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**Creating Shared Value:
A Conceptualization and Empirical Investigation of
the Dynamic Stakeholder Management Capability**

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English Abstract

This dissertation introduces the construct of dynamic stakeholder management capability (DSMC) by joining the stakeholder management capability defined by Freeman (1984) and the dynamic capabilities approach by Teece et al. (1997). The DSMC enables firms to adapt their stakeholder relationships to external changes over time and to specific local contexts of different countries. Through these adaptations firms are better able to link stakeholder demands to business opportunities and create shared value – value for stakeholders and the firm. The study applies factor analysis for generating and confirming latent constructs and it applies hierarchical regression analysis, floodlight analysis (Spiller et al., 2013), and mediation analysis (Baron & Kenny, 1986; Hayes, 2013) for testing the hypotheses. Analyzing more than 400 German firms with stakeholder relationships in multi-national supply chains the study confirms the positive effect of the DSMC on stakeholder value and firm value. As the first study of its kind, it supports the fundamental, yet not sufficiently verified assumption in stakeholder theory that positive stakeholder relationships relate to stakeholder value creation and, in turn, to firm value creation.

Keywords: dynamic capabilities, stakeholder theory, stakeholder management, value creation, stakeholder value, psychic distance, CSR motives, local adaptation, scale development

German Abstract

Die vorliegende Studie entwickelt die Dynamic Stakeholder Management Capability (DSMC) durch Zusammenführung der Stakeholder Management Capability von Freeman (1984) und des Dynamic Capabilities Ansatzes von Teece et al. (1997). Die DSMC befähigt Unternehmen, ihre Stakeholder-Beziehungen an externe Veränderungen im Zeitablauf sowie an spezifische lokale Bedingungen verschiedener Länder anzupassen. Durch diese Anpassungen können Unternehmen die Bedürfnisse ihrer Stakeholder besser mit Geschäftschancen verbinden, und so einen gemeinsamen Mehrwert schaffen. Die Studie generiert und bestätigt latente Konstrukte mit der Faktorenanalyse, und testet Hypothesen mit der hierarchischen Regression, der Floodlight-Analyse (Spiller et al., 2013) und der Mediationsanalyse (Baron & Kenny, 1986; Hayes, 2013). Die Analyse von mehr als 400 Unternehmen mit Stakeholdern in multinationalen Lieferketten bestätigt den positiven Effekt der DSMC auf Wertschaffung für Stakeholder und das Unternehmen. Als erste Studie ihrer Art, stützt sie die grundlegende, bisher empirisch nicht ausreichend bestätigte Annahme der Stakeholder Theory, dass positive Stakeholder-Beziehungen zur Wertschaffung für Stakeholder führt und, infolgedessen, zur Wertschaffung für Unternehmen.

Schlagworte: Dynamische Fähigkeiten, Stakeholder Theorie, Stakeholder Management, Wertschaffung, Mehrwert für Stakeholder, psychische Distanz, CSR-Motive, lokale Anpassung, Skalenentwicklung

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“Get the purpose right. Success will follow!” (R. Edward Freeman)

Ed Freeman said these words to me after my first doctoral seminar at the Academy of Management Conference. It was his answer to my question how firms can consider the interests and needs of all their stakeholders. His answer seemed vague and not very satisfying to me at first. During our following discussions and the readings I dived into, I understood what he meant. A firm exists only for its stakeholders and is successful as long as it benefits its stakeholders. Every firm needs customers, employees, suppliers, investors, the state and many more to exist. There is, therefore, only one “right” purpose for a firm to be successful: benefit your stakeholders! This understanding became a leading logic in my thesis.

During the journey of my PhD many people inspired, motivated, and supported me. To all these people I want to express my deepest gratitude. I begin by thanking my supervisors Professor Dr. Martin Eisend and Professor Markus Vodosek, PhD. for their enthusiasm, kind support and valuable input throughout the whole process of my PhD. Your advice guided me in the right direction but always left enough space for me to create my own research project, for which I am more than grateful. Thank you, Martin, for your availability and your fast response to every one of my emails. I benefited greatly from your methodological knowledge to apply different data analysis methods and discover the “music” in my data. Markus, I thank you specifically for your detailed feedback during our discussions and on my dissertation draft. Your comments were of great value and helped me to take the reader’s view that often gets lost during the writing process. In collaboration with my wonderful proofreader Mary Craig and through her great work, I learned a lot about how to become more concrete in my formulations and improve my expression. Thank you for providing a great improvement to the quality of my thesis.

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“It always seems impossible until it’s done.” (Nelson Mandela)

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List of Abbreviations

AGFI	adjusted goodness-of-fit indexes
ASV	average shared variance
AVE	average variance extracted
BRIC	Brazil, Russia, India, China
CFA	confirmatory factor analysis
CFI	comparative fit index
CR	Composite reliability
CSR	Corporate Social Responsibility
df	degrees of freedom
DSMC	Dynamic Stakeholder Management Capability
e.g.	exempli gratia (English: for example)
EU	European Union
EFA	exploratory factor analysis
GFI	goodness-of-fit indexes
ITC	item-total-correlation
i.e.	id est (English: that is)
IVs	independent variables
KS	Kolmogorov-Smirnov
LL	lower limit
MAH-1	Malahanobis Distance
MCAR	missing completely at random
MIIC	mean inter-item-correlation
MSV	maximum shared variance
MV	missing value
n/a	not applicable
NFI	normed fit index
NGO	non-governmental organization
OLS	ordinary least squares

PCFI	parsimony-corrected comparative fit index
PGFI	parsimony-corrected goodness-of-fit indexes
RBV	resource-based view
RMSEA	root mean square error of approximation
SBC	Spearman-Brown Coefficient
sd	standard deviation
SIC	Standard Industrial Classification
SPSS	statistical package for the social sciences
SW	Shapiro-Wilk
UL	upper limit
VC	value creation
VE	variance extracted
VIF	variance inflation factor
VRIN	valuable, rare, in-imitable, not substitutable

List of Symbols

a-path	effect of the independent variable on the mediator
b-path	effect of the mediator on the dependent variable
c-path	total effect of the independent variable on the dependent variable
c'-path	direct effect of the independent variable on the dependent variable
α	Cronbach's Alpha
β_0	intercept constant
β_i	regression coefficient
d	d-value (Kolmogorov-Smirnov test)
ε	error term
F	F-value (F-test)
M	moderator
N	sample size
p	significance
r	correlation coefficient
R ²	coefficient of determination
adj. R ²	adjusted coefficient of determination
χ^2	chi-square
x_i/X	independent variable
y/Y	dependent variable
Z	transformation constant
%	percent

1. Introduction

Stakeholder theory, already in its earliest forms, suggests that stakeholder relationship management (and similarly Corporate Social Responsibility (CSR)) creates value for the firm *through* value creation for stakeholders (Bosse, Phillips, & Harrison, 2009; Freeman, 1984, 2010; Freeman, Harrison, Wicks, Parmar, & Colle, 2010; Harrison, Bosse, & Phillips, 2010; Harrison & St. John, 1996). Previous studies strongly support the positive effect of firm investments in stakeholder relationships (and CSR) on firm success factors (Berman, Wicks, Kotha, & Jones, 1999; Orlitzky, Schmidt, & Rynes, 2003; Wang, Dou, & Jia, 2016). Most of these studies, however, ignore the role of stakeholder value creation as mediator for that effect. Assuming that firm investments in stakeholder relationship management will automatically result in stakeholder value is at least naïve if not misleading or simply wrong (Greenwood, 2007). Keeping that fact in mind and accepting the basic assumption in stakeholder theory that stakeholder value is the key to firm success, decades of empirical studies failed to address the actual relationship among stakeholder relationship management, stakeholder value creation and firm value creation. Yet recently strategic management scholars come back to mention the connection between stakeholder value and firm value. These scholars call that connection “shared value creation” (Porter & Kramer, 2002, 2006, 2011) and suggest that firms should create value for themselves and their stakeholders. While the connection between stakeholder value and firm value lies at the heart of stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984; Harrison & St. John, 1996), strategic management scholars propose that the verification of that connection could transform the whole field of strategic management (Porter & Kramer, 2011).

Firms have multiple stakeholders that are usually spread along multinational supply chains. Managers responsible for these supply chains are often overwhelmed by the variety of local stakeholder demands and they are truly challenged with recognizing, understanding, and addressing them (Hall & Vredenburg, 2005; Scherer, Palazzo, & Seidl, 2013) in order to create

value for stakeholders. Not only are stakeholder demands different across countries but they also change over time. Therefore, recognizing, understanding, and addressing stakeholder demands requires continuous investments in sensing, seizing, and transforming (Teece, 2007; Teece, Pisano, & Shuen, 1997) a firm's stakeholder relationship management. Building on the concept of dynamic capabilities and bringing it together with stakeholder theory, I argue, that firms are able to develop superior stakeholder relationships through which they create value for their stakeholders and, in turn, more value for themselves.

In this dissertation I develop the new construct of a Dynamic Stakeholder Management Capability (DSMC) by joining two concepts: The stakeholder management capability (Freeman, 1984, 2010) and the more recently developed concept of dynamic capabilities (Teece et al., 1997). The notion of stakeholder management capability suggests a comprehensive stakeholder lens as well as the evaluation scheme of stakeholder value creation. The dynamic capabilities construct entails the idea of creating value through the sensing and seizing of business opportunities and the reconfiguring of resources in rapidly changing environments. Combining these concepts and uniting their strengths, I argue, will enable researchers to understand the link between stakeholder demands and business opportunities and threats in changing environments and, similarly, in the different countries of their business activity. I will show that this capability enables a firm to create value for itself by first creating value for its stakeholders.

Stakeholders are all people and institutions that are affected by a firm's activities or that can affect the firm (Freeman, 2010). Research has typically focused on stakeholders such as customers, employees, suppliers, and investors which are understood as most relevant for a firm's survival. In this study, I focus on the product development and production part of multinational supply chains. From a stakeholder management perspective I find this part of the wealth creation process as the most complex in terms of recognizing and addressing the various demands of stakeholders. I include the following primary and secondary stakeholders from

different countries along the supply chain: (1) employees, (2) suppliers, (3) state institutions & local communities, and (4) non-governmental organizations (NGOs) and the public, each in the firm's home and (strategic most important) host country. Some of these groups may be less visible to the firm or of less influence on firm targets than others so that their demands maybe considered to a lesser degree (Agle, Mitchell, & Sonnenfeld, 1999; Briscoe & Gupta, 2016; Bundy, Shropshire, & Buchholtz, 2013; Busse, 2016; Mitchell, Agle, & Wood, 1997).

Figure 1 links the following chapters to four types of activities that I perform to organize and process the study. I will first *search and identify* the most important facts from previous research from which I *create* a research model and testable hypotheses. I will then *measure* the desired constructs *and test* hypotheses before I *interpret* the results *and subsume* what we can learn from the study.

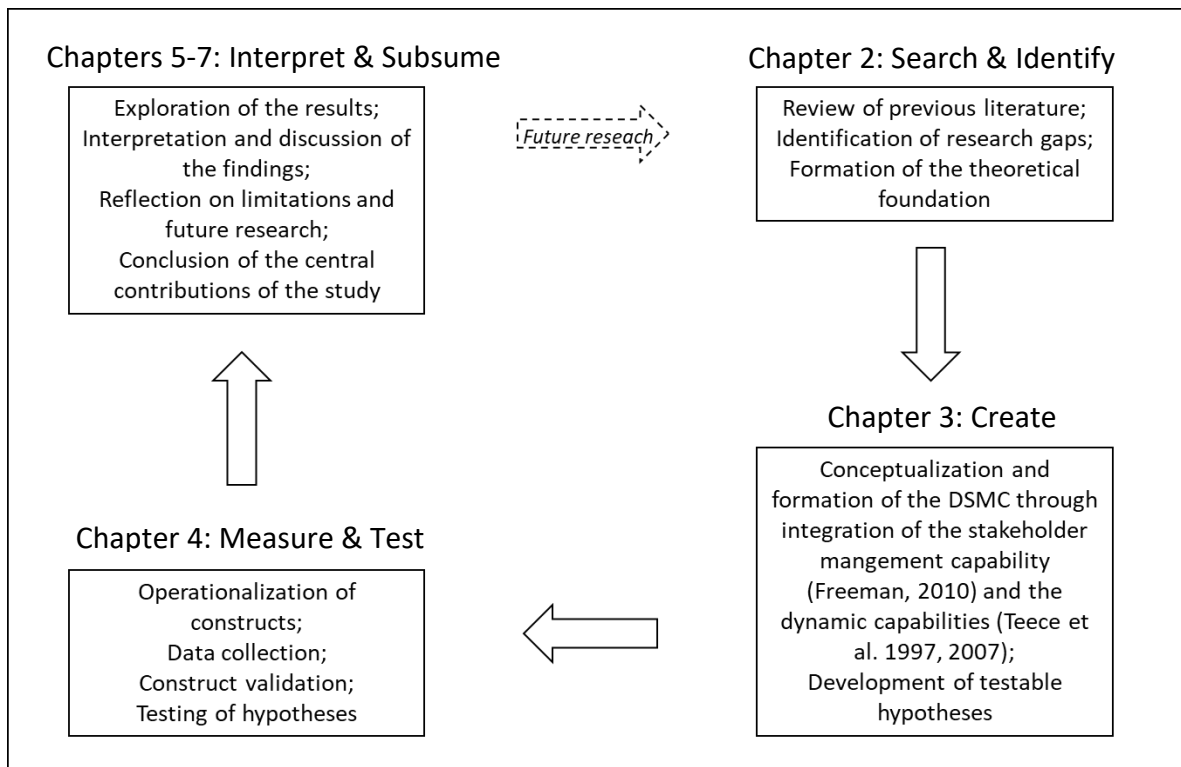


Figure 1. Organization of the Study

In the following chapter I will review the literature on stakeholder theory (section 2.1) and dynamic capabilities (section 2.2). Stakeholder theory explores a firm's ability and responsibility to create value for stakeholders and, in turn, become successful in the long-term (e.g., Donaldson & Preston, 1995; Freeman et al., 2010; Freeman, 2010). Previous research has investigated various stakeholder-related activities and their effect on firm performance (Frooman, 1999; Orlitzky et al., 2003; Pelozo, 2009). These studies, however, have rarely investigated the success of such strategies to actually create value for stakeholders. Most of these studies ignore the logic in stakeholder theory that firm value is created *through* stakeholder value. Following that logic, creating value for stakeholders may be understood as a precondition for firm (long-term) success. The role of this relationship is not sufficiently represented in current empirical research.

The stakeholder management capability (Freeman, 2010) reflects the logic of stakeholder theory and requires the inclusion of multiple stakeholder demands for corporate decision making so that value is created for these stakeholders. However, the number of studies that empirically investigate this capability is rather low. Studies of the field usually consider the amount of firm activities towards stakeholders rather than their understanding of actual stakeholder needs (Orlitzky et al., 2003; Wang et al., 2016). Freeman (2010), however, argues that a comprehensive understanding of stakeholder needs is the fundamental basis for their fulfillment. The strategic concept of dynamic capabilities (Eisenhardt & Martin, 2000; Teece et al., 1997) requires such a comprehensive recognition and understanding of a firm's business environment. Dynamic capabilities explore a firm's ability to adapt to changing environments and to different markets in order to increase firm performance and generate competitive advantage (Teece, 2007). Similarly to the idea of Freeman's stakeholder management capability, the dynamic capabilities construct of Teece et al. (1997) – which has received much attention – defines specific sub-capabilities relevant to recognizing, understanding and adapting to changing environments. Thus, I take the notion of dynamic capabilities to emphasize that

understanding is the basis for acting in strategic management. This notion is lacking in most empirical research of stakeholder theory. Moreover, I interpret the stakeholder environment of a firm as the dynamic environment addressed in dynamic capabilities research. Joining these two concepts, I see enormous potential for each concept to benefit from the other: Stakeholder theory benefits from the required level of understanding of a firm's stakeholder environment in order to better address stakeholder demands and create actual value for stakeholders. Dynamic capabilities benefit from the idea that a firm's environment is actually the sum of its stakeholders and the dynamics arise from changes in these stakeholders or their demands. A lot of stakeholders are human beings, such as employees or representatives of human beings such as NGOs. For firm decision makers understanding human beings and their needs may be more concrete and tangible than understanding an abstract term such as a dynamic environment. Thus, collecting information, seizing business opportunities and adapting to external demands becomes easier when firms can link all these activities to specific stakeholders.

Previous research provides arguments for stakeholder-related factors that are likely to affect dynamic capabilities, such as stakeholder pressure (Cantor, Blackhurst, Pan, & Crum, 2014), power of stakeholders (Brønn & Brønn, 2003; Calton & Payne, 2003; Mitchell et al., 1997; Parent & Deephouse, 2007), and psychic distance (Hall & Vredenburg, 2005). The same factors appear in stakeholder theory research as effects on a firm's stakeholder related activities (Brammer & Millington, 2008; Buysse & Verbeke, 2003; Helmig, Spraul, & Ingenhoff, 2016; Wolf, 2014).

Stakeholder theory scholars, furthermore, propose that the purpose (or motive) of a firm to engage in stakeholder-related activities does affect the kind of activities applied (Aguilera, Rupp, Williams, & Ganapathi, 2007; Aguinis & Glavas, 2012; Berman et al., 1999; Busse, 2016). I investigate these factors as potential effects on the Dynamic Stakeholder Management Capability (DSMC) that I develop by uniting Freeman's (1984, 2010) stakeholder management capability and Teece's (2007b) dynamic capabilities concept.

In the research model chapter (chapter 3) I draw arguments for an integration of the stakeholder management capability and the dynamic capabilities approach, based on the literature reviews of stakeholder theory and dynamic capabilities. The two concepts share some of their research interests while they differ in others. Specifically the differences may provide potential for synergies, the balance of weaknesses or gaps, and learning. Scholars of each of the two fields mention the relevance of the other: Scholars of dynamic capabilities (and related fields) emphasize the relevance of stakeholders for dynamic capability development (Eisenhardt & Martin, 2000; Politis, 2005; Salvato & Vassolo, 2018; Teece et al., 1997; Teece, 2007; Tsai, 2001; Zaheer & Bell, 2005) while stakeholder management scholars point to the challenge of dynamic and complex external environments (Castiaux, 2012; Harrison et al., 2010; Kindström, Kowalkowski, & Sandberg, 2013; Lenssen & Midttun, 2007; Lenssen, Minoja, Zollo, & Coda, 2010; Miles, Munilla, & Darroch, 2006). Furthermore, the stakeholder management capability and the dynamic capabilities approach have several aspects in common that motivate their integration: Both address their external environment, one specifically the demands of stakeholders and the other specifically the business opportunities and threats that arise from external changes. Both capabilities consist of three sub-capabilities in which they (1) scan the environment, (2) seize opportunities and develop strategies and (3) adapt to external demands. Both capabilities aim at value creation, even though with slightly different understandings of what value creation entails. While value creation in the dynamic capabilities field is most often understood as firm profit and competitive advantage (Eisenhardt & Martin, 2000; Teece, 2014b; Teece, 2018) the understanding of value in stakeholder theory is wider and may include aspects such as stakeholder satisfaction, stable stakeholder relationships, and long-term performance of the firm (Bosse et al., 2009; Haksever, Chaganti, & Cook, 2004; Harrison et al., 2010; Harrison & Wicks, 2013).

The connections of these capabilities motivate their integration while the differences provide the basis for synergies. I will explain these connections and synergies in the first part

of the research model section (section 3.1) before I develop the construct of the Dynamic Stakeholder Management Capability (DSMC) through the integration of the stakeholder management capability and the dynamic capability concept. In the second part of the research model chapter (section 3.2) I will develop nine hypotheses regarding the antecedents and outcomes of the DSMC. Antecedents are (1) the firm's motive to engage with stakeholders, (2) the stakeholder pressures it receives, (3) power differences among home and host country stakeholders, and (4) the degree to which it understands its host country. Since previous research has shown that these factors affect stakeholder relationship management and dynamic capabilities, they are also likely to affect the joint construct of DSMC. While the first six hypotheses deal with the influencing factors on the DSMC and interaction effects among them, the final three hypotheses propose the outcomes of the DSMC. These outcomes are (1) the value created for stakeholders, (2) the value created for the firm, and (3) the mediation effect between the two. The latter is the fundamental assumption in stakeholder theory but, to my knowledge, has never been tested within a multi-stakeholder context.

In the method chapter of this study (chapter 4) I describe the data collection (section 4.1), the measures I apply or develop (section 4.2) and the data analysis to test the proposed hypotheses (section 4.3). In a study of more than 400 German companies with multinational supply chains, I ask supply chain managers about their stakeholder relationship management in two different countries, from which I investigate the existence and degree of DSMC. These managers also provide information about a firm's motives to perform certain activities, their perception of stakeholder-related aspects (such as stakeholder pressure), home-host-country differences and information about the firm (such as performance). From this information I draw the latent constructs for the study. For firm motives I operationalize a new scale applying the established procedures of Churchill (1979), Rossiter (2002) and Homburg (1996) that define, classify, test, and validate the scale (section 4.2.2).

In the data analysis section (section 4.3) I test the hypotheses with a comprehensive regression analysis containing hierarchical regression in which I add independent variables block-wise, a floodlight analysis in which I further investigate interaction effects, and a mediation analysis for the relationship between stakeholder value creation and firm value creation. In addition to typical control variables (e.g. size and age of the firm), side effects such as the type of host country, the level of international experience, or the industry of the firm may affect the results. I investigate these effects in a sub-sample analysis. I present the results of the data analysis and describe limitations of my study in chapter 5. I then discuss my findings and state the contribution of this research in chapter 6. In chapter 7 I draw conclusions from the study and suggest future research areas.

2. Literature Review

In this chapter, I will review the literature on stakeholder theory and dynamic capabilities and summarize the main theoretical arguments and empirical findings of previous works.

Stakeholder relationship management arises from stakeholder theory, which originated in the 1960s and became more popular during the 1980s (Freeman, 1984; Freeman et al., 2010). Compared to stakeholder theory, the dynamic capabilities approach is a rather young research field introduced in the 1990s and is still in the development phase (e.g., Ambrosini & Bowman, 2009; Salvato & Vassolo, 2018; Schilke, Hu, & Helfat, 2018). Both conceptual frameworks focus on a firm's ability to deal with its environment, however they view the environment differently. Stakeholder theory interprets a firm's environment as the stakeholders to which the firm holds relationships and for which it creates value in order to stay successful in the long-term (Donaldson & Preston, 1995; Freeman, 2010; Freeman, Wicks, & Harrison, 2007b). Research on dynamic capabilities, on the other hand, views a firm's environment as the business opportunities and threats that exist, change, or may be shaped by the firm in order to generate firm value and (possibly) competitive advantage (Eisenhardt & Martin, 2000; Teece et al., 1997; Teece, 2014b). Stakeholder theory and the dynamic capabilities framework both address research problems connected to firm value creation (e.g., Freeman, 2010). Some scholars, however, classify stakeholder theory into the research field of Corporate Social Responsibility (CSR) (e.g., Aguinis, 2011; Jones, 1980) as it addresses value creation for stakeholders (and the society at large) in the first place and sees firm value creation as a result of stakeholder value creation rather than as its purpose. The following two literature sections have a similar structure and provide a review of the research focus of each research field, their central assumptions and prominent models. They furthermore provide a summary of previous research regarding influencing factors and outcomes. These factors and outcomes are central for the DSMC I will create later.

2.1. Stakeholder Theory

Stakeholder theory provides the fundamental basis for the idea of stakeholder relationship management usually addressed by contemporary studies of the field. In the following subsections I will provide an overview of stakeholder theory and introduce the notion of stakeholder relationship management and the resulting concept of stakeholder management capability developed by Freeman (2010).

2.1.1. Definition and Problems Addressed

This section aims at a solid understanding of the term “stakeholder” and “stakeholder theory”. After defining these terms, I summarize the main research problems stakeholder theory aims to address before I relate stakeholder theory to the related and potentially overlapping research fields of corporate social responsibility (CSR) and strategic management.

Stakeholders. “Stakeholder theory is a theory of organizational management and ethics” (Phillips, Freeman, & Wicks, 2003: 480). Within stakeholder theory the corporation is viewed as “an organizational entity through which numerous and diverse participants accomplish multiple, and not always entirely congruent purposes” (Donaldson & Preston, 1995: 70). Within stakeholder theory, managing a business means managing relationships with groups or individuals that have a stake in the business or its activities (Freeman, 1984). Understanding these relationships, their processes and outcomes for stakeholders and the firm is the explained aim of stakeholder theory (Jones & Wicks, 1999). “Having a stake in the firm” traditionally means holding a form of property within an organization but got later extended to include also legal or moral rights of people that are somehow related to the firm (Carroll, 1989). Edward Freeman, who is widely known as the “father of stakeholder theory,” defines stakeholders as “any group or individual who can affect or is affected by the achievement of an organization’s objectives” (Freeman, 1984: 46). He provides the most cited and the most comprehensive definition in the field as it includes moral and legal rights of all individuals and groups related

to the firm. His definition is, however, criticized for its lack of focus as it includes “virtually anyone” (Mitchell et al., 1997: 856).

A narrower view defines stakeholders as “those groups without whose support the organization would cease to exist” (Stanford Research Institute, 1963 as cited in Freeman & Reed, 1983: 91). This view includes individuals, groups, and institutions the organization is dependent on for its survival (Bowie, 1988; Näsi, 1995). These may include employees, customers, suppliers, key government agencies, shareholders, and financial institutions (Freeman, 1999). A narrow definition may be helpful to focus the attention on those stakeholders “directly relevant to the firm’s core economic interests” (Mitchell et al., 1997: 857) and reflect the practical reality of managers’ limited resources to consider stakeholders in their decision making. A narrow picture of the stakeholder environment, however, leads to an exclusion of groups and institutions that may later become relevant to the firm, for example due to changes in stakeholder power and coalitions among stakeholders (Freeman, 1999; Mitchell et al., 1997; Rowley, 1997). Such stakeholders often include unions, competitors, communities, public interest groups, protest groups, trade associations and other individuals, groups, and institutions that may be affected by or that are able to affect the firm. Following solely a narrow understanding and ignoring those other stakeholders may therefore limit or even threaten a company’s long-term success (e.g., Agle et al., 1999; Berman et al., 1999; Donaldson & Preston, 1995; Freeman, 1984; Freeman et al., 2010; Mitchell et al., 1997).

A way to combine a comprehensive stakeholder understanding with a focus on the most relevant stakeholders is to classify them as primary and secondary stakeholders (e.g., Clarkson, 1995; Freeman, 2010; Post, Preston, & Sachs, 2002; Waddock, Bodwell, & Graves, 2002). Primary stakeholders are those without whose continuous support the organization won’t survive. They may also be called “strictly business” or “market” stakeholders, such as customers, employees, managers and financiers, who usually have formal relationships with the firm (Buysse & Verbeke, 2003). They make the business work day-to-day by generating

the resources the organization needs and are thus directly relevant to the firm's survival and profitability (Clarkson, 1995; Hill & Jones, 1992; Pfeffer & Salancik, 2009). A broader definition of primary stakeholders also includes governments and communities, as they provide the infrastructure and regulatory frameworks relevant to keeping a business alive (Buyse & Verbeke, 2003). The definition I apply in my study, however, focuses on the strictly business argument and market exchange for primary stakeholders. Secondary stakeholders, such as media, NGOs, governments, communities, the public or special interest groups (Clarkson, 1995) usually don't have direct transactions of daily business with the organization and are, at least in the short term, not essential for its survival. However, these groups and individuals can be affected or can affect the organization by mobilizing public opinion (Freeman et al., 2010; Post et al., 2002; Waddock et al., 2002) and providing support and resources (Oliver, 1991; Pfeffer & Salancik, 2009) that are critical to a firm's long-term success. Due to their relationships with the firm, different roles arise for primary and secondary stakeholders (Thomas, Schermerhorn, & Dienhart, 2004). Primary stakeholders create the business and make it work by providing relevant material, personal and financial resources, and they build the market for its products. Secondary stakeholders create the environment in which organizations operate by providing formal and informal rules that reflect the expectations of broader society (e.g., North, 1992; Scott, 2014). Through these roles primary and secondary stakeholders are likely to affect the firm differently. Some groups and individuals may be called "key stakeholders" as they have the strongest effect on firm behavior (Pfeffer, 1998). For every organization, these key stakeholders include a unique collection of primary and secondary stakeholders. This collection may vary over time and is dependent on internal and external factors, such as the strategic orientation of the firm or opportunities and threats within the corporate environment.

The Main Problems Addressed within Stakeholder Theory. Stakeholder theory focuses its attention on three main problems of business and economics research. The first

problem it addresses is value creation in the context of trade in a complex, globalizing and turbulent world (Freeman et al., 2010: 5). This is a problem typically addressed in the strategic management literature (e.g., Ansoff, 1991; Eisenhardt & Martin, 2000; Hart & Banbury, 1994; Teece, 2014a). Usually, these approaches analyze the relevance of corporate resources, attributes, and management approaches for the generation of competitive advantage and corporate performance (Chandler, 1990). What makes stakeholder theory special here is that it interprets multi-stakeholder satisfaction as the key resource to corporate success (Freeman, 1984). Corporate success is then not only analyzed as a result of the generation and application of certain firm capabilities. Rather, capabilities are analyzed for their potential to achieve internal and external stakeholder satisfaction that, *in turn*, result in corporate success.

The second problem stakeholder theory addresses is that of ethics within the system of capitalism (Freeman et al., 2010). This second problem is an economic problem observed through a lens of moral philosophy. Stakeholder theory aims at developing an answer to increasing criticism and debate about the usefulness of capitalism for the achievement of prosperity in a globalized world. It does so by determining the effects of capitalism that are desirable and those that are not. From that basis scholars build bridges to business and accordingly elaborate the “right and wrong” in daily business decision making.

Third, stakeholder theory addresses the development of a managerial mindset that integrates business and ethics by bringing together the purpose of a firm and those of its stakeholders (Donaldson & Preston, 1995). Here stakeholder theory connects the first two problems by “redefining economic theory so that it becomes useful in a turbulent world full of ethical challenges” (Freeman et al., 2010: 5).

Stakeholder theory addresses these problems through different “lenses” that involve specific types of evidence, arguments, and implications. These are the normative, instrumental, descriptive, and managerial lenses (Donaldson & Preston, 1995). Stakeholder theory takes the normative lens when it defines stakeholders in terms of their legitimate interests in the

corporation and interprets the function of a corporation as an entity responsible for the fulfillment of these interests. It takes the instrumental lens when it identifies and investigates the relationship of stakeholder management practices to corporate performance (Brammer & Millington, 2008; Orlitzky et al., 2003; Orlitzky, 2013). It takes the descriptive lens when it specifies the corporation as a constellation of conflicting and cooperative interests and describes the way corporate decision makers actually deal with these interests (e.g., Mitchell et al., 1997). And it takes the managerial lens when it recommends attitudes, structures, practices, and evaluation mechanisms for recognizing, prioritizing and integrating stakeholder interests (Freeman, 2010; Frooman, 1999; Mitchell et al., 1997; Plaza-Úbeda, Burgos-Jiménez, & Carmona-Moreno, 2010). With these different lenses stakeholder theory is “intended both to explain and to guide the structure and operation of the established corporation” (Donaldson & Preston, 1995: 70).

From Stakeholder Theory to Stakeholder Relationship Management. Stakeholder theory suggests that a firm’s initial mission is to create value for stakeholders. Within stakeholder theory a firm is conceptualized as a coalition of stakeholders that all have a claim in the firm’s objectives (Cyert & March, 1963). Stakeholder relationship management is then the practice of firms to create and maintain relationships to their multiple stakeholders and to address their claims in a way that creates value for them. More precisely, stakeholder relationship management is a firm’s approach to understanding stakeholders, interacting with them, and balancing the economic interests of the firm with economic, social, and ethical claims of stakeholders (Margolis & Walsh, 2003). This understanding is based on “the proposition that business corporations can and should serve the interests of multiple stakeholders” and the “related notion that corporate management involves the balancing of multiple (and at least partially conflicting) stakeholder interests” (Preston & Sapienza, 1990: 361–362). Similar terms such as stakeholder engagement (Greenwood, 2007; Noland & Phillips, 2010) or stakeholder integration (Plaza-Úbeda et al., 2010) follow a similar idea as they include “practices the

organization undertakes to involve stakeholders in a positive manner in organizational activities” (Greenwood, 2007: 315) and “the ability to establish positive collaborative relationships with a wide variety of stakeholders” (Plaza-Úbeda et al., 2010: 421).

Different from the “managing for stakeholders” approach is a “stakeholder management” approach that follows the idea of managing behaviors and attitudes of stakeholders rather than relationships with them (Berman et al., 1999; Hillman & Keim, 2001; Preston & Sapienza, 1990; Waddock & Graves, 1997). Managing stakeholders, based on the initial meaning of “management,” means controlling, directing, monitoring, or forecasting (Fayol, 2016). Stakeholder management is then applied to observe, calculate, and manage stakeholders, their behavior, or their attitudes towards the organization in order to reduce risks rather than incorporating their needs for stakeholder value creation (Deegan, 2002). Firms that follow this approach seek to create value for the firm rather than for stakeholders and treat stakeholders in a morally desirable way as long as it benefits the firm. Investing resources in stakeholder relationship management may therefore compete with short-term incentives of the stakeholder management approach (Jones, Felps, & Bigley, 2007). In contrast, the managing for stakeholders approach requires considerable financial, human, and time resources while its economic benefit for the firm may not always be foreseeable. A lot of different strategies may be applied along the range between the managing for stakeholders and the stakeholder management approach. The most salient strategies will be described in a later section.

Stakeholder relationship management refers to an understanding also known as managing for stakeholders (Freeman et al., 2007b; Harrison et al., 2010). Managing for stakeholders means understanding the firm as a network of institutions and individuals for whom value is created through the relationships (Freeman, 2010; Rowley, 1997; Frooman, 1999). Without creating value for them, a long-term relationship to stakeholders would not exist. The management of a firm therefore needs a solid understanding of how the welfare of all stakeholders is affected by the activities of the corporation, and it must demonstrate that

understanding to stakeholders by acting in ways that improve the individual well-being of stakeholders. Part of that is a deep understanding of the stakeholders' utility function which specifies their preferences for the (tangible and intangible) outcomes that result from corporate actions (Harrison et al., 2010). Understanding the stakeholders' utility function means (1) knowing the factors (and their relative weightening) that drive a stakeholders' utility, and (2) knowing the tangible and intangible outcomes that specify the total utility for stakeholders. The utility function of stakeholders can, however, change over time. Changes in stakeholder needs or priorities, new products or firms entering the market, trends, or social influences are just some of the factors that affect a stakeholders' utility function (Harrison et al., 2010; Hayek, 1945). The information regarding stakeholders must therefore be continually updated in order to be able to manage *for* stakeholders and create value for them.

Following the managing for stakeholders approach stakeholder relationship management is supposed to benefit stakeholders and the firm (e.g. Berman et al., 1999). Previous research suggests that good relationships with employees increase employee satisfaction, loyalty, and productivity (Brayfield & Crockett, 1955; Judge, Weiss, Kammeyer-Mueller, & Hulin, 2017; Mobley, Griffeth, Hand, & Meglino, 1979); good relationships with customers and active customer service and product safety improve customers' quality perceptions and increase sales (e.g., Agle et al., 1999); good relationships to local communities pay off because the community may support the firm by improving local labor quality, releasing regulatory burdens, or obtaining tax advantages (e.g., Waddock & Graves, 1997); good relationships with special interest groups such as environmental groups likely generate cost advantages due to expert knowledge in the area of environmental protection that may also lead to resource efficiency. Furthermore, such relationships pay off due to an improved image of the firm. All these relationships support the firm's activities and therefore its success. Irresponsible behavior, on the contrary, often creates extra costs and decreases market value of the firm (Frooman, 1999).

Stakeholder Relationship Management as Strategic Management or Corporate Social Responsibility Approach. The Corporate Social Responsibility (CSR) literature frequently uses stakeholder relationship management as a synonym for CSR activities. Several researchers claim that stakeholder theory “provides a normative framework for responsible business towards society and is therefore a CSR approach” (Crane, 2008: 63). In the early 1980s, Jones (1980: 59–60) defines CSR as “the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract, indicating that a stake may go beyond mere ownership.” Stakeholders are seen as those “groups to whom the corporation is responsible” (Alkhafaji, 1989: 36). CSR is therefore understood as “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance” (Aguinis, 2011: 855).

While the two concepts certainly overlap, they are not identical (e.g., Clarkson, 1995; Greenwood, 2007). Not all responsibilities towards stakeholders are CSR, and not all CSR activities address stakeholder demands. Stakeholder demands may, for example, represent legal or economic stakes and are not CSR-related claims (Carroll, 1991). Likewise, CSR activities may not address stakeholder demands (Phillips et al., 2003) but specific firm values instead, such as environmental protection or animal welfare. Firms may “do good” without following stakeholder demands and they may even fail to treat (some) stakeholders in a respectful way (Noland & Phillips, 2010). CSR therefore does not necessarily correlate with stakeholder relationship management, and neither CSR nor stakeholder relationship management ensure the fulfillment of firms’ moral obligations towards society (Greenwood, 2007).

Freeman (1984, 2010) sees the stakeholder approach as a philosophy of management rather than a CSR approach. He presents a “new direction” of corporate strategic management that aims at long-term corporate success through stakeholder satisfaction. According to this approach, managers are evaluated for their value creation for stakeholders within economic,

social, and ecologic dimensions (Wheeler, Colbert, & Freeman, 2003). The manager's responsibility and biggest challenge is to carefully balance stakeholder claims (e.g., Freeman & Evan, 1990) and move them in the same direction (Freeman, Harrison & Wicks, 2007). Stakeholder relationship management may then be interpreted as a replacement for CSR: "Since stakeholders are defined widely and their concerns are integrated into the business process, there is simply no need for a separate CSR approach" (Freeman et al., 2010: 60).

A further argument for viewing stakeholder relationship management as a strategic approach is that it not only puts morals and values at the center of management, but also views stakeholder relationship management as the instrument of organizational success (Philipps et al., 2003; Jones & Wicks, 1999; Freeman, 1984). During the last decades, researchers and practitioners alike have increasingly recognized the relevance of stakeholders for corporate success (Freeman, 1984; Mintzberg, 1971; Porter & Kramer, 2006, 2011; Schendel & Hofer, 1979) so that stakeholder theory, formerly interpreted as a theory of corporate responsibility, has grown more into a theory of strategic management (Freeman, 1984; Porter & Kramer, 2006, 2011). What stakeholder theory has in common with other strategic approaches such as resource dependence theory (Frooman, 1999; Pfeffer & Salancik, 2009) or network theory (Burt, 2009; Granovetter, 1973; Rowley, 1997; Tsai, 2001; Zaheer & Bell, 2005) is that it brings the focus onto the relationships among organizations and the people and institutions that potentially affect its success. What it has in common with the resource-based view (Barney, 1991) and the dynamic capabilities approach (Teece et al., 1997) is that internal capabilities have to fit the requirements of the external environment (which are basically stakeholders) in order to stay successful. The biggest difference to most strategic approaches is, however, that stakeholder theory goes beyond profit maximization as the primary goal of corporate strategy. In stakeholder theory the main goal of a firm is to fulfill stakeholder demands and create value for stakeholders. One of its fundamental assumptions is that creating value for stakeholders, in turn, successful and able to survive in the long run if it creates value for its stakeholders. If, on the

contrary, only one of its main stakeholder groups (e.g. employees, customers, suppliers, or another group) retracts its support from the firm, the firm won't survive in the long run (Donaldson & Preston, 1995; Freeman, 1984, 2010).

2.1.2. Strategies of Stakeholder Relationship Management

Firms differ widely in their stakeholder relationship management strategies. A firm chooses and applies its strategy depending on its perceptions of the stakeholder environment and its internal value orientations. A firm may have a certain understanding of stakeholder characteristics, a targeted degree of stakeholder participation, a given complexity of the stakeholder network, and particular responses to stakeholder pressures. The firm furthermore perceives the targets, expectations and responses of their stakeholders towards. These aspects form the strategy the firm chooses to interact with its stakeholders.

Stakeholder characteristics such as power and attitude towards the firm affect the degree to which stakeholders cooperate or threaten the firm's activities and its success (Carroll & Buchholtz, 2015; Frooman, 1999; Mitchell et al., 1997). Freeman (1984) conceptualizes a stakeholder strategy matrix that is later adapted by Savage, Nix, Whitehead, & Blair (1991). As represented in Figure 2, the stakeholder strategy matrix contains two dimensions that reflect stakeholders' influencing ability (ability to collaborate: high/low; ability to threaten the firm: high/low).

		Ability to threaten the firm	
		low	high
Ability to collaborate	low	Marginal stakeholders	Non-supportive stakeholders
	high	Supportive stakeholders	Mixed blessing stakeholders

Figure 2. Stakeholder Strategy Matrix (Source: [Adapted from] Savage et al., 1991)

Several other authors support that matrix (Kimery & Rinehart, 1998; Polonsky, Maignan, Ferrell, & Ferrell, 2005) and suggest similar response strategies to each of the four stakeholder types. “Mixed blessing” stakeholders control valuable resources of the firm and have a high potential to collaborate but also to threaten the firm. A collaborative stakeholder relationship management approach enables the firm to benefit from the resources these stakeholders control (Pfeffer & Salancik, 2009; Rowley, 1997) and pro-actively engage in dialog that prevents risks related to these stakeholders. “Supportive stakeholders” have a high potential to cooperate with the firm but a low potential to threaten the firm. These stakeholders should be involved and served with information in order to receive their support. Due to their limited ability to negatively affect the firm, these stakeholders maybe exploited rather than involved (Kimery & Rinehart, 1998). “Non-supportive stakeholders” have a low potential to cooperate and a high potential to threaten the firm. These stakeholders entail risks rather than opportunities for the firm. Firms are therefore best served with a defending approach against these stakeholders. “Marginal stakeholders” are low in their potential both to cooperate and to threaten the firm. These stakeholders should be monitored rather than involved in order to observe changes in their power sources (Savage et al., 1991; Kimery & Rinehart, 1998).

Empirical research has shown that firms also differ in their approaches to offering stakeholder participation. Helin, Jensen, & Sandström (2013) identify four stakeholder management approaches ranging from “strategy” to “participation.” In each of the four approaches firms apply different degrees of stakeholder involvement based on their understanding of opportunities and threats connected to their stakeholder relationships. Firms that understand stakeholders as potential threats tend to control or even manipulate their attitudes in order to minimize corporate risks. Firms that understand stakeholder relationships as opportunities for firm value creation involve stakeholders as consultants or even have them participate in stakeholder dialog. By critically reflecting firms’ current engagement, Helin et al.

(2013) admit that companies tend to inform and manipulate stakeholders more often than they really consult them or let them participate in decision-making.

Characteristics of the stakeholder network may further affect a firm's stakeholder relationship strategy. Firms usually face multilateral rather than bilateral stakeholder relationships so that their stakeholder relationship management strategy is not formed through dyadic but through multiple interactions among partners and stakeholders within a business network (Aaltonen & Sivonen, 2009; Coviello & Munro, 1995; Frooman, 1999; Rowley, 1997). Rowley (1997) therefore goes beyond dyadic ties and investigates a network theory of stakeholder relationship management. He argues that managers may not respond to each stakeholder group separately but rather to the interaction of multiple influences from all stakeholders. The network may be a source of power for both the firm and its stakeholders. The best response strategy of a firm to stakeholder pressures is then based on (1) the firm's position within the network ("centrality") and (2) the interactions among stakeholders within the network ("network density"). When firm centrality is high, the firm has more power to influence the values and processes applied in the network. When network density is high – which is a high level of information flow and close connections among network partners – the firm has less power to direct the network due to the direct ties among stakeholders. Rowley suggests that firms with high centrality in a network of high density should apply a compromiser strategy, meaning that it negotiates with stakeholders. Firms with high centrality in a network of low density should apply the commander strategy because it has the highest power and stakeholders have weak information flows among themselves and few resources to monitor or pressure the firm. Firms with low centrality in a network of high density become subordinates because stakeholders are powerful, and the firm has to comply with their expectations. And firms with low centrality in a network of low density become solitarians because stakeholders are weakly connected and the firm avoids pressure from them.

Stakeholder pressure and characteristics affect the way firms respond. Aaltonen & Sivonen (2009) identify firm response strategies to stakeholder pressures that vary from rather passive to more active strategies. Firms choose their strategy based on both stakeholder and firm characteristics, such as stakeholder power, legitimacy of stakeholder claims, potential coalitions among stakeholders, and experience of the organization. Higher degrees of experience enable proactive engagement in stakeholder integration. Higher degrees of stakeholder power and legitimacy of claims results in a higher likelihood for adaptation and compromising strategy, both of which are rather reactive. Reactive forms of stakeholder relationship management are mainly driven by the firm's feeling they *must* engage and respond to external pressures (Buysse & Verbeke, 2003; Aguinis & Glaves, 2012). In contrast, proactive engagements are entered into rather willingly, and firms choose to engage rather than being pressured (Aguinis & Glaves, 2012). Examples of the latter are the desire-based fulfillment of stakeholder needs and the organizational-stakeholder fit in terms of values. Proactive engagement has a higher likelihood to result in competitive advantage. Reactive engagement, on the other hand, may even result in a lack of competitive advantage (Buysse & Verbeke, 2003).

Finally, stakeholders also apply strategies to persuade firms to address their claims. These pressures are often in response to their expectations regarding the awareness of firms about stakeholder claims (González-Benito & González-Benito, 2006) or their perceptions about firm goals (Aguilera et al., 2007). Stakeholder claims may be concrete or symbolic in nature, may contain economic or social goals, and may concern local, domestic or international issues (Wood, 1994). Depending on the kind of stakeholder power, they may apply influence strategies to pressure the firm for the fulfillment of their needs (Frooman, 1999). When stakeholders have high levels of power, such as control over relevant resources of the firm, they may exert *direct* pressure on the firm. These stakeholders may discontinue providing the resource in order to make the firm change its behavior (withholding strategy) or they may

condition the continuance of resource supply on a certain behavior (usage strategy). In the withholding strategy the stakeholder is ready to shut off the resource flow and end the relationship with the firm, while in the usage strategy, the stakeholder is not ready to shut off supply. The firm has a higher dependency on the stakeholder in the withholding strategy than in the usage strategy. Examples of such strategies may be consumer boycotts (withholding strategy) or striking employees (usage strategy). When stakeholders are not able to control valuable resources of the firm, they are less powerful to exert direct pressure. However, they may exert *indirect* pressure via relationships with powerful stakeholders who do control resources for the firm. The powerless stakeholder then needs to (1) create a relationship with a powerful stakeholder and (2) communicate with, inform, and convince the powerful stakeholder in order to receive its support. The powerful stakeholder then functions as an “ally” and performs the withholding or usage strategies for the powerless stakeholder. Examples of such cases are activist groups that mobilize and organize consumer boycotts or public media agencies that publish and spread analyses by non-governmental organizations about corporate behavior.

2.1.3. The Stakeholder Management Capability

In this subsection I will introduce the stakeholder management capability as developed by Ed Freeman. Published in “Strategic Management: A Stakeholder Approach” (2010) which is one of the most cited writings of the stakeholder theory field, the stakeholder management capability translates the most important content of stakeholder theory and stakeholder relationship management into a practical model. It translates the goal of stakeholder value creation by providing three levels of analysis through which firms better understand stakeholders, interact with them, and adapt to their needs. It translates the assumption of value creation for the firm *via* stakeholder value creation by suggesting that firms receive more support, loyalty, and performance when they benefit these stakeholders. Firms with good stakeholder relationships also receive better information regarding stakeholders and their utility

function (Harrison et al., 2010) , which likely enables them to generate competitive advantage. The stakeholder management capability translates the idea of “moving multiple stakeholder needs into the same direction” by providing guidance for interaction with multiple stakeholders, such as multi-stakeholder dialog. Further, it translates the idea of interpreting stakeholders as an opportunity rather than a risk by managing relationships rather than stakeholders. These relationships are the ground for stakeholder value creation and, in turn, for firm value creation. The stakeholder management capability enables firms to comprehensively understand stakeholder demands so that firms can relate their behavior to these demands and can find morally acceptable solutions that serve most of their stakeholders.

Freeman conceptualized the stakeholder management capability as a three-level process (rational, process, and transactional) in which each level serves as a level of analysis but also as a sub-capability. The stakeholder management capability is the capacity of a firm to put these three levels of analysis (or sub-capabilities) together as a means of creating value for stakeholders.

At the “rational level” firms seek to understand this question: “Who are these groups and individuals who can affect and are affected by the achievements of an organization’s purpose?” (Freeman, 2010: 54). At this level, firms analyze stakeholders in terms of their characteristics, demands, and power distributions. Stakeholders are then categorized according to their kind of relationship with the firm (such as financial, legal, or market-related relationships), their power distribution (such as high or low individual power, or power through relationships and coalitions with other stakeholders), geographical and demographical aspects (such as conditions of life, education, culture, taste etc.), and their interests and potential conflicts of interest among them. People may belong to more than one stakeholder group. Employees, for example, can at the same time be customers, shareholders or union members so that they have various claims on the firm (fair wages, low prices, high dividends, and good working conditions, respectively). Stakeholders may also build coalitions due to their similar

interests, such as between employees and unions. Only a comprehensive analysis of the whole stakeholder network can provide the full picture of stakeholder demands and their interrelations. Included in the rational level is also a historical analysis of past changes of the stakeholder audience, their attributes, and interests. Understanding historical developments helps firms to forecast future developments. For the rational level, firms need to be able to accurately perceive and collect all this information about stakeholders. Based on extensive market research they need to understand the nature and cause of stakeholder interests and gain insights about network relationships and coalitions among stakeholders. This information must be updated on a regular basis for currency and accuracy, as it creates the “stakeholder picture” and builds the foundation of the stakeholder management capability.

At the “process level” firms evaluate all standard operating procedures in terms of their fit with the stakeholder picture previously created. Existing strategic processes are enriched by a multi-stakeholder perspective in order to analyze if (1) the present strategy works to meet firm targets and stakeholder expectations, (2) current programs consider both effects *on* stakeholders and effects *from* stakeholders, and (3) current budgets facilitate resources and operations that include interactions with stakeholders. The firm needs to regularly reflect these aspects in order to evaluate the fit between its goals, stakeholder demands, and the programs and resources in place. For the process level, firms need to integrate stakeholders in a way that fits the assumptions developed at the rational level and that enhances multiple perspectives of stakeholders as a basis for discussion and reflection. Multi-stakeholder dialogs, key stakeholder meetings, expert groups, and information exchanges via surveys, newsletters, or online forums are potential formats of regular interactions with stakeholders. These formats enable the analysis of strategic processes through the eyes of stakeholders so that firms can understand their processes in terms of advantages and disadvantages for stakeholders.

At the “transaction level” firms analyze transactions in terms of value creation for stakeholders. Value creation for stakeholders may contain monetary and non-monetary aspects

and may include multiple benefits and losses (value destruction) for different stakeholders (Haksever et al., 2004). Some stakeholders may be directly addressed by transactions while others may be affected without being directly addressed by a firm's decision. Analyzing the overall effects of firm processes and practices on stakeholders is the bottom line of the stakeholder management capability, as it enables conclusion regarding the fit between the stakeholder picture ("rational" level) and processes ("process" level) in places that create value for stakeholders ("transactional" level). The evaluation of that fit enables reconfiguration of the previous levels. At the transaction level, firms need the ability to establish and execute "win-win" transactional exchanges. They can best achieve such mutually beneficial exchanges by appropriately transferring the results of the process level into value creation for stakeholders and the firm.

Freeman (2010) argues that firms with a strong ability to bring these levels together have a superior stakeholder management capability and are therefore better able to create value for stakeholders. By contrast, a lack of fit among the three levels may produce discontent and dysfunctional outcomes. Among the few scholars that evaluate or comment on the stakeholder management capability, some argue that the model fails to provide sufficient managerial direction for the management of so many various and conflicting stakeholder interests (e.g., Zakhem, 2008). Treating stakeholder interests as "balanceable commodities," they argue, is morally questionable and does not reflect reality. Furthermore, the stakeholder management capability may be misused for managing *stakeholders* rather than *relationships*. Interactions and dialogs may be applied to convince and manipulate stakeholders during bargaining processes in order to gain legitimacy for firm activities. Stakeholder relationship management is therefore based on an organization's purpose in applying it, and does not automatically result in normative consensus with multiple stakeholders and the integration of ethical and business claims that advance organizational goal setting (Smith, 2004).

While Freeman's book (2010) in which the stakeholder management capability is published is highly influential, the capability itself, surprisingly, has received limited attention and almost no empirical validation thus far. Only a few publications refer to the capability, or criticize, modify, or apply it (e.g., Plaza-Úbeda et al., 2010; Zakhem, 2008). The lack of attention may be due to its focus on stakeholder demands without a systematic approach to link these demands, or their changes, to (new) business opportunities. While Freeman recognizes the dynamics of stakeholder characteristics and demands and suggests the continuous application of the stakeholder management capability in order to update information about stakeholders and continuously achieve a fit between stakeholder demands, firm goals, and the processes in place, the capability lacks systematic sensing and interpretation of changes that may lead to new business opportunities and strategic directions. Previous research (Agle et al., 1999; Berman et al., 1999) suggests that firms are more likely to engage in stakeholder-related activities when they expect economic benefits from these activities. In dynamic and complex business environments in which stakeholder demands continuously change and also differ across countries, these changes and differences must be understood as the *source* for economic benefits and stakeholder value creation likewise. The rather static view of the current stakeholder management capability does not generate new opportunities out of changes in stakeholder characteristics and demands, but rather evaluates whether stakeholder demands and corporate practices are still in line with the predominant firm strategy. The capability may benefit from a systematic recognition and incorporation of changes in stakeholder characteristics and demands. Changes in stakeholder characteristics and demands happen over time (time-related changes) and across geographical areas such as countries of business activities (country-related differences). While time-related changes contain trends and movements such as income increases, changes in tastes or priorities, or changes in political or regulatory aspects, country-related differences result from similar dimensions (e.g. income, priorities, regulatory aspects) that differ across the countries of business activities. Both time-

related changes and country-related differences, I argue, require similar mechanisms of recognition and adaptation. Recognizing and taking advantage of changes/differences are facilitated by a firm's dynamic capabilities (Teece et al., 1997, Eisenhardt & Martin, 2000). Integrating this competence to the stakeholder management capability, I argue, would significantly extend the scope of the stakeholder management capability so that it could boost its impact on research and practice.

2.1.4. Antecedents of Stakeholder Relationship Management

Previous research on antecedents of a firm's stakeholder relationship management and its outcomes provides theoretical arguments and some empirical validation but leaves open questions, such as interaction effects among these factors. Several scholars have suggested more research on factors that affect stakeholder relationship management (Aguilera et al., 2007; Aguinis & Glavas, 2012; Margolis & Walsh, 2003). These may be internal and external factors that affect a firm's engagement in stakeholder relationship management. They may be categorized at an 1) institutional, 2) organizational, and 3) individual level of analysis (Aguinis & Glavas, 2012; Lee, 2008).

The institutional level includes factors such as national and international stakeholder pressure (e.g., Agle et al., 1999; Boal & Peery, 1985; Husted & Allen, 2006; Sharma & Henriques, 2005; Stevens, Kevin Steensma, Harrison, & Cochran, 2005) from stakeholders such as shareholders, customers, media, local communities, and others. They exist due to country-specific stakeholder characteristics and demands and regulatory frameworks (Jackson & Apostolakou, 2010; Matten & Moon, 2008; Snider, Halpern, Rendon, & Kidalov, 2013). The organizational level includes factors such as organizational motives (e.g., Aguilera et al., 2007; Ditlev-Simonsen & Midttun, 2011) to engage in stakeholder relationship management. These motives are shared assumptions that work as implicit or explicit rules for decision making. They are influenced by an organization's identity and determine its strategy building, including

stakeholder relationship management. The individual level includes decision makers' ability to recognize stakeholder needs and to react to them (Harrison et al., 2010; Mitchell et al., 1997). For that managers need a sufficient degree of familiarity with their stakeholder environment, in home and host countries. Without an appropriate understanding of the relevant stakeholder groups and their interests, no appropriate stakeholder relationship management is possible.

Previous work draws upon different theories, next to stakeholder theory, for these levels, such as psychological theories for the individual level, institutional theory for the institutional level, and the resource-based view for the organizational level. An integrated multilevel approach that includes simultaneous analysis and interactions of several effects, however, is lacking (Aguinis & Glavas, 2012). In the following I will define each of the factors mentioned that influence stakeholder management capability and review the literature that I later apply to developing my hypotheses.

(1) Institutional Level: Stakeholder Pressure. Previous research suggests that stakeholder pressure affects firms' stakeholder-related behavior (González-Benito & González-Benito, 2006; Helmig et al., 2016; Wolf, 2014). I understand stakeholder pressure in this study as the ability of an individual or group to exert power to affect a firm's behavior in a way that supports the interests of that individual or group. Stakeholder pressure refers to a behavior of stakeholders that holds firms accountable for the external effects of their decisions and activities (Parmigiani, Klassen, & Russo, 2011). Firms often react to these pressures with CSR-related behavior such as stakeholder relationship management, environmental protection programs, or other activities that reduce or compensate for the external effects (Boal & Peery, 1985; Brammer & Millington, 2008; Buysse & Verbeke, 2003; Eesley & Lenox, 2006; Sarkis, Gonzalez-Torre, & Adenso-Diaz, 2010; Sharma & Henriques, 2005; Stevens et al., 2005). The effectiveness of stakeholder pressure, however, depends on the "salience" of stakeholders, i.e. the degree to which stakeholders are recognized and considered by corporate managers (Mitchel et al., 1997; Eesley & Lenox, 2006). According to Mitchel et al. (1997) stakeholders receive

most attention from managers when they are powerful and have legitimate and urgent claims. Having these attributes, stakeholders are most likely to achieve the desired outcome. Empirical tests (Eesley & Lenox, 2006) support the power and the legitimacy dimension, while they do not support the urgency dimension. Previous research indicates that stakeholders vary in these dimensions. The following section will show how primary and secondary stakeholders differ in their kinds of interest and in sources of power to affect the firm.

Primary and secondary stakeholders have different kinds of interests. Primary stakeholders are characterized by pragmatic legitimacy, which is “self-interested calculations of an organization’s immediate audience” (Suchman, 1995: 578). By contrast, secondary stakeholders are characterized by their moral orientations, which “usually reflect beliefs about whether the activity effectively promotes societal welfare, as defined by the audience’s socially constructed value system” (Suchmann 1995: 579). These are society-related interests. Haksever et al. (2004) identify a range of interests typical for primary stakeholders. These interests refer to their own utility maximization and are self-related rather than society-related. Shareholders, for example value profits and financial security, employees value wages and benefits related to their workplace, and customers value quality products and services. These benefits often function as a payback for the resources stakeholders provide. They may quit the relationship once benefits do not arise as expected. Employees may leave the workplace and customers may choose to buy products from competitors. However, primary stakeholders may not solely have self-related interests (Logsdon & Wood, 2002) but may pressure firms for others-related interests as long as this action supports or at least does not compromise their self-related interest. In contrast, secondary stakeholders value taxes, donations, human rights, and environmental protection (Haksever et al., 2004). Their claims are of moral and ethical content that equally serve all individuals of the society; their interests are not conditional to a reciprocal relationship. Secondary stakeholder interests are often driven by the mandate to balance social inequality or by altruistic motives (Egri & Herman, 2000; Spar & La Mure, 2003).

Primary and secondary stakeholders have different sources of power. Primary stakeholders have direct sources of power so that they can directly affect the firm. These sources arise from formal power such as voting rights (e.g. shareholders), political power from regulatory mechanisms (e.g., employees) or economic power from the resources they control (e.g., customers, financiers) (Freeman & Reed, 1983; van Buren & Greenwood, 2008). Transactions are regulated in contracts, and opportunistic behavior of the firm is likely to disturb or end the relationship (van der Laan, van Ees, & van Witteloostuijn, 2008). This, in turn, threatens the success of the firm because primary stakeholders control the most important resources of the firm. Secondary stakeholders, in contrast, have rather indirect sources of power. They do not control the most important resources of the firm and can therefore only indirectly affect the firm. Mitchell et al. (1997) classify stakeholders as “dependent” when they have legitimate claims but lack the power to affect the firm, such as NGOs, activist groups, or less organized minorities. These stakeholders do not have much power to pressure the firm. Stakeholders are classified as “dormant” when they have high levels of power but no legitimate claims, such as media. These stakeholders may use their power to support dependent stakeholders as “allies” (Frooman, 1999; Ingenbleek & Immink, 2010). They affect the public opinion and mobilize other stakeholders to exert their power towards the firm. The power of secondary stakeholders, therefore, relies on their relationship to powerful stakeholders (Aguilera et al., 2007; Frooman, 1999; Ingenbleek & Immink, 2010) rather than on their relationship to the firm.

Due to these differences in stakeholder interests and power sources, primary and secondary stakeholders vary in the pressure they exert on the firm. Primary stakeholders that are human beings, for example, are often initiators of an organization’s proactive CSR activities (Daily & Huang, 2001; Hanna, Rocky Newman, & Johnson, 2000; Zhu, Sarkis, Cordeiro, & Lai, 2008). That may, however, fulfill their own needs for control, belonging, and meaningful existence (Aguilera et al., 2007). Visibility of CSR activities may then be valued over their

effectiveness in terms of social or environmental improvements. Secondary stakeholders, in contrast, are more effective at pressuring for society-related social and environmental improvements (Fineman & Clarke, 1996; Madsen & Ulhøi, 2001). Governments and communities regulate firm behavior and NGOs or activist groups might mobilize public opinion regarding the external effects of firm activities (e.g., Backer, 2007; Freeman, 2010), such as media or activist groups. Firms that view secondary stakeholders as highly important are more likely to engage in activities that effectively address public interests, such as environmental protection (Buysse & Verbeke, 2003). Serving primary stakeholder interests, however, is more likely to improve financial performance of the firm (Hillman & Keim, 2001).

Empirical research on the different effects of primary and secondary stakeholder pressure scarcely exists. Furthermore, prior research suggests interaction effects among types of stakeholder pressure and other variables, such as collaboration with stakeholders (Cantor et al., 2014), CSR engagement (David, Bloom, & Hillman, 2007), or the values of managers (González-Benito & González-Benito, 2006). This thesis, therefore, addresses the differences between primary and secondary stakeholders as well as interaction effects among influencing factors.

(2) Organizational Level: CSR Motives. Previous research suggests that a firm's motives for CSR activities affect the stakeholder-related behavior of a firm (Agle et al., 1999; Aguilera et al., 2007; Berman et al., 1999). In context of stakeholder relationship management I understand the motives of a firm as its intended purpose to plan and perform stakeholder-related activities, i.e. all activities that are expected to have a positive social or environmental effect (including activities that are labeled as CSR activities).

Firm motives are closely linked to a firm's identity, which is defined by its members' shared understanding of the central, distinctive, and enduring qualities of the organization (Albert & Whetten, 1985; Pratt & Foreman, 2000) and the characteristics most salient to them (Brickson, 2007). Without a clear identity, organizations are not able to act coherently towards

stakeholders (Albert & Whetten, 1985). How these members understand their organization also defines their understanding of its motives and determines the management of internal and external relationships (Rousseau & Wade-Benzoni, 1994). Firm motives to engage in a certain behavior, therefore, significantly affect the mechanisms applied and, in turn, the outcome achieved. The literature on stakeholder relationship management distinguishes strategic (also called instrumental) and moral (also called normative) motives to act in socially responsible ways.

Strategic motives are self-interest driven, and their primary goal is to support firm objectives (Aguilera et al., 2007). Among these objectives may be financial performance (Agle et al., 1999; Aguilera et al., 2007; Berman et al., 1999; Freeman, 2010; Frooman, 1999; Jones, 1995), the improvement of firm image or reputation (Ditlev-Simonsen & Midttun, 2011), and risk control, business opportunities, or the generation of competitive advantage (Bansal & Roth, 2000a; Mitchell et al., 1997; Porter & Kramer, 2006; Sharma, 2000). In earlier works, this approach is also known as the “pure conservative approach” (Holmes, 1979, as cited in Boal & Peery, 1985). Among the earliest representatives is Friedman (2007, first published in 1970), who saw a firm’s main responsibility in maximizing profits by following the law. Later, the strategic approach for CSR meant “doing good” as long as it pays off (Logsdon & Wood, 1991). A strategic stakeholder relationship management approach, in turn, means stakeholders receive attention as long as and to the extent to which they are of strategic value for the firm (Berman et al., 1999; Jones, 1995). Stakeholders are of strategic value if they are capable of generating profits (value creating) or threatening the firm’s objectives (value destroying). Stakeholders of no strategic value for the firm are usually left unattended.

Strategic models (Tyler, 1987) assume people to be motivated to seek control over other people or events because this control serves to maximize their target outcome. The psychological need for control and the resulting ego-based behavior of individuals has received empirical support (e.g., Roberson, Moye, & Locke, 1999). Stakeholder relationship

management may then be applied in order to control, forecast, or prevent stakeholder activities (Aguilera et al., 2007). Controlling and influencing stakeholders or their behavior is, however, not the idea of stakeholder relationship management. Such an approach would manage stakeholders rather than stakeholder relationships (Freeman, 2007).

Moral motives follow ethical standards and moral principles of “right” and “wrong” (Aguilera et al., 2007). Morality and ethics are used as synonymous in the organizational context (Carroll, 1991). “Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community” (Crane & Matten, 2007: 8). Morally oriented stakeholder relationship management, then, is based on intrinsic commitment to stakeholders that roots in a perceived moral obligation to respect their legitimate interests for corporate decision making (Berman et al., 1999; Donaldson & Dunfee, 1994; Freeman & Evan, 1990; Phillips, 2003). In earlier works this approach is also known as the “pure liberal” approach (Holmes, 1979, as cited in Boal & Peery, 1985). Among the earliest scholars of this field is Harrington (1979), who sees a firm as a kind of public property with the responsibility of advancing the public good. Later, the approach was driven by established and fundamental moral principles or “higher-order values” (Aguilera et al., 2007) that are based on the stakeholders’ or the society’s interests. These principles guide the organization. They shape corporate strategy and are implemented in all kinds of firm activities. The moral approach considers all kinds of stakeholders – including powerless and invisible stakeholders – and balances their interests and claims with the larger society (Mitchell et al., 1997). Fulfillment of stakeholder interests is taken for granted and understood as a precondition to run a business successfully (e.g. Freeman, 1984, 2010). Fulfillment of these interests yields the basis for sustainable, trustful, and supportive relationships that, in turn, generate firm success (Jones, 1995).

Despite numerous conceptual works about firm motives to engage in stakeholder relationship management, limited empirical research exists regarding their effects on corporate

strategy building or outcomes for stakeholders and the firm. A limited number of empirical works (e.g., Agle et al., 1999; Berman et al., 1999) promote strategic motives as more promising than moral motives for theoretical development (Freeman, 1999) and empirical confirmation (Aguinis & Glavas, 2012; Berman et al., 1999). Berman et al. (1999) find a positive effect of strategic stakeholder relationship management on financial performance but no effect of moral stakeholder commitment on financial performance. A meta-analysis (Aguinis & Glavas, 2012) finds that strategic reasons, such as expected financial rewards, are the main motives for organizations to engage in CSR.

Empirical investigations of the moral stakeholder relationship management approach are even less prevalent, and findings are inconclusive (Margolis & Walsh, 2003; Waddock & Graves, 1997). Critics of the moral view emphasize that within a functioning market “for-profit business firms that serve stakeholders purely for altruistic purposes are not likely to prosper or even survive” (Harrison et al., 2010: 60). Empirical research should extend knowledge about the value of business decisions that are based on multiple-stakeholder relationship management. Numerous scholars recommend that firms should focus on the most important stakeholders (Donaldson & Preston, 1995; Jones, 1995) and promote their needs in a win-win fashion (Harrison & St. John, 1996; Porter & Kramer, 2006) rather than on a broad range of diverse and conflicting interests. Moral motives supporters counter that it is the firm’s responsibility and its only chance for long term success (Freeman, 2010; Freeman, Martin, & Parmar, 2007a) to consider all kinds of stakeholders (Matten & Crane, 2007) and to balance their interests or find ways to “move interests in the same direction” (Freeman et al., 2010). They further argue that every business decision has economic but also ethical effects that are not separable (Harris & Freeman, 2008). In employing people, for example, a firm not only exchanges their employees’ time and talents against a salary (business dimension) but it also affects their lifestyle, education, and satisfaction (ethical dimension). Therefore, “distinguishing ‘business’ concern from ‘ethical’ values is not only an unfruitful and meaningless task, it is also an impossible

endeavor.” (Harris & Freeman, 2008: 2). The underlying motives of a firm are amongst the most important factors for mobilizing resources and creating capabilities. It is, however, not possible to draw conclusions about how different firm motives, such as moral and strategic motives, affect stakeholder relationship management. In my study I investigate the effects of moral and strategic firm motives on stakeholder relationship management. I aim to understand why some firms are able to create and maintain stakeholder relationships better than others. I further investigate the value of business decisions that are based on an inclusion of multiple stakeholders. To that end, I include several interest groups and institutions along an international supply chain, such as employees, suppliers, NGOs, the public, local communities, and state institutions.

(3) Individual Level: Psychic Distance. “Although CSR takes place at the organizational level of analysis, individual actors are those who actually strategize, make decisions, and execute CSR initiatives.” (Aguinis & Glavas, 2012: 953). Manager abilities, such as knowledge and understanding, are critical key factors for good stakeholder relationship management. Managers are better able to address stakeholder demands when they have a comprehensive understanding of stakeholders and familiarity with their claims (Freeman, 2010). These claims differ largely (Aguilera et al., 2007; Donaldson & Preston, 1995), especially in multinational corporations and supply chains that include stakeholders from various countries. Managers must be sensitive to these cross-country differences (Aguilera et al., 2007; Hall & Vredenburg, 2005; Parent & Deephouse, 2007) in order to understand stakeholder characteristics and demands in all countries of their business activity.

Psychic distance refers to a subjective perception of the difference between home and host country in terms of multiple dimensions such as culture, education, language, or lifestyle (Evans, Treadgold, & Mavondo, 2000; Sousa & Bradley, 2006). Psychic distance defines the sum of factors that disturb information flows between markets (Johnson & Vahlne, 1977) and therefore factors that prevent firms from learning across country barriers and understanding

another market, including its stakeholders. Managers who perceive a high distance to their host country stakeholders may be less familiar with those stakeholders' characteristics and claims. Having a vague idea of stakeholder claims, in turn, makes it difficult to fulfill them. Previous research suggests that distance between managers and stakeholders is likely to result in ethical dilemmas and therefore difficulties in integrating firm and stakeholder interests (Kolk & van Tulder, 2010; van Tulder, 2010).

Since the 1950s, psychic distance has received considerable attention in the international business literature (Aharoni, Tihanyi, & Connelly, 2011; Beckerman, 1956; Evans, Mavondo, & Bridson, 2008). Psychic distance is different from but overlapping with cultural distance (Johnson & Vahlne, 1977). Even though some may argue that both concepts are isomorphic and may be used as synonyms (Evans et al., 2000), cultural distance, in the vast majority of its application, refers to Hofstede's (1984, 2011) well-known dimensions of national culture. Psychic distance, in contrast, is the *perceived* difference of two countries in terms of their cultural and business aspects (Evans et al., 2000). "Perceived difference" underlines the fact that psychic distance is an individual interpretation of the reality (Sousa & Bradley, 2006). Researchers usually ask managers to indicate how similar or dissimilar they perceive a host market to be compared to the company's home market. They then investigate how this perception affects managers' decision making. Unlike Hofstede's dimensions, this individual perception is not transferable across companies. Rather, the manager's individual ability to perceive differences determines the level of understanding of host country stakeholders. Psychic distance goes beyond cultural differences and includes additional society-related and business-related dimensions (see section 4.2.1. for the concrete dimensions). The concept is usually applied in researching international business (e.g., Dow & Karunaratna, 2006; Gerschewski, 2013; Håkanson & Ambos, 2010; Kogut & Singh, 1988) and marketing (e.g., Evans et al., 2000; Evans et al., 2008; Papadopoulos, Sousa, & Lages, 2011; Sousa & Bradley, 2005; Sousa & Bradley, 2006). These studies usually investigate perceived distance as a basis

for market entry strategies, customer relations, or product development. While these studies usually do not include a stakeholder relationship perspective, they still investigate knowing and understanding stakeholder interests in home and host country. Psychic distance reflects familiarity with characteristics, circumstances, and claims of stakeholders that are relevant for market entry strategies, product development, or customer relations. Recently the psychic distance construct has received attention from stakeholder relationship management scholars. Studies suggest that psychic distance affects the degree to which stakeholder relationship management addresses stakeholders in a host country (Campbell, Eden, & Miller, 2012; Kolk & van Tulder, 2010; van Tulder, 2010). Firms that understand less about their host country stakeholder environment tend to engage less in stakeholder-related activities. The previous findings, however, do not depict how psychic distance would affect a capability developed for the adaptation of international stakeholder relationships. Such a capability goes beyond transferring stakeholder relationship management approaches from one country to another. Knowing that home country stakeholders demand different things than their host country counterparts creates the necessity of adapting to local needs. A limited understanding of host country conditions, however, limits a firm's ability to appropriately adapt to them. I investigate the effect of psychic distance on international stakeholder relationship management because recognizing cross-country differences affects the ability to address them. I extend the research field by providing knowledge on how the certainties and uncertainties of managers regarding cross-country stakeholder demands affect their actual decisions and, in turn, their stakeholder relationship management.

2.1.5. Outcomes of Stakeholder Relationship Management

Stakeholder theory suggests that firms engaged in stakeholder relationship management in order to generate stakeholder value will be more successful due to the support they receive from stakeholders. “[A]ddressing a broad group of stakeholder interests simultaneously enhances

financial performance” (Freeman et al., 2010: 103). Good stakeholder relationships minimize stakeholder-related risks, such as opposition and boycotts, and help convince stakeholders to support corporate activities and provide relevant resources (Buysse & Verbeke, 2003; Freeman, 2010; Pfeffer & Salancik, 2009). Previous research showed awareness of the potential of stakeholder relationship management (or CSR) to create value for stakeholders and the firm. While empirical studies distinguish among the two effects they then almost ignore evaluating both of them. An immense number of studies exists for the effect of stakeholder relationship management (or CSR) on firm value creation (such as firm performance or competitive advantage) while almost no empirical research has examined the effect of stakeholder relationship management on value creation for multiple stakeholders.

Firm value creation. Empirical research about the effect of stakeholder relationship management (or CSR) on firm performance is large, but not conclusive. Stakeholder relationship management and other forms of socially responsible behavior are usually subsumed and analyzed under the term “CSR” so that most empirical studies evaluate the effect of CSR on firm value creation. In most of these studies the outcome of highest interest is the firm’s financial performance (Aguinis et al., 2012; Peloza, 2009). According to a meta-analysis by Peloza (2009), 59% of the studies find a positive relationship between CSR and financial performance, 14% find a negative relationship, and 27% find mixed results. Another meta-analysis (Orlitzky et al., 2003) finds a clearly positive relationship between CSR and financial performance. A third meta-analysis (Frooman, 1999) shows that socially responsible behavior increases shareholder wealth, while irresponsible behavior results in wealth destruction. Inconsistencies among the studies may be due to more than 36 different understandings of CSR and 39 different measures to assess the phenomenon (Aguinis et al., 2012). In addition to financial performance, other performance dimensions are of interest. Among the most important non-financial performance outcomes are reputation (Brammer & Pavelin, 2006; Turban & Greening, 1997; Waddock & Graves, 1997), attractiveness to investors (Graves &

Waddock, 1994), product quality (Agle et al., 1999), management quality and firm capabilities (Waddock & Graves, 1997), operational efficiencies (Sharma & Vredenburg, 1998), or increased demographic diversity (Johnson & Greening, 1999). All of these dimensions are found to be positively related to stakeholder relationship management (or CSR).

Not all studies, however, find clear, positive relationships between stakeholder relationship management (or CSR) and firm performance. Sharma & Vredenburg (1998) found a positive effect only when specific capabilities and resources were generated and well implemented. Bird et al. (2007) finds a positive relationship only for initiatives that created value for stakeholders while not compromising value creation for shareholders. Environmental protection beyond minimum standards, for example, is costly and, therefore, not valued by profit-oriented shareholders. Brammer & Millington (2008) find that firms with very high levels of CSR, but also those with very low levels of CSR had higher financial performance than firms with medium levels of CSR. The low CSR performers were better in the short term, while the high CSR performers had better long-term financial performance. Not all stakeholder relationship management initiatives seem to result in similar kinds of (direct) firm value creation. Firms must take a multi-stakeholder perspective in order to understand conflicts of interest among stakeholders. They must also consider and prioritize stakeholder demands in accordance with their own time preferences (short vs. long term performance). A comprehensive and dynamic stakeholder relationship management approach is necessary to provide firms with the ability to consider multiple stakeholders simultaneously and integrate their demands with the strategic goals of the firm.

Stakeholder Value Creation. According to the fundamental idea of stakeholder theory (Freeman, 1984, 2010), firm performance must be defined as “the total value created by the firm through its activities, which is the sum of the utility created for each of a firm’s legitimate stakeholders” (Harrison & Wicks, 2013: 102). Stakeholder theory highly emphasizes that a

good stakeholder relationship management approach results in stakeholder value and, in turn, in firm value.

Stakeholder value creation is, however, less straightforward than firm value creation. It is more difficult to evaluate what is valuable to a huge variety of individuals and groups than to a firm. The literature usually investigates stakeholder value for a specific stakeholder group, such as employees or customers, rather than for stakeholders in general. The basic assumption in stakeholder theory, however, is a “joint-ness” of stakeholder interests and the idea of benefiting *all* stakeholders over time through their cooperation (e.g. Freeman, 2010; Freeman et al., 2007). Further, the literature often limits the understanding of value to the monetary dimension. Customer value, for example, be understood only as “what buyers are willing to pay” (Porter, 1985: 3). Yet most stakeholder interest go beyond economic values (Bosse et al., 2009; Haksever et al., 2004) so that focusing solely on economic value at the expense of other value dimensions impedes addressing the whole picture of what is valuable to stakeholders. Haksever et al. (2004) propose that stakeholder value has at least a financial, a non-financial and a time-related dimension. The financial dimension contains short-term monetary benefits and costs. The non-financial dimension may contain but is not limited to aspects such as safety, education, comfort, individual fulfillment, and acknowledgment. The time dimension includes the urgency of demands, such as short-term claims and long-term interests. Harrison et al. (2010) suggest an understanding of stakeholder value as the stakeholders’ perception of utility provided within the stakeholder network. Stakeholder value is then evaluated as the perceived utility of four factors provided by the firm or within the network: (1) goods and services, (2) organizational justice, (3) affiliation, and (4) opportunity costs otherwise.

For my study I follow Baier (1970: 40) and understand stakeholder value as “the capacity of a good, service, or activity to satisfy a need or provide a benefit to a person or legal entity.” Stakeholder value may include multiple dimensions and may be positive if value is created for stakeholders and negative if value is destroyed for stakeholders. Both value creation

and destruction may happen simultaneously due to conflicting stakeholder demands. Haksever et al. (2004) propose a model of value creation and destruction along the dimensions mentioned with a comprehensive set of aspects that are value creating and value destroying for each stakeholder group. The model, however, lacks arguments and causal relationships (Sutton & Staw, 1995) regarding the actual factors that support stakeholder value creation, such as certain firm capabilities and resources that enable a firm to convert its daily business activities in stakeholder value. Other authors suggest some aspects that are likely to support stakeholder value creation. Freeman (2007), for example, suggests cooperation and interaction of stakeholders within a stakeholder network so that “Value can be created, traded, and sustained because stakeholders can jointly satisfy their needs and desires by making voluntary agreements with each other that for the most part are kept” (Freeman, 2007: 311). Bridoux et al. (2016) build on relational models (e.g., Fiske, 1993) and suggest joint value creation which is a “value creation processes involving multiple parties, within and/or across the firm’s boundaries, who face high task and outcome interdependencies in providing mutually supportive contributions to value creation” (231).

Joint value creation is cooperation characterized by high interdependencies of task and outcome. Economic benefits, contracts, prices and individual (monetary) pay-offs are not sufficient basis for that kind of cooperation (Bowles, 2008; Fuster & Meier, 2010). Rather, the creation of joint value is motivated by the achievement of common goods. Community-like relationships are more likely to result in cooperation than relationships based on transactions (Bosse et al., 2009; Harrison et al., 2010; Jones, 1995). Firms are better able to create joint (stakeholder) value when they (1) know and understand the multiple parties of their stakeholder network, (2) provide platforms and mechanisms for interaction and cooperation with and among stakeholders, and (3) know and address interests beyond economic benefits (Freeman, 2010; Freeman et al., 2010; Jones & Wicks, 1999; Philipps, 2003; Post, Preston & Sachs, 2002). These aspects are all dynamic and change over time (Freeman, 2010). They are, furthermore, likely to

differ across countries. A firm with international stakeholder relationships may have difficulty in simply transferring its assumptions about stakeholders and activities for them from one country to another. Their host country stakeholders may differ largely in stakeholder power and interests such that standardized stakeholder relationship management approaches fail. Firms with international stakeholder relationships must be able to adapt their stakeholder relationship management approach from one country to another. At the same time they must recognize changes in stakeholder characteristics and demands that their stakeholders develop over time. Previous stakeholder relationship strategies have failed to unite these dimensions, which limits their usefulness in terms of stakeholder value creation. My new dynamic stakeholder management capability combines local adaptation to country-related differences and time-related adaptation due to changes in stakeholder demands. My approach enables firms to create value for stakeholders in their whole stakeholder network including the different countries in which they have stakeholder relationships. Since it enhances a firm to achieve both their multiple stakeholders. sustainably

Mediation Effect. Leading stakeholder theory scholars suggest that firms that create value for stakeholders, in turn, create value for the firm (Freeman, 1984, 2010; Freeman et al., 2009; Harrison & Bosse, 2013). “A situation where a Firm A satisfies the needs of consumer advocates, government agencies, etc. better than Firm B must be seen as a competitive loss by Firm B” (Freeman, 2010: 75). Harrison & Bosse (2013) admit that not every engagement in stakeholder relationship management benefits the firm, and empirical research supports that conclusion (Agle et al., 1999). The value created for the firm depends not only on the *existence* of stakeholder relationship management to address stakeholder needs but much more on the *quality* of stakeholder relationship management to satisfy them. Satisfying stakeholder needs is value creating for stakeholders. These stakeholders then support the firm in a way that creates (monetary or non-monetary) firm value. In other words, firm value is created *through* stakeholder value, rather than (potentially) independently from it.

While this mediating affect among stakeholder relationship management, stakeholder value creation, and firm value creation is a fundamental assumption in stakeholder theory, it is rarely – if at all – empirically tested (Harrison et al., 2010). Previous studies have investigated the relationship among two of the three constructs rather than their interaction effects. The findings, however, indicate the possibility of a mediating effect. Several studies, for example, support the effect of stakeholder relationship management (or CSR) on firm performance (Berman et al., 1999; Hillman & Keim, 2001; Orlitzky et al., 2003). Other studies support the effect of stakeholder relationship management (or CSR) on stakeholder value indicators of specific stakeholder groups. For employees, for example, stakeholder relationship management improved the relationships with employees (Agle et al., 1999), employee creativity and engagement (Glavas & Piderit, 2009), employee commitment (Maignan, Ferrell, & Hult, 1999), and identification with the organization (Carmeli, Gilat, & Waldman, 2007). Implemented stakeholder relationship management must have created some value for employees so that they feel more committed to the firm, identify with its values and objectives, and become more engaged in achieving them. These aspects are likely to positively affect firm performance, which supports the stakeholder value - firm value relationship. Related studies find that good and stable employee relationships increase employee productivity (Delmas & Pekovic, 2017) and, in turn, financial performance (Berman et al., 1999). In contrast, paying minimum wage to hard working employees and providing poor working conditions (which is value destroying) (Haksever et al., 2004) reduces their productivity (Bird et al., 2007) and, in turn, firm performance. Aspects valued by customers, such as product safety and product quality (Haksever et al., 2004) also affect financial performance (Berman et al., 1999); customer satisfaction and customer loyalty (Brown & Dacin, 1997; Maignan et al., 1999).

Putting these findings together suggests that the relationship between stakeholder relationship management and firm value is mediated by stakeholder value. Only 7% of the empirical studies, however, explore mediation effects (Aguinis & Glavas, 2012). Findings

suggest that aspects such as firm reputation and goodwill with external stakeholders (Orlitzky et al., 2003), customer satisfaction (Lev, Petrovits, & Radhakrishnan, 2009) or consumer trust (Vlachos, Tsamakos, Vrechopoulos, & Avramidis, 2009) mediate firm performance. These are reflections of value creation for specific stakeholder groups. It is therefore likely that these relationships also exist for other stakeholder groups or for stakeholders in general. Mediating effects lend strong support for causality (Hayes, 2013; Preacher & Hayes, 2004). Empirically verifying this mediation would, therefore, support the most fundamental premise of stakeholder theory that so far has not sufficiently been achieved. Furthermore, legitimizing stakeholder value creation as a key factor for firm value creation could shift the focus of the currently rather (short-term) profit orientation (Teece, 2014b; Teece, 2018) to a more long-term and multi-success factor orientation in strategic management research.

2.2. Dynamic Capabilities

Firm-stakeholder relationships are dynamic, ambiguous, and complex. The stakeholder audience of a firm and their interests and needs change over time. Also, the stakeholder audience and their interests and needs differ across the countries of corporate activity. Firms, therefore, need systematic mechanisms to recognize and adapt to these time-related and country-related changes. Furthermore, to create value for stakeholders and the firm, firms must be able to link their own targets to the interests of stakeholders. Current stakeholder relationship management approaches lack both, a systematic incorporation of changes in the stakeholder environment and a systematic link of stakeholder interests and business opportunities. These aspects are the core of dynamic capabilities and I will, therefore, equip stakeholder relationship management with the strategic concept of dynamic capabilities. To summarize the dynamic capabilities literature, I will use a similar structure as for the literature review on stakeholder relationship management. After defining the construct and the problems addressed by the research field, I will introduce the dynamic capabilities model as defined by Teece et al. (1997)

before I summarize the critiques of and debates around the dynamic capabilities construct. I will then outline previous research about the antecedents and outcomes dynamic capabilities.

2.2.1. Definition and Problems Addressed

In this part of the literature review, I provide an overview of the dynamic capabilities literature and reflect on the various roles dynamic capabilities may play and the research problems they may address.

Dynamic Capabilities as Extension of the Resource-based View. Research on strategic management investigates how firms generate and sustain competitive advantage. In his seminal paper on the resource-based view (RBV), Barney (1991) introduced the VRIN criteria for competitive advantage. Following his approach, competitive advantage is the result of a firm's valuable, rare, difficult to imitate, and non-substitutable (VRIN) resources. These criteria are, however, difficult to sustain over time, especially in dynamic environments. The dynamic capabilities approach extends the RBV by adding the time dimension: Dynamic capabilities are the capacity to continually adapt and extend a firm's resource base in order to stay competitive in changing external environments (Eisenhardt & Martin, 2000; Teece et al., 1997).

Following Teece et al. (1997), dynamic capabilities have received growing interest and resulted in an impressive body of research with the remarkable number of more than 1,800 1997 and 2016 (Barreto, 2010; Schilke et al., 2018). The still growing interest is likely driven by the fascination of the defined target of achieving sustainable competitive advantage, which is often termed as the "holy grail" in strategic management research (Collis, 1994). The dynamic capabilities approach is valuable especially in environments that change continually. "[T]he term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment" and "the term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and

external organizational skills, resources, and functional competences” for the purpose of generating competitive advantage (Teece et al., 1997: 515). Teece, however, later refined the notion of volatile environments to include the numerous external changes multinational enterprises face simultaneously such as technological, institutional, and regulatory changes as well as change occurring in different markets along a supply chain (Augier & Teece, 2007; Teece, 2014a).

Dynamic Capabilities as Repetitive Behavior. Dynamic capabilities are usually defined as learned and patterned behavior that is coordinated and repetitive (Di Stefano, Peteraf, & Verona, 2014; Helfat & Peteraf, 2009; Teece, 2007). They address external changes in a proactive rather than a reactive manner (Winter, 2003b). In extremely volatile environments in which external changes occur unpredictably and in novel ways, however, it may be difficult to perceive and react to these changes in a proactive way. Rather than in a routinized, repetitive, and patterned way, organizations may then react with “ad hoc problem solving.” According to Winter (2003) this behavior cannot be classified as a dynamic capability, as it is not based on long-term investment in specific structures and specialized resources. Ad hoc problem solving instead serves as a reaction to a sudden situation with an unforeseeable outcome and is based on a lack of resources necessary to develop dynamic capabilities (Winter, 2003). Winter acknowledges, however, that ad hoc problem solving may be a substitute and economically superior alternative to dynamic capabilities. Schreyögg et al. (2007), by contrast, classify problem solving as a capability as long as it is based on a reliable pattern, i.e. a reproducible set of approved activities that solve problems in various situations.

Dynamic Capabilities as an Answer to Volatile Environments. Eisenhardt & Martin (2000) proposed that the value of dynamic capabilities depends on the degree of external volatility, such as highly dynamic and moderately dynamic environments in which changes occur frequently but predictably. Some researchers agree - at least to some extent - that the value of dynamic capabilities may be higher in environments of external changes (Teece et al.,

1997; Zollo & Winter, 2002). Wilden & Gudergan (2015) even find disruptive effects of dynamic capabilities in stable environments. Others, however, counter that the value of a capability cannot depend on characteristics of the external environment (Arend & Bromiley, 2009; Zahra, Sapienza, & Davidsson, 2006) and that dynamic capabilities may be valuable also in environments of lower volatility (Helfat & Winter, 2011; Winter, 2003b).

Ambrosini et al. (2009) distinguish three levels of external volatility and suggest different kinds of dynamic capabilities for each of them. They call them incremental, renewing, and regenerative dynamic capabilities. In relatively stable environments, they suggest *incremental* dynamic capabilities, which continually adapt simple and iterative resources and competencies. An example may be a firm's quality management, which updates and improves a firm's resource base in order to stay competitive (Castiaux, 2012). In moderately volatile environments, they suggest *renewing* dynamic capabilities, which follow the mainstream idea of dynamic capabilities: the continual adaptation of resources and assets in order to address changing environments. These capabilities also contain recombinations and the creation of new resources and competences. In highly dynamic environments, Ambrosini et al. (2009) suggest *regenerative* dynamic capabilities that reconfigure the incremental and renewing dynamic capabilities. These capabilities do not have a direct effect on the resource base but rather question and adapt the change processes in place to reconfigure basic resources. Following this line of argumentation recent articles criticize the inclusion of environmental dynamism as a defined precondition for dynamic capabilities (Zahra et al., 2006) and tend to view environmental dynamism as a contingency factor that may moderate the dynamic capabilities – performance relationship (Schilke, 2014a; Schilke et al., 2018).

Dynamic Capabilities as Higher-Order Capabilities. Dynamic capabilities are often classified as “higher order capabilities” (Teece, 2018; Winter, 2003b). Collis (1994) even defines dynamic capabilities as higher order or meta-capabilities that govern the change of ordinary capabilities. Previous research suggests there are three possible reasons why a

capability may not generate sustainable competitive advantage even if the VRIN criteria (Barney 1991) are fulfilled: “erosion to the capability as the firm adapts to external or competitive changes; replacement by a different capability; and being surpassed by a better capability” (Collis, 1994: 147). Dynamic capabilities are exactly that. Higher-order capabilities can be termed as systematic learning mechanisms that shape the underlying operational capabilities (Zollo & Winter, 2002), also called ordinary or zero-level capabilities, which are those exercised in the same way over time for daily stationary processes to “make a living” (Winter, 2003: 991) and solve problems of daily business (Zahra et al., 2006). Higher-order capabilities integrate, reconfigure or release ordinary capabilities (Collis, 1994; Evers, Andersson, & Hannibal, 2012; Strauss, Lepoutre, & Wood, 2017; Winter, 2003b) or whole business models (Teece, 2018). Higher-order capabilities, furthermore, improve ordinary capabilities through relearning, restructuring, and leveraging them (Evers et al., 2012). They enhance a firm’s flexibility and efficiency so that the firm can process radical changes faster than its competitors (Collis, 1994). A higher-order capability of the first order can be adapted by a higher-order capability of the second order, which can again be adapted by one of the third order, and so on (Heimeriks, Schijven, & Gates, 2012; Robertson, Casali, & Jacobson, 2012). The higher the level of the capability, the higher the level of abstraction at which managers make decisions. A firm with multinational business activities may apply a first-order capability to identify and realize valuable resources and generate competitive advantage at the local or national level. A second-order capability would enhance the transnational management of the firm (Ghoshal & Bartlett, 1990) to identify and realize valuable resources in several countries. The second-order capability would then adapt the first-order capability in a way that supports the transnational strategy. Firms with only first-order (or basic) dynamic capabilities may be outperformed by firms with higher-order dynamic capabilities that increase a firm’s flexibility to adapt to different types of external changes (Winter, 2003).

Global Dynamic Capabilities. Dynamic capabilities may significantly extend a firm's resource base for the management of international business activities (Schilke et al., 2018; Teece, 2014a). When firms perform business activities in more than one country, they need to decide what resources and capabilities can be transferred and what resources and capabilities need to be adapted to local contexts. Firms that build and leverage their resources, knowledge, capabilities, and relationships on a global scale must be able to transfer them, if possible, across countries and adapt them, as necessary, to local demands (Teece, 2014a).

The international business literature analyzes adaptation to country-specific contexts via two dimensions: First, institutional variations, such as culture (Hofstede, 2011) and regulatory or normative frameworks (DiMaggio & Powell, 1983; Matten & Moon, 2008; North, 1992) that affect coordination efforts and transaction costs for firms (Rodrik, Subramanian, & Trebbi, 2004). Second, the local availability of resources such as land, natural resources, employees, production plants, and other facilities that may generate competitive advantage (Anand & Delios, 2002; Cantwell & Mudambi, 2005). Firms that understand and make use of country-specific differences are likely to be more successful than firms that do not. However, a firm's strategies may range from standardized approaches that transfer processes and resources across borders to adaptation approaches that locally adapt processes and resources to country-specific demands (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). While standardization is usually connected with efficiency improvements, cost advantages (Dunning & Lundan, 2008; Rugman & Verbeke, 1992), and effective transfer of competencies, local adaptation may generate specific business opportunities and is often necessary to get access to local resources or to gain legitimacy for certain activities (Ghoshal & Bartlett, 1990).

Firms have to balance local responsiveness and global standardization in order to take advantage of local business opportunities and still be internally embedded within their own business network, structures, and resource base (Meyer, Mudambi, & Narula, 2010). Capabilities and resources may not be simply transferable across countries due to different

regulatory or market conditions or due to cultural barriers. A best practice developed within one country may not be similarly successful in another country but needs to be modified and adapted in order to address specific conditions of that market. Similarly, relationships with external partners, learning capabilities, or the development of VRIN resources vary across subsidiaries or countries of activity (Teece, 2014). The transfer and adaptation of these capabilities, resources and relationships can be managed with a dynamic capability. Such a dynamic capability could for example consist of a team of people whose responsibility it is to find out which resources and routines are likely successful in many countries and transferrable and which resources and routines must be locally adapted and how. For that the team must deeply understand cross-country specifics, must continually study external changes, and must be fast in providing alternative resources and solutions. Such a dynamic capability would then recognize the necessity to adapt to external environments and would reconfigure, create or release resources to achieve the best fit with external demands. “Dynamic capabilities are generally required for the transfer and adaptation of ordinary capabilities on a global scale. However, when global markets are relatively homogeneous, such scaling may not require significant adaptation. The mere transfer of technologies (without adaptation) to different geographies represents the extension of ordinary capabilities – one step short of dynamic capabilities.” (Teece 2014: 32). A greater diversity of markets and external volatility, however, requires a great rate of change and makes dynamic capabilities more valuable (Augier & Teece, 2007). A global dynamic capability, then, means the formation of local (ordinary) capabilities to signature practices (Teece, 2014) that are applied in different markets and transformed in a way to achieve the best fit with the specific external environment. Global dynamic capabilities address the need for innovation and adaptation but also the proactive shaping of markets to create new business opportunities in home and host markets. Maintaining these capabilities needs continuous entrepreneurial activity on a global basis (Augier & Teece, 2007). Those activities require a certain understanding of similarities and differences of markets and

opportunities. They contain activities such as evaluating the transferability and adaptability of business practices among markets (Augier & Teece, 2007), creating new business practices for cases of non-transferability, getting “approvals” in local markets, and deploying capabilities on a local and global basis in a way that is sensitive to specific market conditions.

2.2.2. The Dynamic Capability Model

In this section I introduce the dynamic capability model as defined by Teece et al. (1997) and further developed by Teece (2007b). The nature of a dynamic capability refers to the three organizational processes – or sub-capabilities – it can be disaggregated to. These are “the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets” (Teece, 2007: 1319).

The “sensing (and shaping) capability” describes a “scanning, creation, learning, and interpretive activity” (Teece, 2007: 1322). This capability enables firms to recognize and understand opportunities and threats in their business environment. For that, organizations need processes in place that embed scanning and monitoring of the environment, filtering information, and interpreting and making sense of it. Business environments, such as markets, regulatory systems, and stakeholder expectations change continuously. The sensing capability enables firms to discover these changes, understand their causes, and interpret their meaning. For the sensing capacity firms’ managers and employees need cognitive and creative abilities (Teece, 2007) that enable them to recognize and understand differences among and changes within business environments. They further must be able to learn and to accumulate knowledge in order to develop novel solutions to external changes and shape business opportunities.

The “seizing capability” refers to the capacity to address opportunities and threats that are discovered during the sensing phase (Teece, 2007). For that, firms develop strategies and business models that enhance realization of the anticipated opportunities. They invest more in

technologies, business relationships, and other resources and commercialize routines that enable them to realize their strategic choices. Firm boundaries may be shifted during that phase in order to extend the internal resource base by adding critical resources from network partners, alliances, cooperations, and other relationships. For the seizing capability, flexibility and reflection on current assumptions are crucial to create innovative ideas while path-dependence may limit the ability to “think different” (Teece, 2007). Firms better seize opportunities and prevent threats when they are able to question and reflect on assumptions about internal resources and their fit to current external demands. Any changes in external demands may cause new business opportunities or threats. Internal resources such as technologies, business models, knowledge, and processes must therefore provide a suitable fit with these demands. Managers (and employees) with a sufficient degree of creativity, insight, tacit knowledge, and good instinct are better able to reflect on these aspects and create that fit. They must make guesses based on limited information and include multiple dimensions of the external environment. Based on their previous experience, they must evaluate alternative solutions from a neutral standpoint and avoid becoming path dependent.

The “reconfiguration capability” contains the “successful identification and calibration of technological and market opportunities, the judicious selection of technologies and product attributes, the design of business models, and the commitment of (financial) resources to investment opportunities” (Teece, 2007: 1335). Firms perform this capability based on previous reflection on internal and external aspects. They develop, redeploy, recombine, or reconfigure resources and organizational structures. This may also include mergers, investments, or divestments. Firms, furthermore, need to balance decentralization and integration of resources. Decentralization enables local autonomy and supports a good fit between local business opportunities and locally available resources. Integration, on the other hand, allows efficient coordination, combination, and transfer of resources and competences within firm boundaries. Through the reconfiguration capability, a firm learns to integrate, adjust, exchange, and share

knowledge among organizational members as it adapts its resource base for a better fit with changes in the external environment.

Teece et al. (1997) argue that firms with well-developed dynamic capabilities sense and seize business opportunities and reconfigure their resource base in a way that enhances the creation of sustainable competitive advantage. Eisenhardt and Martin (2000) understand dynamic capabilities in a different way and doubt the ability to generate sustainable competitive advantage. They classify dynamic capabilities as best practices that firms and whole industries may have in common. This characterization violates the inimitability criterion of the VRIN framework (Barney, 1991) as a necessary source of sustainable competitive advantage. Following this line of reasoning, dynamic capabilities can only be a source of (temporary) competitive advantage but never of sustainable competitive advantage. Eisenhardt and Martin further argue that in high velocity markets, speed and flexibility are key attributes to cope with external challenges. Under such conditions, firms are hardly able to develop “complicated, detailed, analytical processes” (2000: 1106) that would provide a source of sustainable competitive advantage. They understand dynamic capabilities instead as “simple, experimental, unstable processes” (1106) that may lead to competitive advantage but are difficult to sustain over time. Reducing the payoff of dynamic capabilities to the commonly accepted level of competitive advantage, there is still disagreement with regard to the significance of that advantage. Teece asserts dynamic capabilities as a solid source of competitive advantage while Eisenhardt and Martin argue that only a marginal or insignificant advantage can be achieved due to the fact that best practices are likely to be imitable or substitutable across firms.

The seminal works by Eisenhardt and Martin (2000) and by Teece et al. (1997), have constructed two research streams that are difficult to unify in order to move research on dynamic capabilities forward. Peteraf et al. (2013) integrate the contradictory views by analyzing the Teece approach through the lens of Eisenhardt and Martin’s understanding of best practices and idiosyncratic details. Applying a contingency-based approach, they conclude “it is logically

possible for dynamic capabilities in the form of best practices to give rise to a competitive advantage or even a sustainable advantage under contingent, exceptional circumstances” (1403). Such circumstances may be “differences in experience, competitive context, added value, and timing” (1406). In high-velocity markets such contingencies may be addressed by developing higher-order capabilities that “continuously manage to create lower-order simple rules and processes on an as-needed basis” (1406) and in accordance with the specific conditions a firm faces.

Beyond these two research streams and their partially conflicting views, several researchers offer further critical analysis of the dynamic capabilities concept. These aspects are summarized in the following section.

2.2.3. Critique and Debates

Since the dynamic capabilities approach is a comparably young research stream and still developing, it contains contradicting views and unsolved questions. Previous work offers significant variation on “the nature, specific role, relevant context, creation and evolution mechanisms, types of outcomes, heterogeneity assumptions, and purposes of dynamic capabilities” (Barreto, 2010: 259). Recent research efforts contributed to some of these issues and converged contradicting views or solved questions, while other debates still remain (Schilke et al., 2018).

Arend and Bromiley (2009) identify a lack of coherent theoretical foundation, an unclear added value relative to other concepts, and weak empirical support among the major problems in dynamic capabilities.

First and foremost, dynamic capabilities lack a coherent theoretical foundation. A theory that explains the success of organizational change needs to start with organizational theory (Bromiley, 2005). This is missing in dynamic capabilities because the approach directly jumps into the change-success relationship (Arend & Bromiley, 2009) without clearly defining the

domain of relevance. Disagreement exists, furthermore, about definitional components and understandings of the role of dynamic capabilities. Some researchers see dynamic capabilities as abilities or capacities (e.g., Teece et al., 1997) while others see them as specific processes (Eisenhardt & Martin, 2000), as combinations of resources (Schreyögg et al., 2007) or as learned and stable patterns of activity (Zollo & Winter, 2002) that must be repeatable (Helfat, Finkelstein, Mitchell, Peteraf, Singh, & Winter, 2007; Winter, 2003b). The role of dynamic capabilities is often understood as the alteration of a firm's resource base (Helfat et al., 2007; Eisenhardt & Martin, 2000). Some, however, see dynamic capabilities as a two-level hierarchy in which zero-level (or ordinary) capabilities (e.g., Winter, 2003; Zahra et al., 2006) or whole business models (Teece, 2018) are adapted by higher-level capabilities. The value of dynamic capabilities, some scholars argue, is based on the degree of external volatility (Eisenhardt & Martin, 2000; Wilden & Gudergan, 2015), while other scholars argue that the value of an internal capability of a firm must be evaluated independent of external factors (Arend & Bromiley, 2009; Schilke et al., 2018). Furthermore, it is not exactly clear what dynamic capabilities add to previously existing concepts such as "absorptive capacity, architectural innovation, entrepreneurship, strategic fit, first-mover advantage, organizational learning and change management" (Arend & Bromiley, 2009: 76). Recent research efforts contribute to some of these dissents and weaknesses and provide more clarity on the definition of dynamic capabilities (Schilke et al., 2018). While there is still no single definition that researchers agree on, they increasingly apply the definition provided by Helfat et al. (2007) that is more integrative than the definitions by Teece et al. (1997) and Eisenhardt and Martin (2000) and that prevents the tautology trap by not equating dynamic capabilities with firm performance (Schilke et al., 2018). Still in debate is the required level of routinization for dynamic capabilities (Schilke 2018). While some researchers stress the relevance of highly-routinized organizational processes (Helfat & Winter, 2011; Teece et al., 1997; Teece, 2007; Winter,

2003b), others point to the more entrepreneurial and less routinized aspects of decision-making (Augier & Teece, 2009; Helfat & Peteraf, 2015; Teece, Peteraf, & Leih, 2016).

Second, disagreement exists regarding the creation and development of dynamic capabilities. While most researchers agree that dynamic capabilities develop through learning processes (e.g., Zollo & Winter, 2002) and experience of repeated practice (Eisenhardt & Martin, 2000), they differ in the assumptions of underlying mechanisms of organizational learning (Barreto, 2010). Some define repeated practices of variation, selection and past mistakes as the basis for learning (Eisenhardt & Martin, 2000), while others base learning on accumulated experience through cognitive processes, such as knowledge articulation and codification (Zollo & Winter, 2002). Since these learning mechanisms evolve over time, they postulate a certain path dependence of investments and commitments for the development of dynamic capabilities (Barreto, 2010). Salvato & Vassolo (2018) point to the relevance of relationships and productive dialogs among employees as a source for learning and dynamic capabilities development. Schilke et al. (2018) emphasize that learning has different roles in the dynamic capabilities perspectives that are not well distinguished so far. While researchers agree that dynamic capabilities develop *through* learning (e.g. Zollo & Winter, 2002), dynamic capabilities may also enable organizations to learn so that they are *for* learning (Schilke, 2014b), or learning maybe seen as an *outcome* of dynamic capabilities.

Third, discussions have evolved regarding the usefulness of dynamic capabilities in the tension between organizational flexibility and stability (Brown & Eisenhardt, 1997; Eisenhardt, Furr, & Bingham, 2010; Tushman & O'Reilly, 1996). Dynamic capabilities are supposed to achieve a high degree of flexibility and, thereby, increase the effectiveness of corporations for change processes (Zollo & Winter, 2002) and optimization of business models (Teece, 2018). Changes and adaptations are a crucial response to volatile environments in order to stay competitive (Eisenhardt & Martin, 2000; Teece et al., 1997). Some scholars argue, however, that flexibility may lead to destabilizing effects and destruction of firm competencies (Helfat &

Peteraf, 2009; Schreyögg & Kliesch-Eberl, 2007; Schreyögg & Sydow, 2010; Wilden & Gudergan, 2015). Frequent changes in the strategic orientation and a firm's resource base impede the firm in developing and deploying skills and resources necessary to address any strategic direction. High degrees of flexibility may, therefore, be costly and ineffective, if not disruptive (Helfat & Peteraf, 2009). They may cause confusion for stakeholders (Arend & Bromiley, 2009) such as employees, customers, or suppliers, and leave them with a limited understanding of firm targets. Scholars emphasize that organizational paths are likely to result in stable processes, recursive practices, and repetitive reliable capabilities (Schreyögg & Kliesch-Eberl, 2007) that, in turn, produce advantages such as core competences, economies of specialization, and corporate identity (Schreyögg & Sydow 2010). These aspects provide orientation for stakeholders and improve their commitment towards firm targets (Arend & Bromiley, 2009; Minoja, 2012). At the same time these paths also produce a tension between productive and destructive path dependence (Brown & Eisenhardt, 1997; Eisenhardt et al., 2010; Schreyögg & Kliesch-Eberl, 2007; Sydow & Schreyögg, 2010; Tushman & O'Reilly, 1996). On the one hand, firm capabilities are historically grown and contain significant long-term firm-specific competencies that are difficult to imitate. On the other hand, path dependence may lead to lock-in situations in which firms are not able to innovatively react to external changes, such as new market demands (Eisenhardt et al., 2010; Zollo & Winter, 2002). This inability then threatens the competitive position or even the survival of the firm. Flexibility and stability are contradictory and, at the same time, useful choices a firm makes to address ambiguous external demands (Tushman & O'Reilly, 1996). While the appropriate degree of flexibility for a firm depends on the degree of external volatility (Augier & Teece, 2007), demands for efficiency and flexibility may occur simultaneously and need to be balanced in a way that enables efficient, structured actions and fast adjustments at the same time (Martin & Eisenhardt, 2010).

Fourth, the purpose of dynamic capabilities is not clearly defined. Theory suggests that a firm with well-developed dynamic capabilities is able to “purposefully” modify the resource base so that it serves a specific intent (Adner & Helfat, 2003; Helfat & Peteraf, 2009). Some researchers, however, argue that emergent strategies, which are typically not intended *ex ante*, cannot be purposeful (Arend & Bromiley, 2009). Disagreement also exists about the purposes to which dynamic capabilities are applied. Some see the purpose of dynamic capabilities in addressing external environments of rapid change (Schilke et al., 2018; Teece et al., 1997; Wilden & Gudergan, 2015) or different external environments in international contexts (Teece, 2014), while others extend that purpose to creating market changes (Teece, 2007) or improving organizational effectiveness (Winter, 2003). Some researchers open the purpose definition to specific objectives of decision makers (Zahra et al., 2006), such as dynamic capabilities to achieve ethical performance (Arend, 2012) or to adapt a firm’s business model (Teece, 2018).

Fifth, the evaluation schemes and outcomes of dynamic capabilities are highly debated. Evaluating dynamic capabilities in terms of aggregated firm outcomes such as financial performance is often criticized as tautological (Ambrosini et al., 2009; Arend & Bromiley, 2009; Barreto, 2010; Williamson, 1999; Winter, 2003b; Zahra et al., 2006) because it explains the outcome with a cause and the cause with its outcome (Cepeda & Vera, 2007). Proving the existence of dynamic capabilities with a firm’s success and denying their existence for poor performers (Arend & Bromiley, 2009) is, however, not sufficient. Firms that develop and apply dynamic capabilities similarly may still vary in their success with change. “To say that a firm has a dynamic capability says little about how well that capability performs its intended function” (Stadler, Helfat, & Verona, 2013: 1784). Firms may also apply dynamic capabilities in situations where they have neutral or negative impacts (Bromiley, 2005). Rindova and Kotha (2001), for example, identify dynamic capabilities in firms that still perform poorly. Recent empirical investigations provide evidence that dynamic capabilities and firm performance are related but distinct constructs and, therefore, deny the tautology argument (Fainshmidt,

Pezeshkan, Lance Frazier, Nair, & Markowski, 2016). Furthermore, the assumption that a dynamic capability can only be identified with an observable change (Arend & Bromiley, 2009) is misleading and incorrect (Helfat & Peteraf, 2009) because change may not be the result of a dynamic capability but of “ad hoc problem solving” (Winter, 2003). Based on its dynamic capabilities, a firm may consciously decide not to change its resource base for the current situation (Arend & Bromiley, 2009). Disagreement exists further regarding the outcomes of dynamic capabilities (Easterby-Smith, Lyles, & Peteraf, 2009). According to Teece et al. (1997) dynamic capabilities are the ultimate source for the achievement of sustainable competitive advantage in rapidly changing environments. Eisenhardt and Martin (2000), however, doubt that sustainable competitive advantage is achievable with a concept that is “unstable in itself.” Most researchers agree on a direct link between dynamic capabilities and (temporary) competitive advantage or financial performance (Eisenhardt & Martin, 2000; Griffith & Harvey, 2001; Teece, 2007; Wang & Ahmed, 2007). Eisenhardt and Martin (2000), however, also suggest an indirect effect of dynamic capabilities on performance. Such an indirect effect may happen via a further variable that mediates the relationship between dynamic capabilities and firm performance. Eisenhardt and Martin argue that the primary goal of dynamic capabilities is to modify the resource base so that the firm can better address external changes. The modification of the resource base may then, in turn, positively affect performance. Similarly, Zahra et al. (2006) assume an indirect relationship because a dynamic capability modifies ordinary capabilities and resources but may not be able to improve their quality.

Sixth, although there is a clear progress in the number of empirical investigations during the last years (Schilke et al., 2018) empirical findings are far from being conclusive. One meta-analysis clearly supports the positive relationship between dynamic capabilities and firm performance (Fainshmidt et al., 2016) while another meta-analysis finds that the level of support varies with the type of dynamic capabilities investigated, the performance estimate employed, or other aspects of the research design (Pezeshkan, Fainshmidt, Nair, Lance Frazier,

& Markowski, 2016). Similarly, one meta-analysis supports the moderating effect of environmental dynamism on the relationship between dynamic capabilities and performance (Karna, Richter, & Riesenkauff, 2016) while another meta-analysis finds environmental dynamism as not being a significant moderator (Fainshmidt et al., 2016). The vast majority of recent empirical investigations is based on survey and qualitative methods (Schilke et al., 2018). A better approach to investigate and evaluate dynamic capabilities may, as formerly recommended, be studies based on longitudinal or time series data (Ambrosini et al., 2009; Fainshmidt et al., 2016).

2.2.4. Antecedents of Dynamic Capabilities

Recent studies call for more research on antecedents and/or microfoundations of dynamic capabilities (Fainshmidt et al., 2016; Schilke et al., 2018). There is, however, considerable disagreement about the precise nature of antecedents and microfoundations and their exact distinction (Eriksson, 2014; Kleinbaum & Stuart, 2014; Winter, 2013). Some scholars understand microfoundations as individual-level or group-level actions (Eisenhardt et al., 2010), while others as distinct structures, routines, skills, or rules (Teece, 2007; Eisenhardt & Martin, 2000). Many researchers misunderstand Teece (2007) and consider “sensing”, “seizing”, and “reconfiguring” as the microfoundations of dynamic capabilities (Helfat & Peteraf, 2015). Teece (2007), however, defines microfoundations as “the distinct skills, processes, procedures, organizational structures, decision rules, and disciplines which *undergird* enterprise-level sensing, seizing, and reconfiguring capacities” [italics added] (Teece 2007: 1319). Some scholars interpret that the microfoundations of dynamic capabilities vary depending on the level of environmental dynamism (Strauss et al., 2017), while others classify environmental dynamism itself as a microfoundation, and a third group as antecedents of dynamic capabilities (Eisenhardt et al., 2010; Wang & Ahmed, 2007). Finally there are scholars that even mix microfoundations and antecedents or use them as synonyms (e.g., Eriksson, 2014;

Kleinbaum & Stuart, 2014). In order to prevent confusion, I will classify the following factors as *antecedents* of dynamic capabilities, analogous to my stakeholder theory literature review.

Antecedents of dynamic capabilities suggested in earlier works may be classified as external factors, internal factors, and individual factors. External factors such as environmental dynamism, ambiguity, uncertainty, and complexity (Dosi, Hobday, Marengo, & Prencipe, 2003; Eriksson, 2014; Schreyögg & Kliesch-Eberl, 2007) are likely to affect a firm's engagement in dynamic capabilities development. Recent studies emphasize the role of stakeholders as indicators for these external factors (e.g., Lenssen et al., 2010; Postema, Groen, & Krabbendam, 2012; Rowley, 1997). Internal factors, such as an organization's purpose, provide orientation, identification, and commitment towards capability-building activities (Anderson & Weitz, 1992; Boiral, Talbot, & Paillé, 2015; O'Reilly & Tushman, 2008; Sharma & Vredenburg, 1998). Lastly, individual factors such as a manager's cognition (Dosi et al., 2003; Eisenhardt et al., 2010) determine the degree to which managers understand external environments, enhance organizational learning, and perceive business opportunities and threats (van Tulder, 2010). Among the cognitive abilities of managers relevant to develop dynamic capabilities applicable to several countries is psychic distance (Sousa & Bradley, 2005). I will now summarize the literature on stakeholder pressure, organizational purpose and psychic distance as antecedents of dynamic capabilities.

(1) External Factor: Stakeholder Pressure. Dynamic capabilities address challenges of the external business environment, such as uncertainty, ambiguity, complexity, or dynamism. Uncertainty is the inability to predict aspects of the business environment due to a lack of information or inability to evaluate this information (Milliken, 1987). Ambiguity (Eisenhardt & Martin, 2000) refers to a lack of clarity regarding the external environment and features of opportunities (Eisenhardt et al., 2010; March & Olsen, 1976). Complexity refers to a high diversity of factors in the external environment that make it difficult to determine and estimate key factors relevant to strategic change (Amit & Schoemaker, 1993; Tan & Litschert, 1994).

Finally, dynamism defines the frequency of external changes and the degree to which external conditions such as industry structures, market boundaries, and market players are unstable (Eisenhardt & Martin, 2000). These environmental conditions usually call for dynamic capability development. At the same time they provide the biggest challenge for capability building, i.e. achieving the level of understanding necessary to accurately evaluate business opportunities and threats (Aragon-Correa & Sharma, 2003; Schreyögg & Kliesch-Eberl, 2007). Managers must be able to receive, structure, and interpret diffuse or vague external information (Eisenhardt et al., 2010) and they must be able to prioritize it.

Stakeholder pressure (as defined in section 2.1.4.) serves as information source for aspects of the external business environment such as dynamism and complexity of stakeholder demands. It is therefore likely to affect investments in dynamic capabilities. Stakeholders hold information about their characteristics and claims which are often ambiguous (Brønn & Brønn, 2003) and difficult to identify (Hall & Vredenburg, 2005; Parent & Deephouse, 2007). Receiving this information reduces the ambiguity and uncertainty of the external environment for a firm. Stakeholder characteristics and claims but also their attitude and commitment towards firm activities change over time (Mitchell et al., 1997; Postema et al., 2012), reflecting external dynamics. Stakeholders also hold information about their relationships to other stakeholders which affects their power distributions. This information indicates complexity since firms can be affected not only through dyadic relationships but also through complex network relationships (Rowley, 1999).

Via stakeholder pressure, stakeholders provide at least some of this information to firms in order to influence their behavior. Firms that are able to receive and understand this information are clearer about environmental conditions and, therefore, better able to allocate resources and develop capabilities in order to address these conditions. Powerful and legitimate stakeholders are most salient (Mitchel et al., 1997), and their information is of highest relevance to corporate decision makers. Receiving and interpreting their information enhances

understanding business opportunities and threats (Pater & van Lierop, 2006) and channeling firm resources for capability development (Calton & Payne, 2003).

Internal stakeholders, such as employees, are often initiators of strategic change by demonstrating their commitment or their request for such a change (Daily & Huang, 2001; Freeman & Reed, 1983; Frooman, 1999; Hanna et al., 2000; Ingenbleek & Immink, 2010; van Buren & Greenwood, 2008; Zhu et al., 2008). Having direct access to corporate decision makers and critical resources for the value-creation process (Pfeffer & Salancik, 2003), internal stakeholders such as employees and managers (Augier & Teece, 2009; Helfat & Peteraf, 2015; Kor & Mesko, 2013) have the capacity to govern the way resources are applied to the achievement of specific targets. External stakeholders, such as customers, suppliers, state institutions, NGOs, media or local communities, have the capacity to affect firm performance and mobilize public opinion regarding strategic directions and practices of the firm (Freeman 2010; Frooman, 1999; Rowley, 1997). This encourages them to restrict access to critical resources and influence the public image of the organization, including relationships with other stakeholders (Hoffman, 2000; Roome & Wijen, 2006).

Organizations that perceive pressure from their internal and external environments tend to proactively engage in strategic change and initiatives that address the specific demands of their stakeholders (Sarkis et al., 2010). Previous research suggests that stakeholder pressure results in increased motivation of organizations to adapt their strategic directions toward the desired demands of stakeholders (Buyse & Verbeke, 2003; Sarkis et al., 2010). Stakeholders further play an immense role for capability development, especially in the field of sustainability, green supply chain management (Gungor & Gupta, 1999; Srivastava, 2007), and ethical capabilities (Arend, 2013). By identifying the most powerful stakeholders and their claims and adapting strategic directions, firms minimize the likelihood of negative effects (Pater & van Lierop, 2006). Firms that ignore or fail to respond to stakeholder pressure risk the loss of their support and access to strategic resources (Pfeffer & Salancik, 2003; Freeman, 2010) and may

even face damage to their reputation, public protests, or boycotts (Hoffman, 2000). While the dynamic capabilities literature recognizes the role of stakeholders for dynamic capability development addresses specific groups such as customers (Roberts & Grover, 2012), managers (Augier & Teece, 2009; Helfat & Peteraf, 2015; Kor & Mesko, 2013), employees (Hsu & Wang, 2012; Kale, 2010), suppliers (Fawcett, Fawcett, Watson, & Magnan, 2012), or governments (Arthurs & Busenitz, 2006; Day & Schoemaker, 2016), a multi-stakeholder perspective is still missing. A multi-stakeholder perspective would, however, make sense as dynamic capabilities address dynamic but also complex business environments.

(2) Internal Factor: Firm Motives. The dynamic capabilities literature applies the stakeholder theory notion of firm motives to strategic decision making but terms it “purpose” rather than “motives.” While I will respect the wording of dynamic capabilities researchers for this literature review, I will later subsume both terms as firm motives for my study in order to prevent confusion.

One of the most cited definitions of dynamic capabilities is “the capacity of an organization to purposefully create, extend, or modify its resource base” (Helfat et al., 2007: 4). While this definition explicitly links dynamic capabilities to an organization’s purpose, few scholars have investigated the actual role of purpose for dynamic capability development. Evaluating the development of a dynamic capability without considering its purpose does, however, restrict its relevance.

Organizational purpose is defined as the product of the motives held by members of an organization regarding their activities (Warriner, 1965). The dynamic capabilities literature identifies different purposes relevant to the creation and development of dynamic capabilities. In general, dynamic capability-related purposes include the creation, extension, and modification of resources (Helfat et al., 2007) in order to achieve specific goals. Among them are superior goals such as value creation and the generation of sustainable competitive advantage (Noori, Tidd, & Arasti, 2012; Teece et al., 1997) under the specific challenge of

rapidly changing environments. Subordinate goals may include the management of an internationalization process (Schilke et al., 2018; Teece, 2014a) changes in a product to address new customer wishes (Roberts & Grover, 2012), adaptation of production processes to increase cost efficiency (Fawcett et al., 2012), or extension of the scale or scope of resources (Helfat & Winter, 2011; Winter, 2003a). Dynamic capabilities may also address purposes such as changes of the resource and capability base that enhances ethical behavior (Arend, 2013) or sustainability of the firm (Castiaux, 2012).

Purposes may be explicitly formulated for organizational members or they may be informal rules and value systems that are implicit but shared among the members. The sum of those assumptions then reflects the logic and beliefs members apply in their daily decision making. Members of a firm are socialized through the underlying value system and, in turn, accept the present logic and activity patterns as given. These patterns and logics enhance orientation and stabilize processes, which, in turn, flow into corporate capability building. They may, however, limit critical reflection of underlying assumptions and organizational purposes (Schreyögg & Kliesch-Eberl, 2007). Calton and Payne (2003) emphasize the relevance of identifying and prioritizing purposes for organizational activities especially under conditions of paradoxical environments. Knowing the purpose of an activity engages people to apply their knowledge and capabilities to address that purpose. Organizational change processes, for example, are largely influenced by a vision that drives that change. A vision is a mental model that depicts a desirable future state of the organization (Dehler & Welsh, 1994). The purpose of any activity is the achievement of that future state. This practice enables target-oriented capability building. Scholars have found that the presence of a strategic intent and a common vision within an organization increases the likelihood of the development of an ambidexterity capability (O'Reilly & Tushman, 2008), which is highly relevant for dynamic capability development. Further, Zollo and Winter (2002) suggest that combining the “know why” with the “know how” enhances organizational learning. Clear assumptions regarding an

organizational purpose increase the commitment of stakeholders such as employees or suppliers (Anderson & Weitz, 1992) towards related activities and provide orientation, discipline, support, and trust for the development of capabilities (Gibson & Birkinshaw, 2004). Such conditions are likely to result in proactive engagement that enhances organizational learning (Sharma & Vredenburg, 1998). These factors enable information flows, cooperation among members, and effective application of resources for capability building.

(3) Individual Factor: Psychic Distance. Several researchers see the internationalization process of a firm through a dynamic capability lens (Augier & Teece, 2007; Frasquet, Dawson, & Mollá, 2013; Pitelis & Teece, 2010; Schilke et al., 2018; Teece, 2014a). This is motivated by the increased complexity and dynamism of international markets and by the entrepreneurial orientation necessary to drive international projects. International projects and business relationships require adaptation, flexibility, learning, innovation and entrepreneurship, which are central within dynamic capabilities. Some researchers (Evers, 2011; Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005) even see the internationalization process as an act of entrepreneurship that requires dynamic capabilities in order to be successful. This idea is reflected in the use and transfer of tacit and explicit knowledge across markets and in the fast response to external changes in one or several markets (Dawson, 2007).

One of the main factors affecting the internationalization process of firms is psychic distance (Dunning & Bansal, 1997; Ellis, 2007; Johnson & Vahlne, 1977; Li Sun, 2009). Psychic distance (previously defined in section 2.1.4) in the context of international stakeholder relationships may be interpreted as perceived difference to host country stakeholders, such as customers, employees, suppliers, business partners, NGOs, state institutions, local communities, media and other stakeholders. The perceived difference then reflects the level to which managers know and understand their host country stakeholders. Firms build their internationalization strategy based on how “psychically close” they perceive a host country to

be (Cyert & March, 1963). They usually start their internationalization process in countries they perceive to be similar to their home country and enter psychically more distant markets with higher levels of international experience. A similar approach is likely for the development of multi-national supply chains. Firms will begin with business relationships, such as supplier contracts, in psychically close countries before they chose markets that they perceive to be very different. Similar to multinational firms, firms with multinational supply chains have stakeholder relationships in many countries and need to understand the local characteristics, conditions of life, and demands in each of these countries. Psychic distance limits that understanding. Previous research suggests that various decisions during the internationalization process may be influenced by psychic distance, such as international market selection (Dunning & Bansal, 1997; Ellis, 2007; Johnson & Vahlne, 1977; Li Sun, 2009), foreign direct investments (Blomkvist & Drogendijk, 2013), and entry mode choice (Kogut & Singh, 1988). Likewise, decisions in international supply chain management are likely to be affected by psychic distance. A limited understanding of (stakeholder) environments for all countries of corporate activity makes it impossible to realize changes in these environments. In turn, firms are not able to perceive and address business opportunities in other countries. Psychic distance therefore makes it difficult for firms to develop dynamic capabilities relevant for international business relationships.

2.2.5. Outcomes of Dynamic Capabilities

Traditional dynamic capabilities research posits a direct link between dynamic capabilities and firm performance (Eisenhardt & Martin, 2000; Helfat et al., 2007; Teece et al., 1997; Teece, 2007). Following the seminal papers of Eisenhardt and Martin (2000) and Teece et al. (1997) and most studies that build on their conceptualizations, firms develop and apply dynamic capabilities in order to extend, recombine, or release resources to achieve competitive advantage and increase financial performance. Ambrosini and Bowman (2009: 35) conclude:

“a dynamic capability that does not result in the creation of resources that allow the firm to maintain or enhance its sustainable competitive advantage would not be valuable.”

Teece (2007) conceptualizes dynamic capabilities in a way that identifies business opportunities and threats during the “sensing” phase and addresses them with investments during the “seizing” phase so that the resource base can be extended, recombined, or released. Through that chain of logic, dynamic capabilities lead to new positions and paths, realize the anticipated business opportunities and affect firm performance or the competitive position of a firm (Eriksson, 2014, Helfat & Peteraf, 2009). In addition, organizational learning that happens through dynamic capability development leads to higher degrees of effectiveness and efficiency, higher levels of innovation, and creative integration of resources that, in turn, increase firm value (Ambrosini & Bowman, 2009).

The majority of empirical papers support the relationship between dynamic capabilities and firm performance (García-Morales, Lloréns-Montes, & Verdú-Jover, 2007; García-Morales, Ruiz-Moreno, & Lloréns-Montes, 2007; Karna et al., 2016; Kor & Mahoney, 2005; Morgan, Vorhies, & Mason, 2009; Pezeshkan et al., 2016; Schilke et al., 2018; Wu, 2007; Zhang, 2007; Zott, 2003). However, there is considerable variance in the understanding and measurement of firm performance (Eriksson, 2014). Firm performance may be financial, innovative, or technological performance. It maybe evaluated by objective, such as profit increase, or subjective measures, such as performance relative to competitors (Eriksson, 2014). A recent meta-analysis showed that these differences may affect the level of support for the dynamic capabilities-performance relationship (Pezeshkan et al., 2016). Some studies suggest the dynamic capabilities-outcome relationship may be moderated by factors such as the size (Arend, 2015), structure (Wilden, Gudergan, Nielsen, & Lings, 2013) and strategic orientation of the firm (Engelen, Kube, Schmidt, & Flatten, 2014; Slater, Olson, & Hult, 2006), technological developments (Song, Droge, Hanvanich, & Calantone, 2005), or environmental dynamism (Harris, Collins, & Hevner, 2009). Other scholars emphasize that dynamic

capabilities do not necessarily result in positive outputs or the anticipated value creation (Ambrosini & Bowman, 2009; Eisenhardt & Martin, 2000; Helfat et al., 2007; Winter, 2003) due to uncertainties in the external environment that limit the effectiveness of dynamic capability execution (Ambrosini & Bowman, 2009; Eisenhardt & Martin, 2000).

Ambrosini & Bowman (2009) suggest four possible outcomes of dynamic capabilities that are related to the VRIN criteria (Barney, 1991). (1) They may result in sustainable competitive advantage if the reconfigured resource base is not imitable by competitors for a long time. (2) They may lead to temporary advantage if the resource base is imitated after a short time. (3) They may provide competitive parity if the resulting resource base only allows the firm to seize opportunities similar to those competitors seize. And (4) they may result in failure if the investments lead to resource reconfigurations that are irrelevant to the market. Helfat et al. (2007) also argue that the renewal of the resource base may not be as valuable, in terms of the VRIN criteria, as previously expected so that competitive advantage can never be guaranteed. They therefore suggest alternative evaluation schemes for dynamic capabilities that separate dynamic capability development from their outcomes and evaluate them in terms of “evolutionary fitness,” which “refers to how well the capability enables the firm to make a living by creating, extending, or modifying its resource base” (2007: 7), and technical fitness, which is the quality dimension of capability performance and evaluates “how effectively a capability performs its intended function” (2007: 7). Evaluating dynamic capabilities with these criteria separates the success of a performed task from overall firm performance and thereby removes the tautological link that is often criticized in the evaluation of dynamic capabilities (Helfat et al., 2007). Impeaching the credibility of a guaranteed direct effect of dynamic capabilities on firm performance, many scholars suggest an indirect effect instead (Collis, 1994; Eisenhardt & Martin, 2000; Eriksson, 2014). Indirect effects may happen through processes within the firm, such as opportunity recognition and exploitation (Macpherson, Jones, & Zhang, 2004), management practices (Heimeriks et al., 2012), or through effects vis-à-vis the external

environment, such as customer value creation (Readman & Grantham, 2006). The full effect of dynamic capabilities on firm performance, including direct and indirect effects is therefore not completely understood (Schilke et al., 2018).

Previous studies suggest a mediation effect among the strategic capabilities a firm applies to manage their stakeholder relationships, the value created for stakeholders, and firm performance. Ramachandran (2011) conceptually shows how collaborative processes with stakeholders produce superior capabilities that enhance CSR performance, which then improves the competitive position of the firm. Similarly, Zolkiewski et al. (2006) propose a network perspective of value creation that uses interactive processes among the firm and other actors in the value chain process for co-value production. Value is then created through relationships among key actors for the stakeholder network and likewise for the firm.

Scholars increasingly debate alternative understandings of “value creation.” Porter and Kramer (2011), for example, suggest linking business opportunities, innovation, and competitive advantage to opportunities for stakeholders inside and outside the firm for “shared value creation.” Shared value “involves creating economic value in a way that also creates value for society by addressing its needs and challenges” (Porter & Kramer, 2011: 64). They consider the value creation approach of recent decades to be outdated and too narrow because it rests on “optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success” (64). Shared value is therefore “the next major transformation of business thinking” (64). While this idea maybe new for strategic management scholars, it is not new for stakeholder theorists.

Freeman (1984, 2010), among others, very early proposed mutually beneficial stakeholder relationships that enhance value creation for the firm and society. Furthermore, “[m]utually beneficial stakeholder relationships can enhance the wealth-creating capacity to generate future wealth” (Post et al., 2002: 36) while “failure to establish and maintain productive relationships with all of the firm’s stakeholders is a failure to effectively manage the

organization's capacity to generate future wealth" (Post et al., 2002: 53). It seems that the stakeholder management literature is able to offer what the (newer) strategic management literature is trying to achieve.

Empirical works on shared value creation usually focus on a single stakeholder group such as customers or suppliers. Readman and Grantham (2006) find that collaboration with customers during the product development process leads to the firm's ability to include specific features and characteristics most valued by the customer. This increases the value created for the customer and, in turn, sales. Evidence found by Reuter et al. (2010) suggests that supplier management capabilities are most likely to create competitive advantage when they address the demands of external stakeholders and thus create value for them. These results suggest that the value created for the firm depends on the value created for stakeholders. Empirical research rarely investigates that mediation effect via stakeholder value creation and usually evaluates the direct effect of strategic capabilities on firm performance. Since the findings of that direct effect are far from being conclusive (as summarized in this section), the inclusion of a mediator could offer valuable clues to the relationship between dynamic capabilities and firm performance, and specifically the role of stakeholder value creation for firm value creation.

3. Research Model

Having reviewed the literature on stakeholder theory and dynamic capabilities I will now motivate the integration of the stakeholder management capability (Freeman, 2010) and the dynamic capabilities approach (Teece et al., 1997, Teece, 2007). In the first part of this section I will provide the central arguments for the integration of the stakeholder management capability and the dynamic capability model. I will then describe the integration process that will result in the dynamic stakeholder management capability (DSMC) which is superior to the initial capabilities. In the second part of this section I will develop nine hypotheses that propose influencing factors on the DSMC and outcomes of the DSMC. I will test these hypotheses in the method section.

3.1. The Integration of Stakeholder Management Capability and the Dynamic Capabilities Model

Integrating the stakeholder management capability and the dynamic capabilities concepts requires careful reflection on the connections between the two research fields and the synergies an unification can offer. First and foremost, both research fields benefit from each other. As motivated by previous researchers, dynamic capabilities benefit from the inclusion of stakeholders for the development of dynamic capabilities and stakeholder theory benefits from the ability to adapt to changing stakeholder environments. Also, both research fields have similar interests: the adaptation to a firm's external environment. Stakeholder theorists call it the stakeholder environments in which they address stakeholder demands while dynamic capabilities scholars call it the dynamic business environment in which they address opportunities and prevent threats. Furthermore, both research fields investigate similar influencing factors, such as stakeholder pressure, firm motives, and psychic distance, and both aim at value creation, although with different understandings of what that value creation contains. As in every merger of parties it is the differences that create complementarity,

synergies, and learning effects. The stakeholder management capability creates value for stakeholders but lacks the connection to business opportunities. The dynamic capabilities approach addresses realization of business opportunities – and firm value - in changing environments but lacks a stakeholder lens that would create more value for the firm's stakeholders. Combining the competencies of the two is likely to result in a firm-specific and therefore unique capability as firms are then able to create value for their specific stakeholder audience which, in turn, pays back to the firm and is likely to be a source of sustainable competitive advantage. I will explain these aspects in more detail in the following sections before I integrate the two capabilities and develop the concept of a dynamic stakeholder management capability (DSMC)

3.1.1. The Motives for the Integration

Stakeholder relationship management and dynamic capabilities, while coming from slightly different backgrounds, do have connections, gaps, and complementarities that advocate their unification. First, both research fields benefit from each other, as each capability addresses an aspect that is missing in the other: a stakeholder lens is missing in the dynamic capabilities concept and the explicit link to business opportunities is missing in the stakeholder management capability. The relevance of stakeholder integration for dynamic capability development is increasingly emphasized by many scholars, directly or indirectly. Eisenhardt & Martin (2000) and Teece et al. (1997) describe the creation and development of dynamic capabilities as being significantly affected by the social and collective nature of learning. This learning requires people who are linked to the firm and, thereby, are stakeholders. Similarly, Teece (2007: 1341) emphasizes the relevance of resource base co-creation with other firms and stakeholders: “A key strategic function of management is to find new value-enhancing combinations inside the enterprise, and between and amongst enterprises, and with supporting institutions external to the enterprise.” This statement refers to a network of stakeholders that enhance developing new

resource combinations, business paths, or knowledge generation. Similarly, Tsai (2001: 1003) states: “Knowledge is socially constructed, and organizational learning involves a complex social process in which different units interact with each other.” Related research fields, such as entrepreneurship and innovation, also underscore the relevance of stakeholders. Entrepreneurship researchers see networking as an important activity for learning and resource access and emphasize the relevance of stakeholder networks for knowledge generation (Politis, 2005). From a network perspective (e.g., Granovetter, 1973), stakeholders can be interpreted as a source of novel information inherently relevant for dynamic capability development (Teece, 2007; Zollo & Winter, 2002). A well-functioning stakeholder network enables information transfer and knowledge exchange among a firm and its stakeholders, which provides a unique and not imitable source of innovation (Barney, 1991; Lenssen, Ayuso, Ángel Rodríguez, & Enric Ricart, 2006). Such a network also enhances a firm’s internal capabilities (Zaheer & Bell, 2005), such as organizational learning and innovation (Tsai, 2001). These arguments emphasize the relevance of stakeholders for dynamic capability development and support the connection of stakeholder relationship management and dynamic capabilities.

Similarly, stakeholder relationship management would benefit from dynamic capabilities. Sharma & Vredenburg (1998: 735) define stakeholder integration as the “ability to establish trust-based collaborative relationships with a wide variety of stakeholders.” These relationships are dynamic in nature. Organizations that aim at integrating these different stakeholder perspectives and demands need a capability that is sensitive and adaptive to changes of these demands. That capability should enhance the coordination of a variety of intangible assets, such as information and knowledge from stakeholders, in order to achieve sustainable innovation (Castiaux, 2012) and address stakeholder demands. Firms must be able to sense and receive this information through unique sources. Engaging in interaction with a firm’s stakeholders, such as bargaining or dialog, enables the exchange of views and opinions, the expression of hidden assumptions, and the identification of common interests (Lenssen et al.,

2006). This information is relevant to the design and development of new products, services, processes, and strategies (Castiaux, 2012) that better address stakeholder demands. Seizing opportunities for strategic innovation may in some cases only be realizable through alternate communication and reflective dialog (Miles et al., 2006), as this enables managers to take different perspectives and reflect on a problem or opportunity from multiple angles. Managers thus take an external view of a market situation, make trade-offs between different criteria (e.g. social, environmental, economic), and find ways to make unbiased estimations that help overcome current (path-dependent) assumptions about stakeholders and their demands. Stakeholders may then serve as a source of new ideas and enhance innovation, flexibility, and openness to change (Lenssen et al., 2006). Having access to nuanced information about stakeholders and interactions with them that enable reflection on current practices enhances the firm's ability to evaluate alternative solutions or create innovative ways to satisfy stakeholder demands. This cycle creates more value for stakeholders (Harrison et al., 2010) and increases their loyalty and commitment to the firm (Castiaux, 2012).

Second, both research fields address the external environment as their main interest. External changes, as dynamic capabilities scholars call them, are, basically, changes in stakeholder demands. They may contain, but are not limited to, changes in customer tastes, employee claims, market power of competitors, innovations by business partners, regulatory aspects of governments, or conditions of financial institutions. Firms develop dynamic capabilities in order to recognize and adapt to such changes. While researchers from various strategic management streams often refer to stakeholders such as managers, employees, customers, suppliers, business partners, financiers, and institutions as key factors for the generation of competitive advantage (Anderson & Weitz, 1992; Eisenhardt & Martin, 2000; Reuter et al., 2010; Teece, 2007) there has been no systematic consideration of these groups for the development of strategic capabilities.

Third, empirical research suggests the advantage of a systematic combination of stakeholder relationships and dynamic capability development. Lenssen et al. (2006) find that exchanges with stakeholders provided access to creative and practical knowledge critical to innovation. Specifically, non-hierarchical cooperative structures, informal relationships, and direct communication enhance the capturing of knowledge created with and by stakeholders and transform it into innovative products, processes, and strategies. Integrating stakeholders of a local market provides critical practical knowledge relevant to achieving local autonomy and generating resources relevant to decentralization (Castiaux, 2012). Similarly, Sharma & Vredenburg (1998) find that interaction with stakeholders enhances organizational learning through specific knowledge provided by stakeholders that is difficult to access elsewhere and that leads to new ways of running a business. Hence, ongoing interaction and exchange with stakeholders delivers up-to-date information and thus enables continuous innovation and resource reconfiguration. Innovation and reconfiguration promote combining assets in ways that are more valuable (Castiaux, 2012). Kindström et al. (2013) analyze microfoundations for service innovation dynamic capabilities. Among the key microfoundations for sensing are deep customer knowledge and understanding of the whole service system, including relationships to additional stakeholders, such as business partners and suppliers. A study in the field of dynamic marketing capabilities finds that the nature of capabilities generated through stakeholder interaction depends on the groups that are integrated (Evers et al., 2012). Allied stakeholders, such as customers, managers, and shareholders, are most relevant for learning processes that result in renewing and regenerating marketing capabilities. Examples of those capabilities are radical product development or market creation. Cooperative stakeholders, such as suppliers, direct customers, or other business partners, are most relevant for learning processes that influence renewing capabilities. Renewing capabilities may be leveraging business partnerships or brand building. Neutral stakeholders, such as industry experts, opinion leaders, or local communities, impact the development of incremental capabilities. Market knowledge

acquisition may be an incremental capability. Scholars propose that learning processes that include stakeholders increase the likelihood for sustainable international competitive advantage (Evers et al., 2012).

Integrating the stakeholder management capability (Freeman, 2010) and the dynamic capabilities model (Teece et al. 1997; Teece; 2007) creates the dynamic stakeholder management capability (DSMC). The DSMC unites the strengths of and closes significant gaps in the initial capabilities. The defined aim of stakeholder relationship management is to create value for stakeholders by understanding and addressing stakeholder demands. Through the creation of stakeholder value, firms are supposed to increase their success due to supportive and loyal stakeholder relationships. What stakeholder relationship management does not include, is the detection of (new) business opportunities or threats that are linked to stakeholder demands. It lacks the ability to link stakeholder demands and business opportunities that would be the basis for shared value creation. Similarly, the explained target of dynamic capabilities is the detection and realization of new business opportunities and threats through adaptation of the firm's resource base. What dynamic capabilities do not include is the potential that stakeholders can be an indicator for external dynamism and a resource for innovation and reflection. Each firm has an unique collection of stakeholders and, therefore, an unique source for innovative ideas and business opportunities. These are not imitable by competitive and may, therefore, be a source for sustainable competitive advantage. Integrating the stakeholder management capability and the dynamic capabilities concept to the DSMC will, I argue, provide the opportunity to create value for stakeholders and the firm and may possibly also result in sustainable competitive advantage.

3.1.2. The Integration Process

In the following I will integrate the stakeholder management capability as defined by Freeman (2010) (see section 2.1.3.) and the dynamic capabilities approach as defined by Teece et al.

(1997) and Teece (2007) (see section 2.2.2.). Each of the two approaches consists of three levels. These three levels reflect the nature of each capability and define sub-capabilities that construct the overall (meta-)capability. Integrating the two capabilities, I build on the three dimensions of corporate behavior that Plaza-Úbeda et al. (2010) identified during their empirical study of firms that aimed at stakeholder integration. They observed knowledge generation, interaction with stakeholders and adaptation to stakeholders as the fundamental dimensions of corporate behavior to achieve stakeholder integration. By creating the DSMC I will form the conceptual foundation for their observation and explain why that behavior is likely to result in shared value creation. I will, however, go one step further and argue that *dynamizing* the behavior they call stakeholder integration, meaning making it adaptable to over-time changes and cross-country differences provides the fundamental basis for shared value creation and may even enable sustainable competitive advantage. I will integrate the two capabilities, level by level, to build the dynamic stakeholder management capability (DSMC).

I start unifying the stakeholder management capability and the dynamic capabilities concept by integrating the first level (or sub-capability) of each capability. In the first level of both capabilities, the environment is scanned for relevant new information. The “rational” level of the stakeholder management capability considers information in all markets about stakeholders and their characteristics, such as interests and conflicts of interests among them, power to affect the firm, coalitions and relationships among stakeholders, and their geographical and demographical attributes. This information constitutes the “stakeholder picture” (Freeman, 2010) that provides a comprehensive understanding of the stakeholder environment. While scholars of stakeholder theory emphasize that this information must be updated from time to time (e.g., Freeman et al., 2007; Freeman, 2010; Harrison et al., 2010), it does not suggest tracking, evaluating, or making sense of changes in the stakeholder environment. Recognizing and interpreting different rates and degrees of change (e.g. across countries or over time) is, however, relevant for strategy development (e.g., Eisenhardt &

Martin, 2000). Furthermore, the “rational” level of the stakeholder management capability does not link stakeholder information to business opportunities and threats, but rather limits its domain to the creation of stakeholder value in the expectation that this, in turn, results in value creation for the firm. The “sensing” capability of the dynamic capabilities approach recognizes and considers volatility differences within markets for strategy development (Eisenhardt & Martin, 2000; Teece, 2007). In this approach, information sources for a comprehensive environmental scan, however, are not described in more detail and seldom explicitly linked to stakeholder groups. Yet stakeholders make up the external environment of a firm. Furthermore, conditions under which external changes are interpreted, such as coalitions among stakeholders or power distributions, are not emphasized. Such conditions may, however, change the whole picture as new opportunities or threats may derive from the influence of both business and non-business stakeholders. Integrating the rational level of the stakeholder management capability and the sensing capability of the dynamic capability model enables the firm to close these gaps.

I integrate these two sub-capabilities, the rational level of the stakeholder management capability and the sensing capability of the dynamic capabilities approach to form the *knowledge capability* that builds the first level of my DSMC. Having the knowledge capability enables a firm to scan the environment for all changes in stakeholder attributes and demands in all markets of business activity so that blind spots of external changes are eliminated. The firm then interprets changes based on (historical) background information about stakeholder characteristics and previous relationships for each country of business activity. This information is systematically tracked and codified as the “stakeholder business picture.” That picture will change over time and will be adapted with every new scan. From that picture one can recognize or create business opportunities that are addressed at the subsequent levels. The knowledge capability works best when various people of the firm are included in the sensing and interpretation process. Employees may have different interactions with the external environments and may perceive different aspects and changes that are relevant to the firm.

Collecting these aspects and changes requires input from all people that receive this information. The interpretation of the information then requires systematic documentation and collective sensemaking, such as in monthly or quarterly meetings (depending on the perceived dynamism of the environment) among a group of employees that discuss and make sense of the collected information.

At second level, the stakeholder management capability and the dynamic capabilities approach each aim at developing a strategy that addresses the desired opportunities, claims, and threats identified at the first level. The “process” level of the stakeholder management capability aims at achieving a fit between identified stakeholder demands and operating procedures of the firm. For this purpose, all strategic directions, programs, and resources are reviewed and reflected upon. Interactions with stakeholders, such as multi-stakeholder dialogs, regular formal or informal exchange, and bargaining opportunities with stakeholders, provide a comprehensive source of a multi-stakeholder perspective and a basis for reflection on current assumptions and strategic directions. However, no specific business opportunities are formulated and addressed, which leaves the company with an immense flood of information that cannot be channeled effectively nor can it be connected with resources that support business opportunities. The “seizing” capacity of the dynamic capabilities approach, in contrast, explicitly addresses opportunities recognized during the knowledge capability and links all activities to the achievement of these opportunities. Like during the process level of the stakeholder management capability, reflection, critical questioning, and analysis of multiple perspectives and solutions are the fundamental tasks achieved during that phase. However, the seizing capacity lacks specification of factors and sources that enhance effective reflection and critical questioning of basic assumptions to overcome unfavorable path dependence (Brown & Eisenhardt, 1997; Eisenhardt et al., 2010; Schreyögg & Kliesch-Eberl, 2007; Schreyögg & Sydow, 2010; Tushman & O'Reilly, 1996). Dynamic capability researchers emphasize that strategic decision makers need to take an “outside view” to reflect on the actuality and

appropriateness of underlying assumptions. They do not, however, specify *how* that outside view can be achieved. Integrating the process level and the seizing capacity creates the ***interaction capability***, which is the second level of the DSMC. With this capability firms interact with stakeholders that are either affected by the achievement of opportunities or they may be gatekeepers to achieving them. These stakeholders provide relevant resources, capabilities, and information and also determine the need for flexibility or stability of the firm. While customers may demand changes in product attributes, employees provide the relevant information and internal competencies and resources to realize these changes, and financiers may define boundary conditions for investments. Listening to these groups, engaging in discussion, and bargaining with them brings their interests together and provides relevant information to find the best solution. Interacting with stakeholders enables the firm to reflect on present assumptions of stakeholder demands and on the appropriateness of current strategic directions to address them. Furthermore, stakeholder interaction encourages firms to balance conflicting interests. For example, interacting with customers, suppliers, and environmental groups during an open discussion enables the development and evaluation of innovative solutions that integrate customer demands for product innovation, technological demands of suppliers for product delivery, and environmental aspects such as pollution. Engaging proactively in these discussions reduces risks of unpredictable negative effects and increases the commitment, loyalty, and satisfaction of stakeholders. Stakeholder interactions in different countries, furthermore, enable the firm to achieve a fit between corporate practices and external demands in every country of business activity. The information and advantages realized through stakeholder integration are difficult to imitate by competitors and may therefore be a source for sustainable competitive advantage.

The third level of the stakeholder management capability and the dynamic capabilities approach contain adaptation and reconfiguration of resources and relationships that support addressing stakeholder demands and business opportunities identified at the first level by

applying the strategic initiatives generated in the second level. The “transactional” level of the stakeholder management capability seeks to reconfigure transactions and processes in a way that increases the benefits for stakeholders and the firm and, thereby, creates “win-win” transactions. Stakeholders that benefit from the firm’s activities are more likely to support the firm with the resources, capabilities, information, and other valuable input they control. This, in turn, creates value for the firm. At the transactional level the firm analyzes and evaluates business practices and processes for their contribution to stakeholder value creation. The firm then reconfigures and adapts these practices and processes to better address stakeholder demands. While the stakeholder management capability clearly emphasizes win-win transactions as the target of the transactional level, it does not provide a means of realization. It fails to specify the kind of processes and activities that would support adapting transactions such that value creation increases for both stakeholders and the firm. The “reconfiguration” capability of the dynamic capabilities approach provides that missing piece. It very clearly emphasizes the role of organizational learning, knowledge accumulation, investment and divestment decisions, and adaptation of organizational processes and structures for appropriate reconfiguration of the resource base to achieve the desired purpose. The purpose in the dynamic capabilities approach, however, is more narrowly defined than in the stakeholder management capability. Dynamic capabilities target increased financial value creation or competitive advantage for the firm, while the stakeholder management capability aims more broadly at increased value for multiple stakeholders and the firm. The advantage of the narrower understanding is easier measurability. Scholars of dynamic capabilities usually interpret value creation for the firm as increased financial performance or competitive advantage (e.g., Ambrosini et al., 2009; Eisenhardt & Martin, 2000; Teece et al., 1997) which maybe measured as increases in sales, market share, share price, or profit. Evaluating the value created for multiple stakeholders is clearly more challenging because value means different things to different people and value creation may include non-monetary dimensions that are difficult to

evaluate (Freeman, 2010; Haksever et al., 2004). Stakeholder value creation can therefore only be evaluated via proxies such as stakeholder satisfaction, stakeholder commitment, or a firm's perceptions of stakeholder value creation.

The *adaptation capability* is the third level of the DSMC. It aims at reconfiguring, recombining, and redeploying resources and relationships in a way that combines the realization of stakeholder demands and business opportunities. The key to this phase is realizing business opportunities through the fulfillment of stakeholder demands, so that value is created for stakeholders *and* the firm. In order to achieve this outcome, the firm adapts practices, processes, and resources so that they better suit the demands of stakeholders. Among such practices, processes, and resources are the stakeholder picture, prioritization of stakeholders, and intensity and means of interaction. Every history of adaptation creates a path that develops knowledge, enhances organizational learning, and is recognized for the next sensing phase. The accumulation of that knowledge is the basis for the continuity of the DSMC.

Table 1 provides an overview of the initial stakeholder management capability and dynamic capabilities approach that are integrated into the DSMC. The stakeholder management capability in the left column provides the overall lens through which the environment, business opportunities, and value creation are viewed. It also provides the evaluation scheme for the outcomes of the DSMC. The dynamic capabilities approach in the right column provides the relevant tools, adjustments and add-ons relevant to achieving the targets of the DSMC, which I present in the middle column as the merge of the two initial capabilities. The DSMC serves as the superior product of the joint forces of the initial concepts. These concepts fill each other's gaps and make the most of their individual potential through their synergies.

Table 1. Integration of the Stakeholder Management Capability and Dynamic Capabilities to the Dynamic Stakeholder Management Capability

Stakeholder Management Capability (Freeman, 2010)	Dynamic Stakeholder Management Capability (DSMC)	Dynamic Capabilities (Teece et al. 1997; Teece, 2007)
Level 1		
Rational level	Knowledge capability	Sensing capacity
<p>Objective: Understanding stakeholder demands and characteristics.</p> <p>Tasks: Scanning the environment for stakeholders, their power distributions, coalitions, and interests; Generating the 'stakeholder map' including all information about stakeholder that are relevant for stakeholder value creation.</p> <p>Gap: No interpretation of changes in the stakeholder environment; No link of stakeholder demands to business opportunities or threats.</p>	<p>Objective: Understanding stakeholder demands and characteristics, recognizing changes, and linking them to business opportunities and threats.</p> <p>Tasks: Scanning the (stakeholder-) environment for stakeholder characteristics, demands and their changes; Interpreting and making sense of these information in terms of business opportunities and threats; Creating a 'stakeholder business picture' that portray the relevant stakeholder characteristics and demands for the anticipated business opportunities and threats.</p> <p>Synergy: Stakeholders function as information source and key resource to detect and realize business opportunities or prevent threats.</p>	<p>Objective: Recognizing new business opportunities and threats in changing environments.</p> <p>Tasks: Scanning the environment for changes in any circumstances that may affect business opportunities or threats, recognizing, interpreting, and making sense of new information.</p> <p>Gap: No specification of the kind of information needed or their sources; No explicit inclusion of stakeholders.</p>
Level 2		
Process level	Interaction capability	Seizing capacity
<p>Objective: Achieving a fit between standard operating procedures and stakeholder demands.</p> <p>Tasks: Analyzing strategic directions, programs and resources in</p>	<p>Objective: Seizing business opportunities and preventing threats through the fulfillment of stakeholder demands.</p> <p>Tasks: Interacting with multiple stakeholders for reflection of</p>	<p>Objective: Seizing business opportunities and preventing threats.</p> <p>Tasks: Creating business models and strategies that link business</p>

<p>terms of their fit with stakeholder demands; Reflecting current assumptions and strategies; Integrating stakeholder perspectives through stakeholder interaction.</p> <p>Gap: No seizing of specific goals or business opportunities.</p>	<p>current assumptions and business strategies; Co-creating strategies and practices that address business opportunities and threats.</p> <p>Synergy: Using stakeholders as source for reflection and innovation and stakeholder interaction as a basis for strategy development.</p>	<p>opportunities and threats to organizational resources; Reflective questioning of present strategies and assumptions; Unbiased judgement about resource modifications and alternative solutions.</p> <p>Gap: No specification of mechanisms and input factors that enhance reflective questioning.</p>
Level 3		
Transactional level	Adaptation capability	Reconfiguration capacity
<p>Objective: Reconfiguring transactions in a way that creates transactions that benefit stakeholders and the firm.</p> <p>Tasks: Analyzing direct and indirect effects of business activities on stakeholder value creation; Adapting processes and activities to stakeholder demands; Creating 'win-win' transactions.</p> <p>Gap: No specification activities relevant to achieve the reconfiguration.</p>	<p>Objective: Reconfiguring firm resources and practices in a way that creates stakeholder value and, in turn, firm value and competitive advantage.</p> <p>Tasks: Adapting resources, structures, knowledge and capabilities to (new) stakeholder demands; Transferring and adapting processes and practices across business environments to better address local stakeholder demands; Creating and sharing new knowledge through documentation and sense-making of the adaptation and their effects.</p> <p>Synergy: The fulfillment of stakeholder demands are key for firm value creation, which provides a clear orientation for the adaptation of resources and practices; Cross-country adaptations and knowledge development are the basis for the generation of competitive advantage.</p>	<p>Objective: Reconfiguring the firm's resource base in a way that creates firm value and competitive advantage.</p> <p>Tasks: Extending, leveraging, or recombining resources, routines, and capabilities to realize business opportunities and prevent threats; Creating and adapting knowledge, structures, cospecialized assets, and investments; Facilitating organizational learning.</p> <p>Gap: Insufficient specification of sources and mechanisms relevant for organizational learning; Narrow idea of 'value creation.'</p>

3.1.3. The Dynamic Stakeholder Management Capability (DSMC)

I define the DSMC as the ability to develop and deploy stakeholder relationships and adapt them to time-related changes and cross-country differences in a way that enhances shared value creation. Firms with a DSMC create shared value as they realize business opportunities or prevent threats *through* the fulfillment of stakeholder demands. Every business opportunity and every business risk is related to the demands of some stakeholders because there is no business activity that does neither affect nor is affected by any stakeholders (Harris & Freeman, 2008). The DSMC enhances the firm to understand its business environment as a *stakeholder* environment and its objectives as *effects* on stakeholders. This understanding is especially valuable for international business activities in turbulent environments. Every country of business activity may contain different opportunities and risks so that firms are well advised to develop customized approaches that capture local conditions. While analyzing external demands, business opportunities or business risks may be somewhat abstract and difficult to grasp, analyzing the demands of people (such as employees or suppliers) in different environments and thinking about their demands tomorrow in contrast to their current demands seems more practical. The DSMC offers that two-dimensional adaptation: adaptation to cross-country differences and to time-related changes of these people's demands.

Stakeholders are more likely to share information when the firm-stakeholder relationship is based on inclusion and interaction (Harrison et al., 2010). Stakeholders hold relevant information about technological developments, tangible and intangible resources, conditions of local and geographically distant markets (March, Simon, & Guetzkow, 1994; Nelson & Winter, 2004), or simply their own demands. Having nuanced information about these factors enables firms to better understand stakeholder attitudes and behaviors and to become more sensitive in perceiving and interpreting changes. Stakeholders can bridge critical information gaps for the firm through open, critical, and fact-based exchanges. Such information is key to exploring market opportunities or to creating them.

The DSMC links stakeholder relationships to business opportunities: Having the right capabilities in place to sense and access information regarding stakeholder demands increases managers' ability to recognize and understand changes in the dimensions that create new business opportunities (Lenssen et al., 2006; Lenssen et al., 2010; Lenssen & Midttun, 2007) or require strategic changes (Teece, 2007). The DSMC aims at combining the strengths of the two initial capabilities for each of their three sub-capabilities. The first level of the DSMC provides a deeper understanding of the firm environment than both initial capabilities. This understanding includes the business environment through a stakeholder lens, viewing stakeholders as a source of business opportunities and threats. The stakeholder lens assumes that the fulfillment of stakeholder demands is key for realizing the firm's anticipated targets. In other words, sensing stakeholder characteristics and demands is as important as sensing business opportunities and threats.

The second level seizes opportunities better than the two initial capabilities because it links stakeholder demands to business opportunities and threats. Information can be better interpreted and resources can better be channeled to achieve the desired targets when these targets are united rather than separated or conflicting. The third level allows for a more effective adaptation to both stakeholder demands and changes in business opportunities. Based on the previous levels, the third level enables a firm to better understand and address stakeholder demands *as* business opportunities. Combining the strength of the initial capabilities results in comprehensive analysis of processes and practices and a systematic reconfiguration of the resource base to approach the desired outcome of shared value creation.

A DSMC may, furthermore, be the missing piece for creating sustainable competitive advantage. Eisenhardt and Martin (2000) argue that dynamic capabilities are best practices many firms may have in common, and as such they lack uniqueness, which is the basis for sustainable competitive advantage. Every firm does, however, have a unique stakeholder environment consisting of the groups and institutions the firm holds relationships with.

Furthermore, every firm has a unique mind map of their stakeholders, i.e., the way the firm interprets, ranks, and integrates them. Competitors may sense similar information from their external environment but interpret it differently (Teece, 2007) due to their individual stakeholder mindset. A DSMC is based on the internal mindset of managers and employees and the external factors they perceive. It is therefore a difficult-to-imitate resource and may be a viable source for sustainable competitive advantage (Eisenhardt & Martin, 2000).

Like the two initial capabilities, the DSMC is an iterative process that must be implemented in daily business. Each of the three levels works as sub-capability and as level of analysis. In practice each level could be accomplished by a specific task force built out of the work force of the firm. The knowledge task force should include employees that have frequent exchange with the environment, such as stakeholder interaction or market research so that they recognize changes in stakeholder characteristics and demands. The task force for the interaction capability should include employees that have a solid understanding of internal strategic orientations of the firm and resources available so that they can link the information they receive from the knowledge task force to the firm resources relevant to interacting with stakeholders and developing a strategic direction to meet the anticipated targets. The adaptation capability task force should include employees that design and control processes relevant to realizing business opportunities and managing stakeholder relationships. Receiving the (new) strategic directions and resources from the interaction capability task force provides the basis for appropriate adaptation of processes and practices.

The DSMC may be present in any firm to a certain degree because most firms do – to a certain extent – account for stakeholder demands and most firms do – to a certain extent – adapt to changing environments or cross-country difference. Previous research, however, suggested that firms vary in their competence to apply these capabilities (e.g., Plaza-Úbeda et al. 2010). Some firms invest stronger in the development of such a capability than others or they are more successful in its application. I am arguing in this study that firms that apply the DSMC are more

successful in generating shared value than firms who do not. I therefore investigate the degree to which a DSMC is applied rather than the status of its development or its quality. Both the status of its development and its quality are, however, likely to be positively correlated to the (successful) application of the DSMC.

Analyzing the DSMC in terms of its degree of application does not require the separate evaluation of the three dimensions because it is likely that these dimensions are similar in terms of the degree of their application. Each level provides the fundament for the next level. For example, a firm that only slightly adapts its knowledge about stakeholders across countries, understands the stakeholder environments of these countries as being rather similar. Based on that understanding, the firm will approach these stakeholders and interact with them in similar ways across these countries and it will then address these rather small differences with rather small adaptations to the specific local demands. Likewise, firms that recognize bigger differences among stakeholders in different countries adapt their knowledge about these stakeholders to a higher degree and will then also adapt the ways of stakeholder interaction and adaptation to a higher degree. Following that, I emphasize the relevance of each dimension's content for the overall success of the DSMC, while, for the purpose of this study, I will not analyze each dimension separately but the degree of application of the DSMC as one construct.

3.2. Hypotheses Development

In the following section I will draw on the two research fields of stakeholder relationship management and dynamic capabilities and develop the hypotheses to test the proposed dynamic stakeholder management capability (DSMC). In hypotheses H1-H6 I will propose influences on the DSMC and in hypotheses H7-H9 I will propose outcomes of the DSMC.

Figure 3 presents the conceptual model and summarizes the hypotheses that I will develop in the following two sections.

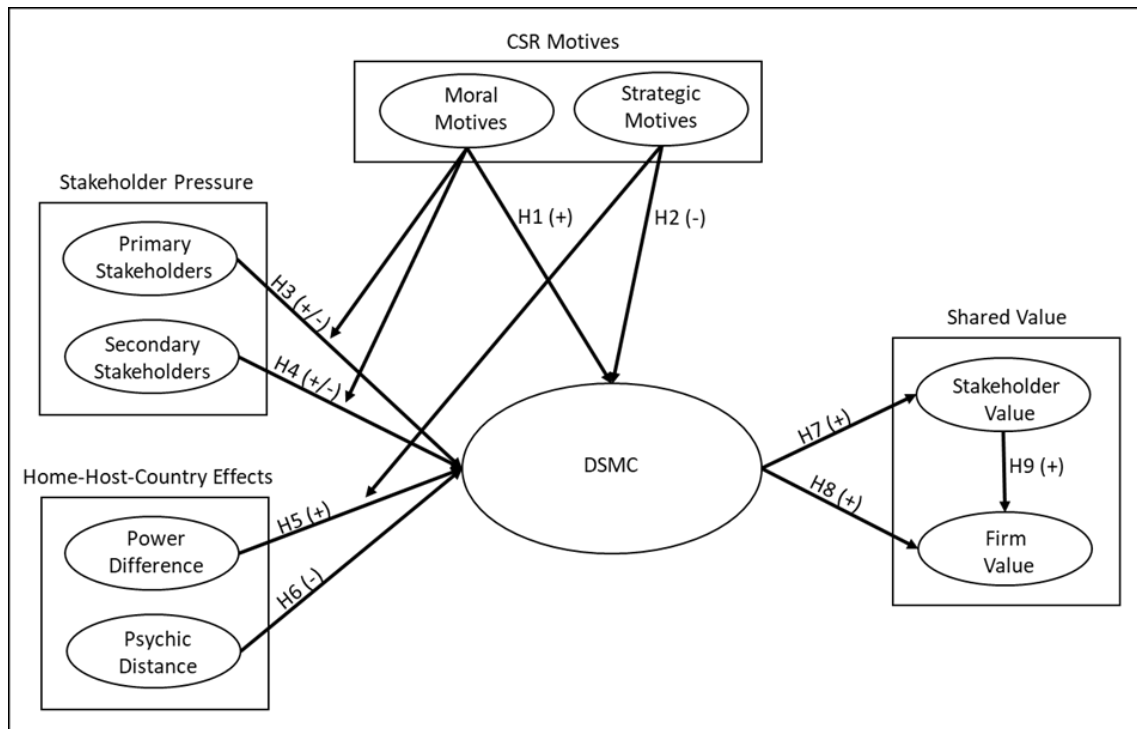


Figure 3. Conceptual Model with the Defined Research Relationships

3.2.1. Antecedents of the DSMC

The literatures for both stakeholder theory and dynamic capabilities suggest that organizational motives and purpose affect the design and outcome of stakeholder relationship management and dynamic capabilities development (e.g., Jones, 1995). While “purpose” is usually applied by dynamic capabilities scholars, “motives” are used within the stakeholder theory literature. Both terms reflect the underlying intention of an organization to engage resources or perform activities. The dynamic capabilities literature suggests that a common purpose enhances capability building (Anderson & Weitz, 1992; Dehler & Welsh, 1994; Gibson & Birkinshaw, 2004; O’Reilly & Tushman, 2008; Schreyögg & Kliesch-Eberl, 2007) It provides orientation and trust for the people involved in the capability building process. The more strongly a purpose is exemplified by corporate managers and accepted by employees the

stronger is their commitment to applying resources and developing capabilities that support that purpose (Gibson & Birkinshaw, 2004; O'Reilly & Tushman, 2008; Zollo & Winter, 2002).

Stakeholder theory also suggests that organizational motives affect the design of stakeholder relationship management. The stakeholder management literature distinguishes between moral motives, that are based on ethical standards and moral principles, and strategic motives that are self-interest driven and address the primary goal of firm value creation (Aguilera et al., 2007). Moral motives result in altruistic and inclusive approaches of stakeholder relationship management in which all kinds of stakeholders – primary and secondary, powerful and powerless, home and host country stakeholders – are considered. Stronger moral motives result in higher commitment to stakeholder needs (Berman et al., 1999, Freeman 1984) and willingness to apply or develop resources that support value creation for stakeholders. Strategic motives, by contrast, result in a less inclusive stakeholder relationship approach with a focus on the strategically most relevant stakeholders, which are those that have the highest potential to support or threaten the firm (e.g. Carrol & Buchholz, Mitchel et al., 1997, Frooman 1999, Berman et al., 1999, Jones 1995, Aguinis & Glaves 2012). In the following I consider organizational purpose and motives as similar constructs and call them *firm motives*.

Firms that develop and apply the DSMC have the overall intention to interact with and adapt to (changing and cross-country) stakeholder environments. Different firm motives are, however, likely to affect the DSMC. The DSMC contains comprehensive scanning of all stakeholder environments and the elimination of blind spots. It also contains the ability to create customized approaches to stakeholder interactions and (local) adaptation. Firms with a DSMC conduct extensive research and comprehensively invest resources without a clear chance of success, at least in the short term. Firms that feel morally obligated to address the demands of *all* stakeholders will be more likely to invest in these activities and develop the DSMC than firms that feel obligated to address only the demands of the most strategically relevant

stakeholders. The stronger a firm's moral motive is the higher the likelihood will be of having a strong DSMC and applying it. Firms with strategic motives feel less obligated to address *all* stakeholder demands and will therefore invest fewer resources in a DSMC. Therefore, the stronger strategic motives are, the less likely a firm will apply the DSMC.

H1: Firms' moral motives will positively affect the DSMC.

H2: Firms' strategic motives will negatively affect the DSMC.

Stakeholder theory and the dynamic capabilities literature suggest that stakeholder pressure affects stakeholder relationship management and dynamic capability development. Stakeholder pressure provides important information regarding a desired firm behavior and its (positive or negative) consequences. Access to this information reduces complexity, ambiguity, and uncertainty for corporate decision makers and makes it easier for them to link their decisions to business opportunities and threats (Pater & van Lierop, 2006; Reed & DeFillippi, 1990). Especially in dynamic environments, stakeholder pressure is highly relevant, as it provides orientation regarding current (local) demands of stakeholders and their urgency (Hoffman, 2000; Mitchell et al., 1997; Sarkis et al., 2010). Firms more sensitive to these pressures are informed better and/or earlier than their less sensitive competitors. Early information enhances early and proactive engagement, which is more likely to result in competitive advantage (Buysse & Verbeke, 2003). Firms that receive stakeholder pressure are therefore better able to sense, bunch, and interpret information from which they can create business opportunities and channel resources and capabilities to address them (Hart & Sharma, 2004). Stakeholder pressure is, therefore, likely to give, at minimum, direction for dynamic capability development.

Stakeholder pressure is a result of stakeholder interests and a response to stakeholders' perception of firm motives. Stakeholder theory suggests that primary and secondary stakeholders vary in their kinds of interests and are therefore likely to pursue different kinds of pressure. Primary stakeholders are more self-interested than secondary stakeholders and prefer

the firm to create value for themselves rather than for the broader society. Secondary stakeholders prefer the firm to increase societal welfare (e.g., Suchmann, 1995) rather than that of single groups. The pressure of primary and secondary stakeholders will therefore address different kinds of demands. Firms may have a positive or negative reputation regarding their morally-oriented behavior. Stakeholders are aware of that reputation or they look back to their own experiences with the firm. From that stakeholders generate their perception of firm targets and motives and pursue their pressures as a response to these perceptions (Aguilera et al., 2007; Bosse & Phillips, 2016; González-Benito & González-Benito, 2006; Harrison et al., 2010). Stakeholders that perceive a firm to have low levels of moral motives will pursue different kinds of pressure than stakeholders that perceive a firm to have high levels of moral motives for corporate activities.

Combining the different interests of primary and secondary stakeholders and their response to firm motives results in the following: Primary stakeholders that perceive a firm to have low levels of moral motives will pressure that firm to adapt more to their (local) demands and create value for *them*. Primary stakeholders that perceive a firm to have high levels of moral motives, however, may fear the firm to be too committed to other stakeholders, such as the broader society, so that their self-related demands may be compromised. Primary stakeholders will then pressure for less (local) adaptation because more value creation for other stakeholders may result in less value creation for themselves. Firms sensitive to these pressures are therefore likely to adapt the application of their DSMC as follows:

H3: Pressure from primary stakeholders will positively affect the DSMC at high levels of moral motives and will negatively affect the DSMC at low levels of moral motives.

Secondary stakeholders that perceive a firm to have low levels of moral motives expect the firm to discriminate against powerless or strategically less important stakeholders and

prioritize powerful or strategically more relevant stakeholders. Secondary stakeholders follow society-related interests and will try to prevent such discrimination. They tend to value standardized approaches of stakeholder relationship management that consider all stakeholders similarly – primary and secondary, home and host country, powerful and powerless stakeholders. Applying standardized approaches for all stakeholders prevents discrimination, but also hinders customization. Firms that treat stakeholders similarly in every country do not aim to consider local differences in stakeholder characteristics or demands. They simply transfer their practices from one country to another instead of developing the best approach for every local environment. Firms that feel pressured to adopt standardized approaches of stakeholder relationship management, and that are sensitive to these pressures, will be less likely to invest in and apply the DSMC.

Secondary stakeholders that perceive a firm to have high levels of moral motives assume the firm already considers and addresses the demands of a broad range of stakeholders. Accordingly, the firm already follows their interests and there is no need for these stakeholders to pressure the firm for any other behavior. They may simply watch the firm to observe any changes of its behavior. This, in turn, does not affect the current state of DSMC application.

H4: Pressure from secondary stakeholder pressure will negatively affect the DSMC at low levels of moral motives and will not affect the DSMC at high levels of moral motives.

The literature of dynamic capabilities and stakeholder theory suggest that firms may benefit – at least in the short term – from exploiting power differences among stakeholders in home and host country.

From a dynamic capabilities perspective, powerful stakeholders are those whose information input is the most relevant to firms. They control relevant resources of the firm and have a higher potential to affect the firm than stakeholders with less power (Pfeffer & Salancik,

2003; Mitchell et al., 1997). The more powerful these stakeholders are, the higher the likelihood that firms behave in accordance with their expectations (Harting, Harmeling, & Venkataraman, 2006) since higher levels of stakeholder power result in higher levels of attention managers pay to their claims (Mitchell et al., 1997). Differences in stakeholder power in home and host country may provide business opportunities the firm aims to exploit, such as cost advantages, but may also contain threats for the firm, such as reputation damage (e.g., Christmann, 2004). Firms that aim to exploit these opportunities but prevent related risks need a comprehensive and updated stakeholder picture in order to know, understand, and make use of stakeholder characteristics such as power, demands, and coalitions among stakeholders. For that purpose firms are likely to benefit from applying a DSMC that enables them to perceive and realize these opportunities and prevent the related risks even in volatile environments and across countries.

Similarly, stakeholder theory suggests that firms with strategic motives follow a stakeholder relationship management approach that includes only the most strategically relevant stakeholders (Aguilera et al., 2007; Mitchell et al., 1997). Firms with strategic motives consider stakeholder demands to the extent to which that pays off for the firm. Of possible strategic motives, power distribution is among the most relevant stakeholder characteristics for corporate decision makers. Stakeholder power reflects the impact that the fulfillment or non-fulfillment of stakeholder demands may have on corporate success. Stakeholders of the same group may, however, be powerful in one country but powerless in another country. Firms with strategic motives are likely to make use of these differences (Hart & Sharma, 2004). Previous research suggests that firms often prioritize stakeholders of industrialized countries, which have usually more power, at the expense of stakeholders in developing countries, which usually have less power (Campbell, 2007; Christmann, 2004; Husted & Allen, 2007). Firms may, for example, treat their home country employees following higher standards than required by law to increase their satisfaction. The same firm may, however, treat host country employees with

lower standards, especially those in low-cost countries with poor institutional frameworks that regulate working conditions. Stakeholders may punish such behavior with protests and consumer boycotts (Caruana & Chatzidakis, 2014; Smith, Read, & López-Rodríguez, 2010) as happened when Nike employed child labor in Asia or when Nestlé hooked mothers in Africa on expensive baby formula. Relative to strategic motives, firms that perceive differences in stakeholder power among home and host country stakeholders may apply a DSMC to understand and make use of these differences. Through a DSMC they can scan all environments of corporate activity for changes of these aspects, seize business opportunities and threats, and channel resources and capabilities in each business environment in a way that exploits these power differences.

H5: In the context of strategic motives, power differences between home and host country stakeholders will positively affect the DSMC. The positive effect of power differences on the DSMC will be stronger, the stronger the strategic motives are.

Dynamic capabilities and the stakeholder theory literature suggest that psychic distance is likely to affect stakeholder relationship management and dynamic capability development. As an individual interpretation of reality, psychic distance is the way managers make sense of the external environment for corporate decision making (Sousa & Bradley, 2006). Psychic distance hinders information flow between markets, prevents cross-border learning, and limits the understanding of host country conditions (Johnson & Vahlne, 1977). High levels of psychic distance increase managers' uncertainty and lower their ability to realize changes and opportunities in host country environments. At low levels of psychic distance, managers better understand the conditions and changes or differences of these conditions across countries, making them better able to enhance cross-border organizational learning and the transfer of tacit and explicit knowledge.

The influential model of stakeholder salience by Mitchell et al. (1997) proposes that managers consider stakeholders depending on their perception of stakeholder attributes. Similarly, Agle et al. (1999) found that managers interpret and consider stakeholder claims based on their prior knowledge and expectations towards stakeholders. Managers' perceptions of stakeholder attributes and claims are fundamental for their decision-making (Henriques & Sadosky, 1999). Psychic distance reflects managers' perceptions regarding the attributes of host country stakeholders compared to home country stakeholders. These differences contain multiple dimensions such as education, religion, lifestyle, or language of stakeholders. Higher perceived differences in these dimensions result in lower degrees of understanding of host country stakeholders. While empirical research in that area is very limited, one study investigated the effect of psychic distance on stakeholder-related engagement and found that high levels of psychic distance result in less engagement of firms towards host country stakeholders (Campbell et al., 2012). This finding supports the argument that psychic distance results in uncertainty regarding attributes and claims of host-country stakeholders. Managers not able to perceive and visualize the stakeholder environment of a host country will, therefore, hardly be able to address local demands and business opportunities or prevent threats. Psychic distance therefore limits managers' ability to develop and apply the DSMC.

H6: Managers' psychic distance will negatively affect the DSMC.

3.2.2. Outcomes of the DSMC

Stakeholder theory and dynamic capabilities literature suggest a positive effect of stakeholder relationship management and dynamic capabilities on firm performance (Eisenhardt & Martin, 2000; Freeman et al., 2007b; Freeman et al., 2007a; Freeman et al., 2010; Teece et al., 1997; Teece, 2007) (see sections 2.1.5 and 2.2.5. for details). Previous conceptual and empirical studies suggest that dynamic capabilities increase firm performance through fast and effective sensing and seizing of business opportunities and the prevention of risks (Li &

Liu, 2014; Teece, 2007). Dynamic capabilities enhance flexibility and learning in order to continually adapt a firm's resource base to changing external demands (Winter, 2003b; Zollo & Winter, 2002).

Stakeholder relationship management increases firm performance through value creation for stakeholders, who, in turn, support the firm and the achievement of its objectives (Bosse et al., 2009; Freeman et al., 2007a; Harrison et al., 2010). Empirical studies in both dynamic capabilities and stakeholder relationship management, however, remain inconclusive about value creation. While some studies support the supposed effects (Agle et al., 1999; Berman et al., 1999; Lin & Wu, 2014; Margolis, Elfenbein, & Walsh, 2009; Wu, 2010; Zaheer & Bell, 2005) others do not (see e.g., Aguinis & Glavas, 2012; Easterby-Smith et al., 2009; Eriksson, 2014). Both approaches seem to have some blind spots that restrict the expected outcome. This study proposes that some of these blind spots can be eliminated with the DSMC.

Several scholars emphasize the relevance of stakeholder integration for dynamic capabilities development and provide arguments that stakeholders may enhance organizational learning, creative innovation, access to internal and external resources, or strategic networking (Anderson & Weitz, 1992; Castiaux, 2012; Eisenhardt & Martin, 2000; Evers et al., 2012; Kindström et al., 2013; Lenssen et al., 2006; Reuter et al., 2010; Teece, 2007) So far, integration of stakeholders is missing from the dynamic capabilities approach. Likewise, a dynamic capabilities approach is missing from stakeholder relationship management. Integrating dynamic capabilities into a stakeholder relationship management approach would induce a firm to systematically analyze and understand business opportunities and link them to the fulfillment of stakeholder demands (e.g., Freeman, 2010; Postema et al., 2012; Sachs & Maurer, 2009). Continuous adaptation to external stakeholder environments, whether to host countries or to changes over time, requires specific routines, structures, and processes that are missing in the stakeholder relationship management approach but are implied in the dynamic capabilities approach.

The DSMC merges dynamic capabilities and stakeholder relationship management in a way that combines their advantages and minimizes their shortcomings. The DSMC encourages firms to understand the stakeholder environment in a way that enables them to discover stakeholder-related business opportunities and threats, seize them by interacting and bargaining with stakeholders, and adapt processes and practices to (local) stakeholder needs. With that capability firms are likely to reduce costs and/or increase sales so that financial value increases.

H7: The application of the DSMC will positively affect corporate value creation.

Stakeholder theory suggests that stakeholder relationship management that fulfills stakeholder demands creates value for stakeholders. Value for stakeholders is multidimensional and contains financial and non-financial components (Haksever et al., 2004). A stakeholder relationship management approach that offers interaction and cooperation among stakeholders and the firm is most likely to create value for the stakeholders involved (Bosse et al., 2009; Bowles, 2008; Bridoux & Stoelhorst, 2016; Freeman, 2007; Harrison et al., 2010; Plaza-Úbeda et al., 2010). Previous research (Bansal & Roth, 2000a; Christmann, 2004; Strike, Gao, & Bansal, 2006) has shown, however, that local adaptation of stakeholder relationship management often does not result in value creation for stakeholders. In these studies firms fail to understand the local needs and conditions of other countries, or they do not interact and bargain with stakeholders so that, for example, power differences across countries get exploited in a way that serves the firm, but disadvantaged stakeholders, especially those in low cost countries go empty-handed (Campbell, 2007; Christmann, 2004). These weaknesses of stakeholder relationship management may be solved with the DSMC. The proposed capability enables firms to better understand its stakeholder environment through regular sensing activities that recognize and make sense of changes in each country of business activity. Firms can then better track and understand changes in stakeholders' utility functions and, in turn, better address them. Furthermore, firms are better able to integrate stakeholders through structured procedures of stakeholder interaction in which they co-create the best solutions for each local area. Host

country stakeholders that have the opportunity to get involved are less likely to get exploited. The integration of stakeholders performed through the DSMC increases stakeholder value creation and prevents stakeholder value destruction.

H8: The application of the DSMC will positively affect stakeholder value creation.

At the same time firms receive valuable input from their stakeholders that enhances learning and innovation so that value can be created for both sides. Strategic management scholars (e.g., Porter & Kramer, 2006, 2011) emphasize the idea of “shared value creation” for both the firm and society. Firms may achieve that through interactive and cooperative relationships among stakeholders and the firm (Ramachandran, 2011; Zolkiewski et al., 2006). Firms are then able to achieve targets that are also valued by stakeholders (Readman & Grantham, 2006; Reuter et al., 2010). Dynamic capabilities scholars also suggest applying dynamic capabilities for targets beyond financial performance and competitive advantage (Arend & Bromiley, 2009; Helfat & Peteraf, 2009). They argue dynamic capabilities may be valuable for any specific object or multiple objects (Winter, 2003) and may then serve multiple roles, such as financial performance *and* ethical performance (Arend, 2013), sustainability (Castiaux, 2012; Foerstl, Azadegan, Leppelt, & Hartmann, 2015; Foerstl, Reuter, Hartmann, & Blome, 2010), or other (stakeholder-related) targets.

The previously made arguments for H7 and H8 suggest that a DSMC enables the firm to effectively create both value for stakeholders and value for the firm. At the heart of stakeholder theory lies the assumption that firm value is created *through* stakeholder value creation. Furthermore, the success of a firm is determined by the inclusion of the entire stakeholder network and its ability to establish and maintain relationships to all of them (Post et al., 2002). In his seminal work, Freeman (1984) suggested that when one firm creates more value for its stakeholders than another firm, it will be more successful than the other firm. Following this reasoning, it is not the *amount* of stakeholder relationship management that is

crucial for firm performance but its *quality*, as indicated by the value created for stakeholders. Most empirical studies have missed that point so far. They evaluate the relationship between stakeholder relationship management (and the similar approach of CSR that contains stakeholder relationship management) and firm performance without considering the amount of value created for stakeholders. These studies simply assume that stakeholder relationship management *must* result in stakeholder value since that is its mission. However, stakeholder relationship management (or CSR) activities may or may not be successful in achieving their mission (Greenwood, 2007; Harrison & Bosse, 2013). The implementation solely of stakeholder relationship management may not be sufficient to create stakeholder value (and, in turn, firm value) (Greenwood, 2007). Harrison and Bosse (2013) suggest firms should allocate their resources along three dimensions: understanding the stakeholder environment, identifying ways to create value with and for stakeholders, and implementing those ways that create most value for both sides. For these dimensions the DSMC offers the best approach as it systematically analyzes stakeholder environments, co-creates the best local solutions with stakeholders, and links stakeholder demands to business opportunities so that value for the firm is created through stakeholder value creation.

H9: The effect of DSMC-application on firm performance will be mediated by stakeholder value creation in the way that stakeholder value creation will intensify the positive effect of DSMC-application on firm performance.

The nine hypotheses aim at clarifying the influences on and outcomes of the DSMC. The first six hypotheses address influences that support or hinder the DSMC and also include interaction effects among these influences. Knowing and understanding these effects helps in developing and applying the DSMC. The last three hypotheses address the outcomes of the DSMC. Understanding the outcomes of the DSMC is the fundamental argument for its implementation and further development in research and practice.

In the following sections, I test these hypotheses. I will describe the process of survey design and data collection before I provide all relevant details on the data analysis procedure. The results will support most, but not all, of the hypotheses so that potential future research questions arise.

4. Method

In this chapter I describe the survey design, the data collection procedure, and the data analysis process. I will then test my nine hypotheses regarding influencing factors on and outcomes of the DSMC.

4.1. Data Collection

I designed a questionnaire which was then sent to supply chain managers responsible for an international supply chain. I chose a survey because it is the most appropriate method to receive the same information from many firms in a short time. Supply chain managers answered detailed questions regarding their stakeholder relationship management in their home country (which is Germany) and their strategically most important host country (which they define). From this information I investigated the degree of DSMC present in each firm. On the survey I also asked managers regarding the firm's motives to engage with stakeholders, the pressure they perceive from stakeholders, and their understanding of host country conditions. Furthermore, managers provided information regarding firm performance and their perception of stakeholder value creation.

4.1.1. Survey Design

For data collection I developed an online-survey (see Appendix A) following the methodology of Dillman, Smyth, & Christian (2014). The survey started with an introduction that described the purpose of the study, the persons and institutes involved, and the attributes demanded of respondents. I used multiple-item screens in order to increase the data quality and reduce the time respondents need to read and answer the questions (Couper, Traugott, & Lamias, 2001). I designed the questions in simple and effective wording, starting with more general questions that are easier to answer, followed by more complex questions that require more sensitive data

(Dillman et al., 2014). This order suits the research model because earlier questions address independent variables while the later questions address the dependent variables (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). For most of the questions I applied established scales. A scale for firm motives to engage with stakeholders or to perform other CSR activities (“CSR motives”), however, was not available, so that I developed that scale (see section 4.4.2.). All scales receive more detailed description in section 4.2.1. and appear in an overview in Appendix A. I then translated the survey from English into German using back-translation (Brislin, 1980) and sent the survey in German language. I pre-tested the survey with students of a business school in Heilbronn, Germany, and incorporated the feedback on these tests before the survey was ready for data collection.

4.1.2. Target Audience and Collection Procedure

In order to approach the supply chain managers, I used the XING platform which is an online social network for professionals. XING has more than ten million German users who are employed or self-employed, which represents more than 25% of the overall 42 million employed or self-employed individuals in the German economy (Statistisches Bundesamt, 2015). The social network represents industries similar to those of the German economy and can be categorized as follows (XING/German economy¹) IT, finance, and trade service providers (27%/42%), industry (20%/20%), service providers (16%/14%), media & consulting (13%/9%), transport, pharmaceuticals & construction (6%/10%) and others (18%/22%).

The managers I approached to take part in the study work in German companies and are responsible for multinational supply chains, from which they work in different national stakeholder environments. Supply chain managers are best suited for this study because, beyond knowing the strategic directions provided by top management, they also understand and lead

¹ Relative representation of German industries cited from Statistisches Bundesamt (2015).

local operating procedures. Supply chain managers are, furthermore, responsible for balancing top management targets with stakeholder expectations in a way that minimizes costs and risks (Akintoye, McIntosh, & Fitzgerald, 2000; Walker, Di Sisto, & McBain, 2008; Zhu, Sarkis, & Lai, 2007). As corporate decision makers (usually at middle management level) they have (at least some) strategic resources to develop capabilities along the supply chain. It is one of the supply chain manager's responsibilities to scan the firm's environment for opportunities and risks - which stakeholder demands belong to - and to address them appropriately (Mentzer et al., 2001; Tate, Ellram, & Kirchoff, 2010). They then plan and lead interactions with stakeholders such as suppliers or institutions, for which they apply their individual perceptions of host country conditions. These activities require both (formal) accountability to be able to make decisions and individual abilities to appropriately perform them that cannot be covered by any other person in a firm, making supply chain managers uniquely qualified as the target audience for this study. The stakeholders of interest for this study are those involved in or affected by the procurement and production part of the supply chain. The primary stakeholders are (1) employees and (2) suppliers, and secondary stakeholders are (3) communities and state institutions and (4) the public and NGOs.

I contacted Germany-based companies for comparability reasons so that all companies have the same home country. I asked participants to respond only when their Germany-based company has business relationships in more than three different countries so that all have a minimum level of experience in creating and managing stakeholder relationships in several countries. For my pre-defined attributes of respondents I set concrete attribute filters in the social network platform. The filters applied were "job level = manager", "job position = supply chain manager"², and "home country = Germany". The number of people that met all these characteristics is 3,177 and I sent survey invitations to all of them. Since no mass mail function

² During the pretest I identified frequently used synonyms of "supply chain manager" as job position which are "logistic manager", "procurement manager". I also applied these filters.

is available in the XING platform I sent 3,177 individualized messages via the personal message function. Approaching the people directly, however, was likely to increase the response rate and the filters set were likely to increase the quality of data. I did not send any reminders and collected the data between August 2014 and January 2015. The reason for this time span was the restriction of only being able to send one thousand messages via XING per month and my decision to exclude December from data collection due to a lower expected response rate. Participation in the study was voluntary, anonymous, and without remuneration. Respondents received the opportunity to order the report of the study after publication.

4.1.3. Data Sample

In all, 463 surveys were submitted, which resulted in a response rate of 14.57%. From these, 45 cases were deleted due to more than 50% missing values, and 12 cases were deleted because they did not answer the questions for their host country engagement so that the home-host comparison was not possible. Three cases were deleted due to a high likelihood that more than one came from the same company (discovered by company size, age, industry and host country) violating the assumption of independent observations (Stevens, 2009). The resulting sample size for the analysis is 403 cases and fulfills established sample size recommendations (Bartlett, Kotrlik, & Higgins, 2001; Stevens, 2009). The sample characteristics are summarized in Table 2.

Table 2. Sample Characteristics

Attribute	Distribution
Company size	12.9% small and medium (<250 employees), 60.5% big (250-420000 employees) (26.6% MV)
Home country	56.8% German, 16.6% non-German (26.6% MV)
Host country	25.8% BRIC, 28.5 % EU, 8.9% North America, 14.7% other countries (22.1% MV)
Industry	10.7% automotive, 10.2% trade, 9.2 engineering, 8.4% chemicals, pharmaceuticals & synthetics, 6.9% transportation & logistics, 6.7% services, 4.7% electronics, 3.7% food, 3.7 metal, 2.2% energy, 2.2% health care, 2.2% textile, 3.7% other (25.3% MV)
Listing on the stock exchange	20.5 % listed, 53.1% not listed (26.6% MV)

Note. MV=missing value; BRIC=Brazil, Russia, India, or China; EU=European Union.

4.2. Measures

I measured the following constructs: dynamic stakeholder management capability (DSMC), value creation for stakeholders, value creation for the firm, stakeholder pressure, psychic distance, and firm motives to engage with stakeholders. I calculated power difference among home and host country stakeholders from the collected data. I collected additional data as control variables, such as company size and age, industry, or host country. The dependent and independent measures are latent constructs that I validated by applying confirmatory factor analysis (CFA). Because no appropriate measure for CSR motives of the firm was available, I operationalized that construct for this study and applied established operationalization procedures. In the following sections I provide the details of the variables and scales applied in the survey and the procedures for operationalizing and confirming the scales.

4.2.1. Variables and Scales

I used multi-item scales for all dependent and independent variables because they reflect different facets of complex or multidimensional constructs and achieve a more accurate picture of reality. I applied single-item measures only for control variables. While single-item measures

result in higher response rates and fewer missing values (Bergkvist & Rossiter, 2007; Drolet & Morrison, 2001), they often lack quality in terms of construct reliability and validity (Churchill, 1979; Peter, 1979). Multi-item measures, in contrast, increase scale reliability (Böckenholt & Lehmann, 2015; Churchill, 1979) and reduce measurement error (Baumgartner & Homburg, 1996). Furthermore, the pre-tests of the study suggested that multi-item questions increase the participant's understanding regarding the information they should provide. I applied bipolar 7-point Likert scales to measure most of the constructs. The scales ranged from -3 to +3 (see Appendix A for the scale overview)³ and contained a psychological zero category (0) at the mid-point of the scale (Rossiter, 2002; Schwarz, 1999). Some of the control variables I measured with open questions (such as industry, host country). To minimize missing data (Couper et al., 2001), I included only a few open questions with entry boxes. All scales receive more detailed description in the following.

Dependent Variables. I measured the *DSMC* through a procedure of three steps. First, I applied the “stakeholder integration” scale operationalized and validated by Plaza-Úbeda et al. (2010). In their study Plaza-Úbeda et al. identify the three dimensions “knowledge of stakeholders”, “interaction between a firm and its stakeholders” and “adaptation of a firm’s behavior to stakeholder demands” as most relevant for stakeholder integration. These dimensions are similar to those suggested by the stakeholder management capability (Freeman, 2010) (see section 2.1.3.), namely the rational, process, and transactional levels. Plaza-Úbeda et al. emphasize the relevance of stakeholder integration for corporate strategy development and organizational learning and suggest combining these areas in future research. I address their call and applied their scale with adaptations that turned out to be necessary during the pretests⁴.

³ For the analysis I transformed these scales into scales ranging from 1 to 7.

⁴ These include (1) adaptations in wording, such as ‘regularly’ instead of ‘frequently’ (‘interaction1’) which was criticized by pretest participants for being not specific enough and (2) adaptations in content such as ‘practices’ instead of ‘priorities’ (‘adaptation1’) because participants responded that priorities were not well discussed or documented in the firm and practices much easier to evaluate. Six items I deleted because participants responded that they were not able to distinguish their content from that of other items or they were upset to receive a similar question with reverse wording (that was included in the Plaza-Úbeda et al. scale as an attention check).

The 10 items I applied suit the content of the three levels of the DSMC. Since the DSMC aims at adapting stakeholder integration to cross-country differences and time-related changes, I did not measure the degree of stakeholder integration (as Plaza-Úbeda et al. do) but the degree of its adaptation from home to host country. I therefore applied the scale twice, asking the respondents to answer these ten questions for stakeholders in their home country and in their host country of highest strategic relevance. I then calculated the home-host country difference for each of the ten items. These differences reflect the firm's degree of adaptation of their stakeholder relationship management from home to host country. Higher values indicate higher degrees of stakeholder relationship management adaptation from home to host country, while lower values suggest that the firm applies similar engagement in various countries.

The application of difference scores is criticized by some scholars for creating reliability and validity issues (Edwards, 1994a, 1994b, 2001b; Peter, Churchill, & Brown, 1993). These problems may occur when difference scores reflect a “fit, match, agreement, or similarity between two distinct constructs” (Edwards 1994b: 51) such as cultural difference (Håkanson & Ambos, 2010), self-concordance (Bono & Judge, 2003) or ambidexterity (He & Wong, 2004), as they do in congruence studies. Difference scores in congruence studies should, however, not be confused with difference scores that measure a change of a single construct or a difference between two (or more) points of time (or between countries (Tisak & Smith, 1994)). The DSMC measures a change (specifically, an adaptation) of one construct and not a fit between two constructs, so that these problems are unlikely to be relevant in this study. To still account for the statistical arguments made by these scholars I performed some tests that did not indicate

reliability and validity issues⁵ in the difference scores applied. With these difference scores I performed a factor analysis to build the DSMC measure.

The DSMC reflects a firm's ability to adapt stakeholder relationship management to time-related changes or cross-country differences. Adapting the stakeholder relationship management from home to host country, I assume, requires similar processes, resources, and knowledge as adapting it over time. I therefore argue that cross-country adaptations reflect a DSMC in a similar way as would time-related adaptations. I furthermore assume that a firm will be most likely to develop such a capability for the host country of highest strategic relevance but will be able to apply that capability also for other country-specific stakeholder environments.

During the factor analysis I eliminated items that did not sufficiently load on the construct. I expected the three dimensions of the DSMC to be similar in terms of the degree of their application (as suggested in section 3.1.3) so that they would load on one factor rather than on three. The exploratory factor analysis showed that seven out of the ten items for the DSMC loaded on a single factor meaning that these items shared a sufficient amount of variance to belong to a single construct. However, three of the ten items, namely those belonging to the knowledge capability, loaded on more than one factor meaning that they did not share enough

5 (1) High correlations among the components may lead to lower reliability of the difference score compared to its components Peter, Churchill, and Brown (1993). The components of the DSMC have an only moderate correlation of on average $r=0.625$ and the reliability of the difference score ($\alpha =0.894$) is not lower than the reliability of the components (home country $\alpha =0.895$; host country $\alpha =0.901$). (2) difference scores may result in discriminant validity issues (Peter et al. 1993). Low reliability values of a difference score may lead to low correlations among difference scores and other constructs and then create the illusion of discriminant validity. The DSMC shows but a high reliability value ($\alpha =0.894$) so that the described effect on correlations is unlikely. Still, the correlation among the DSMC and other constructs is low (between -0.5 and 0.35) so that a sufficient level of discriminant validity is achieved. (3) Difference scores may result in information loss for the prediction of the outcome variable compared to their components Peter et al. (1993). This, however, depends on the content the difference value reflects and the relevance of that content for the study. For congruence studies it may be a valid argument that the effect of each component on the outcome tells more than the effect of their difference. In this study, however, a firm's ability to adapt its stakeholder relationship management is the variable of interest. The effect of the adaptation cannot be reproduced by its components which would be the effect of the stakeholder relationship management in each country.

variance with the other items of the construct. I eliminated these items to ensure a sufficient level of discriminant validity of the construct (Liden & Maslyn, 1998). The elimination has, however, significant drawbacks for the content of the scale that I will address in the limitations part (see section 5.2.). The remaining seven items showed high loadings on one factor and good reliability and validity values (see Appendix A for the factor loadings of the latent constructs). From these items I built the average which is the value of my DSMC.

Value creation is a multi-dimensional construct. I therefore measured stakeholder value creation and firm value creation with single-item questions that I applied to each dimension of interest. For *stakeholder value creation* I asked the respondents to indicate the degree to which they create value for four predefined stakeholder groups (1) employees, (2) suppliers, (3) communities and state institutions, and (4) the public and NGOs. The factor analysis later suggested unifying most of these dimensions into the construct of *stakeholder value creation*, and to do so I used the average of these values.

For *firm value creation* I asked firms to indicate the degree to which they create value within the following dimensions: firm performance (profits, competitive advantage), social performance (business ethics, reputation, legitimacy), and supply chain performance (innovation, efficiency, and certification). I chose these dimensions and items because they reflect the targets supply chain managers are responsible for accomplishing. Again, factor analysis suggested uniting these items into the construct of *firm value creation*.

Independent Variables. I measured *stakeholder pressure* by asking the level of strategic relevance for each of the four predefined stakeholder groups in home and host country. The pre-tests of the survey suggested the initial question to determine the level of “pressure”⁶ was misleading and resulted in misunderstandings. This may be due to different applications of the term pressure in English and German language. Most participants did not feel pressured by

⁶ Initial survey question: Please assess to what extent you felt pressure from the following stakeholders to engage in CSR practices. (adapted from Sarkis et al. 2010)

any of their stakeholders, even though they admitted considering stakeholder demands in order to prevent risks. *Stakeholder pressure* was taken to mean more radical activities of stakeholders such as boycotts, strikes, or media campaigns. Discussions with pre-test participants to find a more appropriate term that reflected the anticipated meaning resulted in stakeholder “relevance” as a proxy for pressure. Previous research supports this proxy because both terms reflect the ability of stakeholders to affect management decisions (e.g., Sarkis et al., 2010; Buysse & Verbeke, 2003; Frooman, 1999) and engage managers in satisfying their needs. Strategic stakeholders are those that have the legitimacy, urgency, and power to affect the firm (Mitchell et al., 1997) and are therefore those most visible to managers, in other words, those who exercise the most pressure on managers. The factor loadings of the factor analysis suggested uniting the items about primary stakeholders (employees and suppliers) into one construct and the items about secondary stakeholders (communities & state institutions and public & NGOs) into another construct.

For *power difference of stakeholders* I calculated the difference between home and host-country stakeholder relevance for each of the three stakeholder groups ((1) employees, (2) suppliers, (3) secondary stakeholders). These differences reflect the degree to which host-country stakeholders are less able than home-country stakeholders to affect managers’ decisions. High values indicate that home country stakeholders have a higher potential to affect firm behavior than their host country counterparts, while low values indicate that home and host-country stakeholders have similar abilities to affect firm behavior.

I measured *psychic distance* with the established multidimensional scale of Dow and Karunaratna (2006) because of all scales available it suits best the multi-stakeholder case. The scale measures perceived differences of home and host country in the dimensions of (1) language, (2) political and legal systems, (3) education, (4) economic and industrial development, (5) culture and religion differences, and (6) lifestyle. Factor loadings (see Appendix A) supported the overall construct of psychic distance.

For *firm motives* I developed a scale which I describe in more detail in section 4.2.2.

Control Variables. I controlled for effects beyond the hypothesized effects and included several control variables. Previous studies suggest and empirically support findings that corporate decision-making in the field of CSR, sustainability, and stakeholder management is likely to be affected by company *size*, *age* (Margolis & Walsh, 2003; Orlitzky & Benjamin, 2001; Rowley & Berman, 2000; Victor & Cullen, 1988) and *industry* (Brammer & Millington, 2008; Chatterji & Toffel, 2010; Strike et al., 2006). I measured size and age of the firm with open questions and asked participants to insert their SIC-code to determine the industry classification. A firm's public *visibility* is likely to affect its strategic directions regarding stakeholder management (Chiu & Sharfman, 2011; David et al., 2007; Neubaum & Zahra, 2006; Rehbein, Waddock, & Graves, 2004). I applied market capitalization as a proxy for firm visibility and asked respondents whether the firm is listed on a stock exchange. A *parent company* outside Germany may have significant effects on the overall value system and corporate culture of a firm including the way it chooses and justifies investments (Bansal & Roth, 2000b; Crilly, 2011). I measured existence of a parent company with a dummy question asking whether the firm's parent company is in Germany or not. The *type of host country*, such as industrialized or developing, may also affect firm behavior regarding stakeholders (Arya & Zhang, 2009). Furthermore, different institutional frameworks of industrialized countries are likely to affect the way stakeholders are considered (Jackson & Apostolakou, 2010; Matten & Moon, 2008). I therefore asked for the strategically most relevant host country and classified the responses into BRIC, EU, and North American countries. Finally, firms with higher levels of *international experience* are likely to be more routinized with regard to international stakeholder issues and may be advanced in channeling their resources in order to address these issues (Strike et al., 2006). I therefore measured international experience by asking for the number of countries in which the firm has business activities and, therefore, stakeholder relationships.

4.2.2. Operationalization and Confirmation of Latent Constructs

I found existing measures for all of the independent variables of the study except for *CSR motives* of the firm. I assume that the motives of a firm to engage in CSR activities will similarly affect the firm's stakeholder relationship management. This is reasonable because most practitioners count a behavior that aims primarily at stakeholder value creation as CSR-behavior. I developed a *CSR motives* scale for this study and describe the operationalization procedure of the scale in this section. The operationalization of a construct includes its definition, its domain, attributes and further characteristics (Rossiter 2002) and a comprehensive factor analysis containing exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) with a comprehensive validity and reliability assessment. In order to ensure a similar quality level for all latent constructs of the study, especially after the necessary translations and adaptations, I perform EFA and CFA for all latent constructs of this study. The details of that procedure I describe for the new developed *CSR motives* scale, however, that procedure is exemplary for all latent constructs of this study.

Operationalizing the CSR Motives Scale. I developed a *CSR motives* scale that measures firm motives to engage in CSR activities (which includes stakeholder-related activities as mentioned in section 2.1.1) following the processes recommended by Churchill (1979), Rossiter (2002) and Homburg (1996). These include (1) the definition of the construct, (2) classification of the object (Churchill, 1979), attribute and rater of the construct (Rossiter, 2002), (3) scale formation, (4) pre-testing (Churchill 1979; Rossiter, 2002), and (5) reliability and validity assessment (Homburg, 1996). I performed points (1)-(4) prior to data collection and (5) after data collection.

First, based on a literature review and the definition of my *CSR motives* construct, I specified its domain (Churchill, 1979). The relevant part here was to be clear about "what is included in the definition and what is excluded" (67). As previously defined (see section 2.1.4), *CSR motives* are the firm's intended purposes to plan and perform CSR or stakeholder-related

activities, which are all activities that aim at a positive social or environmental effect. It is not necessary that the activities are labeled as CSR or stakeholder-related activities but rather that they are invented for the purpose of a positive social or environmental effect. Other effects, such as financial impact, are not included in the scale. Furthermore, the success of CSR activities is beyond the scope of the scale because the intended purpose of engaging in these activities must be independent of the likelihood of actually meeting the desired target(s). A company's motives also do not contain individual beliefs and motives of single employees. Rather, it is a person's (here the supply chain manager's) perception of what is intended by "the company". This intended behavior may be desired by the top management, which expects employees to behave in line with these intentions, or it may be part of a strong shared organizational culture, leading employees to behave in line with a certain value system.

Second, I followed the C-OAR-SE procedure recommended by Rossiter (2002) to classify the object, attribute, and rater of the construct as follows: The *object* of the construct is the company at which the rater is employed. I assume all raters (employees) to know what their object (employer) is and to have only one such object. The object is therefore concretely singular. The *attribute* of the construct is motives to plan and perform CSR activities. Such activities contain but are not limited to stakeholder related activities. Rossiter's C-OAR-SE framework classifies this attribute as a second-order eliciting attribute because it fulfills the following characteristics: (1) Motives are an abstract attribute meaning that raters are likely to have different understandings of what firm motives are. This makes the attribute non-concrete and therefore not measurable with a single item. (2) Following that, the measure must contain multiple items that represent an "adequate sample of its manifest proximal consequences" (Rossiter, 2002: 318). Based on previous theoretical and empirical studies (Chiu & Sharfman, 2011; e.g., Husted & Allen, 2007; Reimann, Ehrgott, Kaufmann, & Carter, 2012; Sarkis et al., 2010) and on the expert judgment during my interviews with two CSR consultants, I identified the following reasons why firms engage in CSR activities: they aim at improving corporate

reputation, achieving legitimacy for corporate activities, generating trustful business relationships, addressing stakeholder needs, protecting environmental resources, fulfilling ethical firm values, tackling future social and environmental challenges, taking part in current social and environmental improvements, strengthening the competitive position, increasing profits, and achieving relaxed regulation. These motives appeared most frequently in previous studies⁷ and were also suggested by the CSR consultants I interviewed. There may be more or other reasons for a firm to engage in CSR activities, however, the key for developing my CSR motive scale was to identify the *main* components of the attribute rather than *every* possible component and to make them concrete and measurable. The identified items were indicative rather than defining of the attribute and they were interchangeable to the extent that an appropriate sample of three to five items per dimension resulted in sufficient reliability values.

(3) Previous research further suggests that most motives to engage in CSR activities can be categorized as rather strategic or rather moral. I therefore expected *CSR motives* to consist of two dimensions which are *moral motives* and *strategic motives* (see section 2.1.4). *Moral motives* and *strategic motives* are then themselves attributes and also consist of components. “The components of these components, that is, the first-order components, must be concrete” (Rossiter, 2002: 313) so that they can be evaluated by the rater. The EFA and CFA later showed which components belonged to the sub-scales of *moral motives* and *strategic motives*.

The *rater*, which is the respondent, has important implications for reliability assessment as he/she/they provide(s) information regarding the items of the attributes that depend on his/her/their perspective, experience, or knowledge (Rossiter, 2002). Motives for CSR activities

⁷ My literature research to CSR motives included: Agle et al., 1999; Aguilera et al., 2007; Aguinis & Glavas, 2012; Bansal & Roth, 2000; Berman et al., 1999; Bird et al., 2007; Brammer & Millington, 2008; Brammer & Pavelin, 2006; Busse, 2016; Campbell, 2007; Caruana & Chatzidakis, 2014; Chiu & Sharfman, 2011; Ditlev-Simonsen & Midttun, 2011; Foerstl et al., 2010; Freeman et al., 2010; Glavas & Piderit, 2009; Greenwood, 2007; Harrison & Wicks, 2013; Husted & Allen, 2007; Kolk & van Tilder, 2010; Margolis & Walsh, 2003; Orlitzky, 2013; Orlitzky et al., 2003; Pedersen, 2011; Phillips, 2003; Porter & Kramer, 2006; Ramachandran, 2011; Reimann et al., 2012; Sarkis et al., 2010; Scherer et al., 2013; Spar & La Mure, 2003; Srivastava, 2007; Strike et al., 2006; van der Laan et al., 2008; Vlachos et al., 2009; Wang et al., 2016; Wolf, 2014; Zhu et al., 2007.

were evaluated by a sample of supply chain managers of German companies with multinational supply chains. The rater was classified as a “group,” because it is a group of supply chain managers that rated the intention of their companies to engage in CSR activities. For the reliability assessment, the combination of a group as rater identity and eliciting attributes suggest coefficient alpha as reliability estimate (Rossiter, 2002).

Third, to form my scale I put together the object item parts and the attribute item parts. For a singular concrete object, I multiplied the attribute part items by one. The second-order eliciting attribute with two components (*moral motives*, *strategic motives*) contained eleven items. EFA explored whether these components were supported by the data. I chose intensity-free wording (see Table 3) so that the degree of agreement was implemented solely in the response options. I put the items in randomized order to minimize response-set bias.

Forth, I pre-tested the scale following Dillman’s (2000) 4-stage pre-testing process. This process included four steps. (1) Cognitive interviewing (Churchill, 1979; Rossiter, 2002) with CSR consultants from a Berlin-based consulting firm. Consultants with stronger research experience (holding a doctoral degree) evaluated the classification of the object, attributes, and rater identity as well as the comprehensibility of the scale and relevance of each item. (2) I performed structured interviews with the consultants who have extensive practical experience. They evaluated the scale for understanding, preciseness, and unbiasedness. (3) I performed a pilot study at a business school in Heilbronn, Germany. Students were employed full time in addition to their studies, and some held management positions in their companies. (4) External evaluators provided feedback regarding the scale structure, understanding, wording, etc. During the pre-test procedure I incorporated the feedback by slightly adapting the scale in terms of wording and structure. After this process of defining, pre-testing, and adapting the scale, I included it in my survey and collected the data for this study.

Fifth, I performed EFA and CFA to evaluate the validity and reliability of the construct based on the data I collected for this study (see section 4.1 for the data collection procedure and

sample characteristics). Content validity is “the extent to which a measurement reflects the specific intended domain of content” (Carmines & Zeller, 2008: 20). Since there is no quantitative indicator for content validity (Hoskisson, Hitt, Johnson, & Moesel, 1993), I bases the content validity on (a) the literature review that provided the basis for the items chosen (as described earlier in this section), (b) previous scales applied by other scholars of the field, and (c) the interviews with experts and pre-tests as described above. In order to operationalize my *CSR motives* scale I followed the process recommended by Homburg (1996) to operationalize complex constructs. I performed exploratory factor analysis (EFA) with the SPSS software package (version 22). SPSS extracted factors with varimax rotation and eigenvalues >1 (Pallant, 2013). The program structured the data and tested which items belong to the same construct or dimension of a construct (Tabachnick & Fidell, 2001). Highly significant correlations among these items indicated that they reflect the same construct (Gerbing & Anderson, 1988; Peter, 1979). For EFA I avoided a priory hypotheses (Tabachnik & Fidell, 2001) meaning that I did not suppose which item was rather moral or rather strategic⁸.

I based the evaluation of the scale items on reliability and validity estimates such as factor loadings, Cronbach’s Alpha, and item to total correlation (Homburg, 1996). Reliability is the “degree to which measures are free from random error and thus reliability coefficients estimate the amount of systematic variance in a measure” (Peter & Churchill, 1986: 4). Items are reliable reflections of a construct as far as their variance can be explained in association with the underlying construct. Validity is the degree to which “differences in observed scores reflect true differences on the characteristic one is attempting to measure and nothing else” (Churchill, 1979: 65). A construct is valid when it measures what it aims to measure. While reliability requires minimization of random error, validity requires minimization of both random and systematic error. One can typically presume convergent validity when items of a

⁸ The same approach I apply for the variables ‘stakeholder pressure’ and ‘value creation for the firm’ as I expect them to contain sub-scales.

latent construct correlate highly with each other, meaning that the latent factor is well explained by its observed items. One can presume discriminant validity when items of a latent construct correlate more highly with each other than with items of another latent construct. I obtained several validity and reliability measures during the EFA. Items that loaded high (>0.4) on a single factor showed a sufficient degree of convergent and discriminant validity. Cronbach's Alpha is the most applied reliability criterion. It measures the internal consistency of a scale based on the correlations among item sets that consist of all possible half split combinations. The usual threshold for classifying a construct as acceptably reliable is 0.7 (Nunnally, 1978). Cronbach's Alpha may, however, underestimate internal consistency (Raykov, 1997; Raykov, 1998) and is sensitive to the number of items in the scale. For constructs with low Alpha values it is therefore recommended to additionally calculate the item-to-total correlation (Nunnally, 1978), which measures the relationship among an item and the total score of all scale items. Table 3 provides the survey questions, the short names of the items, EFA factor loadings on the two factors and the quality assessment for the *CSR motives* scale.

Table 3. Factor Loadings for Exploratory Factor Analysis of the CSR Motive Scale

Survey question and quality assessment	Item short name	Factor loadings	
		Factor 1	Factor 2
We engage in CSR and sustainability related activities in order to...			
...improve our reputation.	Reputation	.445	.501
...take part in social and environmental improvements.	Soc./environ. Improvements	.864	
...strengthen our competitive position.	Competition	.300	.685
...be a trustworthy firm and business partner.	Trustworthiness	.708	.383
...prevent stricter regulation or relax current regulations.	Regulation		.574
...fulfill our ethical values.	Ethics	.839	
...increase sales and/or safe costs.	Profit		.780
...address stakeholder needs.	Stakeholders	.556	
...tackle future social and environmental challenges.	Soc./environ. future	.853	
...protect environmental resources.	Resource efficiency	.819	
...achieve legitimacy for our corporate activities.	Legitimacy		.636
$\alpha = .841$; $VE = 57.551$.			

Note. Factor loadings $< .300$ are excluded. α = Cronbachs Alpha; VE = Variance extracted.

The EFA factor loadings reflect the degree of joint variation of the items. High loadings (>0.4) on one factor and considerably lower loadings on other factors indicate convergence and discriminant validity for the items that belong to the same construct (Liden & Maslyn, 1998). I therefore eliminated items that load equally high on both factors or low on both factors. The item “reputation,” for example loaded equally high on the two factors which makes it impossible to categorize the item. All other items support a categorization into two sub-scales as they load high on only one of the two factors. I built the dimensions based on these factor loadings and treated each dimension as a sub-scale: the first dimension contained “social/environmental improvements”, “trustworthiness”, “ethical values”, “stakeholder needs”, “future social/environmental challenges”, and “resource efficiency”. These items derive from a firm’s moral orientation and its willingness to give something back to society. They are, therefore, moral motives (Aguilera et al., 2007). The second dimension contained the items “competitive position”, “profit”, “regulation” and “legitimacy”. These are strategic motives because they address corporate success rather than society-related interests (Aguilera et al., 2007). The results of the EFA supported the categorization of the items into my *moral motives* and *strategic motives* sub-scales (see Table 3). While these sub-scales do not contain every possible moral or strategic motive to engage in CSR activities, they do reflect the main components of these sub-scales and make them concrete and measurable. In a second EFA-round I performed the analysis with each sub-scale in order to see whether the items load only one factor now. The factor loadings and Cronbach’s Alpha again supported the identified sub-scales (see Table 4). During this round I excluded the item “regulation” from the *strategic motives* sub-scale because that increased the Cronbach’s Alpha value (from 0.574 to 0.677). Increases in Cronbach’s Alpha means a higher level of internal consistency and the Alpha value was now close to the target threshold. For the *strategic motives* scale I additionally calculated the mean inter-item correlations (MIIC) which is the average of all bivariate correlations among the items and reflects the degree to which items of a scale assess the same content (Briggs &

Cheek, 1986). A value of MIIC=0.348 was within the recommended range of 0.2-0.4 indicating that the items of the *strategic motives* scale were reasonably homogeneous and still contained sufficient unique variance as to not be isomorphic. I further calculated the inter-item correlation matrix in order to check whether any negative values existed that indicated that the items were not likely to measure the same construct. No negative values were present. I then checked the corrected item-total correlations which is corrected by excluding the item of interest from the total score so that it reflects the consistency of an item with the averaged but unbiased behavior of the other items. All values were within the recommended range of 0.30-0.70 (Ferketich, 1991) and affirmed that the *strategic motives* scales was of sufficient quality for regression analysis. The results of the second EFA round and the CFA I present in Table 4.

Table 4. Factor Loadings for Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) of the CSR Motives Sub-scales

Variable name, items, and quality assessment	EFA	CFA
Moral motives		
Soc./environ. improvements	.857	.841
Trustworthiness	.769	.737
Ethics	.839	.795
Stakeholders	.628	.540
Soc./environ. future	.852	.834
Resource efficiency	.825	.759
VE = 63.836; α = 0.884; CR = 0.888; AVE = 0.574; MSV = 0.048; ASV = 0.017.		
Strategic motives		
Competition	.796	.693
Profit	.706	.433
Legitimacy	.698	.572
VE = 51.303; α = 0.677; MIIC=0.348; CR = 0.685; AVE = 0.391; MSV = 0.518; ASV = 0.109.		

Note. VE = Variance extracted; α = Cronbach's Alpha; MIIC = Mean inter-item correlations; CR = Composite Reliability; AVE=average variance extracted, MSV=maximum shared variance; ASV=average shared variance. The MIIC was additionally calculated due to a low α .

Confirming Latent Constructs. The confirmatory factor analysis (CFA) evaluates whether the scales established in earlier works and the scale operationalized for this study can be confirmed with sufficient reliability and validity values (Ullman & Bentler, 2003). The AMOS

software package uses structural equation modeling and maximum likelihood (Baumgartner & Homburg, 1996) for calculating the reliability and validity measures (Anderson & Gerbing, 1988; Tabachnick & Fidell, 2001). Since AMOS does not proceed with missing values in the sample, I created sub-samples for this analysis in which all observations with missing values were excluded. Too much data loss could affect the liability of the analysis (Field, 2009) so that I created three sub-samples and excluded the observations with missing values in the variables of interest. The first sub-sample contained all items for the independent variables, the second sub-sample the DSMC items, and the third sub-sample the items for the value creation variables. I then performed the factor analysis in each data set and evaluated the quality of the constructs based on additional validity and reliability criteria and model fit indices.

Appendix A provides all estimates for the factor analysis (including EFA and CFA) for the latent constructs of the study (excluding the *CSR motives scales* that are presented in Table 3 and 4). The values of all constructs were similar for the EFA and CFA analysis, indicating that there was no big difference between the full sample applied in EFA (with SPSS and pairwise deletion of missing values) and the sub-samples applied in CFA (with AMOS and complete deletion of observations with missing values). The underlying theory was supported by the factor loadings, allowing me to split *stakeholder pressure* into the dimensions *primary stakeholder pressure* and *secondary stakeholder pressure*. *Firm value creation* was also a multidimensional construct containing a financial, a CSR, and a supply chain dimension. While these dimensions reflect the aspects that entail firm value creation, their disaggregation is of lesser relevance for this study. Thus, I aggregated them to the higher order construct (Johnson, Rosen, & Chang, 2011) of firm value creation. For aggregated constructs no internal consistency of indicators is required (Edwards, 2001a), but the set of indicators should explain more than 70% of the variance (Johnson et al., 2011), which was the case (variance extracted: 75.079).

Table 4 (for CSR motives scales) and Appendix A (for the remaining constructs) also include the validity and reliability assessment that I performed using a Stats Tool Package for Excel called Validity Master (Gaskin, 2016). I evaluated the convergent validity based on the composite reliability and average variance extracted (AVE). Composite reliability reflects the internal consistency of a measure that contains heterogeneous but similar items (Bollen, 1989; Fornell & Larcker, 1981). AVE measures the amount of variance that is captured by a construct relative to the variance due to random measurement error (Hair, 2010). Values above 0.5 indicate a sufficient degree of convergent validity (Dillon & Goldstein, 1984). I evaluated discriminant validity based on maximum shared variance (MSV) and average shared variance (ASV) by applying the procedure proposed by Fornell and Larcker (1981; Voorhees, Brady, Calantone, & Ramirez, 2016). Following that, discriminant validity maybe a problem if AVE is smaller than MSV or ASV.

Some of the quality values were initially not satisfying and needed further investigation. *Primary stakeholder pressure* had a problematic reliability value ($\alpha = 0.611$). As previously for the *strategic motives scale*, I calculated the mean inter-item correlations (MIIC=0.282), the inter-item correlation matrix (no negative values), and the corrected item-to-total correlation matrix (ITC values all between 0.332-0.448). All values were within the recommended ranges and supported applying the scale for further analysis. Also *power difference primary stakeholders* ($\alpha = -0.034$) and *power difference secondary stakeholders* ($\alpha = 0.656$)⁹ had low or even non-acceptable reliability values. These were, however, two-item scales so that neither item-total correlation nor mean inter-item-correlation were applicable. The recommended alternative for these cases is the Spearman-Brown-Coefficient which is an equivalent to standardized Cronbach's Alpha for two-item scales. The Spearman-Brown-Coefficient of 0.657

⁹ To account for the potential issues mentioned in section 4.2.1 that may come with difference scores, I also analyzed the correlation among the components (all $r < 0.3$) and among the difference score and other constructs (all $r < 0.3$.) and found no indication for validity problems.

suggested a sufficient correlation among the items of *power difference secondary stakeholder* (Eisinga, Grotenhuis, & Pelzer, 2013) meaning that the scale provided a sufficient internal consistency. *Power difference primary stakeholder* was, however, not supported by this coefficient so that I had to exclude the scale as a latent construct from further analysis.

The model fit assessment indicates whether the model is supported by the sample data or not. I evaluated the model fit based on inference statistic criteria, such as chi-square (χ^2 , χ^2/df), root mean square error of approximation (RMSEA) and (adjusted) goodness-of-fit indexes (AGFI/GFI). I then evaluated the model in comparison to alternative models based on comparative indexes, such as the comparative fit index (CFI) and the normed fit index (NFI) and parsimony-corrected indexes (PGFI, PCFI). A model is supported when the competing models can be rejected.

Table 5. Model Fit Indices for Confirmatory Factor Analysis of Non-Missing Value Sub-Samples

Model fit Indice	Sub-sample (missing values excluded)			
	CSR	IVs	DSMC	VC
χ^2	539.131	171.177	39.165	188.805
χ^2/df	2.098	1.359	2.176	2.390
RMSEA	0,063	.052	.065	.084
GFI	0,869	.917	.966	.894
AGFI	0,834	.888	.931	.839
NFI	0,862	.940	.967	.896
CFI	0,922	.967	.982	.936
PGFI	0,687	.690	.579	.589
PCFI	0,79	.810	.675	.704

Note. χ^2 = chi-square, df = degrees of freedom; RMSEA = root mean square error of approximation; GFI = goodness-of-fit indexes; AGFI = adjusted goodness-of-fit indexes; NFI = normed fit index; CFI = comparative fit index; PGFI = parsimony-corrected goodness-of-fit indexes; PCFI = parsimony-corrected comparative fit index.

Table 5 summarizes the model fit indices for the sub-samples that I applied for the CFA due to the exclusion of missing values for the AMOS software package. The sub-samples

contain all observations without missing values in (1) the CSR motives scale items (“CSR”), (2) the scale items of the remaining independent variables (“IVs”), (3) the scale items of the Dynamic Stakeholder Management Capability (“DSMC”), and (4) the scale items of the value creation variables (“VC”). I analyzed the model fit indices with these sub-samples in order to minimize the data loss through missing value elimination.

The Chi-square test (χ^2) measures the difference among the variance covariance matrices of the data and the model. χ^2/df calculates chi-square-test relative to the degrees of freedom, which is often a more appropriate approach, as a lot of assumptions are required otherwise (Weiber & Mühlhaus, 2014). Values lower than 3 indicate a good fit (Hair, 2010). The root mean square error of approximation (RMSEA) (Browne & Cudeck, 1992) compares the anticipated model to a perfect (saturated) model. Values smaller than 0.1 are acceptable, and values smaller than 0.05 are preferred (MacCallum, Browne, & Sugawara, 1996).

The goodness-of-fit index (GFI) calculates the weighted proportion of variance based on the estimated population covariance matrix, which is analogous to R^2 in multiple regression (Tanaka & Huba, 1989). Values above 0.9 are generally good fit values (Lance, 2006; Sharma, Mukherjee, Kumar, & Dillon, 2005). This index can be adjusted for the number of parameters estimated in the model, which then results in the adjusted goodness-of-fit index (AGFI) for which values above 0.8 indicate a good fit (Taylor, Bagby, & Parker, 2003).

The normed fit index (NFI) (Bentler, 1990; Bentler & Bonett, 1980) is a comparative fit index and evaluates the estimated model by comparing its χ^2 value with the χ^2 value of the null model. Values greater than 0.95 indicate a good fit (DeVellis, 2012). The comparative fit index (CFI) (Bentler, 1990) compares the non-central χ^2 distribution with non-centrality parameters that reflect the discrepancy between the data and the hypothesized model. Values above 0.90 indicate a sufficient model fit (Hair, 2010; Kenny & McCoach, 2003). The parsimony fit index takes into account the degree of parsimony in the model and compares it with the null model.

The model fit indexes GFI and CFI are therefore parsimony-corrected (PGFI/PCFI). Values above 0.8 indicate a good fit as they are usually smaller than those of most indexes unless the number of parameters is much smaller than the number of data points (Tabachnick & Fidell, 2001).

Based on the reliability, validity and model fit assessment I excluded items of a construct or even a whole construct from further analysis. *Power difference primary stakeholders* consisted of the items *power difference of employees* and *power difference of suppliers*. The items, however, did not have enough in common to function as a latent construct. I therefore apply these items as separate variables for the further analysis. All constructs were then ready for the data analysis procedure that tested the hypotheses of the study.

4.3. Data Analysis

After collecting the data and developing the measures I analyzed the data and tested my nine hypotheses. Before I investigated the relationships among variables, I evaluated the quality of the data. During a data collection several biases may occur, such as bias due to missing values, nonresponse bias or common method bias. What these biases are, how they occur and how I tested for their appearance I will describe in the next section. A first indication of relationships among variables is the correlation among them. I discovered these correlations in the descriptive analysis before I performed a comprehensive regression analysis, which I show in the upcoming sections.

4.3.1. Data Quality Assessment

For the data quality assessment, I performed a missing value analysis and tested for nonresponse bias and common method bias.

Missing Value Analysis. Research that involves survey responses from human beings is unlikely to ever create complete data samples. In order to evaluate whether missing values

may have caused biases for the data analysis, I analyzed the patterns of the missing values and checked whether they occur randomly or with a systematic pattern (Graham, Cumsille, & Elek-Fisk, 2006; Schafer & Graham, 2002). Little's Missing Completely At Random (MCAR) test showed an insignificant p-value ($p=0.281$) suggesting that the values missing in the database did not have a systematic pattern but were missing completely at random. The missing values did therefore not significantly bias the results. In SPSS I chose pairwise deletion of observations with missing values. For each analysis the program excluded observations that had missing values in one or more of the variables applied. I chose pairwise deletion because the data loss is smaller than with listwise deletion in which all observations are excluded that have *any* missing value.

Nonresponse Bias. Data collected with online surveys maybe sensitive to nonresponse bias (Couper, 2000). This bias occurs if nonresponding persons significantly differ from responding persons (Armstrong & Overton, 1977; Colombo, 2000; Ramsey, Thompson, McKenzie, & Rosenbaum, 2016). Since all persons that received the link to the survey were treated anonymously, no data were available regarding their response or nonresponse. An accepted alternative method to test for nonresponse bias is to equate the latest respondents with those that did not respond (Armstrong & Overton, 1977; Homburg, Hoyer, & Fassnacht, 2002). The group of late respondents is then compared to a group of early respondents in order to determine whether these groups differ significantly. I therefore asked all participants to type the date of their survey invitation; the date of their submission was tracked automatically. The difference between these dates was their response time. I performed the test, similar to the practice of other scholars (e.g., Frank, Enkawa, & Schvaneveldt, 2014; Koch & Benlian, 2015), by splitting the dataset and grouping the 25% with the shortest response time and the 25% with the longest response time. I then conducted a test for normal distribution to decide about the further test procedure. The Kolmogorow-Smirnow test for normal distribution suggested that almost all variables were not normally distributed. Solely the variables *moral motives* ($d=0.82$,

$p=0.108$) and *firm value creation* ($d= 0.71$, $p=0.2$) had non-significant p-values that suggested a normal distribution. Based on that, I went on with the Independent Sample T-test for the normal distributed variables and the Mann Whitney U-Test for not-normally distributed variables. The Mann-Whitney U-Test suggested no significant difference between early and late respondents for all variables tested. A nonresponse bias was, therefore, unlikely. The Independent Sample T-test, however, suggested significant differences between the groups for the variables *moral motives* and *value creation for the firm*. I calculated the effect size to evaluate the magnitude of that difference. The eta squared for both variables (*moral motives* eta squared=0.023 and *value creation for the firm* eta squared=0.028) was small (Cohen, 2013), so that the effect of the difference did not cause serious problems (Tabachnick & Fidell, 2001). I concluded that I cannot discover a problematic nonresponse bias in the sample.

Common Method Bias. I generated all data for the analysis with the survey methodology, which may result in common method bias. This type of bias refers to errors that may influence several measures in a similar way. In turn, correlations may at least partly be explained by the fact that variables come from the same source rather than due to a substantive relationship. All constructs of the analysis are two-item or multi-item scales, which are less threatened of being affected by common method variance. Nevertheless, not all constructs had satisfying reliability values, which heightens the concern for common method variance (Spector, 1987). I therefore conducted the following tests to evaluate the likelihood of that bias. First, I performed Harman's (1976; Podsakoff & Organ, 1986) single factor test using SPSS. The premise of this test is that exploratory factor analysis (EFA) examines the unrotated factor solution to determine the number of factors necessary to account for the variance in the variables. If a single factor accounts for the majority of the variance, common method variance is present. The analysis of all items of the dependent and independent variables resulted in eleven factors with eigenvalues greater 1.0. The first factor had an eigenvalue of 7.678 and accounted for 18.73 percent of variance. The remaining ten factors had eigenvalues between

1.04 and 5.22 and accounted for additional 52.44 percent of variance. Since the first factor explained much less than 50 percent of the variance, common method variance was not a problem in this dataset.

To confirm that conclusion, I conducted a further test as recommended by Podsakoff et al., (2003) using AMOS. Again, I used a sub-sample without missing values because AMOS is not able to proceed with missing values in the dataset. The remaining sample consisted of $n=159$. For the test I compared two models, one of which had all items loaded solely on their theoretical construct and the other had a common latent factor added to the model. The factor loadings on the common latent factor were constrained to be equal in order to avoid underidentification of the model. A comparison of model fit indexes showed similar values for inclusion and exclusion of the common factor (inclusion/exclusion) (CMIN=1760.26/1761.36; $df=915/916$; CMIN/ $df=1.924/1.923$; $p=<0.001/p<0.001$; RMSEA=0.076/0.076; $TLI^{10}=0.758/0.758$; CFI=0.786/0.786; $IFI^{11}=0.792/0.792$). A chi-square difference test of the models showed that this difference was not significant (Δ CMIN=1.1, Δ $df=1$) suggesting that the common latent factor did not add value to the model and should be eliminated. From both tests I concluded that common method variance was not a problem.

4.3.2. Descriptive Analysis

Descriptive statistics including mean and standard deviation of all continuous dependent and independent variables, the correlations among them, and the discriminant validity of latent constructs is shown in Table 6.

¹⁰ Tucker Lewis Index for model fit assessment in structural equation models (Tucker and Lewis, 1973)

¹¹ Incremental fit index for model fit assessment in structural equation models (Bollen, 1989)

Table 6. Descriptive Statistics, Correlations, and Discriminant Validity of the Dependent and Independent Variables

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Firm size	25359.653	66493.818	n/a												
2 Firm age	81.378	65.268	.304**	n/a											
3 Psychic distance	3.179	1.615	.033	-.075	.800										
4 Moral motives	5.260	1.143	.164**	.031	.109*	.758									
5 Strategic motives	5.041	1.141	.138*	.063	-.011	.542**	.625								
6 Pressure prim. stakeh.	6.113	.798	.070	.052	-.109	.325**	.149**	.786							
7 Pressure sec. stakeh.	4.628	1.361	.097	.168**	-.067	.249**	.234**	.164**	.787						
8 Power diff. employees	.583	1.436	-.049	-.020	-.054	.007	.008	-.215**	-.212**	n/a					
9 Power diff. suppliers	.190	1.120	-.011	-.005	.097	.025	.005	-.123*	.023	-.017	n/a				
10 Power diff. sec. stakeh.	-.132	1.308	-.006	-.018	.234**	.050	.090	-.052	-.080	.177**	-.035	.696			
11 DSMC	.434	.966	-.097	-.094	-.083	-.007	.059	-.050	-.162**	.329**	.067	.220**	.743		
12 Value creation stakeh.	4.624	.951	.166*	.060	-.036	.327**	.177**	.134*	.348**	-.032	.017	-.036	.133	.757	
13 Value creation firm	4.790	1.046	.094	.029	.014	.377**	.275**	.257**	.212**	-.025	.037	.018	.141*	.551**	.790

Note. N = 255; SD = standard deviation; diagonal presents square root of AVE (for latent constructs).

*p<0.1. **p<0.05.

4.3.3. Regression Analysis

I will now discuss the preparation and performance of the regression analysis to test the relationships in my hypotheses (see section 3.2.). To prepare the analysis I tested whether the assumptions for the ordinary least squares approach (OLS) were fulfilled. I then applied hierarchical regression analysis in which I added the independent variables block-wise, followed by a floodlight analysis that investigated the proposed interaction effects among independent variables. Among the results of highest interest was the mediation of *stakeholder value* and *firm value creation*, which I tested with a mediation analysis. Nominal factors, such as the kind of host country or the industry the firm belongs to, may have affected the results. I therefore performed a sub-sample analysis in which I investigated some of these effects.

OLS Assumptions. In order to perform the following analysis with OLS regression, some assumptions had to be fulfilled (e.g., Tabachnick & Fidell, 2001). I tested the hypotheses with three regression models (for the dependent variables DSMC, stakeholder value creation, and firm value creation) and, therefore, tested the following assumptions for these three models. To apply OLS regression, the regression residuals should be normally distributed and homoscedastic and should not include outliers. Multicollinearity among independent variables should be avoided. I tested these assumptions as follows.

Normality. Normality of residuals assumes that the differences between the obtained and the predicted scores of the dependent variables are normally distributed among the dependent variables scores. I tested this with a visual inspection and a significance test. Figure 3 shows the normal probability plots (p-p-plots) of the regression standardized residuals and the scatterplot for each of the three models. The p-p-plots showed some deviations from a straight diagonal line suggesting deviation from normality. The Kolmogorow-Smirnow test (KS) and the Shapiro-Wilk test (SW) supported deviation from normality for the variables *DSMC* ((KS) $d=0.090$, $p=0.014$; (SW) $d=0.969$, $p=0.005$) and *value creation for stakeholders* ((KS) $d=0.094$, $p=0.008$ / (SW) $d=0.961$, $p=0.001$), while *value creation for the firm* seemed to

be normally distributed ((KS) $d=0.051$, $p=0.200$ / (SW) $d=0.987$, $p=0.261$). Violation of the normality assumption does not necessarily lead to biases or inefficiencies in the regression model. For small samples (such as $N < 200$), it may affect the p-value for significance estimation (Cohen, 2010; Statistic Solutions, 2013). Since the sample size of this study ($N > 400$) is higher than required, disturbances are distributed nearly normally due to the central limit theorem. I therefore tolerated that violation of the normality assumption.

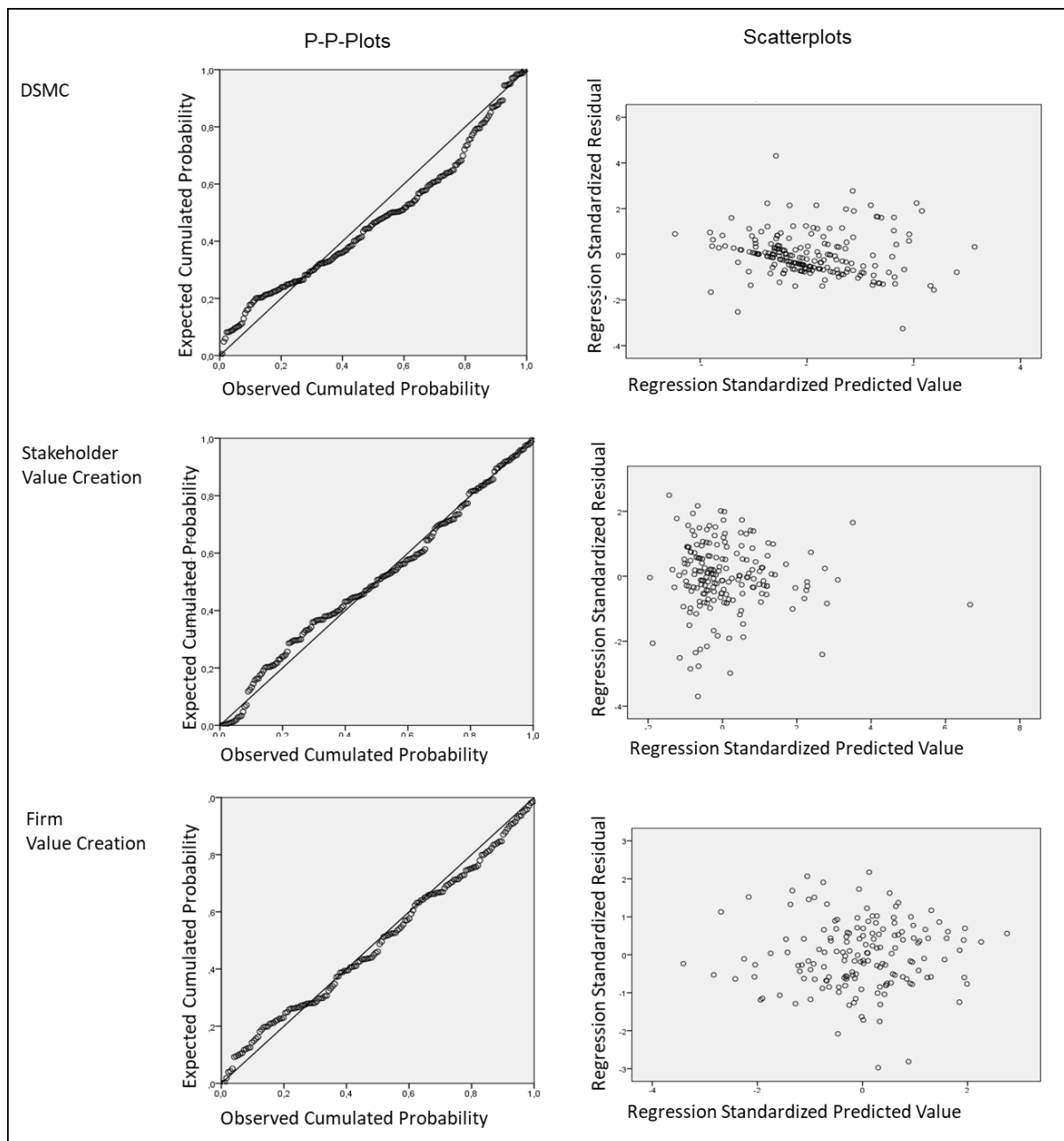


Figure 4. Normal P-P-Plots and Scatterplots for the Regression Models predicting the DSMC, Stakeholder Value Creation, and Firm Value Creation

Heteroscedasticity. Heteroscedastic residuals may cause biased significance tests, standard errors and confidence intervals when OLS is applied (Gujarati, & Porter 2009). The scatterplots presented in Figure 4 showed some deviation from rectangularly distributed residuals, suggesting violations of the heteroscedasticity assumption. However, visual inspection of scatterplots merely gives an indication of whether heteroscedastic distribution of residuals is likely. I therefore applied the Breusch-Pagan (1979) test to test whether heteroscedasticity was a problem. The test suggested that I could not reject the null hypothesis that the residuals are homoscedastic for the models predicting the *DSMC* ($\chi^2=23.347$, $p=0.176$), *value creation for stakeholders* ($\chi^2=26.090$, $p=0.494$) and *value creation for the firm* ($\chi^2=9.685$, $p=0.467$). I therefore assumed the residuals to be not heteroscedastic so that heteroscedasticity was not a problem.

Outliers. Scatterplots also indicated the presence of outliers. Outliers maybe problematic because multiple regression is very sensitive to extreme scores. Again, the visual indication was not a sufficient diagnosis for whether outliers were problematic. I therefore calculated the Mahalanobis distances (MAH-1) and determined the critical chi-square value with the number of independent variables as degrees of freedom (Pallant, 2013). All maximum MAH-1 values were below the critical chi-square value for each of the three models. The case-wise diagnostics showed only one or two observations per model with standardized residual values outside the range between -3.0 and 3.0. For these cases I checked the Cook's Distance to evaluate the influence of these observations on the results. Cook's Distance >1 suggests major problems (e.g., Tabachnik & Fidell, 2007). For the regression models of all three dependent variables the maximum values of Cook's Distance were far below 1 (*DSMC*: 0.207; *stakeholder value creation*: 0.099; *firm value creation*: 0.102). It was therefore not necessary to eliminate further observations as outliers from the dataset.

Multicollinearity. Multicollinearity refers to a strong relationship among independent variables that may cause biases within the regression model. The correlation matrix indicated

that independent variables were correlated but not highly correlated ($r < 0.7$). In addition, I conducted the variance inflation factor (VIF) and evaluated whether multicollinearity was a problem. A $VIF > 10$ indicates serious problems (Gujarati & Porter, 2009). The VIF values for all variables of the study ranged from 1.065 to 1.753 so that multicollinearity was not a problem.

After testing and confirming the assumptions for OLS regression, I performed the hierarchical regression analysis to test my nine hypotheses regarding the DSMC.

Hierarchical Regression Analysis. With this approach I added variables stepwise in blocks into the regression equation so that I could evaluate each block in terms of its prediction of the dependent variable while controlling for the effects of the previous blocks (Cohen, 2010; Pallant, 2013; Tabachnick & Fidell, 2001). I split the predictive variables into seven blocks, based on their theoretical foundation and their predictive role for the analysis: (1) control variables (*firm age, firm size*), (2) CSR motives (*moral motives, strategic motives*), (3) stakeholder pressure (*pressure from primary stakeholders, pressure from secondary stakeholders*), (4) power difference between home and host country stakeholders (*power difference employees, power difference suppliers, power difference secondary stakeholders*), (5) *psychic distance*, (6) interactions of moral motives and stakeholder pressure (*moral motives*pressure from primary stakeholders, moral motives*pressure from secondary stakeholders*), (7) interactions of strategic motives and power difference (*strategic motives*power difference employees, strategic motives*power difference suppliers, strategic motives*power difference secondary stakeholders*). I applied regression equation (1) for the analysis:

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \dots + \beta_ix_i + \varepsilon \quad (1)$$

with y being the dependent variable, $x_1 \dots x_i$ being the independent variables, β_0 being the intercept constant, $\beta_1 \dots \beta_i$ being the regression coefficients, i being the number of independent variables, and ε being the error term. Appendix B provides an overview of the applied regression equations for the three models that represented the research model. For the

hypothesized moderating and mediating effects, I performed a floodlight analysis and a mediation analysis which I describe in the following.

Floodlight Analysis. Interaction effects with a continuous moderator are traditionally performed by splitting the sample into either two (e.g. via median split) or three groups (small, medium, and large value of the moderator) for which the simple effects of the independent variable on the dependent variable are analyzed and compared. However, the reduction of a continuous to a dichotomized or a categorical variable results in a substantial loss of information and statistical power. This may, in turn, lead to inappropriate results (e.g., Irwin & McClelland, 2001, 2003; Maxwell & Delaney, 1993; Vargha, Rudas, Delaney, & Maxwell, 1996). Spotlight and floodlight analysis (Fitzsimons, 2008; Krishna, 2016; Spiller, Fitzsimons, Lynch, & McClelland, 2013) advance the area of moderation analysis by enabling the inclusion of a continuous moderator without information loss. There has been a remarkable increase in the use of spotlight and floodlight analysis in works published in leading management and marketing journals (e.g., Grinstein & Riefler, 2015; Shepherd, Chartrand, & Fitzsimons, 2015).

Floodlight is a special case of spotlight analysis, and I will explain the broader concept first. Spotlight is a regression-based technique that analyzes simple effects of the independent variable at particular values of the moderator. This is done by adding or subtracting a constant from the original moderator variable in order to make the value of interest the zero point on the recoded scale. The “magic number zero” effect (Spiller et al., 2013) then shines a spotlight on the simple effect of one variable at a meaningful level of the other variable. This meaningful level of interest may be one standard deviation from the mean or it may be a specific value that is relevant for theoretical or substantive reasons. For example, if the item of interest is the effect of *primary stakeholder pressure* on *DSMC* at a *moral motives* value of 2, I replace *moral motives* with $moral\ motives = moral\ motives' - 2$ and apply this to the regression equation. When $moral\ motives' = 0$ is set, the original raw score for moral motives is equivalent to 2, which is the value of interest. Since in this study all values of the moderator scales are equally

meaningful and interesting, I applied a special case of spotlight analysis called “floodlight” analysis (Spiller et al., 2013). Here I performed the described procedure for all possible values of the moderator. With floodlight analysis I tested the simple effects of the independent variable at all values of the moderator and identified the turning points at which the effect turns from non-significant to significant. Floodlight analysis, also known as the Johnson-Neyman technique (Bauer & Curran, 2005; Hayes, 2013; Hayes & Matthes, 2009) offers the investigation of interaction effects with a lot more information than traditional approaches, including an exact range of significant values compared to the formerly applied one standard deviation above and below the mean value of the moderator that did not offer any insight on trends or turning points of significance. Since these trends and turning points are of interest in this study, I used regression equation (2) for the floodlight analysis:

$$DSMC = \beta_0 + \beta_1 x'_1 + \beta_2 x_2 + \beta_3 x'_1 x_2 \quad (2)$$

with β_0 being the intercept, β_1 to β_3 being the regression coefficients, x'_1 being the transformed moderator variable, and x_2 being the independent variables involved in the interaction effect. For the interaction between *moral motives* and *pressure from primary stakeholders* I built x'_1 as $moral\ motives' = moral\ motives - Z$, for which Z was every possible value for *moral motives* present in the database (which are the values 1-7). I did the equivalent for the interaction effect in which *strategic motives* was the moderator. Equation (2) represents the reduced model of the analysis in which I investigated the isolated interaction effects. In a second step I performed the analysis for the full model.

Mediation Analysis. A significant mediation effect indicates a causal relationship among the variables since a “mediation is ultimately a causal explanation. It is assumed that the relationships in the system are causal, and, importantly, that M is causally located between X and Y. It must be assumed ... that X causes M, which in turn causes Y” (Hayes, 2013: 89).

For testing the mediation effect of H9 I applied two approaches: first, the traditional Baron & Kenny (1986) approach and second, the increasingly recommended Hayes (2013)

approach. Functioning as the basic logic for mediation analysis for decades, the Baron & Kenny approach consists of three steps that test for mediation. First, a significant effect of the independent variable (X) on the mediator (M) (path a). Second, a significant effect of the independent variable (X) on the dependent variable (Y), which is the direct effect (path c'). Third, a significant effect of the mediator (M) on the dependent variable (Y) (path b) while controlling for the effect of the independent variable (X). Figure 5 presents the path model of the Baron & Kenny approach. This approach has recently been criticized for the redundancy of its second step (path c') and insufficiency of the Sobel test (Hayes, 2013; Zhao, Lynch, & Chen, 2010).

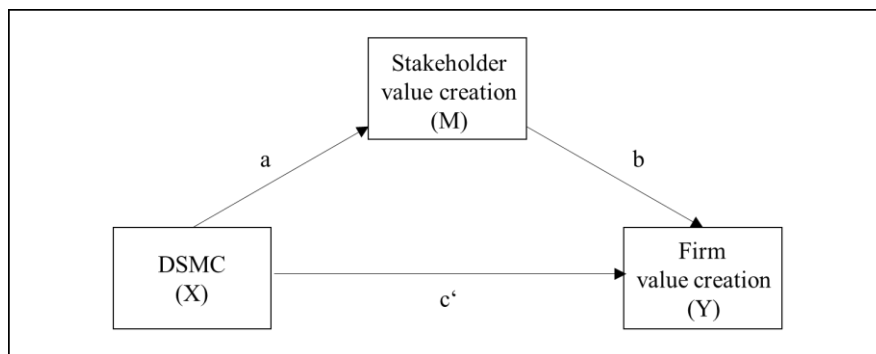


Figure 5. Generic Mediation Model Being Tested (on the Basis of Baron & Kenny, 1986)

Preacher & Hayes (2004, 2008) therefore developed a tool for SPSS that is more powerful in analyzing direct and indirect effects of a mediation. The PROCESS tool for SPSS uses bootstrapping, by which it builds hundreds or thousands of random samples off the original sample and, thereby, increases its statistical power. The tool then estimates the regression coefficients for the direct, the indirect, and the total effect of the mediation based on OLS regression. PROCESS, however, treats missing values with listwise deletion which reduced the sample (N=169). Applying both approaches increased the quality and credibility of the results and, furthermore, tested the robustness of the results across the two sample sizes.

Subsample Analysis. Finally, I performed a sub-sample analysis in order to include further (nominal) control variables and to assess the robustness of the results across selected sample modifications. Results that are robust to sample modifications are more generalizable and provide more explanatory power. Results that differ along sample modifications, however, provide additional information regarding further effects that may serve as the basis for future research questions. For the sub-sample analysis I compared the regression results of the full sample (N=255) with those of sub-samples with the following characteristics: Not listed on a stock exchange (N=171), German parent company (N=186), high international experience (N=125), high risk industry (N=85), BRIC host country (N=75), industrialized host country (N=109). High risk industries included automotive, chemicals/pharmaceuticals/synthetics, engineering, energy and the metal industry. BRIC host countries included Brazil, Russia, India and China while industrialized host country included the EU and North America. Previous research found that CSR-relevant management decisions may be very different in industrialized and low cost countries in which stakeholders often lack voice and regulatory frameworks that support their interests. Other sub-samples (such as stock-exchange-listing, non-German parent company, low international experience, and low risk industries) were of too small sample size and therefore excluded from the sub-sample analysis.

5. Results and Limitations

This chapter summarizes the results of the data analysis and draws attention to some limitations of the study. Six of the nine hypotheses were supported, one hypothesis was partly supported, and two hypotheses were not supported. These results will be explained in more detail in the following section (section 5.1). Every study has its limitations and knowing and understanding these limitations is essential for the interpretation and generalization of results. I therefore summarize the limitations of this study in section 5.2.

5.1. Results

Table 7 provides the results of the hierarchical multiple regression analysis that tested hypotheses H1 to H6. I added the independent variables block-wise in seven steps. Three of the five hypothesized interaction effects showed significant results so that I further investigated their effect with a floodlight analysis. I performed the floodlight analysis for the reduced model, including only the interaction variables so that the effect was isolated from other influences, and for the full model, including all independent and control variables. I present the isolated effects and the effects of the full model in Table 8.

The results did not support H1 and H2. They suggested that *moral CSR motives* (H1) and *strategic CSR motives* (H2) significantly affect the *DSMC*, which is not in line with the results. H3 and H4 were supported. In line with H3 and H4, *pressure primary stakeholders* and *pressure secondary stakeholders* have moderated effects on the *DSMC*. Table 8 shows, that the effect of *pressure primary stakeholders* on the *DSMC* was significantly positive for low levels of *moral motives* ranging from 1 to 3 and significantly negative for high values of *moral motives* ranging from 6 to 7. This is in line with H3. The effect of *pressure secondary stakeholders* on the *DSMC* was significantly negative for low levels of *moral motives* ranging from 1 to 5 and not significant for higher levels of *moral motives*. This is in line with H4.

Table 7. Unstandardized Estimates of the Hierarchical Multiple Regression Analysis Predicting the DSMC

Predictor	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7
Constant	0.550 (0.097)**	0.333 (0.326)	0.809 (0.515)	0.121 (0.505)	0.486 (0.535)	0.853 (0.574)	0.867 (0.572)
Firm age	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
Firm size	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Moral motives		-0.039 (0.063)	-0.006 (0.066)	-0.048 (0.063)	-0.025 (0.063)	-0.032 (0.063)	-0.029 (0.063)
Strategic motives		0.085 (0.063)	0.103 (0.063)	0.084 (0.060)	0.072 (0.060)	0.073 (0.059)	0.074 (0.058)
Pressure prim. stakeh.			-0.036 (0.080)	0.070 (0.078)	0.046 (0.078)	-0.021 (0.084)	-0.032 (0.083)
Pressure sec. stakeh.			-0.119 (0.047)**	-0.065 (0.045)	-0.072 (0.045)	-0.054 (0.045)	-0.476 (0.229)**
Power diff. employees				0.196 (0.042)**	0.183 (0.042)**	0.166 (0.042)**	0.161 (0.042)**
Power diff. suppliers				0.075 (0.051)	0.084 (0.051)	0.092 (0.050)*	0.104 (0.050)**
Power diff. sec. stakeh.				0.118 (0.044)**	0.141 (0.045)**	0.138 (0.045)**	0.121 (0.046)**
Psychic distance					-0.074 (0.037)**	-0.076 (0.037)**	-0.068 (0.037)*
Pressure prim. stakeh. x moral motives						-0.096 (0.046)**	-0.096 (0.046)**
Pressure sec. stakeh. x moral motives						0.132 (0.055)**	0.137 (0.055)**
Power diff. employees x strategic motives							-0.073 (0.064)
Power diff. supplier x strategic motives							0.044 (0.075)
Power diff. sec. stakeh. x strategic motives							0.159 (0.065)**
R ²	0.014	0.021	0.048	0.166	0.180	0.208	0.231
adj. R ²	0.006	0.006	0.025	0.136	0.146	0.169	0.183
F	1.793	1.352	2.087*	5.436***	5.345***	5.309***	4.798***

Note. Standard errors are in parentheses. Pressure prim. stakeh. = Pressure from primary stakeholders; Pressure sec. stakeh. = Pressure from secondary stakeholders; Power diff. employees = power difference between home and host country employees; Power diff. suppliers = power difference between home and host country suppliers; Power diff. sec. stakeh. = power difference among home and host country secondary stakeholders. N = 255.

*p<0.1. **p<0.05. ***p<0.001.

Table 8. Moderator Values and Unstandardized Estimates of the Floodlight Analysis for the Interaction Effects Predicting the DSMC

Moderator value	Moderator: Moral motives				Moderator: Strategic motives	
	Pressure primary stakeholders		Pressure secondary stakeholders		Power difference secondary stakeholders	
	Isolated Effect	Full Model	Isolated Effect	Full Model	Isolated Effect	Full Model
1	0.375*	0.683***	-0.300*	-0.438**	0.150***	0.180***
2	0.287*	0.535***	-0.187*	-0.306**	0.152***	0.199***
3	0.146	0.268**	-0.156*	-0.232**	0.155***	0.205***
4	0.026	0.091	-0.136**	-0.154**	0.157***	0.208***
5	-0.104	-0.070	-0.121***	-0.102**	0.160***	0.215***
6	-0.231**	-0.232**	-0.117**	-0.056	0.152***	0.188***
7	-0.382***	-0.402***	-0.119	-0.002	0.149***	0.189***

Note. Turning points are in boldface. "Isolated Effect" represent coefficients of the regression model with only the interaction variables; "Full Model" represents coefficients of the regression model including all independent and control variables. DSMC = Dynamic Stakeholder Management Capability.

*p<0.1. **p<0.05. ***p<0.01

H5 was partly supported. As suggested, *power difference among home and host country stakeholders* have a moderated effect on the *DSMC*. The results shown in Table 7 supported that the effect is moderated by *strategic motives* and the floodlight analysis (Table 8) further supported that the effect is positive for all levels of *strategic motives*, with slightly varying strength of the effect and a peak at a *strategic motives* level of 5. The effect was, however, significant only for secondary stakeholders and not for primary stakeholders. *Power difference* for all stakeholders had, furthermore, a significant positive direct effect on the *DSMC*. H6 was supported. It suggested that *psychic distance* negatively affects the *DSMC*, which is in line with the results shown in Table 7.

Table 9. Unstandardized Estimates of the Hierarchical Multiple Regression Analysis Predicting Stakeholder Value Creation and Firm Value Creation

Predictor	Stakeh.VC				Firm VC					
	Step 1		Step 2		Step 1		Step 2	Step 3		
Constant	4.550	(0.104)***	4.471	(0.109)***	4.752	(0.117)***	4.661	(0.123)***	2.008	(0.314)***
Firm age	0.000	(0.001)	0.000	(0.001)	0.000	(0.001)	0.000	(0.001)	0.000	(0.001)
Firm size	0.000	(0.000)**	0.000	(0.000)**	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
DSMC			0.149	(0.067)**			0.165	(0.075)**	0.076	(0.065)
Stakeh.VC									0.593	(0.066)***
R ²	0.028		0.050		0.009		0.032		0.308	
adj. R ²	0.018		0.036		-0.001		0.017		0.294	
F	2.961*		3.664**		0.914		2.208*		22.366***	

Note. DSMC = Dynamic Stakeholder Management Capability; Stakeh.VC = stakeholder value creation; Firm VC = firm value creation; N = 206.

*p<0.1. **p<0.05. ***p<0.001

Table 9 shows the results for the hierarchical regression analysis testing H7-H9 in which I added the variables in two steps for the dependent variable *stakeholder value creation* and in three steps for the dependent variable *firm value creation*. H7 was supported because the *DSMC* showed a significant positive effect on *stakeholder value creation*. H8 was supported because the *DSMC* also positively affected *firm value creation*. The results in table 9 also support the mediation effect suggested in H9. *Stakeholder value creation* positively affects the relationship between the *DSMC* and *firm value creation*. I tested this mediation effect with two approaches, the traditional Baron & Kenny (1986) approach and the contemporary approach suggested by Hayes (2013). Both approaches support the mediation effect. I summarize their results in table 10. A bootstrap analysis (5000 bootstrap samples, 95% confidence interval) estimated the direct, indirect and total effect of the mediation. The results showed an insignificant direct effect in which zero is included in the confidence interval (b=0.1013, se=0.0618, t=1.6388, p=0.1032, LL=-0.0208, UL=0.2234). The indirect effect (a*b) from bootstrap analysis was positive and significant (b=0.1146, BootSE=0.0477 with a 95%

Table 10. Unstandardized Estimates for the Mediation Among the DSMC, Stakeholder Value Creation, and Firm Value Creation Applying the two Analysis Approaches of Baron & Kenny (1986) and Hayes (2013)

Effect	Baron & Kenny	Hayes	
	N=206	N=196	95% CI
Path a	0.149 (0.067)**	0.185 (0.0731)**	[0.04, 0.33]
Path b	0.593 (0.066)***	0.618 (0.0646)***	[0.49, 0.75]
Path c'	0.165 (0.075)**	0.216 (0.0755)**	[0.07, 0.36]

Note. The variation in sample size is due to different approaches of missing value treatment in the two approaches. CI = confidence interval. Path a represents the effect of DSMC (X) on stakeholder value creation (M); path b represents the effect of stakeholder value creation (M) on firm value creation (Y); path c' represents the effect of the DSMC (X) on firm value creation (Y).

* $p < 0.1$. ** $p < 0.05$. *** $p < 0.01$

confidence interval excluding zero (BootLL=0.0311, BootUL=0.2195). The indirect effect was the product of the two effects in which a one-unit increase of X resulted in a 0.1854 increase in M (path a) that, in turn, resulted in a 0.6183 increase in Y (path b). I calculated the total effect of the DSMC (X) on *firm value creation* (Y), which included the effect via *stakeholder value creation* (M), by $c' = a * b + c$ which was 0.2159 ($b = 0.2159$, $se = 0.0755$, $t = 2.8609$, $p = 0.0048$, LL=0.0669, UL=0.3649).

The sub-sample analysis provides information on the robustness of the results along selected sub-samples. H1 was not supported for the full sample but for most of the sub-samples. The data support H1 for firms with a German parent company and for firms with a non-German parent company, however, with the opposite sign. H2 was supported only for high risk industries. H3 and H4 were supported for the full model while not supported for listed firms, for firms with a non-German parent, for low risk industries, and for firms with high international experience. H5 was not supported for primary stakeholders for the full model, but was supported for high risk industries, however as a negative instead of a positive effect. H5 was supported for secondary stakeholders for the full model, but not supported for listed firms, for firms with a non-German parent, for firms with an EU host country, and for low risk industries.

H6 was supported for the full model and all sub-samples. H7 was supported for the full model but not supported for firms with a non-German parent, for firms with a BRIC host country, for firms of low risk industries, and for those with high international experience. H8 was supported for the full model but not supported for firms not listed, for those with a German parent company, for firms with a BRIC host country, and for firms in low risk industries. H9 was supported for the full model and for all sub-samples.

5.2. Limitations

As for every empirical study, there are some limitations that should be taken into account for the evaluation and interpretation of the findings and that may be addressed in future research.

Data Collection & Sample. Data collected via surveys rarely create sets representative for the whole population (Gosling, Vazire, Srivastava, & John, 2004). They usually contain biases due to the criteria that respondents had to have access to the survey. In this study, only users of the professional social network platform XING received the invitation to the survey, limiting the audience to users of this platform (Hargittai, 2007). In addition, survey data may result in common method bias. I applied several tests to discover whether that bias maybe a problem. While none of them suggested a problem of common method bias, I still cannot ensure the impossibility of its existence.

Besides the sufficient sample size of more than 400 observations, the data set included a lot of missing values due to the fact that respondents did not answer some of the questions. 40% of the respondents did not answer all questions regarding firm performance, so that I performed the analysis for hypotheses H7-H9 with a sample of N=206. For some analyses I had to apply reduced samples due to specific software settings. AMOS was not able to perform analyses with data sets that included missing values so that I had to create data sets in which I deleted all observations that included missing values. In order to minimize data loss, I created several data sets that contained only the variables of interest for the specific analysis, but with

complete data. The PROCESS tool in SPSS applied listwise deletion of missing values. Listwise deletion excluded more observations than pairwise deletion, which I applied for the remaining analysis. Most of these samples had a sufficient sample size of $N > 200$. Only one analysis with the PROCESS tool was performed with a sample $N = 169$.

Measures. I applied self-reported data that could not be independently verified. They may therefore include individual biases due to selective memories or other individual effects that usually occur within self-reported data (Boonen, Quintelier, & Hooghe, 2017). *Stakeholder value creation* was measured as perceived by corporate managers which is a clear limitation of the study. While measures as perceived by key informants are usual practice (John & Reve, 1982; Kumar, Stern, & Anderson, 1993), they may include biases, especially in the case of performance evaluation. Thus, conclusions should be made with caution.

No appropriate established scale for firm motives was available, so I operationalized that scale following the recommended procedure for scale development (Churchill, 1979; Rossiter, 2002; Homburg 1996). Although I performed various tests to assess the validity and reliability of the scale, I did not have the option to test the scale with more than two samples, which is a disadvantage compared to established scales. During the factor analysis for the DSMC I had to eliminate the items that reflected the knowledge dimension of the construct due to insufficient shared variance with the other items. This means that the DSMC analyzed in this study includes the interaction capability and the adaptation capability but lacks the knowledge capability. This is a significant limitation of the study as the knowledge capability provides the information basis for the other two dimensions of the DSMC. While knowledge in fact happened in most of the companies, the adaptation of that capability did not follow a similar pattern as the other two dimensions. Future research should investigate that issue and find out what kind of pattern firms apply to understanding their stakeholders – or the market in general – in different countries. Not only the availability of information varies across countries but also its content, language, and sources. For example, a firm may receive direct feedback on working

conditions from its employees in one country while it does not in another country because the employees of that country fear losing their job when they complain about current states. A firm must then install alternative channels to receive this information such as anonymous feedback options or local mediators that support the communication between local stakeholders and the firm. My study lacks the account for these adaptations so that the investigation of my DSMC is incomplete. Understanding the adaptation of the other two dimensions of the DSMC, however, provided still a good foundation for the investigation of influences and outcomes related to the DSMC.

A similar fact happened to the construct stakeholder value creation in which I had to exclude employees during the factor analysis. Value creation for employees did not share enough variance with value creation for the other stakeholder groups included in the study. Future research may investigate how value creation for employees differs from that for other stakeholders and what that means for corporate strategic decision-making.

Results & Generalizability. The results of this study are generalizable to a limited degree for several reasons. The sample included various host countries, industries and company sizes, which increases generalizability. The sub-sample analysis, however, indicated that some of the sample modifications may result in different findings. These aspects clearly limit the generalizability of the results and should be taken into account in their interpretation. At the same time, the different results within the sub-samples provide reason for future research that further investigates these differences. The study investigated capabilities for cross-country contexts. However, all firms were German based, and I emphasize a cautious transfer of the results to firms in other countries. While the DSMC aims at including all stakeholders of a firm, this study could only investigate a limited number of them, namely those relevant in a multinational supply chain (employees, suppliers, state institutions & local communities, NGOs & the public). Future research can contribute to the generalizability of the findings by investigating similar studies for additional stakeholders.

6. Discussion and Contribution

I proposed that the DSMC enables firms to create shared value, which is value for stakeholders and the firm. I furthermore proposed a mediation effect among the DSMC, stakeholder value, and firm value, meaning that firms that apply the DSMC create more value for the firm when they create value for stakeholders in the first place. The results provide strong support for these central hypotheses and support most of the hypotheses of minor relevance.

Shared Value Creation. The creation of shared value, which is value for stakeholders (or the society at large) and the firm, is called for by stakeholder theory scholars (Bosse et al., 2009; Freeman, 1984, 2010; Harrison et al., 2010; Harrison & St. John, 1996) and, recently, by strategic management scholars (Porter & Kramer, 2002, 2006, 2011). The DSMC addresses these calls by linking stakeholder demands to business opportunities (and threats) so that these business opportunities are realized and at the same time are stakeholder demands fulfilled. This is the first central finding of the study and contributes to dynamic capabilities and stakeholder theory. Within stakeholder theory, the study contributes to the necessity of a dynamic stakeholder management approach (Castiaux, 2012; Harrison et al., 2010; Kindström et al., 2013; Lenses et al., 2010; Lenses & Midttun, 2007; Miles et al., 2006) that continuously adapts its assumptions about stakeholders so that it recognizes changes and addresses them. The DSMC aims at systematically recognizing and incorporating changes in stakeholder demands so that they can also be addressed in dynamic and complex environments, such as multinational supply chains. Within dynamic capabilities research, the findings address the requested inclusion of multiple stakeholders for dynamic capabilities development (Eisenhardt & Martin, 2000; Politis, 2005; Teece et al., 1997; Teece, 2007; Tsai, 2001; Zaheer & Bell, 2005) and show how firms can generate their knowledge from stakeholders, critically reflect their strategies and practices, and co-create innovative solutions that result in firm value.

Mediation Effect. Value creation for stakeholders and the firm can not only happen simultaneously – as shared value creation – but can also positively affect each other, as the

results of my study show. The mediating effect of the DSMC on firm value via stakeholder value is the second central finding of this study. Firms that apply the DSMC in order to create value for stakeholders, in turn, create more value for the firm. This result addresses a significant gap in the empirical validation of stakeholder theory (Aguinis & Glavas, 2012). As the first study of its kind, it tests and supports the fundamental assumption that firms are more successful when they create value for stakeholders. While this assumption is widely accepted among stakeholder theory scholars (e.g., Donaldson & Preston, 1995; Freeman, 2010; Harrison et al., 2010), it was rarely – if at all – empirically tested for multiple stakeholders. Some studies have addressed a similar relationship for single stakeholder groups (e.g., Lev et al., 2009; Vlachos et al., 2009). Most studies, however, have evaluated the effect of stakeholder relationship management (or CSR) on firm performance rather than on stakeholder value creation. These scholars apparently assume that firms' stakeholder-related activities must, to some extent, result in stakeholder value. Previous research suggests that such activities do not automatically result in stakeholder value but may have no effect or may even destroy value, at least for some stakeholders (Greenwood, 2007; Haksever et al., 2004). Studies that have evaluated the effect of stakeholder relationship management on firm performance still come to inconclusive results (Aguinis & Glavas, 2012; Berman et al., 1999; McWilliams & Siegel, 2001; Nelling & Webb, 2009; Orlitzky et al., 2003). The findings of my study may explain the reason for these inconclusive results: stakeholder relationship management that does not generate value for stakeholders may, in turn, create less or no value for the firm.

Mediation indicates causality, which is a further milestone of this study and contributes to ongoing discussions among scholars. While stakeholder theory scholars assume that firms create stakeholder value and are, in turn, more successful (Donaldson & Preston, 1995; Freeman, 2010; Harrison et al., 2010), from a CSR perspective one may also argue that CSR investments require (financial) resources and higher performing firms have more resources available to invest in CSR activities (e.g., Li, Luo, Wang, & Wu, 2013). My study supports

stakeholder theory scholars by suggesting a mediation effect in which the DSMC creates stakeholder value which, in turn, creates firm value. Measurable as a direct effect, the DSMC also creates value for the firm.

The mediating effect of the DSMC contributes to dynamic capabilities research as well, specifically to its application in the fields of sustainability (Castiaux, 2012; Foerstl et al., 2010) and ethical performance (Arend, 2013). In these areas it is most apparent that stakeholders yield important input for reflection and innovation (Lenssen et al., 2006), since it is often their desires that are to be fulfilled. This study shows, however, that stakeholders may enhance recognition and realization of business opportunities in general so that their inclusion may also benefit the firm in other areas. The findings suggest direct and indirect effects of dynamic capabilities. Leading scholars doubt the direct effect of dynamic capabilities on financial performance and suggest their application for lower level targets (e.g., Helfat et al., 2007). The results of my study promote the idea that the DSMC has direct and indirect effects on financial performance and indicate that the evaluation of sub-targets, such as stakeholder value creation, could enhance the quality of a dynamic capability.

Alongside these central findings I proposed factors that influence the DSMC, i.e., firm motives, stakeholder pressure, stakeholder power differences, and psychic distance. The results support most of these hypotheses and also support the interaction effects among these factors.

Firm Motives. Firms may have strategic and moral motives to engage with stakeholders. Both kinds of motives, as the results of this study suggest, do not have a direct effect but a moderating effect on the DSMC. The fact that the presence of these motives does not affect the DSMC is surprising, because the stakeholder theory and CSR literature have emphasized that firms with moral motives are more likely to engage with a broader circle of stakeholders and create value for them than firms with strategic motives. Previous research has also suggested that both the kind and strength of motives affected dynamic capability building (Calton & Payne, 2003; O'Reilly & Tushman, 2008; Sharma & Vredenburg, 1998; Zollo &

Winter, 2002) and stakeholder relationship management (Aguilera et al., 2007; Aguinis & Glavas, 2012; Berman et al., 1999; Jones, 1995). The data, however, cannot support a direct effect of firm motives of either type on the DSMC. These findings contribute to theory development and to critical reflection of previous empirical results. Firm motives are likely to affect strategic decision making, although not on a direct way. Firm motives may, instead, interact with other influencing factors, as the following findings suggest.

Stakeholder Pressure. Primary stakeholder pressure positively affects the DSMC when firms have low levels of moral motives, and it negatively affects the DSMC when firms have high levels of moral motives. Stakeholders pursue their pressures according to their perceptions of firm targets (Aguilera et al., 2007; Bosse & Phillips, 2016; González-Benito & González-Benito, 2006; Harrison et al., 2010). Following that, primary stakeholders, who are rather self-interested, pressure the firm for a more customized stakeholder relationship management approach when they feel the firm is giving less consideration to their interests (i.e., low levels of moral motives). Pressuring for more customization means that primary stakeholders want the firm to increase its degree of (local) adaptation to address different stakeholder needs. Primary stakeholders will pressure for more focus on their own demands when they perceive firms to be too engaged in addressing a broader range of stakeholders (i.e. high levels of moral motives). Pressuring for more focus means, however, that primary stakeholders want the firm to decrease its degree of (local) adaptation because primary stakeholders do not accept serving the broader society at the expense of their own value creation. Losing the support of primary stakeholders threatens the firm's survival. Firms that are sensitive to their primary stakeholders' pressure will therefore comply.

Secondary stakeholder pressure negatively affects the DSMC at low levels of moral motives and does not affect the DSCM at high levels of moral motives. This result is reasonable since secondary stakeholders have society-related interests and pressure for less (local) adaptation when they perceive the firm to exploit cross country differences (*strategic motives*).

These exploitations may advance the firm (and potentially some stakeholders) but penalize other (usually powerless) stakeholders. Secondary stakeholders then pressure to protect these other stakeholders. They do not pressure firms that exhibit high levels of moral motives since they expect these firms to already address a broader circle of stakeholders.

These results contribute to the theoretical development of dynamic capabilities, as they show the significant influence of stakeholder pressures on firms' capability development. Previous research has suggested that stakeholder pressure is likely to support capability building by reducing uncertainty regarding the external environment (Brønn & Brønn, 2003; Hall & Vredenburg, 2005; Parent & Deephouse, 2007), providing strategic directions, and even initiating strategic changes (Buysse & Verbeke, 2003; Freeman & Reed, 1983; Frooman, 1999; Greenwood & Van Buren III, Harry J., 2010; Hanna et al., 2000; Ingenbleek & Immink, 2010; Pater & van Lierop, 2006; Sarkis et al., 2010). Previous research in stakeholder theory suggests that primary and secondary stakeholders vary in their interests (e.g., Haksever et al., 2004; Suchmann, 1995) and their kinds of pressure (e.g., Aguilera et al., 2007; Buysse & Verbeke, 2003; Greenwood & Van Buren 2010). The effects of these differences and the specific roles of primary and secondary stakeholders, however, have remained mostly unexplored thus far. For the DSMC, as this study suggests, it matters who applies pressure and why.

Power Differences. The results show that power difference directly affect the DSMC indicating that when firms perceive power differences among stakeholders in different countries, they are more likely to develop a DSMC than when they do not perceive these power differences. This effect is moderated by strategic motives of the firm. Firms that have strategic motives are less sensitive to stakeholder pressure than firms with moral motives and react to power differences among stakeholders for strategic reasons. Perceiving power differences among home and host country stakeholders is likely to provide significant business opportunities, such as cost advantages and resource savings. These opportunities may lead to short term profit, which is the ultimate goal of firms with strong strategic motives. The results

of this study suggest that power differences in combination with strategic motives positively affect the DSMC. Firms with strategic motives likely expect an immense profit increase from exploitation of stakeholder power differences across countries and may, therefore, invest more heavily in a DSMC. In combination with strategic motives, a DSMC is likely to create value for the firm (and potentially some powerful stakeholders) while it is not likely to create much value for a broader circle of (rather powerless) stakeholders.

Previous research and daily news support this conclusion because a lot of firms discriminate against their host country stakeholders and favor their home country stakeholders (Barrales-Molina, Bustinza, & Gutiérrez-Gutiérrez, 2013; Christmann, 2004; Crane, 2012; Crane & Matten, 2007; Elstrom, 2018; Matten & Moon, 2008). Host country stakeholders, especially those in developing countries, usually have less power, are less visible, and receive less protection from local laws, institutional frameworks or other (powerful) stakeholders. Firms often exploit these circumstances to realize cost advantages by providing poor working conditions, low wages, and less environmental protection (Crane, 2012; Gold, Trautrim, & Trodd, 2015). The data of this study support the exploitation assumption by emphasizing that firms engage in the development of a DSMC for exactly that purpose: exploiting business opportunities related to power differences among home and host country stakeholders. An important lesson to learn here is: the DSMC – as every stakeholder related investment – does not automatically result in stakeholder value creation. The creation of stakeholder value depends also on the motives of the firm to invest in the capability.

Surprisingly, the data support the moderated relationship for secondary, but not for primary stakeholders. This underlines the relevance of separating the effects of primary and secondary stakeholders on corporate behavior and, specifically, on corporate capability development. While firms are also likely to exploit power differences among primary stakeholders, this may not affect their capability development; at least it does not affect the

DSMC. Further research is necessary to better understand the circumstances under which firms are willing to invest their resources in DSMC development.

Psychic Distance. Psychic distance, the perceived distance between home and host country negatively affects the DSMC. The results emphasize that firms with a lower understanding of their host country stakeholders show lower degrees of a DSMC. Previous research has suggested that psychic distance impedes information flows among home and host country followed by difficulties in implementing organizational learning across borders (Blomkvist & Drogendijk, 2013; Campbell et al., 2012; Evans & Mavondo, 2002; Johnson & Vahlne, 1977). Under these circumstances, it is difficult to develop capabilities across borders. Furthermore, since managers' stakeholder related activities are often based on their prior knowledge and their understanding of host country stakeholders (Agle et al., 1999; Mitchell et al., 1997), higher levels of psychic distance result in fewer stakeholder related activities. The results of this study suggest that managers have difficulties in developing customized stakeholder relationship management in a host country when they do not understand the demands of that host country well. If this holds true, there may be a paradox within the dynamic capabilities approach: Dynamic capabilities are to overcome external uncertainties within international business relationships (Augier & Teece, 2007; Teece, 2014a) and to learn how to cope with environments of different conditions and opportunities (Meyer et al., 2010). At the same time these uncertainties prohibit the development of a dynamic capability. More research on that aspect is necessary to understand the underlying causality. While the results of this study suggest that psychic distance impedes DSMC development rather than serving as an antecedent, further research should engage in a better understanding of the actual role of external uncertainty for capability building. More specifically, the dynamic capabilities literature would benefit from better understanding the kinds and degrees of external uncertainty that serve as antecedents for dynamic capability development and those that rather prevent their creation.

Robustness of Results. The results of this study are robust against most of the sample modifications. The most robust results are those of psychic distance affecting the DSMC (H6) and those of the mediation effect (H9). Psychic distance had a significant negative effect on the DSMC for all sub-samples. Similarly, the mediation effect of stakeholder value creation and firm value creation is robust against all applied sample modifications. These results provide the most generalizable findings of the study. The other hypotheses are supported for most but not all the sub-samples. The moderated effects of primary and secondary stakeholder pressure on the DSMC (H3 and H4) were not supported for firms with high international experience, which emphasizes that the level of a firm's international experience may affect its response towards stakeholder pressure.

The moderated effect of power differences among home and host country stakeholders (H5) was not supported for firms with industrial host countries. This result is reasonable since power differences among stakeholders from the German home country and another industrialized host country are likely to be rather small and, therefore, not likely to affect the development of a DSMC. Stakeholders in industrialized countries usually benefit from similar institutional frameworks (Matten & Moon, 2008) that ensure their rights and protect their interests. Exploitation of power differences is therefore more likely to occur for stakeholders of emerging host countries.

The effect of a DSMC on firm value creation (H7) was not supported for non-listed firms and for firms with an emerging host country. Firms that are not listed on a stock exchange seem to be less effective in generating firm value with their DSMC. This maybe due to lower pressure for short term profits non-listed firms receive compared to firms listed on a stock exchange. Firms with emerging host countries may, furthermore, need to invest more resources to create the DSMC due to additional country barriers, such as cultural and educational differences and less local infrastructure. Since the effect of DSMC on stakeholder value creation (H8) is also not supported for emerging host countries, firms may not be sufficiently able to

apply these activities in a way that creates value for stakeholders and likewise for the firm. Emerging markets are, however, of increasing importance for firms with international value chains, and firms need to overcome the barriers related to cross-country stakeholder relationships.

The results of this study support most of the proposed relationships but also generate some questions that may be considered in future research. The last section of this thesis summarizes the main conclusions and identifies gaps for potential further research.

7. Conclusion and Future Research

I created the Dynamic Stakeholder Management Capability (DSMC) by integrating the stakeholder management capability (Freeman, 2010) and the dynamic capabilities approach (Teece et al., 1997; Teece, 2007). As the results of this study suggest, the DSMC enables firms to link stakeholder demands to business opportunities and threats. This link enhances shared value creation which is value creation for stakeholders and the firm. Furthermore, my study supports a mediating effect among DSMC, stakeholder value creation and firm value creation. This indicates support for the fundamental assumption in stakeholder theory that firm value is created *through* stakeholder value. This assumption has existed for decades but had not received enough empirical validation.

Having analyzed data from more than 400 German companies with multinational stakeholder environments, I conclude that firms that include their stakeholders in strategic decision making are likely to be more successful than firms that do not. Supply chain managers, however, have difficulty achieving the integration of their stakeholders, especially in the cross-country context. The results of this study suggest that supply chain managers lack knowledge and understanding of their stakeholders' demands as a basis for interaction and adaptation. Firms should therefore invest more resources in recognizing and understanding stakeholder demands as well as their changes over time. They should also invest in reducing psychic distance among home and host countries so that they better understand differences in stakeholder demands across countries. This understanding is fundamental for achieving supportive and collaborative stakeholder relationships in multinational supply chains. During the data collection process, numerous supply chain managers stressed the tremendous challenge of balancing firm targets (e.g., cost and time efficiency, product quality, risk minimization, firm reputation) with the various stakeholder demands that may conflict across or even within stakeholder groups and countries. Most of these managers felt either morally obligated to address stakeholder demands or were legally obligated to achieve their fulfillment. They,

however, complained about the lack of resources available to achieve customized solutions for stakeholders across countries and the incompatibility of stakeholder demands with other firm targets. These supply chain managers would benefit from a DSMC because a DSMC includes routinized processes that enable the recognition of cross-country differences in stakeholder demands and the inclusion of stakeholders for the development of customized solutions that effectively address their demands. The DSMC does not aim at balancing or compromising stakeholder demands and firm targets, but it aims at generating value for stakeholders that, in turn, result in firm value. This relationship certainly requires rethinking the goal setting procedure in firms and was already labeled as the “big idea” (Porter & Kramer, 2011) in strategic management research. This study provides some of the first empirical results supporting that view.

I conclude that the key for firms’ long-term success is to integrate strategic firm targets and stakeholder demands and to interpret the fulfillment of these demands as the realization of business opportunities or the prevention of threats. Developing capabilities that enhance that integration, such as the DSMC, ensures the continuous investigation of that integration and legitimizes appropriate resource allocation within the firm. Supply chain managers, as all other managers, should not experience distress in balancing conflicting demands but should be able to move the targets of stakeholders and the firm in the same direction. The DSMC enables firms to unify these targets. Stakeholders that receive value support the firm in its business activities and, thereby, increase firm value creation. While several scholars have suggested the integration of business and ethics (e.g. Freeman separation thesis) this idea is rarely implemented in theoretical concepts and lacks consistent practical realization. Future research could extend this area of inquiry and increase the generalizability of the results of this study by further validating the DSMC for other firm contexts and home countries. Qualitative research, such as case studies, would contribute to the further development of the DSMC by providing an in-depth understanding of each dimension and the factors that affect their quality. Longitudinal studies

would provide details regarding the DSMC development process and its maintenance. Those findings are indispensable for the further development of the DSMC.

The scope of this study was to develop the DSMC and to test the degree to which that capability is currently present in firms with multinational supply chains. The DSMC can be applied for external changes over time, for cross-country differences, or for both. In this study I tested the cross-country adaptation by measuring the degree of the DSMC in firms with multinational supply chains that have stakeholders in several countries. These stakeholders include employees, suppliers, NGOs, local communities, state institutions, and the public. They are usually less visible than customers and less powerful than shareholders, which is why they often receive insufficient attention from focal firms. Supply chains that cross various countries, including emerging markets, affect an immense number of these stakeholders. These supply chain managers are under high pressure to know and understand the various interests of many stakeholders and to balance these interests with firm targets. Poor conditions of suppliers, employees, or the environment, especially in emerging markets, are yet to find promising, sustainable solutions. We therefore need more research – and practice – that integrates stakeholder demands and firm targets for shared and superior value creation.

Appendix

Appendix A

Survey Question, Items generated, Factor Loadings, and Quality Assessment for the Constructs of the Study

Survey question	Variable name, items, and quality assessment	Factor		
		EFA	CFA	
Please access to what degree are the following stakeholders strategically relevant for the success of your firm. (-3 not important ... +3 very important)	<i>pressure from primary stakeholders</i>			
	home country employees	.706	.797	
	home country supplier	.735	.705	
	host country employees	.598	.504	
	host country supplier	.718	.700	
	VE= 47.794; CA=.611; CR=.745; AVE=.618; MSV=.197; ASV=.053; MIIC=.282; ITC: .332-			
	<i>pressure from secondary stakeholders</i>			
	home country communities & state institutions	.835	.716	
	home country public & NGOs	.820	.879	
	host country communities & state institutions	.789	.812	
	host country public & NGOs	.838	.731	
	VE= 67.382; CA=.838; CR=.866; AVE=.620; MSV=.086; ASV=.026.			
	(items generated from the stakeholder pressure items)	<i>power difference among secondary stakeholders</i>		
communities & state institutions		.863	.696	
public & NGOs		.863	.695	
VE= 74.433; CA=.656; CR=.652; AVE=.484; MSV=.076; ASV=.034; SBC=.657.				
Please indicate the degree to which you perceive the home country as different form or similar to the host country. (-3 very different ... +3 very similar)	<i>psychic distance</i> (adapted from Dow and Karunaratna, 2006)			
	political system	.893	.838	
	regulatory system	.871	.794	
	economic development	.804	.789	
	lifestyle	.869	.863	
	culture, religion, beliefs & traditions	.887	.899	
	language	.690	.614	
	education	.785	.769	
	VE= 69.109; CA=.925; CR=.925; AVE=.640; MSV=.222; ASV=.091.			
Please think about the stakeholders of your home country and indicate your opinion on the following statements: /Please think about the stakeholders in the country of your most important business activities outside your home country and indicate your opinion on the following statements: (-3= I totally disagree... +3= I totally agree)	<i>DSMC</i> (generated* based on Plaza-Úbeda et al.; 2010)			
	Knowledge of all stakeholders in this country and the demands is very important for the managers. ('knowledge1')		<i>eliminated</i>	
	The company dedicates little time and few resources to knowing stakeholder characteristics and demands. ('knowledge2')		<i>eliminated</i>	
	The company keeps documented information on the previous relationships with stakeholders (important meetings, conflicts, agreements, judicial or extrajudicial demands, etc.) ('knowledge3')		<i>eliminated</i>	
	The company has regular meetings with the stakeholders (e.g. semestral). ('interaction1')	.689	.560	
	The company's formal or informal cooperation with the stakeholders is intense (commitments, collaboration, agreements...). ('interaction2')	.744	.597	
	Stakeholders participate in the company's decision-making process. ('interaction3')	.776	.743	
	The company's policies and practices are adapted to stakeholders' demands. ('adaptation1')	.814	.757	
	The company is willing to change its objectives in line with stakeholders' demands. ('adaptation2')	.746	.708	
	The company makes a special effort to prepare the information for the different stakeholders according to their needs. ('adaptation3')	.863	.899	
	The company regularly assesses and prioritizes the demands of the different stakeholders. ('adaptation4')	.818	.872	
	VE= 60.907; CA=.890; CR=.894; AVE=.552; MSV=.016; ASV=.011.			

Appendix A (continued)

Survey question	Variable name, items, and quality assessment	Factor	
		EFA	CFA
Stakeholder value creation			
Please assess the degree to which your company fulfills the demands for the following stakeholders. (-3 very weak ... +3 very strong)	employees		<i>eliminated</i>
	suppliers	.658	.438
	communities & state institutions	.887	.796
	public & NGOs	.903	.945
	VE= .67.827; CA=.759; CR=.787; AVE=.573; MSV=.170; ASV=.090.		
Firm value creation			
Please assess the degree to which your company performs in the following areas. (-3 very weak ... +3 very strong)	profit ('financial1')	.879	.604
	competitive advantage ('financial2')	.879	.866
	corporate social performance ('CSR1')	.902	.861
	legitimacy ('CSR2')	.862	.797
	business ethics ('CSR3')	.843	.730
	supply chain efficiency ('supply chain1')	.881	.836
	supply chain innovation ('supply chain2')	.926	.962
	supply chain certification ('supply chain3')	.748	.526
	VE= .75.079; CA.857; CR=.832; AVE=.624; MSV=.121; ASV=.061.		
control variables			
<i>firm size</i>	What is the number of full time employees in the company? (open question)		
<i>firm age</i>	What is the founding year of the company? (open question)		
<i>headquarter</i>	Is the headquarter of the firm located in Germany? (yes/no)		
<i>market capitalization</i>	Is the company listed at a stock exchange? (yes/no)		
<i>industry</i>	In which industry does the company mainly operate? (open question from which I identified the SIC code)		
<i>host country</i>	What is your strategic most important host country? (open question, asked directly before the DSMC questions)		
<i>international experience</i>	In which year did the company start its international business activities? (open question)		

Note . VE=variance extracted (EFA); CA=Cronbach's Alpha; CR=Composite reliability, AVE=average variance extracted, MSV=maximum shared variance; ASV=average shared variance; MIIC=mean inter-item-correlation; SBC=Spearman-Brown Coefficient; ITC=item-total-correlation;

*by calculating the difference between home and host country values for each item

Appendix B

Equations applied for the Hierarchical Regression Analyses (blocks represent the steps in which the variables are added to the equation)

$$y_1 = \underbrace{\beta_0 + \beta_1 x_1}_{\text{Block 1}} + \underbrace{\beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4}_{\text{Block 2}} + \underbrace{\beta_5 x_5 + \beta_6 x_6}_{\text{Block 3}} + \underbrace{\beta_7 x_7 + \beta_8 x_8 + \beta_9 x_9}_{\text{Block 4}} + \underbrace{\beta_{10} x_{10}}_{\text{Block 5}}$$

$$+ \underbrace{\beta_{11} x_3 x_5 + \beta_{12} x_3 x_6}_{\text{Block 6}} + \underbrace{\beta_{13} x_4 x_7 + \beta_{14} x_4 x_8 + \beta_{15} x_4 x_9}_{\text{Block 7}} + \varepsilon$$

$$y_2 = \underbrace{\beta_0 + \beta_1 x_1 + \beta_2 x_2}_{\text{Block 1}} + \underbrace{\beta_3 y_1}_{\text{Block 2}}$$

$$y_3 = \underbrace{\beta_0 + \beta_1 x_1 + \beta_2 x_2}_{\text{Block 1}} + \underbrace{\beta_3 y_1}_{\text{Block 2}} + \underbrace{\beta_4 y_2}_{\text{Block 3}}$$

Symbol	Variable
y_1	<i>DSMC</i>
y_2	<i>stakeholder value creation</i>
y_3	<i>firm value creation</i>
β_0	<i>the intercept constant</i>
$\beta_1 - \beta_{15}$	<i>regression coefficients</i>
x_1	<i>firm age</i>
x_2	<i>firm size</i>
x_3	<i>moral motives</i>
x_4	<i>strategic motives</i>
x_5	<i>pressure fr. prim. stakeh.</i>
x_6	<i>pressure fr. sec. stakeh.</i>
x_7	<i>power diff. employees</i>
x_8	<i>power diff. suppliers</i>
x_9	<i>power diff. sec. stakeh.</i>
x_{10}	<i>psychic distance</i>

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Statement of Originality

I declare that I wrote the dissertation entitled „ Creating Shared Value: A conceptualization and empirical investigation of the Dynamic Stakeholder Management Capability“ myself without unauthorized assistance and without the use of any means and sources other than indicated. All ideas that were extracted from works of other authors either directly or indirectly are indicated as such.

This work has not previously been the subject of a doctoral examination, nor have I taken a doctoral examination before.

Berlin, Oct. 18th, 2019



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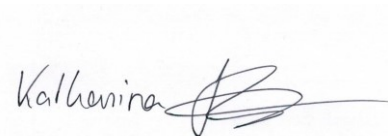
Wohlgemuth, V. & Hoehne, K., 2014, Shaping the organization's common purpose: Stakeholder-management and the tension between dynamic capabilities and path dependence. *Academy of Management (AoM) Annual Meeting*, Philadelphia, USA.

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Grants and Scholarships

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