Stakeholder Capability Enhancement as a Path to Promote Human Dignity and Cooperative Advantage

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ABSTRACT: Promoting dignity is at the heart of the human capability approach to development. We introduce the concept of stakeholder capability enhancement, beginning with a discussion of the capability approach to development proposed by Sen (1985) and further advanced by Nussbaum (1990) to incorporate notions of dignity. Thereafter follows a review of the literature on value creation stakeholder management and convergent stakeholder theory (Freeman, 1984; Freeman, Harrison, Wicks, Palmer, & DeColle, 2010; Harrison & Wicks, 2013; Jones & Wicks, 1999), as the foundation for our concept of stakeholder capability enhancement. The remainder of this article develops a model that integrates stakeholder management with the human capability approach to detail the cooperative advantage that accrues to business and its stakeholders, as well as the gains in social wellbeing and dignity, when stakeholder capability enhancement becomes a common enterprise strategy. The model also explores the risks and boundary conditions firms face when seeking to profit from stakeholder capability tradeoffs. In explaining the model, we explore normative responsibilities and consequences with regard to human capabilities and dignity. We conclude with implications for future research.

KEY WORDS: human dignity, human capability approach, cooperative advantage, stakeholder management, stakeholder reciprocity

INTRODUCTION

If, as McCloskey (2010) suggests, the ideology of dignity and liberty is a key factor in social and economic development, then the human capability approach developed by Sen and Nussbaum provides an operationalization of this ideology. Sen suggests development should be seen as an expansion of the real freedom people enjoy, and argues for the establishment of “both processes that allow freedom of actions and decisions, and the actual opportunities that people have”
Nussbaum (2000, 2008) suggests how political and social institutions should be structured in order to promote capability-based dignity, important not only for the exercise of agency—the ability to take action—but also dignity in terms of facilitating equality to and respect from others.

Although the field of development economics has significantly changed as a result of the human capability and development approach advanced by Sen (1985, 1990, 1993, 1999, 2002) and Nussbaum (1995, 2000, 2002, 2003, 2006, 2011), to date their concepts have not gained much traction within management and business ethics scholarship. In management literature, reference to “capabilities” most often refers to the dynamic capabilities framework (Teece, Pisano, & Shuen 1997) in which strategic capabilities possessed by a firm can be a source of its competitive advantage. The contribution of this article is to expand upon Sen’s approach to human capabilities and Nussbaum’s discussion of how social institutions such as businesses should be structured to ensure that people achieve the human capabilities necessary to live lives with dignity. Thus, use of the word “capability” or “capabilities” in this article refers not to organizational dynamic capabilities, but rather to the human capabilities to achieve the kind of lives that people have reason to value: what people are actually able to do and to be (Sen, 1999: 75; 2009: 231).

We discuss the normative bases for firms to engage in stakeholder capability enhancement—the ways in which firms enhance the capabilities of their stakeholders to achieve the kind of lives people have reason to value. We also develop a model of how businesses can have positive impacts on the development of capabilities, and therefore the dignity, of their stakeholders, to achieve cooperative advantage. Cooperative advantage is achieved by creating more value for a greater number of stakeholders by promoting and expanding upon the jointness of interests between a business and its stakeholders (Strand & Freeman, 2015). We suggest that value creation through the enhancement of stakeholder human capabilities can occur at the firm level through three avenues: a) as a direct result of a firm’s enterprise strategy (Freeman, 1984), b) through its policies, practices and processes, and c) through the impacts of its products and services. Given that the firm is dependent upon stakeholders for its continued survival (Freeman & Reed, 1983), we suggest that protecting and enhancing the capabilities of all stakeholders promotes not only their dignity, but also the vitality of the firm itself by minimizing conflicts among stakeholders and their interests, and also by encouraging stakeholders to continue to cooperate with the firm. In so doing, firms also act in ways that are consistent with their normative obligations vis-à-vis the wellbeing and dignity of their stakeholders.

Stakeholder capability enhancement can help a firm to harmonize interests within its network of stakeholders. But the reverse is also possible: firms can decrease stakeholders’ capabilities through these same avenues, as well as through negative externalities that have deleterious effects on stakeholders’ capabilities. When firms pursue business models based on trading off some stakeholders’ human capabilities for those of other stakeholders, this can impair the ability of some stakeholders to achieve lives of dignity, which in turn may impair the ability of firms to retain stakeholder support over the long term. We therefore describe how this sort of
explicit trading off can violate the firm’s ethical obligations while also being self-defeating; the latter point is understood through the lens of stakeholder reciprocity (Bosse, Phillips, & Harrison, 2009).

LITERATURE REVIEW

Both economists and philosophers have sought to specify the relevance of the human capability approach for developing human wellbeing and dignity. We explain the premises of the capability approach as developed by Sen and how Nussbaum has expanded this approach in particular with regard to promoting dignity. We observe that discussion of the capability approach has only recently entered the management and business ethics literature, but that there is little examination of business contributions to capabilities development for non-employee stakeholders. Our goal is to broaden the discussion of business contributions to capabilities development beyond employees to other stakeholders such as suppliers, consumers, and communities by incorporating the capability approach into the concept of stakeholder management in order to create value for both organizations and their stakeholders (Freeman et al., 2010).

Human Capability Approach

Amartya Sen (1985, 1990, 1993, 1999) initially developed the capability approach to propose an alternative to traditional welfare economics, which typically has conflated human wellbeing with economic affluence (income, commodity command) or utility (happiness, desire fulfilment; Clark, 2002: 29-34). Sen defines human wellbeing in terms of the freedom and opportunity that people actually have to achieve the kind of lives they would have reason to value. Sen envisions development not as constant growth in aggregate wealth, but rather as increasing the range of individual human choice and the richness of human life. Sen echoes Aristotle, stating that “wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else” (Sen, 1990: 44). The flourishing life facilitated through the development of capabilities is that “something else.”

The goods that Sen (1985) identifies as useful goals for individuals to pursue, and for development economists to promote, are human capabilities and functionings. A capability is the ability or freedom to choose to be or to do something that a person has reason to value. “Functionings” are the specific beings and doings that an individual chooses to achieve. Institutions such as government and business can influence which capabilities are available to individuals, whereas functionings are determined by the choices of individuals. For example, free access to a high-quality and universally available national school system would represent a capability enabled by a government that allows its citizens the freedom to choose to obtain an education. The achievement of obtaining an education is a functioning largely determined by the individual.

Another important concept is the “capability set.” Institutional and social factors define the complete capability set of functionings that is possible for each individual to attain, sometimes necessitating difficult choices for the individual when the
simultaneous pursuit of multiple functionings is incompatible (Sen, 1985, 1992, 1999). For example, when a child living in poverty is unable to choose both to go to school and to eat, the child may choose to forgo education in favor of working full time in order to pay for food. The capability set reflects an individual’s choice of lifestyle given the set of possible options, because while the capability approach focuses on increasing the freedom to make choices, it also considers the institutional and social factors that preclude the possibility of simultaneously choosing multiple functionings (e.g., concurrently achieving the functionings of obtaining nutrition, health, education, security, etc.).

Martha Nussbaum (1995, 2000, 2002, 2003, 2006, 2011) further develops the capability approach to include explicitly the notion of dignity as an underlying normative criterion for a just society, arguing, “human abilities exert a moral claim that they should be developed” (Nussbaum, 2002: 131). Drawing on work in addressing sex-based equality and in Marxist analysis, Nussbaum connects Sen’s capabilities approach to concerns about the dignity of women, although her analysis is applicable to both men and women. Sen’s conceptualization of capabilities does, in her analysis, advance the analysis of human development and flourishing beyond problematic measures such as GDP per capita that fail to account for the particularity of individuals (Nussbaum, 2002). However, she believes that Sen’s analysis fails to offer the specificity required with regard to human capabilities needed to promote a more just society. She notes (2000: 230-231) that “[w]e judge, frequently enough, that a life is so impoverished that it is not worthy of the dignity of the human being, that it is a life in which one goes on living, but more or less like an animal, not being able to develop and exercise one’s human powers.” In the absence of these capabilities being available to a person, her ability to shape her own life rather than being subject to the vicissitudes and pressures of others is diminished to such an extent that she is not able to live as a “dignified free being” (Nussbaum, 2000: 231).

For Nussbaum, capabilities are also essential for human dignity because they (cf. Kantian analysis and categorical imperatives) promote the treatment of others as ends in themselves rather than as mere means to someone else’s ends. Capabilities thus underpin normative analyses of a society, its structures, its institutions, and its social norms. In Nussbaum’s analysis, capabilities allow human beings to have and to exercise choice, both fundamental prerequisites for dignity. Thus she incorporates not only the unconditional but also the conditional elements of dignity in her definition of the dignity worthy of a human being. Unconditional dignity is the “intrinsic, inherent, . . . and universal value to human life that needs to be protected,” and conditional dignity is the “ability to establish a sense of self-worth and self-respect that needs to be promoted” (Pirson & Dierksmeier, 2014). Individuals fully attain dignity to the extent that they both secure the inherent dignity of humanity as well as live up to their own practical potential as human beings (Nussbaum, 1998).

Nussbaum extends Sen’s analysis of capabilities by arguing that a specific degree of basic justice is necessary to advance dignity and social justice: “Either a society has a conceptualization of basic justice or it does not. If it has one, we have to know what its content is, and what opportunities and liberties it takes to be fundamental.
entitlements of all citizens” (Nussbaum, 2003: 46). To this end she (Nussbaum, 2003) has proffered a list of the 10 central capabilities she argues are necessary to live a life of dignity: life; bodily health; bodily integrity; senses, imagination and thought; emotions; practical reason; affiliation; nature/other species; play; and control over one’s environment (Nussbaum, 2006: 76–78). Nussbaum also suggests that there is a threshold level that represents the minimum level of achieving each of the basic or central capabilities necessary to ensure a life worthy of dignity (Nussbaum, 2000: 75). The reason for the threshold level is that without access to the minimum socially acceptable level of these capabilities, a person becomes a mere shadow of him- or herself and what he or she could become as a dignified human being.

One of the most significant topics of debate within the capabilities literature is whether it is possible or desirable to specify a core list of capabilities (Gasper, 1997; Robeyns, 2003). In contrast to Nussbaum’s list of ten, Robeyns (2003) proposes a list of 14. The topic of which capabilities are so central to human dignity that they apply in all times and places and to all social institutions is an important debate, but it is not one that we wish to resolve in the present article. Our reticence to adopt Nussbaum’s list or to create one of our own is in part based on the fact that this is a highly contested debate, with myriad perspectives. Rather, we want to argue for two normative claims that are more limited in scope and more focused on the domain of business responsibility.

Our first normative claim is that businesses have an ethical responsibility to enhance human capabilities as they interact with their stakeholders. Much of Nussbaum’s work (1990, 1995, 2000, 2003) discusses the proper role of law, government and public planning in promoting human capabilities. However, in her Ten Principles for the Global Structure (Nussbaum, 2004), she argues that the whole world—including business—is under a collective obligation to secure the capabilities of all world citizens. Her Point 4 includes business among the social institutions that should be structured to promote at least the threshold level of the central capabilities, arguing that firms have responsibilities for promoting capabilities in the regions in which they operate:

The new global order must have a clear public understanding that part of doing business decently in a region is to devote a substantial amount of one’s profits to promoting education and good environmental conditions. There are good efficiency arguments for this: corporations do better with a stable, well-educated work-force. Education also promotes political engagement, crucial for the health of a democracy; and corporations do well under conditions of political stability. None the less, those arguments should be subsidiary to a general public understanding that such support is what decency requires. At the same time, corporations should undertake to promote good labour conditions, going beyond what local laws require (Nussbaum, 2004: 16).

Nussbaum phrases her normative claim in terms of corporate charitable or social responsibility activities related to education and the environment, as well as good labor practices. Further, Nussbaum bases this responsibility primarily on the moral obligation of “decency,” but also cites the instrumental reasons that would motivate a corporation to promote capabilities, including efficiency and stability.
Our second normative claim is that the specific capabilities that businesses should seek to enhance as they interact with stakeholders, as well as the threshold level of those capabilities, should be guided in part by the ongoing conversations about core capabilities within philosophical discourse, but to a greater extent by understanding the particularity of stakeholders and their needs related to the enhancement of capabilities. The process by which a specific business promotes specific capabilities for specific stakeholders is, as we will argue, fundamental to understanding the normative obligations of businesses to promote human dignity. In this regard we are not taking a relativist position with regard to human capabilities and the normative responsibilities of businesses; as indicated by our first claim, businesses should be guided by philosophical discourse regarding capabilities. However, we argue that business actions to enhance capabilities and human dignity do not occur in the abstract (following Robeyns, 2003), but rather in particular social contexts and institutional structures, and in relation to specific stakeholder needs.

The capability approach developed by Sen and Nussbaum has only recently begun to enter the management and business ethics literature as scholars consider how corporations can and should impact human capabilities. Within business ethics, applications include Shivarajan and Srinivasan (2013), who use the capability approach to extend the Base of the Pyramid poverty-alleviation approach to address capabilities for social inclusion. Further, Bertland (2008) compares the capability approach with virtue ethics, while Giovanola (2009) refers to the capability approach to raise the issue of human nature and values in economic and business research. While we seek to contribute to this normative work, we also aim to build a model that is practicable in examining the ways that a firm can include the capabilities approach in its overall strategy and operations.

For the latter purpose, the management literature addressing the capability approach is also important. Within management literature, there are two journal special issues (Bartelheimer, Leßmann, & Matiaske, 2012; Subramanian et al., 2013), as well as a small number of individual articles bringing the capability approach from the macro-economic level down to the organizational level. However, the majority of this literature is within the human resource management field and discusses how corporate policies and practices affect the capabilities and functionings of employees (see, e.g., Lambert & Vero, 2013; Lopez-Andreu & Verd, 2013; Subramanian & Zimmermann, 2013). To have a positive impact on employees’ human capabilities requires seeing employees as more than just “human capital” from which a firm extracts productivity and value (Subramanian et al., 2013). Rather, increasing their capabilities requires firms to see employees more fully as human beings with inherent human dignity. In this vein, capability development has salutary effects for employees and societies directly and organizations indirectly.

Unfortunately, some of these empirical findings thus far related to capabilities development in human resource management present a rather dim view, where firms tend mostly to rely on employee tradeoffs—the instances where a firm decreases the capabilities of one group of employees in favor of other employees and stakeholder groups (Bonvini, Dif-Pradalier, & Moachon, 2013; De Munck & Ferreras, 2013). However, theoretical management scholarship already suggests the benefits to be
gained by increasing the human capabilities of stakeholders such as employees (Gagnon & Cornelius, 2000). Just as a firm can create value for employees with policies and practices that enhance their capabilities, we look beyond employees to other stakeholders such as consumers, suppliers, and community members to examine how the strategies, processes, products or services of a firm can impact various stakeholder capabilities and functionings, and can do so simultaneously. Thus we present a capabilities-enhancement model based both on the normative obligations of firms to enhance the capabilities of stakeholders and to recognize their dignity, while also working with an instrumental logic to create value for the whole stakeholder network.

**Stakeholder Management**

From his earliest writings about stakeholder management, Freeman (1984) urges managers to build relationships with stakeholders, “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984: 25), because their contributions are necessary for any firm to create value. Value creation for multiple stakeholders is the focus of stakeholder management, rather than the appropriation of value by a privileged stakeholder group, such as shareholders, at the expense of other stakeholders (Freeman et al., 2010). A stakeholder-based vision of business permits a focus on cooperation, rather than competition, among stakeholders (Freeman, Harrison, & Wicks, 2007; Freeman et al., 2010). How much choice the firm’s management has, and how well the firm survives are, in part, functions of how well the firm harmonizes its stakeholder relationships (Brenner & Cochran, 1991). Indeed, though the evidence is not definitive, available empirical research generally supports the proposition that firms can enhance their competitiveness (or at the very least not become less competitive) when they widely maintain positive relationships with a wide range of stakeholders (Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003).

Well executed stakeholder management can lead to *cooperative advantage*, which is “when a company implements a value creating strategy based on cooperating with its stakeholders that results in superior value creation for the company and its stakeholders” (Strand & Freeman, 2015). The stakeholder literature explains why collaboration in the network of stakeholders can lead to cooperative advantage (Freeman et al., 2007: 6):

Business works because of the “logic of values,” the way values form the very foundation of economic activity. In the business world of the 21st century the very purpose of a business in society is connected with creating value for stakeholders. We can better understand business by seeing it as an institution for stakeholder interaction. Corporations are just the vehicles by which stakeholders are engaged in a joint and cooperative enterprise of creating value for each other. Capitalism is, in this view, primarily a cooperative system of innovation, value creation, and exchange. Indeed it is the most powerful method of social cooperation we have ever invented. Competition is a second-order emergent property that adds fuel to the fire of innovation. Business works . . . because people want to innovate and create together, not simply because they are competitive.
In discussing value creation, we do not limit our discussion to economic measures of firm performance. Economic value created by the firm is most often conceived as the difference between customers’ willingness to pay for the firm’s products/services and the sum of the payments stakeholders would receive if they joined the best alternative to remaining with the firm (Brandenburger & Stuart, 1996; Peteraf & Barney, 2003), which we posit to be a limited and highly problematic way of defining value. Creating value within and through stakeholder relationships goes beyond simply creating financial wealth, as firms can enhance the capabilities of their stakeholders in many non-pecuniary ways. Rather than assuming a finite “pie” of economic value per firm, with stakeholders each fighting for a larger share, we define the concept of value more broadly to include the value that firms are creating “from the perspective of the stakeholders who are involved in creating it” (Harrison & Wicks, 2013: 98). As stakeholder groups are not comprised of homogeneous individuals, they will have different value preferences, and much of the value that stakeholders receive from positive interactions with a firm may not be captured by an economic measure of value. Focusing on capability enhancement rather than a narrow focus on shareholder wealth allows for a broader range of human flourishing and allows for the consideration of dignity for individual stakeholders as a worthy end in and of itself. Indeed, dignity is above all price (Kant, 1981).

For example, Divine Simbi-Ndlukula, Founder of DDNS Security Operations in Zimbabwe and a winner of the 2014 International Women Entrepreneurial Challenge in Stockholm, Sweden, credits her success to how she treats her staff. Rather than treating her security guards as “low-skilled” (Daily Monitor, 2014) or “people who had failed to make it in other careers” (Nsehe, 2012), Simbi-Ndlukula emphasizes professionalism and models courtesy and respect for all staff members: “Her employees are all proud of what they do for a living and know that they play an important role in their employer’s as well as client’s business success” (Daily Monitor, 2014). As she is concerned with recognizing and building their self-esteem, the security guards conduct themselves in a dignified and professional manner, which wins awards and clients. Because of this, Simbi-Ndlukula’s changed the paradigm of private security providers in Zimbabwe, her business quickly grew in a challenging environment from five to over 4000 employees with over $13 million in revenues, and she was named by Forbes as one of Africa’s Most Successful Women (Nsehe, 2012).

We consider both the dignity-based reasons firms should be concerned about developing the capabilities of their stakeholders, as well as the impact that enhancing capabilities (or not doing so) has on business and its network of stakeholders. While the positive business effects of human capability enhancement merit attention from a managerial and strategic perspective, they complement, but do not substitute for, normative obligations of businesses in this regard. Thus, in examining the application of the capability approach to business, we simultaneously build both normative and instrumental arguments. In this way we build a convergent stakeholder theory (Jones & Wicks, 1999) to create a new theoretical framework that acknowledges the primacy of normative arguments, but also builds a model of cooperative
advantage that explicates the benefit to the organization of building up its stakeholders’ capabilities. In building this positive model of capability enhancement, we explore the outcomes for both individual stakeholders as well as the network of stakeholders that make up the organization.

We expand upon Nussbaum’s statements about the responsibility of business to promote human capabilities to explore the normative obligations business has related to capabilities, as well as the instrumental impacts to business and its network of stakeholders, by developing a model of how businesses can have impacts on the dignity and central capabilities of a wide range of stakeholders. We add two additional and related points to the preceding analysis of capabilities. First, we understand capabilities (following Nussbaum, 1997) to be conceptually linked to notions of human rights. Of course, the challenge of human rights is assigning associated duties for fulfilling those rights—a task that we discuss in this article. Second, because capabilities have the normative properties of human rights, any utilitarian analysis of capabilities should be undertaken with caution. Following the analysis of Pirson and Dierksmeyer (2014; drawing on Nussbaum, 2003 and Sen, 1999), there is a danger that human capabilities and dignity can be understood as valuable only to the extent that they promote economic—and here, business—objectives. We wish to avoid this danger precisely, as all of these authors argue, because utilitarian analyses instrumentalize human beings and lack conceptualizations of human rights. Capabilities are valuable to individuals, and likely lead to lives that they would regard as better. However, human capabilities cannot be reduced to utilitarian analyses of value for a person, firm, or society. While capabilities improve human life and enhance dignity, they are also intrinsically valuable in and of themselves. To the extent that businesses have normative obligations related to capabilities, those obligations attach irrespective of their effects on those businesses.

In this respect, normative obligations related to enhancement of human capabilities by businesses do not depend on whether those businesses benefit. They exist, we suggest, because as private actors in a society businesses have normative obligations to create benefit for it (De George, 1994) and its members, which include enhancement of their capabilities. However, following convergent stakeholder theory and Nussbaum’s lead, we also posit that businesses and their network of stakeholders can benefit from activities that enhance human capabilities, and can in turn be disadvantaged when they engage in activities that significantly reduce capabilities—points to which we will return in thinking about stakeholder reciprocity and cooperative advantage.

A MODEL OF HOW FIRMS AFFECT STAKEHOLDER CAPABILITIES

We build upon stakeholder theory as described by Freeman et al. (2010) by incorporating the work of Amartya Sen and Martha Nussbaum to develop the concept of stakeholder capability enhancement. For Freeman et al. (2010) the attention to the wellbeing of stakeholders is a central assertion in stakeholder theory. In this regard, stakeholder theory contains an implicit respect for the dignity of stakeholders, though scholarship has not yet deeply examined or explicitly named the element of
dignity within stakeholder theory. We seek to make this implicit respect for dignity more explicit by incorporating the capability approach into stakeholder theory. We expand upon Nussbaum’s argument that businesses have responsibilities related to capabilities by developing a normative explanation and an instrumental model of how businesses can affect the dignity and central capabilities of their stakeholders, and thereby build cooperative advantage.

We consider how the actions of individual firms impact the dignity of their stakeholders by affecting the capabilities and functionings available to them through two avenues. First, we propose that positive and negative effects on dignity ensue from the ways firms interact in dyadic stakeholder relationships (i.e., through a firm’s enterprise strategies; policies, practices, and processes; products and services; and externalities). Second, we examine how a firm’s effects on capabilities affect its stakeholder network through creating common stakeholder functionings, as well as the implications of stakeholder tradeoffs and for stakeholder reciprocity. The dyadic factors are captured in lines 1, 2, 3 and 4 of Figure 1 and the network effects are shown in lines 5, 6, and 7 of Figure 1. The end result is a change (“Δ” in the model) in the ability of the firm to build cooperative advantage among its stakeholders. Thus, our model combines “normative and instrumental elements” to present a convergent stakeholder theory (Jones & Wicks, 1999: 206).

**Firm-Stakeholder Dyadic Effects on Capabilities**

The firm’s *enterprise strategy*, its purpose, or “what a firm stands for” (Freeman 1984: 89) should be more than simply maximizing economic profit—profits are an end result of a firm’s activity, not a purpose for it to exist (Freeman et al., 2009). Within value creation stakeholder management, enterprise strategy involves clarifying priorities regarding the mission and values that drive and define a firm in terms of how it conducts activities and engages with its stakeholders (Freeman, 2010). In terms of how enterprise strategy affects stakeholder capabilities and functionings (Figure 1, line 1), many organizations include the desire to improve peoples’ capabilities as a part of their missions. In a social enterprise, for example, the whole purpose of the firm—the enterprise strategy—is to achieve predefined

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**Figure 1: Model of Cooperative Advantage through Stakeholder Capability Enhancement.**
Stakeholder Capability Enhancement

social missions through business ventures, such as increasing stakeholder capabilities for education, health, and security (Smith et al., 2013). However, at the same time, there are also examples of enterprise strategies that have a negative impact on stakeholder capabilities, such as the strategy of tobacco companies to recruit new nicotine addicts as their former customers die prematurely of smoking-related illnesses, as discussed widely in business ethics literature (Cai, Jo, & Pan, 2012; Palazzo & Richter, 2005; Velasquez & Brady, 1997).

The policies and practices of a firm can also create value for stakeholders that increases their capabilities and functionings (Figure 1, line 2). For example, flextime practices, childcare policies, or time management training can enhance work-life balance for an employee beyond the value of the paycheck. In terms of Nussbaum’s central capabilities, improved work-life balance may increase an employee’s capability to increase emotional- and affiliation-oriented human functionings. For other stakeholders, a firm’s operational processes can cause spillovers of skills, technology and managerial knowledge that allow suppliers or community stakeholders to improve capabilities and functionings, thereby increasing value they receive beyond that measured by sales or tax revenues. However, as firm policies, practices and processes can also have a negative impact on stakeholder functionings and capabilities, the “Δ” or change in stakeholder capabilities and functionings is still appropriate in the model.

The products and services of a firm (Figure 1, line 3) can create value and impacts on capabilities for a customer beyond the mere purchase price. Indeed, there is often a false conflation of price and value. Customers may value the way that a particular firm’s product or service enhances their life functionings—for instance, many people depend on their smart phone and internet service to increase their capabilities for affiliation, connectivity, and efficiency, and may feel lost without their phones. There is substantial evidence, for example, that smart phones have salutary effects on the capabilities of the very poor (Smith, Spence, & Rashid, 2011). However, there are certainly products and services that can impair capabilities and functionings, such as alcohol or gambling for customers having addictive tendencies (Reast et al., 2013).

The firm can also impact stakeholder capabilities in both positive and negative ways as externalities arise from its actions (Figure 1, line 4). For example, where a firm’s safety policies require that all employees be trained in first aid, there may be an external benefit in the form of lives saved in local communities. A common negative externality is a factory causing pollution or odors in the surrounding area.

From a normative standpoint, net social welfare clearly becomes more positive when firms increase stakeholder capabilities and functionings rather than decrease them. Nussbaum (2004: 16) appeals to a sense of “common decency” to suggest that firms should contribute a significant portion of their profits toward developing central capabilities such as education and environmental protection in places they operate. Indeed, a significant literature on corporate philanthropy has assessed the voluntary contributions firms make to such endeavors (Gautier & Pache, 2015; Liket & Simaens, 2015).

Beyond charitable efforts, what duties do firms have to increase stakeholder capabilities? We suggest there cannot be one concrete answer that applies to all times.
and places. For one thing, there are political questions involved in how the society should be set up to provide for citizens’ capabilities, particularly given the governance gaps found in many locales where weak institutions cannot provide or further the capabilities of their citizens. The political corporate social responsibility literature has addressed the concern that corporations providing public goods is a political action, which should be subject to public legitimation: otherwise, representative democratic institutions can be undermined (Scherer & Palazzo, 2007). Thus we do not prescribe blanket normative obligations for corporations to increase the capabilities of stakeholders. Rather, before moving on to the network effects on stakeholder capabilities, we suggest three things. First, firms have a responsibility to be aware of how their strategies, policies, practices, and products impact stakeholder capabilities and functionings. Firms should be more intentional about the impacts they have on stakeholder capabilities. Second, if a firm acts on an assumption that it knows the needs and capabilities of others without gathering the information necessary to make that judgment, that itself may violate the dignity of stakeholders. Firms should engage in a dialogic approach (see, for example, Logsdon & Wood, 2002 on business citizenship) to ascertain the public will among their local stakeholders concerning whether, when, and how firms should increase capabilities in the locations where they operate. Finally, firms should know what positive and negative externalities they create that in turn create effects on capabilities, and should be more intentional about increasing positive externalities and reducing negative externalities in order to have positive effects on human capabilities.

From a normative perspective, a firm attuned to capability-enhancing strategies will need to separate the stakeholder group down to individual-level stakeholders’ desires and circumstances in enhancing capabilities and functionings. We note that dignity is largely an individual-level construct that has collective-level implications. Treating individuals solely as members of stakeholder groups, for example, ignores the meaningful differences among individuals who are nominally within the same stakeholder group (Greenwood & Anderson, 2009). A CEO and a janitor may both be classed within the employee stakeholder group, but these two individuals are likely quite different with regard to their needs, capabilities, and beliefs about what responsible behavior directed toward them would look like. There is danger in treating stakeholder groups as unified wholes with similar outlooks, desires, and functionings (Greenwood & Anderson, 2009), which runs the risk of harming—or at the very least failing to promote—the dignity of specific individuals.

The Importance of Understanding Particular Needs of Individual Stakeholders

One of the pressing normative issues in stakeholder theory, we therefore suggest, is that analyses of the ethical treatment of stakeholders needs to account for the particularity of individuals. To simply talk about “responsible behavior” toward discrete stakeholder groups such as employees, communities, and consumers is to flatten distinctions among individuals who are members of one or more stakeholder groups, which in turn makes it highly likely that a firm will be less responsible and responsive to them than it ought to be. More to the point, when firms and their managers assume that they know what their stakeholders want in the absence of...
intentional processes to ascertain what stakeholders actually do want, there is a persistent danger that they will behave in a way that stakeholders find to be unresponsive and irresponsible. Writing about the problem of reciprocity and assuming knowledge of the other, Young (1997: 53) notes that

A condition of our communication is that we acknowledge the difference, interval, that others drag behind [their] shadows and histories, scars and traces, that do not become present in our communication. Thus we must be open to learning about the other person’s perspective, since we cannot take the other person’s standpoint and imagine that perspective as our own.

Not all members of a stakeholder group (or indeed, a society) have the same needs for capability enhancement. To add a further complication, the same individual is often a member of multiple stakeholder groups. In order for an organization to fulfill its normative obligations to stakeholders writ large, it needs to understand its normative obligations to individuals in their particular circumstances. We should be careful to note that this call for particularity in understanding individuals’ needs is not meant to open the door to something akin to moral relativism. In all instances, capability enhancing moves by a business need to be based in the idea of enhancing individuals’ abilities to choose to be or to do something that they have reason to value (Sen, 1999). Rather, we suggest that taking account of stakeholder particularity allows the firm to fulfill normative obligations germane to capability enhancement more systematically and completely.

For a stakeholder capabilities approach to truly promote dignity, it must move beyond simplistic stakeholder-group based analyses of capabilities. It is important to disaggregate the typical scholarly attention to generic stakeholder “groups” to emphasize that the dignity of each individual within a stakeholder group should be respected. Capabilities can be understood individually (each individual has a specific capability set) and collectively (groups of similarly situated individuals may have specific capabilities and needs for capabilities enhancement in common). So one thing that a capabilities approach can do to promote dignity is to understand and then respond to the particular needs of individuals and collectives. Rather than thinking about broad-based stakeholder groups such as employees and communities, a capabilities approach can unpack the capabilities of Person A and Person B who are members of Community C. Persons A and B might have a similar (but not exactly the same) capabilities set, and as members of Community C might also suffer from similar capabilities deficits. A capabilities approach—informed by analyses of firm’s normative obligations—promotes dignity by responding to what Benhabib (1986: 411, emphasis original) calls the concrete other:

The standpoint of the concrete other . . . requires us to view each and every rational being as an individual with a concrete history, identity, and affective-emotional constitution. . .. Our relation to the other is governed by the norms of equity and complementary reciprocity: each is entitled to expect and to assume from the other forms of behavior through which the other feels recognized and confirmed as a concrete, individual being with specific needs, talents, and capacities.
In this respect a dignity-oriented analysis of stakeholders and their capabilities does two important things. First, treating others with dignity requires recognizing them as concrete others with particular needs and histories rather than treating them as generalized others who are nameless and faceless members of stakeholder groups or societies. Second, such an analysis moves toward the recognition that just relationships between organizations and their stakeholders cannot be cast solely in terms of abstract principles such as fairness, as important as those principles are. In establishing capability enhancement as the basis for recognizing dignity in relationships between a firm and its stakeholders, the generalized other has major shortcomings, given that the situation of the individual as the concrete other matters when it comes to defining the capability set that is feasible for each person.

These insights, informed by work in feminist philosophy, are also found within stakeholder scholarship. McVea and Freeman (2005) take a similar approach to both Benhabib and Young with their “names-and-faces approach” to stakeholder management. They argue that:

\[\text{G}eneric\text{ analys}es\ \text{disguise}\ \text{the real human relationships that exist between the firm and its stakeholders. Stakeholders are treated not as morally important individuals, but as abstractions, characterized by the roles that they play . . . .} \text{[making it] difficult to reattach human values to business decisions (McVea & Freeman, 2005: 60).}\]

Using the “names-and-faces approach” to see each individual stakeholder as a concrete other who has her own preferences for functionings, it is possible to match more specifically mutual stakeholder functionings. More importantly, given that the capability set of functionings that is possible for each individual stakeholder to achieve is dependent upon institutional and social factors, we assert that the firm should be concerned with the sometimes difficult choices that individual stakeholders as concrete others face when their dignity is at risk and when their capability set makes the simultaneous pursuit of multiple functionings impossible.

Of course, in order to be mindful of the social and institutional limitations that individual stakeholders face, it is necessary for stakeholder dialogue to occur to clarify stakeholder situations and preferences at the individual level. This is particularly essential for the most vulnerable stakeholders and members of stakeholder groups whose fundamental dignity may be most at risk. In fact, engaging in this sort of dialogue with such stakeholders is an important step toward recognizing and ensuring their basic human dignity.

In some contexts, dialogue is not always possible, as in the case of a person who is incapacitated and thus unable to express his wishes about medical decisions. We suggest that in the organizational context, there are likely few if any relationships for which dialogue would be impossible in this sense. There are, however, stakeholder relationships for which dialogue would be more challenging, as would be the case for workers who are unfree as a matter of circumstance or public policy to advocate for fair treatment. Related to the problem of dialogue in such stakeholder relationships is the problem of consent (Phillips, 1997; Van Buren, 2001). The fact that a specific dialogue between an organization and an individual is challenging to engage in does
not obviate the former’s ethical obligations to pursue it. In such circumstances, it is the organization’s ethical responsibility to do what it can to ascertain the wishes of the stakeholders through whatever dialogue and interaction is possible.

From a practical perspective, McVea and Freeman (2005) point out that given developments in technology, big data processing, and mass customization, it is feasible and cost-effective for a firm to individualize its relationship with specific stakeholders, assessing, recording and accommodating unique preferences and perspectives. FedEx and UPS can track and deliver over 25 million packages a day globally (CNBC, 2012). Spotify and Apple music can stream a customized curated music selection based on each listener’s preferences to over 30 million subscribers in over 100 countries (D’Orazio, 2016). Palantir uses big data engineering to improve firms’ preparedness for natural disasters or political conflicts, and to eradicate human trafficking and forced labor from firms’ supply chains (Palantir, 2015). In this way, firms “can analyze business problems by recognizing stakeholders as individuals” and “develop idiosyncratic strategies that are novel, entrepreneurial, and hard to replicate” (McVea & Freeman, 2005: 60); specifically, strategies to identify the institutional and social factors that each supplier, employee, customer, community member, and financier are facing and which in turn impact their capability sets.

Building on the “names-and-faces approach,” we suggest that when a firm disaggregates its stakeholders from collective homogenous groups presumed to have identical interests and values to the specific networks of individual human beings who have stakes in that firm, it can best regard each individual (who may be a member of multiple stakeholder groups vis-à-vis a particular organization) as an end deserving of dignity, rather than merely as a means to a business goal. Determining policies that can create the capability for mutual stakeholder functioning might potentially reorient the thinking of managers toward mutual value creation and achieving cooperative advantage.

An example of this is the range of employee benefits offered to all employees by Wegmans Food Markets, Inc., a privately held grocery store chain on the East Coast of the United States. Wegmans has appeared annually on the Fortune 100 Best Places to Work list for the past 5 years. All Wegmans employees receive a good benefits plan, including health insurance and retirement savings plans for both part-time and full time employees (Fortune, 2010). However, Wegmans recognizes that increases in capabilities and functionings may look different for each employee. So, through its tuition remission and educational scholarships programs, Wegmans allows each employee to have the opportunity to develop in unique ways, even though this development may be unrelated to the employee’s job at Wegmans. The emphasis is on the development of the employee as a human being treated with great dignity.

Stakeholder Network Effects on Capabilities

In the right hand side of Figure 1, we consider the effects of promoting stakeholder functionings within the entire stakeholder network, rather than the capability effects of dyadic firm-stakeholder interactions. In the next section, we explain how the actions of the firm toward the capabilities and functionings of stakeholders can
have effects on the network of stakeholders related to that firm. Three impacts on stakeholder network effects will be discussed: 1) impacts on mutual stakeholder functioning (Figure 1, line 5); 2) negotiating stakeholder tradeoffs (Figure 1, line 6); and 3) stakeholder reciprocity (Figure 1, line 7).

**Impacts on Mutual Stakeholder Functioning**

Within the stakeholder network, there is the possibility that one of the dyadic effects considered above can simultaneously impact multiple stakeholders. Thus, *mutual stakeholder functioning* improvements can occur when improving the capabilities of one stakeholder simultaneously improves a functioning of another stakeholder (Figure 1, line 5). By exploring how Nussbaum’s central capabilities might be developed for individual members in the five key stakeholder groups (an employee, a customer, a supplier, a financer and a community member), Table 1 is an example of how a firm can map the capabilities it creates for specific stakeholders and thereby identify mutual stakeholder functionings. We use Nussbaum’s list of central capabilities solely for illustrative purposes; the analytic method for identifying mutual stakeholder functioning holds irrespective of the capabilities list/set that is used.

Mapping the potential for capability enhancement for each stakeholder can reveal that often enabling increases in the functioning of one stakeholder does not necessarily decrease the functioning of another stakeholder, and in fact may highlight more win-win situations where the capabilities of multiple stakeholders are increased simultaneously. Identifying how stakeholders’ central capabilities can be enhanced provides a basis for increasing the total amount of value created for all stakeholders. For example, one of the central capabilities identified by Nussbaum is bodily health, and another is relation to nature. Nestlé has been teaching its coffee suppliers in developing countries such as Guatemala and Vietnam better farming practices, including decreasing amounts used of chemicals such as fertilizers and herbicides (Cebreros & Ganes-Chase, 2008). This practice provides the capability for each farmer and his family to better achieve a functioning of physical health. Using fewer chemicals also costs less and is also better for the environment. Thus an investor concerned with environmental sustainability might buy shares in companies such as Nestlé and seek further improvements in the practices of those companies (see Logsdon & Van Buren, 2009 on shareholder activism) as one way they choose to achieve the functioning of a positive relationship with nature through financial investments.

**Negotiating Stakeholder Tradeoffs**

The second stakeholder network impact we discuss is when a firm may be in a position where it determines that it must trade off the needs and desires of one stakeholder against the needs and desires of another stakeholder. How a firm considers and implements such tradeoffs, we refer to as *negotiating stakeholder tradeoffs* (Figure 1, line 6). We suggest that viewing stakeholder value creation as enhancing the capabilities and functionings of stakeholders while maintaining
Table 1: Mapping the Co-Creation of Stakeholder Capabilities

<table>
<thead>
<tr>
<th>Capability</th>
<th>An employee</th>
<th>A customer</th>
<th>A supplier</th>
<th>A financier</th>
<th>Community member</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life</strong></td>
<td>Work safety</td>
<td>Product safety</td>
<td>Work safety</td>
<td>Preservation of capital</td>
<td>Production safety</td>
</tr>
<tr>
<td><strong>Bodily health</strong></td>
<td>Access to health insurance</td>
<td>Nutritious food</td>
<td>Operations safety</td>
<td>Preservation of capital</td>
<td>Ecological operations</td>
</tr>
<tr>
<td><strong>Bodily integrity</strong></td>
<td>Anti-harrassment policies</td>
<td>Protective products</td>
<td>Anti-human trafficking policy</td>
<td>Preservation of capital</td>
<td>Open campus</td>
</tr>
<tr>
<td><strong>Senses, imagination, thought</strong></td>
<td>Meaningful work</td>
<td>Self-expression opportunities</td>
<td>Education and training policies</td>
<td>Supporting innovation</td>
<td>Supporting local education</td>
</tr>
<tr>
<td><strong>Emotions</strong></td>
<td>Flexible family leave</td>
<td>Products engaging child emotional development</td>
<td>Motivation and job satisfaction</td>
<td>Social investing</td>
<td>Supporting community child development</td>
</tr>
<tr>
<td><strong>Practical reason</strong></td>
<td>Career/retirement planning</td>
<td>Informed consumer choice</td>
<td>Quality circle input</td>
<td>Meaningful investor participation</td>
<td>Community planning</td>
</tr>
<tr>
<td><strong>Affiliation</strong></td>
<td>Meaningful co-worker social interaction</td>
<td>Joining a community of users/consumers</td>
<td>Ensuring freedom of assembly rights</td>
<td>Joining investor community</td>
<td>Meaningful community-employee interaction</td>
</tr>
<tr>
<td><strong>Relation to nature</strong></td>
<td>Green work environment</td>
<td>Green products/services</td>
<td>Green products</td>
<td>Sustainability investment</td>
<td>Green campus</td>
</tr>
<tr>
<td><strong>Play</strong></td>
<td>Work-life balance</td>
<td>Capacity to play</td>
<td>Work-life balance</td>
<td>Supporting innovation</td>
<td>Green space development</td>
</tr>
<tr>
<td><strong>Control over environment</strong></td>
<td>Employee voice</td>
<td>Low-income product purchase plans</td>
<td>Ensuring equal employment opportunities</td>
<td>Property right protections</td>
<td>Transparent local political participation</td>
</tr>
</tbody>
</table>
the dignity of all parties in mind will help harmonize stakeholder relationships and will in turn reduce the need to make tradeoffs between stakeholders. We will first discuss the normative implications of this argument before turning to the instrumental outcomes for the stakeholder network.

In terms of the social desirability of practices, we draw a significant moral distinction between firms that fail to add to stakeholder capabilities and functionings versus firms that intentionally or inadvertently take actions that reduce them. The management literature suggests many reasons that firms might adopt strategies or policies that result in decreases in stakeholder capabilities and functionings, such as cost-reduction strategies or restructurings to adjust to cyclical downturns, introducing automation or new technologies, integrating mergers and acquisitions, or adapting to globalization (Gandolfi, 2014). In this section, we explicitly examine the normative considerations involved in such capability decreasing actions taken by a firm, thinking carefully about the stakeholder tradeoffs that underlie the reasons that firms adopt such strategies.

One perception that is frequently discussed about stakeholder theory is that the largest challenge of stakeholder management is negotiating stakeholder tradeoffs because satisfying all of the demands of all stakeholders is not possible (Sundaram & Inkpen, 2004). In fact, many stories about stakeholder tradeoffs are familiar because some firms seem to operate with a business model designed to capitalize on supposed tradeoffs between stakeholders. We agree with Jones and Felps (2013) that it is invalid to justify strategic decisions or practices like these with the argument that shareholder wealth maximization in turn maximizes social welfare, given the actual state of economic and social affairs.

While realistically, there are economic situations where firms will need to make difficult decisions that may decrease stakeholder capabilities and functionings, it is important to set a boundary condition when it comes to such actions. As we understand capabilities to be conceptually linked to notions of human rights following Nussbaum (1997), firms are expected to respect human rights and do no harm (Ruggie, 2013). However, in some circumstances, such as when an organization engages in downsizing, there will be negative effects on stakeholder capabilities and functionings. In this respect, not all courses of action are Pareto-optimal. Firms have ethical obligations to consider all decisions so that they have the least negative impact on the capabilities and functionings of the most vulnerable stakeholders.

Nussbaum’s list of central capabilities is formulated at an abstract level and she advocates that the translation to implementation and policies should be done at a local level using a public reasoning process, taking into account local differences (2000) and consistent with our previous analysis of the concrete other (Benhabib, 1986). Thus rather than advocating a specific quantity or level of capabilities, Nussbaum offers a process of public reasoning by which a society will determine the appropriate minimum level of a capability, with the requirement that everyone should be equally entitled to that threshold level. We argue that this threshold level of dignity should be a boundary condition when firms are considering strategies or practices that may have a negative impact on stakeholder capabilities. Firms have a moral obligation to reconsider their actions when the effect will be to decrease
stakeholder capabilities and functionings below the threshold level necessary for living lives of dignity, consistent with the “do no harm” standard previously discussed. From a normative perspective, firms that decrease stakeholder capabilities and functionings below a threshold level may be accused of violating human rights and their broader ethical duties to stakeholders. For example, in order to provide low prices for customers, Walmart has been accused of providing such low wages and benefits that many of its employees have to rely on public assistance such as food stamps, Medicaid and subsidized housing to survive (O’Connor, 2014). This effectively deprives these individual workers of the capabilities to control, plan, and provide for their own physical wellbeing through their own labor efforts, factors that are key to human dignity.

This example of how strategies that have the impact of limiting stakeholder capabilities can lead to difficulty in negotiating stakeholder tradeoffs. As Freeman has taken great pains to explain, satisfying conflicting stakeholder demands is not the point of stakeholder management. Rather, the point is to emphasize the “jointness” of stakeholder interests and to harmonize stakeholder relations to ensure continued stakeholder cooperation with the firm, which is the basis for the firm’s cooperative advantage in the marketplace (Freeman et al., 2010). We suggest that viewing stakeholder value creation as enhancing the capabilities and functionings of stakeholders while maintaining the dignity of all parties in mind will help harmonize stakeholder relationships and will reduce the need to make tradeoffs between stakeholders because of the mutual stakeholder functioning effect discussed above. Further, from an instrumental perspective, we argue in the next section that impairing stakeholder capabilities and functionings below this threshold level of dignity will not benefit the successful survival of the firm over the long run, as it is likely to suffer repercussions within their stakeholder network that will prevent the firm and its stakeholders from achieving the goal of cooperative advantage.

**Stimulating Stakeholder Reciprocity**

Another effect from impacting stakeholder capabilities within the stakeholder network has to do with stimulating stakeholder reciprocity (Figure 1, Line 7). Stakeholder reciprocity suggests that fairness (or unfairness) toward certain stakeholder groups will be rewarded (or punished) by other stakeholder groups (Bosse, Phillips, & Harrison, 2009; Hahn, 2015). The concept of stakeholder reciprocity is grounded in experimental economics research, which uses games played in a laboratory setting, usually involving monetary payoffs, to explore whether the behavior of individuals tends to conform to economic theory. Research shows that in such experiments, only a minority of people (20% to 40%) can be considered individualists who conform to classical economic theory that predicts rational, self-interested behavior. A larger proportion (40% to 60%) are “reciprocators” who are willing to “sacrifice resources for rewarding fair and punishing unfair behavior even if this is costly and provides neither present nor future material rewards” for the reciprocators (Fehr, Fischbacher, & Gächter, 2002: 2). Positive reciprocity is the term for rewarding fair behavior, whereas negative reciprocity is the term for punishing unfair behavior (Fehr & Gächter, 1998; Offerman, 2002).
Bridoux and Stoelhorst (2014) suggest that firms treating stakeholders on the basis of fairness considerations will be more effective in attracting, retaining and motivating reciprocal stakeholders to create sustained value; an analogous argument can be made about firms that engage in capabilities promotion that then promotes human dignity. We suggest that firms that enhance the capabilities of their stakeholders will benefit from positive reciprocity such that stakeholders will reward the firm with additional effort and engagement to create further value.

In addition, Bridoux and Stoelhorst (2016) argue that there are different relational models that stakeholders can adopt in the course of joint value creation. They suggest that communal sharing models will be the most beneficial for cooperatively creating value. A community sharing model means that stakeholders perceive all the participants in value creation as a community and themselves as a member of this community. Bridoux and Stoelhorst suggest that as a result:

[S]takeholders equate the collective interests with their own; they are energized to exert themselves on the collective’s behalf, to direct and facilitate others’ effort toward the collective (instead of individual) outcomes, and to remain loyal to the collective through times in which it is not individually rewarding; and trust that other participants will behave in the same way (Bridoux and Stoelhorst, 2016: 235).

We suggest that a firm that acts to increase the capabilities and functionings of all its stakeholders, including being conscious of the limitations of the most vulnerable individuals in its stakeholder network and the impact of their institutional and social context on their capability sets, will signal this sense of community to all its stakeholders. Such action is likely to trigger communal sharing among the stakeholders, and the corresponding benefits to the firm’s cooperative value creation.

**Boundary Conditions Reinforced through Negative Stakeholder Reciprocity**

In contrast to firms interacting with stakeholders on the basis of fairness and reciprocity, Bridoux and Stoelhorst (2014) also identify firms that interact with stakeholders on the basis of bargaining power and arms-length contracts. They suggest that firms using such an arms-length approach are more likely to exploit existing asymmetries in bargaining power and to play stakeholders off against each other to strengthen the firm’s bargaining position (Bridoux and Stoelhorst, 2014: 110). It is in such firms that business models based on stakeholder capability tradeoffs are likely to occur as a matter of management policy and practice, whether explicitly or (more likely) implicitly.

We suggest that fairness norms with regard to human capabilities will still impact the degree that stakeholder capability tradeoffs can occur in arms-length firms. Managerial discretion to choose and enact certain courses of action is constrained when the action lies outside the “zone of acceptance” of stakeholders (Hambrick & Finkelstein, 1987: 374). Managerial discretion to exploit stakeholders with weaker bargaining power is likely to be constrained by the fairness concerns of broader members of the social environment, a larger proportion of whom are reciprocators.
Specifically, if managers attempt to establish policies reducing the capabilities of stakeholder groups to a level below the threshold of living standards worthy of dignity (Nussbaum, 2000), such managers may face sanctions by stakeholders such as customers, members of the community, or of trade unions, who are likely to include a representative proportion (40% to 60%) of reciprocators (Fehr et al., 2002).

Thus while firms may succeed in achieving financial performance through a certain amount of stakeholder tradeoffs (and more likely so in the short as opposed to the long run), there is a limit to the amount of discretion that managers have to enact such a strategy through decreasing stakeholder capabilities denoted by the “zone of acceptability” (Hambrick & Finkelstein, 1987), which we suggest is related to Nussbaum’s (2000) thresholds for achieving human dignity. These limits on managerial discretion relate to the normative obligations discussed above with regard to capabilities development.

**Stakeholder Network Effects and Cooperative Advantage**

Each firm has its own network of legitimate stakeholders (McVea & Freeman, 2005; Phillips, 2003). Given this fact, how a firm manages its particular stakeholder relationships through increasing stakeholder capabilities, and specifically how it learns to increase the mutual capabilities and decrease the tradeoffs between stakeholder capabilities, can also become a source for cooperative advantage (Figure 1, line 8). We suggest that underlying this desire to cooperate is a common awareness of the intrinsic dignity to which every individual stakeholder in the stakeholder network is entitled.

When firms promote human dignity by increasing the capabilities of individual stakeholders through their strategies, policies and products, the resulting stakeholder network effects will reward the firms (and by extension, their stakeholders) with higher cooperative value creation. Particularly where the basic dignity of fellow stakeholders is explicitly at issue, stakeholder tradeoffs are put into perspective, and negotiated more easily. This is particularly the case where the common increased capabilities of stakeholders are made apparent through the exercise of mapping stakeholder capability enhancement, as demonstrated in Table 1.

Finally, the phenomenon of stakeholder reciprocity will serve to reward the cooperative venture of a firm when the central capabilities that respect the dignity of stakeholders are promoted, and discipline the venture when dignity is not respected. We suggest that these stakeholder network effects would improve the level of social cooperation within the network, creating valuable resources for the firm and its stakeholders, promoting the capabilities of all stakeholders and achieving cooperative advantage over the long run. However, the reverse occurs where firm actions reward certain stakeholders at the expense of having negative impacts on the functionings of some stakeholders, particularly down to the threshold level of human dignity. In such cases, the firm or certain privileged stakeholders may achieve some short-term benefit, but we suggest the network effects discussed above will compound the disrespect to dignity to the point that the firm’s ability to achieve the cooperation among stakeholders necessary to create value is eroded.
IMPLICATIONS FOR FUTURE RESEARCH

We suggest that there are a number of implications for future research that come from our analysis of business responsibility for capabilities development and human dignity. First, further normative analysis of which capabilities and functionings firms have obligations to promote is warranted. We have reviewed the nascent literature on stakeholder capabilities, which has primarily focused on employee stakeholders. However, capabilities analysis is broader in its ambit, including stakeholders such as community members. Normative scholarship might therefore explore specific cases to address which capabilities businesses have responsibilities to promote toward each type of stakeholder, and why such obligations attach to the businesses. Here we follow Nussbaum’s concern that capabilities analysis needs to be specific to be useful in normative analyses of societies, and in the present article, businesses.

Second, empirical research might identify which capabilities stakeholders most value and expect firms to promote. We observe that there has been little empirical research in this area conducted from the perspective of stakeholders. Such research might consider whether stakeholders in different locales have different or similar expectations with regard to capabilities enhancement. It might also consider whether individuals within the same stakeholder group, such as employees, share a common set of expectations or if there are differences based on factors such as income and perceived job security.

Third, empirical research might take up measurement of the impact on stakeholder capabilities and functionings vis-à-vis business actions. Put succinctly, how does a business know if it is having positive or negative impacts on stakeholder capabilities and functionings within and across different types of stakeholders and locations? Likewise, what measurements will allow an empirical test of how impacting stakeholder capabilities actually affects stakeholder networks? And what measurements will allow testing of the proposed link to cooperative advantage? Would the measures that are used to operationalize the capabilities approach for the Human Development Index on a macro-economic basis be adaptable for these purposes? Finally, research that seeks to understand processes for firms to promote capabilities, alone and with other firms co-located with them in a given locale, would be invaluable in understanding how expectations for responsible business behavior in this domain change over time.

CONCLUSION

We have built upon the limited literature that incorporates insights from Sen’s and Nussbaum’s capability approach into management and business ethics literature to develop a stakeholder capabilities enhancement framework. We have discussed how sustained value creation for all stakeholders can occur in the form of enhanced capabilities and functionings that promote human dignity and make life worth living. Our model explores how changes in stakeholder capabilities can affect behaviors within a firm’s stakeholder network, including the negotiation of stakeholder tradeoffs, the creation of mutual stakeholder functioning, and the stimulation of stakeholder reciprocity.
While scholarship suggests that some firms will continue to profit based on business models that trade off one stakeholder’s capabilities for another’s, we have suggested that stakeholder reciprocity can constrain the managerial discretion to exploit stakeholders to a level below the minimum threshold of functioning that makes a life of dignity possible. This approach provides a sturdy basis for implementing an enterprise-level strategy focused on human dignity. Such a strategy buttresses the legitimacy of business activity, and most importantly, increases human dignity and societal wellbeing.

NOTES

1. We thank the editors for bringing the potential link to moral relativism to our attention.
2. This “do no harm” standard relates specifically to human rights and the violation thereof (Ruggie, 2013). We suggest that a “do no harm” standard should be a consideration for firm decision making where the threshold level capabilities of the most vulnerable stakeholders are at stake. As discussed below, where firms proceed with actions that may decrease stakeholder capabilities below a threshold level, we suggest they may encounter push back in the form of negative stakeholder reciprocity.

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