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**UNDERSTANDING THE NATURE OF STAKEHOLDER RELATIONSHIPS:  
AN EMPIRICAL EXAMINATION OF A CONFLICT SITUATION**

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# **UNDERSTANDING THE NATURE OF STAKEHOLDER RELATIONSHIPS: AN EMPIRICAL EXAMINATION OF A CONFLICT SITUATION**

## **ABSTRACT**

This paper examines stakeholder relationships in a conflict situation. The focus of analysis is on how to understand stakeholder relationships as both ethical and strategic, and further, how the interests of different stakeholders become justified. To describe stakeholder relationships, we use media texts reporting on the case of a foreign investment project. The description shows how relationships evolve and how they constitute different episodes related to the conflict. We address the episodes by analysing stakeholder relationships and their salience. Furthermore, we examine how different stakeholder interests are justified in relation to the conflict. By providing a rich detailed qualitative analysis, we elaborate on the strategic and ethical nature of stakeholder relationships.

**KEYWORDS:** Stakeholder relationships, business ethics, stakeholder salience, foreign investment, strategy

## **INTRODUCTION**

This paper examines stakeholder relationships in the context of a foreign investment project, which burgeoned into an open conflict involving various stakeholders. The stakeholder literature has made a strong claim that business logic based on serving only one stakeholder, the owners, narrows the potential for value creation and imparts a false sense

of security (Freeman et al., 2007). In a rapidly changing environment, emphasis should be placed on defining and exploring important stakeholders, analysing company-stakeholder interaction processes (e.g. Freeman and Evan, 1990; Savage et al., 1991; Mitchell et al., 1997; Rowley, 1997), and on how we can understand stakeholder relationships as both strategic and ethical (Freeman et al., 2007, 2010).

The models for assessing stakeholders and their behaviour rely predominantly on the assumption that stakeholders have interests, and that they mobilise to influence companies in order to protect these interests (Rowley and Moldoveanu, 2003). In this study, we contribute to this discussion, first, by showing that the interests of stakeholders are both strategic and ethical in nature. Second, the results of analysis provide support for the claim that in order to think about the cooperative nature of joint value creation (Freeman et al., 2007), we need to understand the relationships as constantly changing and complex constructs of liaisons, interests, values and expectations.

The study examines stakeholder relationships in an empirical setting where Europe's second largest pulp producer, Metsä-Botnia (hereafter Botnia) invested in a pulp mill in South America, in the city of Fray Bentos on the Uruguay River in Western Uruguay. The board of Botnia made the official decision of building the pulp mill in Fray Bentos on 7 March 2005. The investment was remarkable, firstly, because it was the biggest foreign industrial investment a private Finnish company had ever made, and secondly, because the pulp mill project was the biggest industrial investment in the history of Uruguay.

According to the World Bank, the completion of the mill would increase the GDP of

Uruguay by 1.6% and create 8,000 jobs for the nation. The government of Uruguay supported the project indirectly by granting the factory a free trade area.

Before the investment decision in 2003–2004, Botnia had carried out studies on starting pulp production in Uruguay and on the environmental and social impacts of the mill. The company also arranged conferences and meetings for the media, local communities and NGOs, invited Uruguayan reporters and politicians to visit Finland, and held local information dissemination sessions in both Uruguay and Argentina. Despite good planning of the plant, a disagreement arose regarding its location. The opposition started because of environmental concerns related to the pollution of the Uruguay River and thus, to the negative effect on revenues from tourism.

The dispute began as a disagreement between Uruguay and Argentina. Soon, however, it was politicised into an open conflict between the two nations, as Argentina decided to take the case to the Hague International Court of Justice (ICJ). The conflict burgeoned into a public issue, which attracted various sets of stakeholders, such as civic and environmental organisations, local people, workers, financiers, and the governments of Uruguay, Argentina and Finland. The conflict provides an interesting opportunity to study the dynamics of firm-stakeholder relationships, as in such a nationally significant dispute, the stakes and interests of each party form the very core of the situation at hand.

The aim of the paper is to examine how to understand stakeholder relationships as both ethical and strategic, and further, how the interests of different stakeholders become justified. The paper is constructed as follows. After this introduction, we review the

stakeholder literature to arrive at a theoretical starting point for the study. We argue that although the focus of analysis in the literature has shifted from stakeholders to stakeholder relationships, our understanding of stakeholder relationships as both strategic and ethical is not comprehensive. To enhance this understanding, we turn to empirical research. We explain our methodological choices, describe the process of empirical analysis, and present the results of our study. Finally, we discuss the contributions of this research as well as its limitations.

## **TOWARDS UNDERSTANDING THE NATURE OF STAKEHOLDER RELATIONSHIPS AS STRATEGIC AND ETHICAL**

Stakeholder analysis was developed as a model to identify and assess a company's stakeholders and stakeholder relations thereby providing tools for effective strategic management (Freeman, 1984). Much of the stakeholder literature, especially in the 1980's and 1990's, focuses on defining the stakeholder concept and on identifying and categorising stakeholders. Stakeholder identification was founded on the identification of stakeholders' stakes in the focal company (Donaldson and Preston, 1995; Rowley and Moldoveanu, 2003), and the stakes were seen as combinations of stakeholders' interests, values, expectations and claims (Näsi, 1995).

Stakeholder analysis is used to facilitate stakeholder management, and the traditional view of stakeholder relationships perceives company-stakeholder relationships as something that the company can and should manage (Freeman, 1984; Savage et al., 1991). Thus, the term stakeholder management typically refers to a company or a manager centred effort to

govern stakeholder relationships (Roloff, 2008). Effective stakeholder management requires that all stakeholder interests are catered for simultaneously, and therefore it is the task of management to balance out even the contradictory stakeholder claims with the company's interests (Freeman and Evan, 1990; Donaldson and Preston, 1995).

The stakeholder literature presents a number of valid models for stakeholder classification and for identifying important stakeholders. Typically, stakeholders are categorised as internal and external stakeholders (Freeman, 1984; Näsi, 1995) or as primary and secondary stakeholders (Clarkson, 1995). Without primary stakeholders' support, such as that of management, investors, employees and customers, the company would cease to exist. Secondary stakeholders do not have a direct influence on the company, but they can exert indirect influence (Frooman, 1999). Other classes include voluntary and involuntary stakeholders (Clarkson, 1994), and strategic and moral stakeholders (Goodpaster, 1991). The identification of key stakeholders has been paid special attention (Freeman, 1984; Savage et al., 1991), as they are those individuals and groups exerting direct influence over a company's actions and success. Savage et al. (1991) have claimed that stakeholders' significance depends upon the context and that by assessing stakeholders' potential to threaten or to co-operate with the company, managers could identify supportive, mixed blessing, non-supportive, and marginal stakeholders.

Even though the vast majority of the stakeholder literature has been concerned with defining the stakeholder concept and with the identification and categorisation of stakeholders, a growing number of studies has focused and continues to focus on company-stakeholder interaction and stakeholder relationships. The literature has focused mainly on



the dyadic company-stakeholder relationship (Rowley, 1997) despite the note by Evan and Freeman already in 1990 that stakeholders do not only have relationships with the focal company, but also with each other. Rowley (1997) presented a network theory of stakeholder influences examining between-stakeholder relationships and their consequences to the focal company. He argued that a company does not respond to individual stakeholder demands, but rather to the simultaneous demands of multiple stakeholders. Even though the network approach (see e.g. Garriga, 2009; Mahon et al., 2004; Roloff, 2008, Santana et al., 2009) has extended our view of stakeholder relationships, we nevertheless lack a comprehensive understanding of relationships as ways to create value for and with stakeholders (Freeman et al., 2007).

In order to understand the stakeholder relationships as both strategic and ethical, the focus of analysis should be shifted from stakeholder attributes to the dimensions of stakeholder relationships. As the traditional classification approach results in static categorisations of stakeholders, Mitchell et al. (1997) aimed to develop a dynamic model of stakeholder salience, and proposed that salience is an issue and time-specific attribute of the relationship. Mitchell et al. (1997), suggested that salience is an attribute of stakeholder relationships, and argued that stakeholder salience is based on stakeholders' power, legitimacy and urgency. According to them, power manifests in one actor's ability to get someone else to do something he/she would not otherwise have done. Furthermore, power in a relationship is based on actors' resources to exercise power. A stakeholder may, however, influence and align itself with other stakeholders with power in order to indirectly impose their will on managers (see also Zietsma and Winn, 2008). Legitimacy is a perception or assumption that the actions are desirable, proper, or appropriate, and it can be

analysed on individual, organisational or societal levels. Urgency adds the element of dynamism to the model, as it is based on the time-sensitivity and the criticality of stakeholder claims, and is thus defined as the degree to which stakeholder claims call for immediate action. (Mitchell et al., 1997.)

Traditional models for stakeholder identification may not suffice in situations that develop in relation to an issue or problem that the company represents or is related to (Roloff, 2008). In those contexts, the stakeholders' interests and demands may not be related to the focal company, but first and foremost to the issue. Yet the company should assess these stakeholders as well, as their actions will most likely directly or indirectly influence the company. As a result, the relationships with parties previously classified as marginal or non-stakeholders may prove to be the key to solving the issue at hand.

Numerous studies have addressed stakeholder relationships in conflict situations, where stakeholders are seen as something a company should defend itself against, as they are likely to attack the company in order to protect their own interests (Rowley and Moldoveanu, 2003). Studies have addressed stakeholder behaviour and influences (Frooman, 1999; Rehbein et al., 2004; Hendry, 2005; Zietsma and Winn, 2008), and the drivers influencing stakeholder mobilisation (Rowley and Moldoveanu, 2003; Calvano, 2008). The company's side of these relationships has been addressed in models for stakeholder management strategies (e.g. Savage et al., 1991; Lamberg et al., 2008).

We argue that, first, company-stakeholder interaction, especially in a conflict situation, should be seen as a complex construct of liaisons, interests, values, and expectations. The

focus should shift away from viewing stakeholders as actors separate from the focal organisation to actors whose relationships to the organisation constitute the organisation. Consequently, the interaction processes between the organisation and its stakeholders come into the focus of attention.

Second, the critical relationships between an organisation and its stakeholders cannot be described as a simple transaction based exchange between parties but include co-operation, collaboration and network influences (Post et al., 2002). Examining the cooperative nature of joint value creation, allows for studying such an effort as a demonstration of a set of different values whereby both strategic and ethical dimensions in stakeholder relationships can be better understood.

## **DATA COLLECTION AND ANALYSIS**

The study draws on social constructionist media studies, and treats media texts as accounts constructing the social realities of firm-stakeholder relationships (cf. Gamson et al., 1992). From this perspective, texts form a scene of continuous struggle for the ‘right’ concepts, meanings and definitions, and are a part of the political and economic power machinery, but simultaneously also a part of their users’ meaning production (Fairclough, 1992; Gamson and Lasch, 1983). We chose the biggest quality daily in Finland, *Helsingin Sanomat* (hereafter *HS*), as the source of empirical data for our research. Newspaper articles were selected using the search words “Botnia” and “Uruguay”. Articles about appointments, other organisational issues, editorials and letters to the editor were excluded from the research data.

*HS* was chosen as a source of empirical data as the articles extensively covered the events of the conflict and the actions of different parties throughout the research period. Choosing *HS* as a media source can be justified as *HS* is prestigious and serves as a respected organ in the public sphere, exerting both direct and indirect influence in Finnish society, since other newspapers and media use it as their source of ideas and information. This newspaper plays an important role in determining the importance of issues in society and politics in Finland. (Cf. Wiio, 2006) The quality, circulation, and extent of the influence of *HS* provide a good basis for analysing the case and the related stakeholder relations. Earlier studies on the case have also used public material, such as newspaper articles, as research data (Aaltonen et al., 2008).

The research data was collected from 7 March 2005 until 9 November 2007, the period from Botnia’s investment decision to the date when the mill went into production. This period comprehensively covers the events related to the preparations, construction and start-up of the mill. The research data consisted of 139 newspaper articles published in *HS* between March 2005 and November 2007 (Table 1).

**Table 1** Number of articles published in *Helsingin Sanomat* March 2005–November 2007

Articles published in <i>HS</i>	
Year	n
2005	12
2006	89
2007	38
Total	139

We chose qualitative content analysis (Graneheim and Lundman, 2004; Krippendorff, 2004; Elo and Kyngäs, 2007) as a research method as it is based on a systematic and objective examination of the empirical data, and is a widely applicable tool for organising and arranging various types of written documents. The aim is to attain a condensed and broad description of the phenomenon by organising and classifying the data by condensing words, phrases and the like into fewer content-related categories and, further, by focusing on themes and patterns (Elo and Kyngäs, 2007; Krippendorff, 2004).

The analysis of stakeholders was done by following the principles of directed content analysis, which is recommended when there is an existing theory about the phenomenon, but one which could benefit from further examination. The aim of directed content analysis is not to test an existing theory, but to validate or extend it conceptually. (Hsieh and Shannon, 2005). We chose to use sentences and passages from the research data as our unit of analysis (Graneheim and Lundman, 2004). They serve as representative, independent extracts from the data.

As the purpose was to combine the analysis of stakeholders with the analysis of the conflict, we first familiarised ourselves with the conflict and formed a time line of the events within the case. Based on this, we were able to distinguish four distinct but overlapping episodes within the conflict. The episodes describe the key events of the conflict, and thus help to illustrate the dynamics of this case.

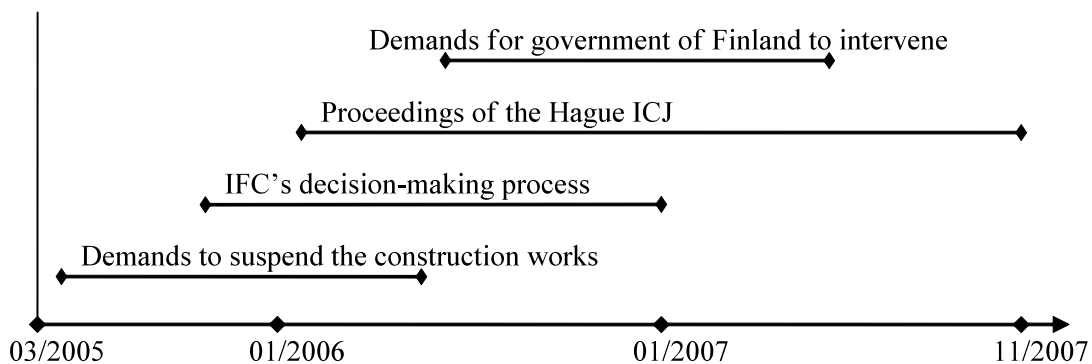
Next, we focused on identifying different stakeholders related to each episode, and analysing the stakeholders' interests within four episodes. We focused our analysis on those

stakeholders extensively covered in the research data throughout the research period in order to ensure the validity of our results. In each episode, a different combination of stakeholders was identified. Furthermore, the stakeholders had particular interests in every episode, and thus it was possible for a stakeholder to have multiple, simultaneous interests within the conflict.

Our analysis continued with the assessment of the stakeholders' salience (Mitchell et al., 1997) based on the analysis of power, legitimacy, and urgency related to the episodes. Power was analysed as an attribute of the relationship by examining whether a stakeholder had power relative to others, and whether the stakeholder was able to influence others and the events of the episode. Legitimacy and urgency were analysed as attributes of stakeholders' interests. Legitimacy was assessed as a generalised perception that the interests of an entity were desirable, proper, or appropriate within the norms, values and beliefs of the social context, and urgency as the degree to which stakeholder interests called for immediate attention (Mitchell et al., 1997). The purpose of this analysis was to illustrate how the episodes were constructed by changing interests and relationships, and thus to highlight the dynamic nature of stakeholder relationships. To show how ethics come into play and how stakeholder relationships are both strategic and ethical (cf. Freeman et al., 2010), we continued our analysis and concentrated on examining how the different stakeholder interests were justified in the first episode.

## EPISODES AND STAKEHOLDER SALIENCE

As a result of our analysis, we distinguished four different episodes within the conflict 1) demands for suspending the construction works, 2) the International Finance Corporation's (IFC) decision-making process, 3) the proceedings in the Hague International Court of Justice (ICJ) and 4) demands for the Finnish government to intervene (Figure 1).



**Figure 1** Timeline of the episodes of the conflict

These episodes cover the key events of the conflict and their overlap in respect of time illustrates the complex and dynamic nature of the case. We will now illustrate the events of the conflict and the stakeholder relationships through these episodes.

### **Demands to suspend the construction works**

Argentine stakeholders, especially the Argentine government and the Argentinian Citizens Environmental Assembly of Gualeguaychú (hereafter referred to as CEAG) presented their demands for the suspension of the construction works in spring of 2005. CEAG is a local

group consisting of citizens of Gualeguaychú, a city across the river from the plant.

Argentina and Uruguay signed a bilateral agreement in 1975 to protect the use of the Uruguay River requiring both parties to agree on any issue concerning the river. Argentina and Uruguay had set up a joint committee to evaluate the environmental impact of the pulp mill, and Argentina requested that the project be suspended until the arrival of the environmental report. In August 2005, Argentina accused Uruguay of having violated the agreement and threatened to summon Uruguay to the Hague ICJ to resolve the dispute.

The members of CEAG started demonstrations against the pulp mill at the border bridge in May 2005, saying that the mill would, among other things, pollute the river, contaminate the area, and ruin the tourism business in the area. Tens of thousands of people organised to protest against the pulp mill in 2005 demanding that the construction works be suspended. By the end of 2005, the opposing civil and environmental organisations alongside Argentine citizens started demonstrations outside the Finnish Embassy in Buenos Aires, and the members of CEAG set up roadblocks on the border bridge.

The Argentine government and CEAG had a common interest in demanding the suspension of the construction works in order to prevent environmental damage. The Argentine government supported the actions of CEAG thereby increasing the power of their common demand. Invoking environmental concerns legitimised the actions of the members of CEAG and they had power to delay the construction works by setting up roadblocks and by drawing international attention to the conflict.



In addition, the Greenpeace opposed the project. The Greenpeace demonstrated at the mill claiming that the construction works are illegal on the grounds of the Uruguay River Statute. Also, they claimed that the mill will pollute the environment and demanded the mill to be relocated to an area, where it won't harm other industries. The interests of Greenpeace were urgent and legitimate, but it had no power to influence Botnia or other stakeholders in the episode.

The Finnish Embassy was drawn into the conflict by demonstrations at the Embassy, but had itself no interest in the project. The Finnish Embassy set about providing accurate information about the project and the pulp mill to the Argentines, in order to maintain international relations. The embassy had no power in the issue, but the actions were legitimate and urgent within the context of the episode.

Argentina officially requested that Uruguay halt the construction works in December 2005, but as the Uruguayan government refused, the dispute inevitably erupted. The demands of the Argentine government to suspend the construction works can be deemed legitimate on the grounds that Uruguay had violated the Uruguay River Statute, and urgent, as it invoked the protection of the environment. In March 2006, however, the presidents of Uruguay and Argentina appealed for a 90-day moratorium on construction works until an independent environmental impact study had taken place. They also agreed that the roadblocks damaging to the Uruguayan economy and free movement of people and goods would be lifted.

The Argentine government had no power to influence Botnia directly. However, it

supported the demonstrations and negotiated an agreement with the Uruguayan government, and was thus able to influence Botnia indirectly and wield power in this episode. The Uruguayan government had power to influence Botnia, and the agreement with Argentina was legitimate and urgent as it aimed to ensure relations with the Argentine government and to lift the roadblocks deleterious to the Uruguayan economy. The Uruguayan government had an interest to continue the construction works, as the pulp mill would economically benefit the economy of the country. However, it did not want to do so at the expense of international relations and the economy, as the roadblocks were inflicting losses especially for the tourism industry.

The employees and residents of Fray Bentos opposed the suspension, as they feared job losses and the loss of the economic benefits of the pulp mill project. A demonstration in favour of the mill was organised in Fray Bentos to object to the demands to suspend the construction works. These parties had no power in this issue, but the claims were legitimate and urgent.

After the appeal for suspension, the representatives of Botnia stated that the construction would go ahead in spite of any appeal, as there were no legal grounds for suspending the works. Later Botnia halted the works for ten days instead of the 90 days required by the two presidents in order to help find a solution to the dispute between Uruguay and Argentina concerning the River Uruguay. The presidents had already agreed that they would negotiate during the moratorium, but as Botnia refused to cooperate, relations were broken off. Botnia's management had the power to decide on the suspension, and they had legitimate and urgent grounds for opposing it as they acted according to the company's policies.

Moreover, Uruguay did not officially request suspension. Table 2 summarises the stakeholders and their demands and interests related to the episode.

**Table 2** Stakeholders, interests and salience related the demands for suspending the construction work

<b>Stakeholder</b>	<b>Interests related to the episode</b>	<b>Salience</b>
Argentine government	Interest in demanding a suspension of the construction works in order to prevent environmental damage.	P, L, U
Uruguayan government	Interest in ensuring the continuation of the construction works, as the pulp mill would economically benefit the national economy.	P, L, U
CEAG	Interest in demanding the suspension of construction works in order to prevent environmental damage.	P, L, U
Management	Objective to continue the construction works on schedule.	P, L, U
Employees	Interest in supporting the continuation of construction works to ensure employment.	L, U
Residents of Fray Bentos	Interest in supporting the continuation of construction works to ensure employment and economic benefits in the area.	L, U
Finnish Embassy	Objective to provide accurate information for Argentine stakeholders.	L, U
Greenpeace	Interest in demanding a suspension of the construction works in order to prevent environmental damage.	L, U

(P=Power, L=Legitimacy, U=Urgency)

### **The IFC's decision-making process**

The episode related to the World Bank's International Finance Corporation's (IFC) decision-making process was also dominated by the Argentine government and CEAG. These parties shared an interest in preventing the IFC, as a major financier of the project, from financing the pulp mill, and by coordinating their actions and claims, they strove to increase their influence.

The IFC commenced an environmental impact assessment in September 2005, as Argentina had criticised the initial assessment made by Botnia. The draft impact assessment was

published in December 2005, and stated that the technical requirements for the pulp mill had been fulfilled and that the quality of water and air should not be impaired. The Argentine government sent an official letter protesting against the study to the IFC in January 2006 and the IFC embarked on another assessment. In response, Botnia publicly accused Argentina of delaying the financing decision. The members of CEAG endeavoured to influence the financing banks by demonstrations and roadblocks, as well as by writing letters to the banks.

The new impact assessment was completed in April 2006, and the IFC stated that it needed further consultations. The interest of Botnia's management was to provide the IFC with the best available information to ensure fair decision-making, and thus they agreed to participate in another assessment. Management had potential power to influence the decision-making process and their interest was legitimate and urgent.

In October, the members of CEAG set up the roadblocks again, despite the protests of the Argentine president. The final version of the environmental study was released in October, and stated that the pulp mill would not harm the environment and further that it would benefit the Uruguayan economy. Despite fierce criticism from Argentina, the IFC and MIGA (Multilateral Investment Guarantee Agency) granted a \$170 million loan and a \$350 million guarantee for the project. The Argentine president responded by emphasising that they would not prevent the roadblocks, which compelled Uruguay to take the case to the Hague ICJ.

In this episode, Argentina had power to influence the IFC by demanding new environmental assessments. Thus the Argentine government again influenced other stakeholders in order to further its demands and to oppose the pulp mill. The claims of Argentina and CEAG were legitimate and urgent in the sense of time-sensitivity and criticality, as the IFC was to base its financing decision partly on the environmental assessments. The IFC had the power and legitimacy to make the financing decision and the interest was urgent given its criticality. The stakeholders, their interests and salience related to the episode are summarised in table 3.

**Table 3** Stakeholders, interests and salience related the IFC’s decision-making process

<b>Stakeholder</b>	<b>Interests related to the episode</b>	<b>Salience</b>
Argentine government	Interest in preventing the IFC from financing the project in order to influence Botnia, and the construction works.	P, L, U
CEAG	Interest in preventing the IFC from financing the project in order to influence Botnia.	L, U
Management	Interest in providing information for the IFC’s decision-making.	P, L, U
The IFC	Interest in assessing the project objectively before the financing decision.	P, L, U

(P=Power, L=Legitimacy, U=Urgency)

### **The proceedings in the Hague ICJ**

The dispute was politicised into an open conflict between Uruguay and Argentina, as Argentina decided to take the case to the Hague ICJ in January 2006. Argentina accused Uruguay of violating the Uruguay River Statute by authorising the construction project without prior consultation with Argentina, and demanded that the mill project be suspended. The interest of Argentina was, further, to hinder the project and to prevent

environmental damage. In response to this, Uruguay took the case to Mercosur, claiming that Argentina had prevented the free circulation of goods and services by allowing the roadblocks to be set up. In July 2006, the ICJ ruled that there were no grounds for imposing suspension on the works of the pulp mill project.

The members of CEAG tried to influence the process by demonstrations and roadblocks, even though Argentina opposed these actions, as they were deemed harmful to Argentina's standing with the court. CEAG did not have power in this episode and its claims were not deemed legitimate. Uruguay also took the case of the roadblocks to the ICJ, but the Court denied the requests to take measures against the roadblocks. The interest of Uruguay in the issue was to ensure the constant progress of the project and to prevent further harm to the economy due to the roadblocks. Thus, the Uruguayan government strove unsuccessfully to influence CEAG by influencing the ICJ and the Argentine government. Both Argentine and the Uruguayan governments' interests were legitimate and urgent and they had the power to initiate legal proceedings. However, they did not have direct power to influence Botnia or each other.

As the construction works were completed during 2007, the aim of the demonstrations and roadblocks shifted, and the demonstrators demanded that the pulp mill be relocated to ensure social order. They made clear that they would treat the opening of the pulp mill as a declaration of war. The ICJ did not reach a final decision during the research period. The ICJ itself had no vested interest in the episode, but was rather drawn into the conflict as an arbitrator. In this context, the ICJ's objective was to assess the situation and the claims of the governments. Thus the ICJ had legal power and legitimacy to influence Botnia, but its

objectives were not urgent with regard to time. Table 4 summarises the stakeholders, their interests and salience related to the episode.

**Table 4** Stakeholders, interests and salience related to the proceedings in the Hague ICJ

<b>Stakeholder</b>	<b>Interests related to the episode</b>	<b>Salience</b>
Argentine government	Interest in influencing the ICJ to compel Botnia to suspend the works.	P, L, U
Uruguayan government	Interest in ensuring the constant progress of the project and to force Argentina to lift the roadblocks.	P, L, U
CEAG	Interest in influencing the ICJ to compel Botnia to suspend the works.	U
The Hague ICJ	Objective to evaluate the claims made by the governments and to reach a decision.	P, L

(P=Power, L=Legitimacy, U=Urgency)

### **Demands for the government of Finland to intervene**

In the spring of 2006, the Argentine government initiated demands for the Finnish government to intervene with a view to resolving the conflict. These claims were not deemed legitimate by Finland, however, which stated that the government of Finland would not intervene in the process. The Finnish Minister of Foreign Trade and Development stated that Uruguay, Argentina and Botnia as a private company should resolve the conflict. Argentina had no power within this episode, even though it tried again to influence other stakeholders to influence Botnia. The demands of Argentina were critical and thus urgent, but not legitimate, as the Finnish government had no jurisdiction over the operations of Finnish companies in Uruguay.

Demonstrations were organised outside the Finnish Embassy in Buenos Aires, and the

demonstrators called for Finland to bear its responsibility. Again, the Finnish Embassy had no interest in the episode, and thus it did not involve itself in it. In August 2006 the representatives of civic and environmental organisations visited Finland and delivered a petition of over 40,000 signatures from Gualeguaychú to the Finnish Minister of Foreign Trade and Development. The Minister reiterated that the Finnish government was not a party to the conflict. Finland had no interest in the conflict, but it was nevertheless a stakeholder of Botnia in a sense that it was affected by Botnia's actions. In this episode, the Finnish government was able to remain a neutral party, and this interest was legitimate and urgent given its criticality.

In the spring of 2007 Argentina and Uruguay tried to resolve the conflict in negotiations led by the King of Spain and his representatives. The negotiating parties expected the Finnish government and Botnia to participate in these negotiations. A lot was expected of these negotiations, but they turned out to be unsuccessful. Thus, the negotiators had urgency and legitimacy in this episode, but no power. At the same time, the opponents demanded that the construction work should be suspended and there was a huge demonstration of over 100,000 participants in April 2007. In this episode, CEAG had no power and its demands were not legitimate, but only urgent. The stakeholders, their interests and salience related to the episode are summarised in table 5.



**Table 5** Stakeholders, interests and salience related the demands for the Finnish government to intervene

<b>Stakeholder</b>	<b>Interests related to the episode</b>	<b>Salience</b>
Argentine government	Demand for the government of Finland to take part in the conflict.	U
CEAG	Call for the government of Finland to meet its responsibilities and compel Botnia to suspend the works.	U
Finnish government	Interest in remaining neutral, and not participating in the conflict.	P, L, U
King of Spain	Interest in negotiating the conflict.	L, U

(P=Power, L=Legitimacy, U=Urgency)

### Synthesis of stakeholder salience analysis

Table 6 summarises the results of the analysis of stakeholder salience related to the episodes. Two focal observations can be drawn from the results. First, the number of stakeholders differs greatly between the episodes. The first episode related to the demands to suspend the works attracted the greatest number of stakeholders, and some of these did not actively participate in the conflict in the other episode contexts. Secondly, the stakeholder salience varied between the episodes as in the first episode there were four salient stakeholders, in the second there were three and in the last two there were two and one respectively. The salience also varied in that, for example, the Argentine government was salient only in the first three episodes, and CEAG was salient in only one of the episodes even though it participated in all of them.

**Table 6** Stakeholder salience related to the episodes

	<b>Demands to suspend the works</b>	<b>The IFC's decision-making process</b>	<b>Proceedings in The Hague ICJ</b>	<b>Demands for Finland to intervene</b>
<b>Argentine government</b>	P, L, U	P, L, U	P, L, U	U
<b>Uruguayan government</b>	P, L, U		P, L, U	
<b>CEAG</b>	P, L, U	L, U	U	U
<b>Management</b>	P, L, U	P, L, U		
<b>Employees</b>	L, U			
<b>Residents of Fray Bentos</b>	L, U			
<b>Finnish Embassy</b>	L, U			
<b>Greenpeace</b>	L, U			
<b>The IFC</b>		P, L, U		
<b>The Hague ICJ</b>			P, L	
<b>Finnish government</b>				P, L, U
<b>King of Spain</b>				L, U

(P=Power, L=Legitimacy, U=Urgency)

As stated, the analysis shows that the episode related to demands for suspending the works accumulated more stakeholders than the other three episodes. In this episode, four definitive stakeholder groups (the Argentine government, the Uruguayan government, CEAG, and company management) and four dependent stakeholder groups (employees, residents of Fray Bentos, the Finnish Embassy, and Greenpeace) were identified. Thus, this episode put most pressure on the focal company in terms of following the situation, responding to stakeholder demands, and taking part in the resolution of the conflict.

In the episode related to the IFC's decision-making process, the Argentine government, company management and the IFC were the definitive stakeholders whereas CEAG was the dependent stakeholder. Interestingly, the Uruguayan government was not a stakeholder in this episode although it had a clear economic interest in the conflict.

In the episode regarding proceedings in the Hague ICJ, the Argentine and Uruguayan governments were definitive stakeholders, the Hague ICJ was a dominant stakeholder and CEAG a demanding stakeholder. This episode is clearly linked to the politicised nature of the conflict, and neither the management of the company nor its employees were identified as stakeholders in it. It is interesting, that the Finnish Embassy or the Finnish government had no role in this episode although they are the ones who are expected to act in the political sphere. In the episode concerning calls for Finland to intervene, however, the Finnish government was the definitive stakeholder, and the Argentine government and CEAG were demanding stakeholders. The negotiating King of Spain and his representatives was a dependent stakeholder. This being the only episode where the Finnish government was a stakeholder shows how reluctant it was to participate in the conflict.

In terms of stakeholder attributes, the stakeholders' power was often based on their resources to influence others and the development of the episodes. For example, the Argentine government actively sought to increase its power within the episodes by cooperating with CEAG and thus aligning their claims to increase their leverage. The legitimacy of stakeholders' claims was mostly based on either safeguarding their rights or invoking environmental concerns, and the wellbeing of society. Urgency mostly ensued

from the dynamic context of these episodes, which increased the time-sensitivity of the claims. In addition, the different interests were critical for the stakeholders.

## **JUSTIFICATION OF THE INTERESTS**

The results of the first round of analysis indicate that stakeholder interests and salience were dynamic and context dependent. However, analysing interests and relations only using the attributes of power, legitimacy, and urgency, tells us little about how ethical issues emerge in stakeholder relationships, and, how strategy and ethics are intertwined in the stakeholder interests. Consequently, we continued our analysis in order to examine how the stakeholder interests were justified in the media texts. We focused our analysis on the episode related to the demands for suspending the construction works, as most of the stakeholder interests were present in that particular episode. A summary of our analysis on stakeholder interest justification is presented in Table 7.

**Table 7** Justification of the stakeholder interests

Stakeholder	Justification	
	Own interest:	Perspective to other interests:
<b>Argentine government</b>	Right to protect the environment Duty to pressure Botnia to suspend the works Protecting the common good in general	Uruguayan government had neglected its obligation and had a duty to pressure Botnia
<b>Uruguayan government</b>	Positive economic and social benefits Not violating the contractual obligations Right to support the project	Argentina has no juridical grounds for suspension demands Opposition driven by envy
<b>CEAG</b>	Fear and concern for the area and for the future generations	Pulp mill poses a natural disaster and ruins local sources of livelihood Botnia tells lies
<b>Management</b>	The mill fulfils all environmental requirements	No legal grounds for suspension demands Conflict is political Opposing stakeholders' demands are groundless, irrational and conflict seeking
<b>Employees</b>	Employment and economic prosperity	Employees should not pay the costs of the conflict
<b>Residents of Fray Bentos</b>	Economic benefit Prosperity and social development	Trust in science and technology
<b>Finnish Embassy</b>	Obligation to provide accurate information and to build trust	Opposition has started because of matters of principle
<b>Greenpeace</b>	Preventing environmental damage	Botnia has no right to build the mill Botnia uses prohibited technology

As shown in Table 7, the stakeholder interests were justified in a variety of ways. The justification was built both by arguing for the stakeholder's own interest and by arguing for or against other stakeholders' interests. The Argentine government's interest was presented as a demand to suspend the construction works in order to prevent environmental damage. The government justified this interest by stating that, based on the Uruguay River Statute, they have a right to protect the environment and especially the river. In addition, they had set up the joint committee with Uruguayan authorities, and they stated that the Uruguayan

government had neglected its obligation and has a duty to pressure Botnia into suspending the works. More generally, the interests were justified based on the principle of common good, as the government emphasised that the mill will ruin the local environment and thus the local sources of livelihood, in addition to deteriorating the relations between the two nations.

The Uruguayan government's interest was to ensure the continuation of the construction works, as the pulp mill would benefit the national economy. The government regarded the roadblocks with concern, as they inflicted economic losses for the nation. The interest of supporting the construction works was justified for invoking the positive economic and social benefits the mill would bring for the area and for the nation. In addition, the government stated that the decision of building the mill had already been made, thus presenting that they would not violate their contractual obligations, and that they had a right to support the project. They presented that the demands of Argentina had no juridical ground, as the environmental assessments had stated that the quality of water and air should not be impaired. They claimed that the opposition is driven by envy, as the mill is located on the Uruguayan side of the river.

The interest of CEAG was aligned with that of the Argentine government, as they demanded the construction works to be suspended. They claimed that the pulp mill poses a natural disaster to the area and will ruin the local sources of livelihood. These demands were justified by stating that the mill will use prohibited, polluting technology. CEAG stated that they had fear and concern for the area, and especially for the future generations.

Additionally, they stated that as enlightened people they oppose Botnia, who tells lies in order to exploit the area.

The interest of the management of Botnia was to continue construction works on schedule. This interest was justified by stating that there were no legal grounds for the demands for suspending the works, as the company had the full authorisation for the mill from the Uruguayan government and because the mill fulfills all environmental requirements. The company presented that the pulp mill will be the most modern in the world, will operate complying the environmental requirements set by the European Union, and has an environmental certificate for the production. The company distanced itself from the conflict stating that the conflict is political and the fears of the opposing stakeholders are groundless, irrational and conflict seeking.

The employees supported the continuation of the construction works in order to ensure employment. This interest was justified by presenting that the mill will bring economic prosperity and jobs for the poor area. They feared for the loss of jobs if the construction works are suspended and stated that they should not have to pay for the costs of the conflict.

The residents of Fray Bentos supported the continuation of the construction works in order to ensure employment and economic benefits in the area. Their interest was justified by stating that the mill will bring prosperity and local and social development to the area. In addition, they stated that they trust on science and technology.

The Finnish Embassy had an interest to provide accurate information about the pulp mill. This was justified by stating that the Embassy is obliged to provide information and to build trust, in order to maintain international relations. They presented that trust can be built by openness, even though the opposition has started because of matters of principle.

The Greenpeace had an interest in demanding the suspension of the construction works in order to prevent environmental damage. They justified their demands by claiming that Botnia had no right to build the pulp mill, as the joint commission of Argentina and Uruguay had not approved of the project and the environmental assessment. Additionally, they stated that Botnia will use prohibited technology and thus will harm the environment.

To conclude, it becomes apparent that both demands for suspending the construction and claims for continuing them were argued for with the ethical terms of rights and duties, by referring to contractual and juridical obligations, and on the basis of common and social good. The main difference in the justification of opposing and supporting arguments was that the contrasting views were most often argued for with environmental values whereas the affirmative opinions were argued for with economic benefits. However, some of the opposing arguments were build on economic issues, too, as it was said that the mill will destroy the tourism industry in the area.

In relation to different stakeholder interests, the analysis shows that the interests of institutional actors like states and governments were often justified by referring to rights and duties as well as juridical and contractual issues. Whereas the interests of individual



actors like citizens and employees were justified by referring to economic prosperity and social welfare as well as fears, emotions, and trust.

## **DISCUSSION**

We have analysed stakeholder relationships by breaking a conflict into episodes and examining stakeholder relationships in each episode. The aim was to understand stakeholder relations as both ethical and strategic. First, analysing stakeholders in different episodes of the conflict proved useful as it helped us to deliberate the dynamics of the conflict, and allowed for analysing how different stakeholders acted during it. Breaking the conflict into episodes was helpful in illustrating how the conflict comprised numerous, simultaneous events. The episodes illustrate the contexts in which stakeholders participated in the conflict. The results of our analysis show that the stakeholders, their interests and relationships varied across episodes, thus constituting a dynamic conflict context. By analysing the stakeholders and their interests related to the episodes, we were able to take into account the numerous and at times contradictory and concurrent stakeholder interests (cf. Roloff, 2008). Stakeholders can have simultaneous interests in the conflict, upon which they act differently in different contexts.

Second, conducting salience analysis with the model by Mitchell et.al. (1997) was valuable in depicting the change in stakeholder relationships in the course of the conflict. Our results show that stakeholder salience varied between the episodes. Stakeholders actively strove to increase their salience, notably by utilising their relationships with others. Neville and Menguc (2006) conclude that stakeholders' potential to influence other stakeholders is

frequently determined by the particular nature of their interest, and that they cooperate to increase the persuasive power of their combined interests. This was evident in this case, too, as, for instance, the Argentine government co-operated with CEAG in order to gain more power for its claim within the episode. These parties also utilised another indirect tactic to gain power by appealing to non-stakeholders in the conflict. Parties such as The Hague ICJ and the Finnish Embassy had no interest in the conflict prior to the actions of the opposing stakeholders.

The results of our study mostly concur with the claims made by Mitchell et al., (1997). On the one hand, we argue that power is not only an absolute attribute of the relationship, but also a relative attribute. The power in stakeholder relationships should be analysed in relation to other stakeholders, as the role of the stakeholder among other stakeholders (see also Rowley, 1997) may increase stakeholders' relative power to others in any given context. To be able to retain its power, a company should actively seek ways to create and maintain multi-stakeholder networks instead of, or in addition to, concentrating on dyadic firm-stakeholder relations. On the other hand, we argue that the salience analysis is not adequate in providing a comprehensive understanding on the ethical nature of the stakeholder relationships. To show how stakeholder relationships are both ethical and strategic, we needed to analyse the justification of different stakeholder interests, after breaking the conflict into episodes and examining the salience of each stakeholder in the different episodes.

Finally, conducting analysis on the justification of the stakeholder interests allowed for illustrating how the episodes were constructed by changing interests and relationships, and

thus highlighting the strategic and ethical dynamics inherent in stakeholder relationships. Examining the justification of the stakeholder interests showed that governmental stakeholders present claims that relate to official and neutral issues such as contractual obligations, accuracy of information, rights and duties towards different actors, and the importance of following the law. Residents and citizen representative groups justified their claims by arguing for threats related to environmental damage, expressing fear or hope related to the local social development and economic prosperity of the area. The differences in expressing the interests show how ethics and strategy become intertwined. Dynamics of stakeholder relationships become constructed both in the ethical and strategic justifications. The interests serve as a driver for stakeholders' actions and relationships. The actions and interests of different stakeholders are not separate, but closely connected.

This study confirms that stakeholders are likely to co-operate with stakeholders who have similar interests (cf. Neville and Menguc, 2006), and further proposes that these relationships evolve constantly as interests change between different events. Stakeholders participate actively in the episodes related to their interests. Therefore, the stakeholder field is constantly changing, and stakeholders also actively constitute events to further their demands and to draw in such parties which would not otherwise have any interest in the conflict. The stakeholders seek to influence each other which, in turn, influences the development of the conflict. Thus, stakeholders should be analysed in relation to their relationships with others, rather than on the basis of their individual attributes.

We propose that the development of the conflict, the interests, and relationships are all connected, and to understand the stakeholder relationships in such a complex and dynamic

context and as both strategic and ethical, we need to look at the justifications of different stakeholder interests. In a conflict situation, the stakeholder interests are typically in contradiction to each other and justification is built both by arguing for one's own interest and by arguing against other stakeholders' interests. Finding out the ethical premises of interest justification allows for building a common ground on mutual understanding and the co-operative nature of joint value creation. Such an effort is a display of a set of different values where both strategic and ethical dimensions in stakeholder relationships should be taken into account.

### **Limitations of the research**

There are certain limitations to our study that need to be considered. First, the research was based on the analysis of items from only one Finnish newspaper. In terms of the data analysis, additional reliability could be achieved by including items in other newspapers in the analysis, and diversity in terms of region and country could also be included in the data. Furthermore, to gain a more profound understanding of the case and the relationships, the secondary data used in this study could be supplemented by interviewing the parties to the conflict. This would enhance the credibility of the research. Also, as a single case study, the generalisability of the research is inevitably limited.

### **CONCLUSIONS**

This study aimed to understand stakeholder relationships as both ethical and strategic. We explored changes in stakeholder relationships in a dynamic conflict context in order to

understand how and why the relationships change. The stakeholders were analysed in the context of the different episodes within the conflict. The episodes illustrated the complex nature of the case. The relationships were analysed by examining stakeholders' interests, by assessing stakeholders' salience within the episodes, and by identifying the justifications of the stakeholder interests.

To conclude, we argue that the salience analysis provides us a way to examine stakeholder relationships only in instrumental terms, and it does not allow for appreciating the ethical and strategic dimensions of stakeholder relationships. We argue that the analysis of stakeholders should be closely linked to the various contexts in which they operate, and it should be based on analysing the relationships. Our study has paid a close attention to examining the context of the stakeholder relationships, and by providing a rich detailed qualitative analysis we were able to elaborate on the strategic and ethical nature of stakeholder relationships created by the justifications of stakeholder interests.

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