STAKEHOLDER MISMANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY CRISES

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European Management Journal, 2006, 24(1), 59-72

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ABSTRACT

In the past decade, the stakeholder approach has gained much acceptance among academics and practitioners. Noticeably, there has been little consideration of the motivations and processes used by businesses to avoid or neglect stakeholder power and pressures. This is all the more remarkable in the light of recent corporate social responsibility scandals in which these mechanisms seems to have been at work. In order to shed some light on the background, organizational mechanisms and strategies underpinning stakeholder mismanagement, this paper reports two studies involving businesses that have gone through a severe integrity crisis, one that focuses on a single company (Ahold) and one on an entire industry (the Dutch building industry). While taking place in a country well-known for its stakeholder-oriented 'polder model', various stakeholders groups saw their basic interests violated in both cases.

Focusing on the nature of the corporate practices that have facilitated stakeholder mismanagement, mechanisms to reduce stakeholder power and to increase management power can be discerned in both cases, although the peculiarities and dynamics differ per case. Specific to Ahold is the impact of geographical diversification and its focus on customers, using various cuing mechanisms to present itself as socially responsive. The construction industry case points at a strategy of setting up industry-wide structures to manage relationships with a variety of stakeholders and building an environment that supports continuity.

KEY WORDS

Ahold; Albert Heijn, construction industry; social responsibility; stakeholders; stakeholder mismanagement

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1. Introduction

Since the mid-1990s, and seminal contributions of authors such as Clarkson (1995), Donaldson and Preston (1995), and Wood and Jones (1995), the stakeholder view of Corporate Social Responsibility (CSR) has been widely embraced by both academics and businesses. Much of recent research on CSR and stakeholder management has focused on three core themes: (1) identifying the nature of stakeholders (Mitchell *et al.*, 1997; Starik, 1994); (2) examining under which circumstances and how stakeholders influence organizational decisions and operations (e.g. Frooman, 1999; Rowley, 1997); and (3) identifying different strategies to deal with stakeholders (Savage *et al.*, 1990; Jawahar and McLaughlin, 2001). Noticeably, there has been little consideration of the motivations and processes used by businesses to avoid or neglect stakeholder power and pressures.

The series of recent corporate social responsibility scandals (e.g. Enron, Worldcom, Vivendi, Parlamat) clearly suggests that many companies have failed to take care of various stakeholder interests, and that some of them have actually been able to neglect stakeholder demands for a fairly long period of time. These businesses apparently did not believe in CSR and the moral duty to account for stakeholder interests. The question can be asked why and how such large corporations have failed to address their responsibilities to stakeholders in a time when the stakeholder view is so well known.

In order to shed some light on the background and organizational mechanisms underpinning stakeholder neglect, this paper reports two studies involving businesses that have gone through a severe integrity crisis. Interestingly, these two cases take place in a country – The Netherlands – that is well known for its 'polder model', a social system that highly values a concern for various stakeholder interests.

The first case study focuses on a single company: Ahold (the third supermarket chain worldwide; its Dutch branch is the largest in the Netherlands). Ahold managed to present itself as a champion of CSR and stakeholder dialogue in the Netherlands until the Spring of 2003, while simultaneously violating basic governance principles by providing its shareholders with incorrect information about financial results and failing to address actual expectations of some of its stakeholders appropriately. It focuses on a company that is stakeholder (customer) oriented almost by nature, illustrating how the appearance of a deep commitment to stakeholders can mask much less respectable practices.

The second case study focuses on an entire industry: the Dutch building industry. A congressional investigation demonstrated in 2002 how about 600 construction companies took part in a variety of illegal practices including price agreements, the bribery of officials, and shadow bookkeeping. This case study complements the first one since it demonstrates that not only individual companies, but also most of an industry's participants can be involved in the systematic neglect of stakeholder interests. In addition, this case illustrates that businesses can employ collaborative strategies to co-opt, or isolate themselves from, common stakeholders (cf. Oliver, 1991).

The two cases point to some gaps and uncovered terrains in the contemporary literature on CSR and stakeholders. Most studies that examine strategies for dealing with stakeholders start from the premise that businesses have the intention to fulfill expectations of (influential) stakeholders (Savage *et al.*, 1991; Jawahar and McLaughlin, 2001) assuming that stakeholder power cannot be neglected. This exploratory study, however, suggests that, even though stakeholder management literature asserts stakeholder power, there is a need for research that investigates how companies actually implement approaches to bypass this power. Before turning to the evidence of the two case studies, we first present a brief overview of past stakeholder research.

OVERVIEW OF PAST RESEARCH

As mentioned in the introduction, past stakeholder research has focused on three main

questions: 'Who is a stakeholder?'; 'How do stakeholders influence the firm?' and 'How do firms manage their stakeholders?'. A brief review of past findings and conceptual frameworks is introduced below.

Who is a stakeholder?

Even though the stakeholder perspective is now well established and has received considerable academic attention (Jones and Wicks, 1999), the nature of stakeholders continues to be debated. Freeman's (1984, p. 46) definition of stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives" is the most widely accepted definition (Mitchell *et al.*, 1997). This definition was refined by Starik (1994, p. 90) to also include those who "are or might be influenced by, or are or potentially are influencers of, some organization".

The two definitions point first to individuals or groups who are sufficiently powerful to impact the proper functioning of the organization (e.g., employees, suppliers, lenders, customers or regulators). The motivation of the firm to cater to the demands and concerns of these powerful stakeholders may be mainly instrumental: unless stakeholders and their interests are "dealt with" (Freeman, 1984, p. 126), the organization cannot continue to function adequately. However, the organization may also deliberately choose to account for stakeholder demands out of a sense of moral duty. Freeman's (1984) and Starik's (1994) definitions also embrace those actors who are not in the position to alter corporate activities, but who are or might be affected by the firm's operations (e.g., small suppliers of a large firm, small investors and individuals living close to a large plant). The motivation underpinning corporate initiatives targeting these powerless groups is moral: businesses perceive that they have the moral duty to ensure that their activities do not negatively affect (or instead contribute positively to) the well-being of various actors.

The main difference across various conceptualizations of stakeholders can be summarized as follows: while some authors consider stakeholders as those who can either be affected *or* affect the organization, others require that stakeholders be in the position to both

influence *and* be influenced by organizational activities (Donaldson and Preston, 1995; Hill and Jones, 1992; Mitchell *et al.*, 1997). Nevertheless, in order to determine whether a group can be considered as a stakeholder, it may not be sufficient to evaluate the extent to which that group is in the position to influence or be influenced by a focal organization. Such an assessment ignores the fact that stakeholders may collaborate and influence each other in order to alter corporate behaviors. This potential for cross-influences and joint actions has been brought into light by scholars investigating how stakeholders influence the focal firm.

How do stakeholders influence the firm?

Resource-dependence theory has been a popular theoretical framework employed to explain how stakeholders can exercise pressures on organizations (e.g., Frooman, 1999; Hill and Jones, 1992; Jawahar and McLaughlin, 2001). It asserts that an organization is not self-contained or self-sufficient but – through exchange relationships with external actors – depends on its environment for resources, information or social legitimacy (Pfeffer and Salancik, 1978). This dependency gives stakeholders the possibility to influence or control a focal organization. It is an asymmetry in the exchange relationship that can act as a source of power for the less dependent organization or stakeholder. External control by stakeholders is particularly likely if they have access to resources that are relatively critical to the focal organization. For example, stockholders can bring in capital; suppliers can provide material knowledge or immaterial expertise; local communities can offer infrastructure; employees and managers can grant knowledge and loyalty; and customers can provide loyalty and positive word-of-mouth. This access to vital organizational resources gives stakeholders potential power over the firm.

According to Frooman (1999), stakeholders can enact their power through two types of strategies: (1) with a withholding strategy, stakeholders stop providing a resource with the intention of making the firm change a certain behaviour, and (2) with usage strategies, stakeholders continue to supply a resource, but with some strings attached. Frooman (1999, p. 197) also notes that "withholding and usage strategies do not have to be performed by a stakeholder, but instead, could be performed by an ally of the stakeholder with whom the focal

firm has a dependence relationship". This is often the role played by the media: even though the media is frequently not directly influenced by organizational activities, it may act as an ally of powerful stakeholders by voicing their concerns with respect to corporate activities. The possibility of collaboration between powerful and powerless groups is also emphasized by Rowley (1997), based on social network theory. In particular, Rowley (1997, p. 896) suggests that the capacity of stakeholders to influence the focal organization depends on the density of the network of stakeholders and the centrality of the focal organization therein. The greater the number of ties between stakeholders, the greater their ability to collaborate and to influence organizational practices.

Hill and Jones (1992) emphasize the potential for collaboration between stakeholders based on agency theory. They depict the firm as a nexus of contracts between diverse stakeholders. Hill and Jones (1992, p. 134) further position managers at the centre of this nexus since managers are the only stakeholders who can simultaneously enter into a relationship with all other stakeholders, and directly control organizational decisions. According to this approach, stakeholders are likely to successfully influence organizational decisions when managers are sure of the importance of these stakeholders for organizational survival. Such a perspective helps to understand why competition can be deemed as a stakeholder group: managers are likely to consider the actions of their competitors as a benchmark. According to Hill and Jones (1992), some individuals or groups may influence organizational decisions even if they have no power and no stakeholder ally, simply because they are valued by the firm's managers (Mitchell *et al.*, 1997). This idea has received empirical support: Agle *et al.* (1999) observed that stakeholders' salience among CEOs is influenced by their personal values (self-interested versus others-regarding).

How do organizations manage their stakeholders?

As stated in the introduction, little has been written about organizational practices to avoid or neglect stakeholder power or pressures. However, studies that have suggested broad classifications of stakeholder management strategies do form a start for investigating these practices. Berman *et al.* (1999), for example, differentiate between instrumental and intrinsic stakeholder management models. Both models assume that firms should manage stakeholder interests proactively as it is 'good' management; to improve financial performance or because of a moral commitment to stakeholders. However, they do not provide a clear depiction of the organizational actions undertaken under the two models.

Jawahar and McLaughlin (2001) assert that firms will use different strategies to manage different stakeholder groups. Based on insights from resource dependence theory and prospect theory, they set out how a firm focuses on particular stakeholders in each stage of its organizational life cycle. The model implies that at each stage interests of different stakeholder groups will not be equally attended to, but a firm will prioritize groups that are particularly important at that stage. Jawahar and McLaughlin (2001) distinguish between reaction, defense, accommodation and proaction strategies, but do not detail the exact behaviors typifying the implementation of these strategies.

Savage *et al.* (2001) identify different types of stakeholders based on their potential for threat and for cooperation. These dimensions are then placed in a two-by-two matrix (both high/low), resulting in four different stakeholder categories (supportive, marginal, nonsupportive, and mixed blessing) and concomitant strategies (respectively involve, monitor, defend, and collaborate). They subsequently describe, with the benefit of hindsight, what one company (Eastern Airlines) should have done to manage its stakeholders better in a particular situation (a strike in 1989). However, the specificity of the case and the absence of delineated actions hamper generalization. Consequently, the option to avoid or neglect particular types of stakeholders does not fit into their typology.

How do managers avoid or neglect their stakeholders?

Only traces of literature have investigated strategies and tactics used by firms to avoid or neglect their stakeholders. In his account of how multiple stakeholders influence firm behavior using social network theory, Rowley (1997) provides an analysis of the degree of resistance firms exert against stakeholder pressures. He provides a static depiction of four approaches that

firms can follow in responding to stakeholder pressure (compromiser, subordinate, commander, or solitarian). Rowley argues that within particular configurations of the stakeholder network, firms can control or avoid stakeholder pressure. However, such a static view does not allow the examination of the *process* by which firms manage their stakeholders.

A more general depiction of strategic stakeholder actions, which adds a dynamic aspect to it, is offered by Hill and Jones (1992) (even though this is not the focus of their paper). They provide a short depiction of two potential strategies: (1) those aimed at reducing the concentration of stakeholder power, and (2) those aimed at increasing the concentration of management power (Hill and Jones, 1992, p. 146). The possibility to take strategic stakeholder action results from power differentials between managers and stakeholders. Hill and Jones (1992) assert that since managers are at the centre of the nexus of contracts, they are in a better position to exploit power differentials to their own advantage.

Diffusion of stakeholder control can be achieved through the development of alternative sources of supply (vis-à-vis suppliers), product and market diversification (customers), geographical diversification (local communities and the general public), or workplace reorganization and bureaucratic mechanisms (employees). A reduction of stakeholder choices, and thus increased management power, might also be realized by horizontal and vertical integration, and cooperative agreements, regarding organization, management and/or pricing, with other firms. Nevertheless, as Hill and Jones (1992) also note, this may be a temporary situation, as stakeholders, possibly by using legal opportunities, will strive to redress the balance. Moreover, strategies that increase the size and spread of an organization can also lead to greater visibility and thus vulnerability to concerted stakeholder actions, something which the campaigns against globalization in general and large multinational corporations have illustrated. The precise effects and implications of Hill and Jones' suggestions are therefore not very straightforward.

Rowley's (1997) typology of the attitude that firms adopt towards their stakeholders draws on Oliver's (1991) work about strategic responses to institutional pressures. This classification of strategic responses can also further a process view on strategic stakeholder

management by giving more concrete insights about Hill and Jones' (1992) two strategies to exploit power differentials. Oliver (1991) combines resource-dependence theory and institutional theory to identify strategic responses of organizations to institutional pressures for conformity. She distinguishes between five types of responses to resist institutional pressure: acquiesce, compromise, avoid, defy, and manipulate. These responses can be set out on a continuum representing different power relationships between stakeholders and managers. Manipulation, which encompasses tactics to co-opt, influence or control stakeholders (Oliver, 1991), is a strategy in which management has much power, and is capable of further increasing this. In the opposite case, where stakeholders have more power, management will acquiesce to stakeholder pressure. Interesting is the position in between these two extremes, where firms avoid stakeholder pressure with concealment tactics, buffering or escape (Oliver, 1991), because the power relationship between managers and stakeholders is more in balance.

A related tactic to deal with stakeholders is one that does not have as main aim to resist pressure but instead to anticipate pressure by creating a favourable environment (Pfeffer and Salancik, 1978, p. 189) through the construction of an organizational identity (Scott and Lane, 2000). Scott and Lane (2000, pp. 50-51) point to three mechanisms used to stimulate stakeholders' identification with an organization: "(1) the presentation of organizational images in organizational communications; (2) the enhancement of the visibility of stakeholders' organizational affiliations; and (3) the embedding of stakeholders within the organizational community". These three (cumulative) tactics, called 'identification cuing', help the organization to underline the similarities with its stakeholders, thus influencing the stakeholders to classify themselves cognitively as 'members'.

All in all, however, the stakeholder management literature only hints at strategies and tactics used by organizations to have power differentials between managers and stakeholders work to their advantage. In particular, little has been written on the actions undertaken by businesses to avoid stakeholder demands. In the two cases presented in the remainder of this paper, we will explore how concrete management practices may lead to the neglect of stakeholder interests, and eventually to social responsibility crises.

METHODOLOGY

The two cases selected – Ahold and the Dutch building industry – constitute extreme cases of stakeholder neglect, and thereby offer excellent settings where one can evaluate which managerial practices induced or helped businesses bypass stakeholder demands. Both Ahold and the building industry are extreme cases because stakeholder neglect was so evident that legal actions were undertaken in both situations. As will be detailed in each case study, various stakeholder groups saw their basic interests violated in both situations. In particular, the Ahold crisis revealed a clear neglect of shareholder interests, and the construction industry scandal showed a clear avoidance of governmental authorities and society at large. These two cases are all the more exceptional because they have taken place in the Netherlands, a country known for its so-called 'polder model' and collaborative decision-making. Extensive consultation and negotiations through bargaining structures, sometimes labeled as a system of 'smart governance', aims to match the public interests of a range of stakeholders with those of (large) domestic firms (Van Tulder, 1999).

Several sources of information were used to conduct the two case studies. In particular, for the Ahold case, primary and secondary material, including extensive files with press clippings and news reports from Dutch sources were used. Additional insights about Ahold (and its Dutch subsidiary Albert Heijn) were obtained through an earlier research project, carried out before 2002, in which one of the authors participated.

For the Dutch construction study, the following sources were employed: (1) a complete review of eight Dutch newspapers and one professional magazine starting at the beginning of the crisis in 2001, (2) the full text hearings of the Dutch congressional inquiry about the industry that took place in 2002, and (3) insights gathered by participant researcher activities in the industry in 2002-2003.

All the data gathered were scrutinized, compared and contrasted by both authors over a three-month period. The main findings are presented in a summary format in the two next sections. In particular, both sections first start by depicting the respective crises and their implications for stakeholders. Then, the discussion is aimed at outlining the nature of the

corporate practices that have facilitated the development of stakeholder neglect. We explore to what extent the strategies distinguished above, particularly those by Hill and Jones (1992), Oliver (1991), and Scott and Lane (2000), seem appropriate to typify stakeholder management in both cases.

It should be noted at the outset that we do not ex-ante assume in either case that stakeholder mismanagement was intentional and purposely sought by the firms involved. Practices leading to stakeholder neglect might be the result of tradition and other contextual factors and may not be the result of a resolute intent to bypass stakeholder demands.

THE AHOLD/ALBERT HEIJN CASE

Ahold grew from a small grocery store in one location, Zaandam (where it still has its headquarters), with the Albert Heijn (AH) brand, to Ahold as worldwide conglomerate (e.g. De Jager, 1987). Since 1987 it has carried the 'Royal' designation, awarded by the Queen of the Netherlands, for which only century-old Dutch firms are eligible. The Dutch have traditionally been proud of the company, and for many AH has long been synonymous to the term supermarket. Likewise, in its home country, Ahold and AH are almost generally seen as one and the same. AH is also well known because of its large-scale, often humorous advertising campaigns throughout the years. In the first long-term one, which started in 1981, the company emphasized to watch the price of its products, and thus be the most suitable store for economical customers.

In the 1990s, the company and its CEO Cees van der Hoeven became very popular among investors, and valued by employees and the general public. For many years, Van der Hoeven, who personified the company and its success, was chosen as the best manager by its Dutch colleagues, and Ahold ranked first on the list of most favoured employers in the Netherlands, and as a company with the best reputation in 2001 (Van Riel, 2002). The CEO emphasized to serve both shareholder and stakeholder interests. In his view, entrepreneurial activities must build on "solid societal foundations". "If you only focus on short-term shareholder value, then decision-making will be such that you will automatically fall down. To

me that is so obvious that I have the feeling that I do not even have to explain that". 1

Ahold also managed to present itself as responsive on social and environmental issues throughout the years. The company published reports (on the environment in 1998 and 2000, and on CSR in 2002), introduced organic products and funded a multidisciplinary research project to develop a comprehensive model to measure corporate social and environmental performance. Particularly interesting in retrospect are its business principles and common values, published in April 2002 in three separate documents ("Mission, Vision and Common Values. Our ambitions"; "Policy Guidelines. Our relations with key stakeholder"; and "Code of Professional Conduct. The basic rules of the game"). Inter alia, the code stipulates that "The integrity and completeness of record keeping is not only Ahold policy, but also law. We properly, accurately and fairly record our financial transactions. (...) Preventing fraud is an important priority at Ahold, both to protect Ahold's reputation and to prevent loss. Fraud is defined as committing illicit or illegal acts involving money and/or goods to achieve financial benefit, to benefit oneself or others, at a disadvantage to the company or others" (Ahold, 2002a).

The crises

The most familiar part of Ahold's credibility scandal erupted on 24 February 2003 when a €970 million accounting scandal, particularly at the grocery's subsidiary US Foodservice, became public. CEO Cees van der Hoeven and CFO Michiel Meurs both resigned, and new top (interim) managers were appointed to handle the affair. In the preceding weekend, the banks had agreed on a new loan package to keep the company running, and management announced a large-scale investigation into the problems at US Foodservice, and also the other parts of Ahold where things had allegedly gone out of hand. In the subsequent eight months, details about wrongdoings made the headlines, the foremost of which encompassed the existence of false side letters. These appeared to be drawn up by the CEO/CFO to hide the fact that joint ventures in inter alia Sweden and Argentina were less than 50% controlled by Ahold. The mock documents served to legitimate the full consolidation of these subsidiaries in the parent company's financial reports, and thus falsely boosted its results.

A second major affair emerged in the Netherlands, when, at the day of the shareholder meeting on 4 September 2003, the salary package of the new CEO Anders Moberg was finally disclosed, four months after his appointment. Shareholder and public outrage reached unprecedented proportions, especially because Ahold's Dutch flagship AH (the roots from which the company had grown into a worldwide conglomerate) had just the preceding day announced its intention to dismiss more than 400 employees as part of a campaign to lower prices.

The row quickly led to calls for a consumer boycott against the largest and most-well known supermarket chain in the Netherlands, and a website was set up (with an address that paraphrased AH's famous PR slogan 'watch the tiny'), all of which attracted much media attention and public support. Assertions by AH's top managers that they belonged to a separate entity that was not involved in the payment of the holding's CEO, did not turn the tide. Ahold's major shareholders, the pension funds, which had been silent at the shareholder meeting, published the critical letter they sent on 8 September 2003 to the supervisory board chairman. The critique was publicly shared by the former CEO Albert Heijn himself, who also denounced Ahold's fraudulent accounting behaviour in general.

On 17 September 2003, Ahold's CEO Moberg saw himself forced to renounce part of his salary package, especially regarding guaranteed bonuses and severance benefits. In addition, the supervisory chairman announced to resign the subsequent month. AH's sales, which dropped 5% within one week, soon showed a recovery, and so did the Ahold share price, which increased 3% in response to the announcement (Rengers, 2003).

The whole crisis had a negative impact on the Dutch corporate system in general, including government and accountants' surveillance, shaking investor and public confidence and harming the image of the country. Shareholders suffered most notably from the collapse of the share price, and the deterioration of the climate surrounding Ahold. This included a very large number of small shareholders, and AH consumers who participated in a customer loyalty program which involved participation in an Ahold share fund and savings accounts. Employees also noticed that the reputation of their previously prestigious employer had collapsed, and felt

frustration. Proponents of CSR, and those who believed that Ahold was a responsive company, were seriously disappointed. A final group of stakeholders affected by Ahold's policy were AH's customers in the Netherlands, since the holding turned out to have forced its Dutch branch to keep prices high in order to fund the international expansion (Klok and Thijssen, 2004).

Stakeholder management practices

Below we will look at the nature of the corporate practices that have facilitated the development of stakeholder neglect, by reducing stakeholder power and/or increasing management power. In the case of Ahold, strategies as identified by Hill and Jones (1992) and Oliver (1991) were mainly aimed at avoiding stakeholder pressure by reducing stakeholder power. This was accompanied by cuing mechanisms (Scott and Lane, 2000) to influence customers, in which organizational communications played a large role.

Geographical diversification

In the 1990s, the Ahold holding started a path of rapid worldwide growth through acquisitions, particularly in the US and South America, and diversification. Corporate policy was aimed at maintaining high growth figures, and a series of takeovers served to achieve that. It required a steady stream of cash flow. This had an impact on its Dutch subsidiary. To help finance its expansion, Ahold pressurized AH to keep its prices high and thus help to generate sufficient cash flow for the holding; this policy increasingly received disapproval on the part of most AH's top managers, as it priced AH out of the Dutch market (Klok and Thijssen, 2004). The very fact that Ahold was becoming a global rather than a Dutch player also meant, however, that the influence from its local management, communities and the general public in the Netherlands declined.

The issue of balancing local and global requirements was addressed in organizational communications throughout the years, sometimes even explicitly linked to CSR. In 1996, CEO Van der Hoeven boasted about Ahold's shown capacities of combining local and global, and its excellence in combining different competencies in its worldwide activities (Smits and

Broekhuizen, 1996). A few years later, he mentioned that Ahold followed a "third-way" approach ("thus being the only alternative to the straight-line thinking of Wal-Mart and Carrefour"), in which respect for local cultures and management traditions, and teamwork prevailed.²

In 2001, when talking about social responsibility and ethics, Van der Hoeven emphasized that within Ahold, the idea had taken root that shareholder value cannot be created if large cultural differences exists. "The general view that is growing, also in the US, is that a nice business case on paper is not a successful combination if cultures do not match". The CEO underlined the increasing importance of a "cultural due diligence". For such matters, Ahold has never sought external advice, because "we have the idea that we have so much knowledge available internally that we could advise others".

And with regard to the difficulty of communicating CSR throughout a large conglomerate such as Ahold, he stated that "It might sound a bit 'arrivé' perhaps, but I dare to say that this is quite successful. I regularly appear in internal videos and the subject is always addressed there. It is about the prominence with which you present the topic, in all your statements inside the company and in your communication to the outside world".

In the social responsibility report, finally, Van der Hoeven also referred to the balancing act between local and global, apparently to justify for the lack of overall performance figures. "The responsibilities for prioritizing and carrying out practices are kept in the able hands of local leadership. While this decentralized structure makes us responsive and agile, it also poses challenges for CSR reporting. Because we manage most issues on a local level, we do not generally have aggregated data to report on our global performance" (Ahold, 2002b, p. 2).

Reducing competition

In the Netherlands, Ahold achieved a dominant position, with a market share of 27% for AH plus a 16% market share for Schuitema, another Dutch retailer in which Ahold holds a majority ownership (73%) (Libbenga, 2003; Schuitema, 2003). The increasing spread and power of Ahold also had its effect on its relationship with suppliers, who complained about AH's abuse of its powerful position and its arrogance. Farmers, in particular, expressed their discontent,

complaining about how AH squeezed their margins by paying low prices while simultaneously requiring high-quality products and production circumstances. Ahold had diversified its supplier base, and was therefore able to put considerable pressure on its domestic (but also other traditional) suppliers.

The company habitually denied accusations of this kind. In 2001, for example, the CEO reacted furiously to suggestions about Ahold's abuse of power vis-à-vis its supplying farmers in the Netherlands, especially when this was related to the emergence of food scandals such as BSE and food-and-mouth disease. He stated that "it was absolute nonsense and an insult towards retailers, who have done more to prevent food crises than any other sector, to say that we are squeezing farmers' margins and have thus helped to cause these crises". Instead of blaming the retail sector, the finger should be pointed at the agricultural subsidy system, according to Van der Hoeven.

Managing customer choices

In a sense, the powerful position in the Netherlands also reduced, or at least shaped customer choices. The company has traditionally been strong in various forms of communication with its stakeholders: not only with advertisements and promotion campaigns, but also through the publication of a magazine (called AllerHande, a title with a clear reference to AH). Freely available in all AH stores, it contains attractive production information (origins, background of existing and new products) and recipes, which have considerably shaped Dutch cooking and eating habits, for example by familiarizing foreign cuisines. This has been matched by store and stock management, and customer service and advice, both in the supermarkets and by telephone. Moreover, there is a long history of loyalty programs, originally with stamps and books, but in the past decade transformed into savings accounts, participation in an AH share fund, and a bonus (loyalty) card. In recent years, AH had started to distribute a weekly free promotional door-to-door folder with special offers. Families with children below the age of four could become members of a special club, and receive extra information and discounts.

AH perfected the management of shelves, stocks and stores, reckoning with the profile

of a store's clientele and of potential consumers living nearby, enabled by sophisticated market research and collection of AH customer details and shopping habits (e.g. Van Poll, 1997). Strong privacy concerns, however, were raised in 1998 when AH introduced a so-called bonus card, with considerable discounts for its holders. To avoid further controversy and consumer boycotts, the company quickly offered the possibility for anonymous use. Nevertheless, AH's market share decreased somewhat in the first six months of 1999 (in a market which grew by 4% overall). The incident first highlighted an underlying trend that consumers started to see AH as relatively expensive, and therefore switched to other supermarkets. These competitors had already used the introduction of AH's bonus card to point at the fact that their own discounts applied to all customers, not only to card holders.

Related to the criticisms mentioned in the preceding section on competition, some consumer groups complained of the unwillingness or slowness of AH to introduce a range of organic products. They requested a more active responsible 'sourcing' approach from the retailer to promote organic and fair trade products. AH undertook some activity in this area. Examples include the objective, announced in October 2000, to start selling only unsprayed products in a few years' time. The company also drew customer attention to its organic food assortment, for example through a special week with considerable discounts for these products (Couwenberg and Maarsen, 2001).

Discussion of the Ahold case

As the preceding sections showed, the company paid much attention to responding to stakeholder requests, and stimulating identification or at least affiliation with the organization, through communications, opportunities to participate in various initiatives, and building trust. However, Ahold's attempts to construct an organizational identity through cuing mechanisms (Scott and Lane, 2000) were primarily aimed at one stakeholder group: its customers. AH used its weekly and monthly publications to establish its identity with customers and also tried to embed them by introducing the share fund and bonus card. In contrast, towards other stakeholders, most notably its suppliers and stakeholders in the 'local' Dutch environment,

Ahold used different tactics aimed at avoiding pressure (Oliver, 1991). Ahold appears to have attempted to reduce stakeholder power of these groups mainly by trying to escape from their pressure through global expansion and supplier diversification. Avoiding pressure from its shareholders by concealing the fact that it falsely boosted financial results ultimately led to the corporate social responsibility crisis.

THE DUTCH BUILDING INDUSTRY

The building industry is the largest employer and a vital sector of the Dutch economy: it consists of 20,000 companies and 400,000 employees. Accordingly, any crisis that touches the construction industry inevitably gets the attention of the media, unions and political leaders. Moreover, the main customers of this industry are local and national governmental authorities: they regulate not only the deployment of the main infrastructure projects (e.g., bridges, highways), but also the development of the many new urban areas that emerge throughout the densely populated Dutch territory. Given the importance of the Dutch construction sector to the Dutch economy and society at large, it is not surprising that the crisis that started in November 2001 received considerable media attention.

The crisis

The crisis started with revelations made on national television in November 2001 by a whistle blower called Ad Bos – a former director of Koop Tjuchem, a very large construction company. Bos revealed the existence of shadow bookkeeping (covering 600 pages and the period 1988-1998) used by his former company and by its competitors to record a sophisticated system of illegal price agreements among industry participants. This revelation launched a wave of denunciations and inquiries by the press, industry actors, and political leaders, which eventually led to a formal congressional inquiry. Simultaneously, legal inquiries were launched by the local competition watchdog (Mededingingsauthoriteit) and by the public prosecutor (Openbaar Ministerie). The first conclusions of the different inquiries came out in 2002, and unequivocally demonstrated that Dutch building companies had systematically been engaged in four main

types of illegal practices: (1) illegal price agreements preceding public tenders; (2) shadow bookkeeping that accounted for illegal price agreements, false invoices aimed at lowering profit margins, the sale of products on the black market, and bribes; (3) the bribery of officials; and (4) the evasion of taxes.

Concretely, the illegal price agreements took place before public tenders. Representatives of different companies met at a specific location and determined which company would obtain the project and at which price. It was also agreed upon that this company should give compensation to other interested companies. A certain amount was also allocated to the group of companies so that common costs – such as the meeting place – could be covered.

This system allowed companies to regulate the flow of work: when one company did not have the production capacity to commit to a certain project, it simply helped another company that had sufficient capacity to get that project. This system however was in direct conflict with anti-trust regulations introduced by the European Commission in 1992. It is noteworthy that illegal price agreements had been common in The Netherlands for decennia. However, the European Commission in 1992 had explicitly condemned the formation of construction cartels, especially in the Dutch building industry. This condemnation had been ensued by the creation of an anti-trust regulatory agency in the Netherlands in 1998. Therefore there could have been no doubt that price agreements were illegal. Yet, at least 600 companies took part in illegal price agreements. One outstanding effect of these practices consisted in the inflation of the prices. In fact, the congressional inquiry demonstrated that prices had been inflated by 8.8 % in the period from 1988 to 1998, resulting in a lost of at least one milliard euros for the public treasury (TK, 2003).

The complex system of compensation between companies was registered in a shadow bookkeeping system, apparently known by only a few players in the industry. Shadow booking systems were also employed at the level of individual companies to register the sale of products on the black market. The revenues thereby generated were employed in particular to bribe government officials. There is ample evidence of bribery of officials including cash payments ranging from 1,000 to 75,000 euro, trips to exotic locations, and visits to what was known as

"construction brothels" (bouwbordelen). In addition to those charges, investigations also revealed the existence of a system of false invoices used by companies to lower profit margins, which was a way to lower taxes and to demand higher prices. Other techniques were used to escape taxes; altogether it is estimated that over a period of 4 years, 200 companies managed to avoid 40 million euros of tax payments.

The congressional inquiry concluded that tender rules for construction projects, rules of competition, and the relationships between government officials and construction representatives should be strengthened and much more scrutinized. As a result, relationships between construction companies and government representatives have been extremely difficult throughout 2002 and 2003 (resulting in 2003 as the least profitable year for the industry as a whole since World War II). Public prosecution of companies and employees has taken place, and the Dutch competition watchdog has investigated the whole network and imposed considerable financial sanctions.

Overall, several groups of stakeholders have been neglected by construction companies. First, the State has had to pay artificially inflated prices for the products it purchased. Accordingly, tax payers and therefore society at large have seen their resources misused. It should be noted here that the quality of Dutch buildings, especially of houses, has also been criticized for years. Accordingly, it appears that the lack of real competition in the industry has led to the development of poor quality products. Hence, individual homeowners and renters have been the victims of industry practices. Another group of neglected stakeholders are the industry entrants, including foreign companies and new product developers: because of the collusion between large Dutch companies, they have been unable to enter the market.

One remarkable feature of this crisis is the large number of companies involved and the long period of time during which the practices were committed (1992 to 2001). The extent of the fraud suggests that construction firms had embraced a number of very successful strategies that enabled them to avoid stakeholder scrutiny for a considerable number of years.

Stakeholder management practices

The goal of our analysis was to highlight some practices in the Dutch construction industry that could help explain why such an array of illicit practices could be committed by such a great number of companies and for such a long period of time. Some of the reasons explaining the industry behavior can be found in the tender procedures based solely on the lowest price, which constitute a disincentive to differentiate and innovate. However, the systemic neglect of stakeholder interests also originates in some practices very specific to Dutch building companies. In essence, companies appear to have employed strategies to increase management power by buffering the industry from external competition as well as to reduce stakeholder power by co-opting influential stakeholders (Hill and Jones, 1992; Oliver, 1991).

Affiliating with local competitors

Dutch construction companies have traditionally enhanced the continuity of their activities by reducing competition and allying with their competitors. All companies in the industry are members of, and finance, a number of very structured and powerful professional associations, for example in the infrastructure, concrete and installation sectors. These specialized associations are then all regrouped under a unique industry association called AVBB (Algemeen Verbond Bouw Bedrijf). These associations have developed a number of rules and procedures that protect their members. For example, The Netherlands is one of the rare countries where construction companies have managed to develop insurance against frost and against strikes, two events that of course threaten the continuity of activities. These associations have also developed a common educational system for all industry workers, and are very active in lobbying of officials. During the congressional inquiry, some observers argued that different professional organizations might have been the starting point of illegal price agreements. Even though there is to this date no evidence to support this accusation, it is evident that industry associations have constituted a solid ground that facilitated collusion in the industry. These associations have not stimulated firms to compete and differentiate themselves, but instead to ally and protect themselves from external threats.

In addition to these associations, alliances between competitors have taken an even

more concrete form with many mergers and acquisitions. This has resulted in an extreme concentration of power in the industry: out of 20,000 construction companies in the country, there are only 10 that have 500 or more employees. These 10 largest companies also obtain a disproportionate share of the construction projects financed by the government. For instance, the ten largest companies were involved in 70 % of the 100 most expensive public projects between 1998 and 2001. This concentration implies that: (1) a few large companies can easily impose their practices on the rest of the industry; and (2) important market actors can easily identify one another.

Altogether, Dutch construction companies have managed to create a market system where competitors were more likely to collaborate than to compete with one another. This system certainly facilitated the development of a cartel. It also made it much more difficult for industry members to ignore industry conventions or to act as whistle-blowers. This is all the more so because outsiders were kept out of the industry.

Keeping foreign competitors out

The power gathered by the top Dutch construction companies enabled them to build barricades against foreign competitors. For example, there is concrete evidence that Heijmans – a leading Dutch company – threatened Soletanche, a French firm that attempted to participate in the construction of new metro stations in Amsterdam. When Soletanche tried to find other allies besides Heijmans, this Dutch firm threatened not only to stop doing business with Soletanche, but also to prevent other Dutch firms from working with Soletanche (Hart, 2002). Heijmans also recommended that Soletanche would not partner with the German company Bögl. The Dutch company alleged that the prices offered by Bögl were so low that Soletanche would not make any profit. This example clearly revealed to the public opinion that at least some Dutch companies were trying to safeguard their profit margins by keeping competitors out, and that they were willing to join forces in order to keep foreigners out. As a result of these practices, Dutch firms could apply their own rules and norms without coming under the scrutiny of outsiders who might have a different view of competition and business integrity.

Acculturating and binding employees

Through their prevalent professional organizations, construction companies have set up and provided the continued financing of various educational institutions. Since World War II, these institutions have molded the thinking patterns and work habits of thousands of employees. All the employees' benefits, job requirements, and diplomas are regulated at the industry level. In this context, it is interesting to observe that one industry-wide employee rule stated: "the calculator must at the demand of the direction or of the production management negotiate with other registered parties about the determination of the price" (Meeus and Schoorl, 2002). Therefore, the established professional code openly stated that (illegal) price negotiations might be required. This example illustrates how industry actors were educated to adopt a system of norms that was specific to the construction industry, and in this case in direct conflict with the law.

It is also noteworthy that the construction industry in The Netherlands remains a family-driven and traditional sector. Many company directors, board members, and executives come from families of builders. These different families know each other and exchange members as executives. In addition, few of the top leaders of large Dutch construction companies have previously worked in other sectors. Accordingly, traditional values and norms – such as collusion – seem to have been passed on unquestioned from one generation to the next and from one board of executives to another. Several outsiders (e.g., consultants, reporters) have remarked that it is extremely difficult to become part of the building community. They also observe that, in the presence of managers from a variety of backgrounds at social or professional events, representatives of the building industry systemically end up gathering together and excluding others from their social interactions. This further suggests that the industry is characterized by a strong and inward looking culture. Accordingly, it is unlikely that members of this industry either question industry norms or wonder about the expectations of various stakeholders. The close culture of the industry is further strengthened by the fact that it loses few of its members. It is well known in The Netherlands that construction executives are very

well paid and enjoy generous fringe benefits such as large cars. As a result, executives usually stay in the industry their entire career, which facilitates the maintenance of established norms and values.

Building affiliations with key outsiders

In order to protect their own system of values and norms, construction businesses seem to have cultivated privileged affiliations with some key outsiders (e.g. politicians and accountants) who had the potential to raise questions about industry practices. For example, professional associations were actively involved in many sorts of lobbying activities among political leaders. More interestingly, former political leaders can be found on the governing board of some large construction companies and of some large construction companies and of professional associations. For example, Elco Brinkman, a former minister and candidate for the prime minister position, is not only the chairman of the overreaching professional organization AVBB, he is also on the board of controller governors of AM, the largest construction project developer in The Netherlands. Given that a very large portion of the construction projects taking place in The Netherlands are developed and allocated under the supervision of government officials, getting political leaders involved in the industry is an excellent way to gain their goodwill.

Another stakeholder group that appears to have been blind to industry malpractices was the accounting profession. Even though accountants are required by law to report fraud, they remained silent about practices in the building industry. Construction companies seem to have managed to gain the trust and to bind accountants by involving them simultaneously in different projects and in different companies. The four main accounting firms in The Netherlands (Deloitte & Touche, Ernst & Young, PriceWaterhouseCoopers and KPMG) were all acting as controllers in the largest Dutch construction companies. Since these companies were actually working hand-in-hand (instead of actually competing against one another), none of these accounting firms had an incentive to reveal any misdeed. Indeed, by divulging one wrongdoing, an accounting firm was running the risk of losing not one, but all of its customers in the industry.

Therefore, in effect, it seems that accounting firms were actually part of the fraudulent system developed by construction firms by ignoring illegal activities. The accountants' practices were severely condemned in the congressional inquiry. The precarious position of accountants was further revealed when the public prosecutor started investigations against construction firms. For example, two accountants of PWC who controlled the accounts of the company Wolter & Dros also worked on the forensic research about potential price fixing by that same company. Similarly, two accountants of KPMG who were controlling the accounts of Koop Tjuchem were also hired by that company to investigate whether some employees had bribed officials. In both cases, the accountants did not find any evidence of wrongdoing. Overall, this led to the picture that accountants had either ignored their own professional norms to embrace those prevalent in the building industry, or used a very strict code with norms that did not match well with societal expectations.

Reducing customer choices

Some construction companies also established special ties with those government representatives who were willing to bypass their own professional norms. Bribing officials with cash, trips, and other presents was a way to get their favour, to keep them loyal to a company, and to ensure that they would not inquire much about industry practices. Even if they were unwilling to accept bribes, government officials did not have any incentive to question industry practices. Because of the industry concentration and the barriers against foreign producers, public servants had little choice of constructors to start with. In addition, as revealed by many industry observers, public servants do not have the expertise needed to judge the accuracy of very large building projects, because of the novelty and uniqueness of these projects (Leber and Bogers 2002). Therefore, they are unable to detect artificial price inflation.

This lack of expertise within the public administration can be traced back to the fact that construction companies use financial means to first train and then keep these experts in their own organizations. As a result, public servants often rely on construction industry experts from one of the construction companies itself to determine prices and to develop complex

construction projects. In other words, public servants do not have any other choice but to collaborate actively with construction companies.

Discussion of the Dutch building industry case

Strategies used by construction companies to avoid or neglect stakeholder interests were of a different kind than those employed by Ahold. Construction companies did not influence their stakeholders by establishing their organizational identity with cuing mechanisms (as Ahold did), but instead focused on tactics to avoid and manipulate stakeholder pressure (Oliver, 1991). To increase management power industry members used buffering tactics by forming alliances with domestic competitors and by keeping foreign competitors out of the Dutch market. At the same time, shareholder power was reduced with co-optation tactics. Due to these tactics several stakeholder groups, including government officials, employees, and accountants, became embedded in the industry and their interests came to depend on the continuity of the building industry. However, the illegal practices ultimately came to an end, because a former manager of one of the construction companies acted as whistleblower and chose to leave the ranks.

CONCLUSIONS

This paper aimed to shed light on the on the background, organizational mechanisms and strategies underpinning stakeholder mismanagement, focusing on two recent corporate responsibility crises in the Netherlands. It explored two different cases: Ahold and the construction industry. Differences originate from the fact that respectively one (international) company and a whole (mainly Dutch) sector are involved. Moreover, Ahold used to present itself as socially responsive, while the building industry made not much of an attempt in this direction. Nevertheless, both were involved in a serious social responsibility crisis and became the subject of stakeholder scrutiny in the Netherlands, a country known for its 'polder' model of collaborative decision-making. Stakeholders, shareholders and society at large were negatively affected.

To analyze both cases, we used the strategies for reducing stakeholder power and/or

increasing management power as briefly mentioned by Hill and Jones (1992) in their paper on stakeholder-agency theory, Oliver's (1991) responses to institutional pressures, and Scott and Lane's (2000) cuing mechanisms. Stakeholder neglect was of a different kind in each of the two cases and was also enacted with different tactics. Ahold's approach to stakeholder management confirms Jawahar and McLaughlin's (2001) assertion that a firm prioritizes certain stakeholder groups based on their perceived influence on the organization. The focus on customers, using cuing mechanisms, led to the neglect of suppliers and local stakeholder groups in the Dutch environment. Whether this neglect was intentional or unintentional remains disputable, but there is a clear pattern of corporate management decisions leading to a reduction of stakeholder power.

The approach of the Dutch building industry towards stakeholders was much more aimed at increasing management power by avoiding competition through affiliating with local competitors and keeping foreign competitors out. In addition, stakeholder power was reduced by co-opting potentially influential stakeholder groups. Construction companies actually built an environment that supports continuity, such as joint funding of educational arrangements, collective work agreements, and common insurance against freeze, and set up industry-wide structures to manage relationships with a variety of constituents. It leaves no doubt that these actions had the intention to avoid stakeholder pressure from competitors and that they resulted in a neglect of customer interests by reducing their choice. Comparing the two cases leads to the conclusion that neglecting certain stakeholder groups is not necessarily intended, but particularly the building case does suggest that managers sometimes take deliberate action to reduce stakeholder power.

The observed dynamics in power differentials between managers and stakeholders in both cases supports Hill and Jones' (1992, p. 146) suggestion that "the advantaged party may use such differentials to further entrench its position and modify institutional structures to its advantage". We showed, however, that the different tactics to respond to institutional pressures as specified by Oliver (1991) could help in clarifying how managers increase their power or reduce stakeholder power. Evidence from the cases also shows that this process is constrained,

and can ultimately cause a corporate social responsibility crisis. Ongoing avoidance or neglect of stakeholder interests appears to have led to a disturbance in the balance of power between managers and stakeholders and initiated a backlash. Integrating the options that stakeholders have (cf. Frooman (1999)) to restore the balance into a comprehensive model of firm-stakeholder relations could thus complement Hill and Jones' (1992) strategies to understand the process of stakeholder neglect.

To obtain more insight into the managerial practices and strategies used by organizations to influence their stakeholders and their institutional environment follow-up research is clearly needed, also regarding the role of organizational and idiosyncratic aspects. The Ahold case seems to point at a phenomenon noted by Suchman (1995, p. 597) as "managers who have become enmeshed in their own legitimating myths" (cf. Smit, 2004). Different from Suchman, however, who refers to managers' failure to notice external developments, the Ahold example suggests that top managers lost sight of their own and the organization's limitations, and of the difficulties in controlling and coordinating a large conglomerate in line with the objectives they had promulgated themselves.

The building case, on the other hand, points at the phenomenon that individual actors can play a pivotal role in restoring the balance between managers and stakeholders. It was a whistleblower who brought to light how the industry persistently mismanaged its stakeholders culminating in a congressional inquiry. Apparently, the industry misjudged one of its members, which turned out to be more loyal to wider constituencies than to the industry itself (Jubb, 1999), indicating that the co-optation strategy failed eventually. This ofcourse also raises the question why so many others, in both cases, did not report violations of codes and unethical behaviour (cf. Nitsch *et al.*, 2005). A range of mechanisms and interactions seems to be at play that deserves further attention to understand how organizations mismanage their stakeholders.

The cases reported on in this paper exemplified how crucial it is for managers and stakeholders to be aware of the interdependence of their interests. Even though managers are at the centre of a network of stakeholders, which gives them power over other stakeholders, they cannot exploit this indefinitely. Managers should be cautious in becoming too presumptuous

and not underestimate the potential of stakeholders to influence their company because it can put organizational continuity at risk. Stakeholders, on the other hand, cannot trust managers blindly, since stakeholder interests will not always get appropriate attention. It appears that, in some cases, managers will intentionally or unintentionally neglect stakeholders to strengthen their own positions.

NOTES

¹ Quotations derived from Bakker and Groot (2001); translated from Dutch by the authors.

² Quotations in this paragraph are derived from Huisman and Couwenbergh (2000); translated from Dutch by the authors.

³ Quotations in this and the following paragraph are derived from Bakker and Groot (2001); translated from Dutch by the authors.

⁴ Quotation derived from *Volkskrant*, 7 March 2001; translated from Dutch by the authors.

⁵ Het Financieele Dagblad, 14 March 1998, 11 September 1999, 23 December 1999.

⁶ Volkskrant, 12 October 2000.

ACKNOWLEDGEMENT

Isabelle Maignan is gratefully acknowledged for her contribution to an earlier version of this paper.

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