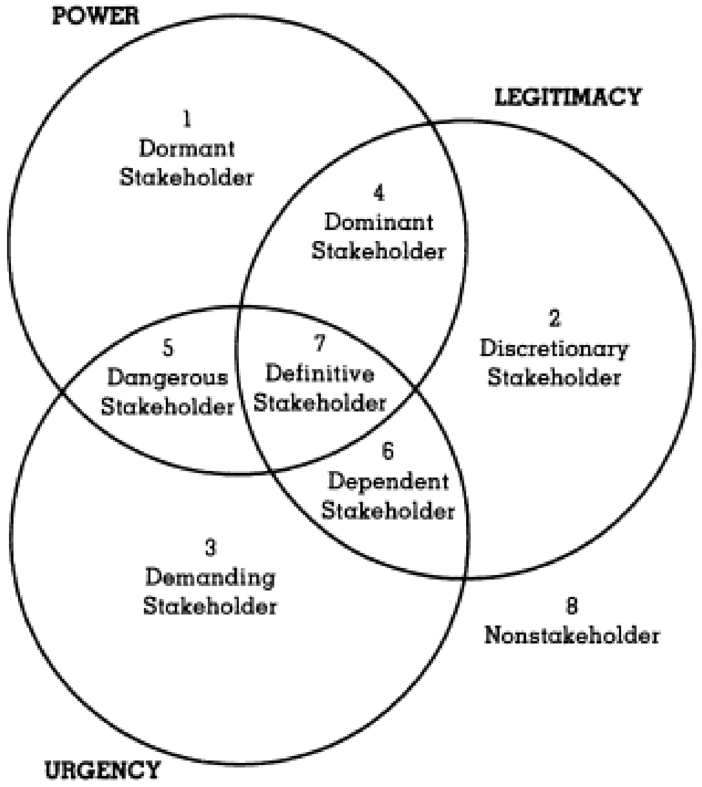

Figure 4. Drivers for Outsourcing

Drivers for outsourcing

Quality
Actual capacity is temporarily insufficient to comply with demand. The quality motive can be subdivided into three aspects: increased quality demands, shortage of qualified personnel, outsourcing as a transition period

Cost
Outsourcing is a possible solution to control increasing costs and is compatible with a cost leadership strategy. By controlling and decreasing costs a company can increase its competitive position.

Finance
A company has a limited investment budget. The funds must be used for investments in core business activities, which are long-term decisions

Core-business
Core-business is a primary activity with which an organisation generates revenues. To concentrate on core-business activities is a strategic decision. All subsequent activities are mainly supportive and should be outsourced

Cooperation
Cooperation between companies can lead to conflict. In order to avoid such conflict those activities that are produced by both organisations should be subject to total outsourcing.

Source: Beulen *et al.*, 1994

Figure 5. Kraljic's matrix