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Stakeholder Engagement as a Facilitator of Organizational Learning

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ABSTRACT

This paper examines the relationship between stakeholder engagement and competence building. Following the dual perspective of the firm, which indicated that managers deal with both transactions and competences concurrently, we argue that stakeholder interactions also concern both transaction cost reduction and value creation. Based on a review of the extant literature, we incorporated a micro-macro connection between organizational learning and competence building. Further to this, we developed a conceptual framework by linking stakeholder engagement and organizational learning. This framework demonstrates that stakeholder relations may have significant effects on organizational learning and thus stakeholder engagement can play the role of facilitator in building firm competences.

INTRODUCTION

Stakeholder theory has attracted much attention in both academic and practitioner fields for the past two decades. There are two main approaches to stakeholder management: the traditional approach that focuses on buffering stakeholders and the proactive approach that emphasizes building stakeholder relationships (Harrison and St John, 1997). Recent studies (e.g., Andriof and Waddock, 2002) have increasingly emphasized the proactive approach that advocated the use of the term "stakeholder engagement" instead of "stakeholder management" to highlight the importance of partnership between the firm and its stakeholders (Lozano, 2005).

A stream of studies have suggested that stakeholder theory can serve as a cornerstone for the theory of the firm (e.g., Donaldson and Preston, 1995; Hill and Jones, 1992; Jones, 1995). As suggested by Post, Preston and Sachs, (2002), the key question of stakeholder thinking should be: "What is the corporation, and to whom and for what are it and its managers responsible?" (p.7). In this regard, stakeholder management relates not only to strategic management but also "redefining the corporation". Interestingly, the shift from the traditional stakeholder management approach to the proactive approach reflected a parallel trend in the theory of the firm, which moved its focus from "static efficiency" to "dynamic efficiency" (Amin and Cohendet, 2003). According to Amin and Cohendet, static efficiency pays attention to how to economize transaction costs; dynamic efficiency concerns both learning and innovation, which are also the very concerns of the competence-based studies, focusing on analysis of the firm to create and sustain its core competences (e.g., Prahalad and Hamel, 1990; Teece, 1988). Thus, dynamic efficiency signifies the view of the proactive approach to stakeholder management, arguing that stakeholder engagement may create values of the firm.

Scholars such as Post et al. (2002) suggested that stakeholder engagement can have significant influence on value creation; however, studies on the association between stakeholder engagement and organizational learning are rare thus far. While organizational learning has played a central role in supporting competence development (e.g., Lei, Hitt and Bettis, 1996), the question of how stakeholder relations may influence a firm's competence building through organizational learning is still under- researched.

The purpose of this paper is to examine the missing link between stakeholder engagement and competence building, specifically by addressing the research question: how may stakeholder engagement influence firm competence building thorough organizational learning? The main objective of this study is to develop a conceptual framework, based on the extant literature. Such an examination can provide a better understanding of an organization's stakeholder interactions and its implications for managers.

This paper is organized as follows. In the next section, we will discuss the two perspectives of the theory of the firm. In the third section, we will examine different approaches to stakeholder management. Then, we will analyze the relationship between organizational learning and firm competences. Stakeholder management, organizational learning and competence building are integrated in the fifth section by a conceptual framework. Conclusions are drawn in the last section.

THE THEORY OF THE FIRM AND STAKEHOLDER MANAGEMENT

The stakeholder literature concerns"for whose benefit and at whose expense should the firm be managed? "(Freeman, 1994: 67) It tries to reframe the reason for the existence of a firm, which provides a broader foundation for the theory of the firm. The literature generally took on two alternative views of the firm: one treated the firm as a processor of information; the other regarded the firm as a processor of knowledge (Amin and Cohendet, 2003).

In the first perspective, a range of studies shared the common feature labeled by "transaction cost economics" or "new institutional economics". According to Coase's (1937) analysis of the firm, these studies usually viewed the firm as a nexus of contracts, reflecting issues of transaction costs and market failures such as: the principal-agent problem, asymmetric information, and opportunistic behavior or moral hazard (e.g., Alchian and Demsetz, 1972; Arrow, 1974; Holmström, 1979; Jensen and Meckling, 1976; Williamson, 1975). Sharing the same basis as Simon's (1957) concept of bounded rationality, these researchers focused on dealing with information. For instance, Bolton and Dewatripont (1994) highlighted the importance of the firm to economize the costs of processing and communicating information. Langlois (1992:113) used the term "dynamic transaction costs", which referred to "the costs of persuading, negotiating, coordinating and teaching" outsiders, to underscore all kinds of problems resulting from communication difficulties. As emphasized by Reve (1990), transaction costs involve not only incentive conflicts but also information-based issues, which require managers to consider the importance of both.

In contrast to the contractual standpoint, there are numerous studies that have focused their attention on growth, learning, and innovation, rather than on transaction costs (e.g., Chandler, 1992; Nelson and Winter, 1982; Penrose, 1959). One concern in this area is how to deal with knowledge. For instance, Kogut and Zander (1996) highlighted the distinctive nature of the firm by its functioning of coordination, communication, and learning. Recently, Nooteboom (1992, 2000, 2003) proposed a cognitive perspective, which regarded the firm as a "focusing device" and suggested its function is to develop a shared cognition of organizational members to support a common goal. These standpoints are quite similar to the earlier concepts that treat the firm as a sensemaking system (Weick, 1979) or an interpreting system (Daft and Weick, 1984). Contrary to the contractual approach that paid much attention to "static efficiency" (to economize transaction costs), these researchers emphasized "dynamic efficiency", acknowledging value creation or growth of the firm through activities such as learning and innovation (Nooteboom, 1992). In this regard, the main function of the firm is not alleviating transaction costs, but innovation or adding value. This view echoed the focus of competence-based studies (e.g., Prahalad and Hamel 1990; Teece, 1988), which saw the firm as an entity that constantly develops, formulates, and sustains its core competences.

Confronted by theses two different views of the firm, Amin and Cohendet (2003) proposed an integrated approach, termed as a 'dual' firm perspective, which indicated that "the firm manages competences and transactions simultaneously" (p. 43). In other words, the mechanisms of the firm involve both economizing transaction costs for static efficiency and generating values through learning and innovation for dynamic efficiency. They further argued that firms generally determine their domain of competences and thereby select the domain of transaction—supporting activities based on transaction costs. Hence, both static efficiency and dynamic efficiency are critical to a firm's future growth and success.

With regard to the dual perspective of the firm, managers need to deal with not only static efficiency but also dynamic efficiency. One important issue regarding dynamic efficiency is how a firm develops its core competences. Interestingly, recent studies on stakeholder management have exhibited a shift of focus from the traditional approach to the proactive approach. This reflected a corresponding change in the theory of the firm, moving from static efficiency to dynamic efficiency. In the next section we will discuss the two approaches to stakeholder management based on different thoughts of the theory of the firm, and the influence of such a shift on rethinking stakeholder relations.

DIFFERENT APPROACHES TO STAKEHOLDER MANAGEMENT

Stakeholder theory argues that managers should acknowledge the validity of diverse stakeholder interests and respond to them within a mutually supportive framework due to a moral requirement for legitimacy of management function (Freeman, 1984; Donaldson and Preston, 1995). According to Freeman, the notion of stakeholder is "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (1984: 46) and stakeholder management is "a stakeholder approach to strategic management" (p.43). Following stakeholder theory, the main function of managers is to coordinate and engage various relationships and interests of different stakeholders such as shareholders, employees, customers, suppliers, government, communities and other interest groups (Freeman and McVea, 2001). In order to understand the recent trend in stakeholder management, we need to discuss three different but relevant concepts: stakeholder analysis, stakeholder management, and stakeholder relationships.

The stakeholder research includes two dissimilar concepts: stakeholder analysis and stakeholder management. Stakeholder analysis, according to Harrison and St John (1997), refers to activities such as "identifying and prioritizing key stakeholders, assessing their needs, collecting ideas from them, and interpreting this knowledge into strategic management processes" (1997: 14). Scholars tended to categorize stakeholders by their importance to the firm. For instance, Clarkson (1995) divided stakeholders into primary and secondary ones. Mitchell, Agle and Wood (1997) introduced the notion of salience by using legitimacy, power and urgency as three variables to indicate the degree of salience and types of stakeholder relations. According to Mitchell et al., there are definitive, dominant, dependent, dormant discretionary, demanding stakeholders, and non-stakeholders. Jonker and Foster (2002) suggested that power, criticality, and rationality are useful components for analyzing impacts from different stakeholders. In sum, the concept of stakeholder analysis concerns how a firm to acknowledge its stakeholders and their influence.

On the other hand, stakeholder management refers to "communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organization and its stakeholders" (Harrison and St John, 1997: 14). Harrison and St John further made a distinction between two approaches to stakeholder management: the traditional approach—*buffering* and the proactive approach—*bridging*. Accordingly, *buffering* focuses on activities to create buffers between the firm and its external stakeholders for minimizing the impacts of stakeholders on the firm, including regulatory compliance, advertising, and public relations. By contrast, *bridging* concentrates on forming stakeholder relationship, which involves more communications between the firm and its stakeholders in order to pursue common goals. In other words, the proactive approach tended to use partnering activities based on engaging stakeholder relationships and reinforcing interdependencies. It focused on creating shared values and searching for common goals rather than just adapting to stakeholders' wants and needs.

Recently, commentators have increasingly argued that the proactive approach to stakeholder management is more important than the traditional one. Some studies (e.g., Andriof and Waddock, 2002; Foster and Jonker, 2005) supported the notion of "stakeholder engagement" rather than stakeholder management. In this sense, the firm is regarded as a nexus of relationships (instead of contracts) and the partnerships between the firm and its stakeholders are at the central stage. According to Lozano, to nurture stakeholder relationships requires reconsidering values and accountability of the firm, which may affect its belief system, strategic decisions and resource allocation. In particular, Post et al. (2002) argued that stakeholder interactions can play the role in contributing to the firm's capability for generating wealth. This view is consistent with that of Wheeler, Colbert and Freeman (2003), highlighting the essences of both corporate social responsibility and stakeholder management in actively creating value for the firm.

In the practitioner field, there is a similar trend. For instance, Svendsen (1998), who advocated "stakeholder collaboration" as opposed to stakeholder management, proposed a guide to building collaborative stakeholder relationships, including "(1) creating a foundation, (2) organizational alignment, (3) strategy development, (4) trust building, (5) evaluation, and (6) repeat" (p. 67). Svendsen's guide revealed a typical strategic management process with a stakeholder approach, including:

-- stakeholder analysis; reviewing and redefining organizational mission, vision, and ethics;
-- developing stakeholder strategy;
-- stakeholder collaboration (e.g., meetings, e-mail, dialogue, events, etc.); and
-- stakeholder audit.

Another example is Wheeler and Sillanpää (1997), who encouraged developing inclusive relationships with stakeholders. They suggested a model containing cycles of stakeholder inclusion and continuous improvement. In their view, "cycles of inclusion refer to processes of diagnosis, dialogue and audit aimed at securing the effective participation and active inclusion of stakeholders in the affairs of the company", while "cycles of continuous improvement refer to more technical processes where diagnosis tends to be factually based" (including occupational safety and health, quality, environmental protection and animal welfare) (Wheeler and Sillanpää, 1997: 180).

Different perspectives of stakeholder management denoted distinctive features of the underlying stakeholder relations. Although stakeholder relationship is crucial for stakeholder analysis, it has not caught much attention until recently. Basically, the traditional approach to stakeholder management is based on the view that stakeholder relations are contractual arrangements. For instance, Hill and Jones (1992) extended the concept from shareholder-agency to stakeholder-agency in order to justify managers' accountability to all stakeholders. Boatright (2002) sought to reconcile stakeholder thinking and the nexus-of-contracts for managing stakeholders. Jones (1995) signified the contractual relationships between the firm and its stakeholders by an instrumental stakeholder theory and stressed that trust and cooperation provide potential solutions to opportunistic behaviors. He further suggested "behavior that is trusting, trustworthy, and cooperative, not opportunistic, will give the firm a competitive advantage" (Jones, 1995: 432).

The trend for stakeholder management, shifting from the traditional approach to the proactive approach, reflected not only changes in activities for dealing with stakeholders, but also the difference between two types of underlying stakeholder relation. In a similar vein, some researchers called for redefining stakeholder relations in order to identify stakeholder interactions and their impacts (e.g., Antonacopoulou and Meric, 2005; Yamak, 2005). In particular, Antonacopoulou and Meric (2005) have made a comprehensive analysis and indicated that stakeholder relations can be conceived as learning partnerships. Their argument echoed the proactive approach to stakeholder management, advocating the importance of building successful stakeholder relationships through stakeholder engagement (rather than traditional stakeholder management) and highlighting dynamic efficiency and partnership building in order to provide critical strategic information, resources and problem-solving capabilities. In their view, the notions of knowing and learning are crucial for reframing the concept of stakeholder relations. In the rest of this paper, we will use "stakeholder engagement" to represent the proactive approach to stakeholder management.

To examine the relationship between stakeholder engagement and competence building through considering organizational learning, it is necessary first to discuss organizational learning and organizational competences. This we will do in the next section.

ORGANIZATIONAL LEARNING AND ORGANIZATIONAL COMPETENCES

Although some commentators have suggested that organizational learning support competence-building process (Ciborra and Andreu, 2001; Lei et al., 1996), the organizational learning literature and competence-based studies have developed independently. In other words, the organizational learning literature seldom addressed the topic of firm competences while competence-based studies have rarely examined the organizational learning process in detail. The basic difference between these two approaches comes from their units of analysis. Studies on organizational learning tended to focus on activities regarding individuals and their impacts on organization, acknowledging that organizational learning is quite different form individual learning. By contrast, the competence perspective has generally addressed subjects that related the firm as a whole—organizational routines, capabilities, and core competences. Nevertheless, there is some common ground in organizational learning and firm competence.

There are a wide range of definitions of organizational learning in the literature. Chiva and Alegre (2005) indicated two main perspectives: the cognitive-possession and the social-process. The cognitive-possession perspective of organizational learning includes two groups (Cook and Yanow, 1996). One conceived of organizations as individuals that have similar capabilities to learn; the other suggested that it is the individual who learns in an organizational context, forming organizational learning. By contrast, the social-process approach emphasized that organizational learning is a social process based on participation in a (community of) practice (Lave and Wenger, 1991; Gherardi, 1999). In order to demonstrate the impacts from stakeholders on organizational learning, we take a view that is consistent with the social-process approach. In particular, Crossan, Lane and White's (1999) 4I learning framework provides insights to our understanding of the link between organizational learning and competence building. This framework contains four psychological and social processes: intuiting, interpreting, integrating, and institutionalizing. It acknowledges the interactions between cognitions and actions at three levels within organizations: intuiting and interpreting at the individual level; interpreting and integrating at the group level; and institutionalizing at the organization level.

Crossan et al. (1999) defined the four psychological and social processes of organizational learning as follows:

> *Intuiting* is the preconscious recognition of the pattern and/or possibilities inherent in a personal stream of experience (Weick, 1995b: 25). This process can affect the intuitive individual's actions, but it only affects others when they attempt to (inter)act with that individual. *Interpreting* is the explaining, through words and/or actions, of an insight or idea to one's self and to others. This process goes from the preverbal to the verbal, resulting in the development of language. *Integrating* is the process of developing shared understanding among individuals and of taking coordinated action through mutual adjustment. Dialogue and joint action are crucial to the development of shared understanding. This process will initially be ad hoc and informal, but if the coordinated action taking is recurring and significant, it will be institutionalized. *Institutionalizing* is the process of ensuring that routinized actions occur. Tasks are defined, actions specified, and organizational mechanisms put in place to ensure that certain actions occur. Institutionalizing is the process of embedding learning that has occurred by individuals and groups into the organization, and it includes systems, structures, procedures, and strategy (1999, p.525).

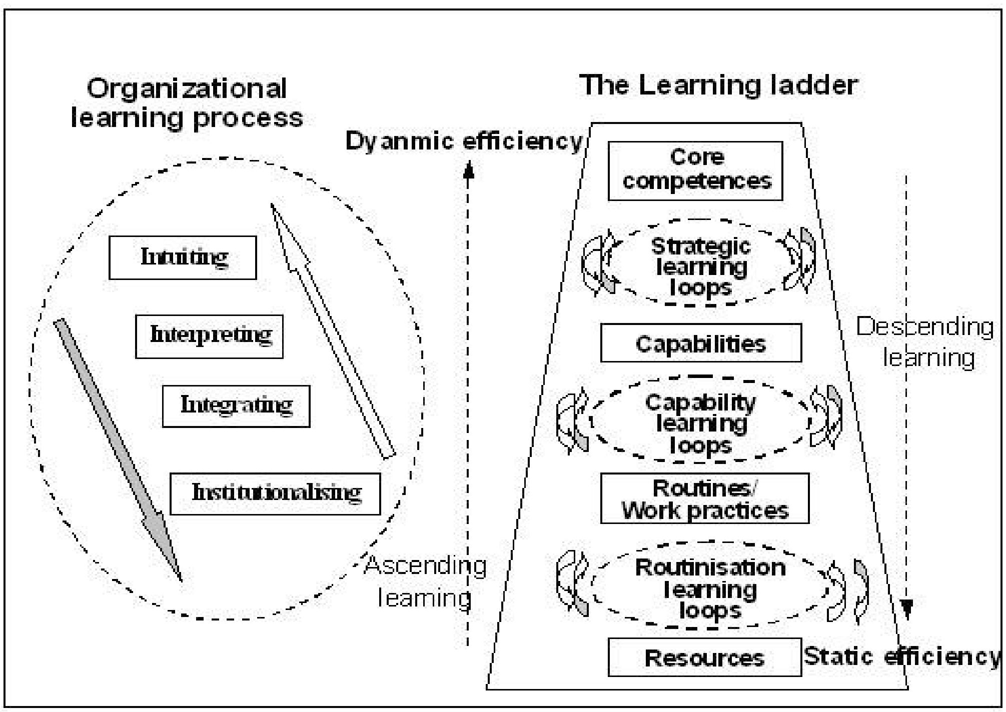
Crossan et al. (1999) indicated two distinctive types of learning flows. The feed-forward learning flow signifies knowledge creation where cognitions and actions change across levels from the individual to the group and then to the organization—from intuiting to interpreting and, in turn, from integrating to institutionalizing. The feedback learning flow indicates existing knowledge where cognitions and actions transfer across levels from the organization to group and then to individual—from institutionalizing to integrating and, subsequently, from interpreting to intuiting. Crossan et al. highlighted these two types of learning flow coexisting within an organization, generating a tension between them. In this sense, individuals learn and change aggregation rules into new patterns and thus the meanings of those rules are negotiated and modified in an organizational context.

We acknowledge an important definition proposed by Andreu and Sieber (2000) that conceives organizational learning as "a knowledge change or accumulation that results in an increased collective problem-solving capacity" (p. 70). According to Lei et al. (1996), core competences are defined as "a central set of problem-defining and problem-solving insights that enable the firm to create potentially idiosyncratic strategic growth alternatives and to enact, at least partially, its environment" (p. 550). Hence, by combining these two definitions, we can view organizational learning as a process that may result in changes in a firm's core competences. However, based on these descriptions thus far, how core competences are built within an organization is still not comprehensible. The "learning ladder model" suggested by Ciborra and Andreu (2001) can fill this gap. In the capability development process, Ciborra and Andreu differentiate three distinct types of learning loop, including (1) routinization learning loop, (2) capability learning loop, and (3) strategic learning loop. They describe the organizational learning process as climbing a learning ladder—from work practices/routines to capabilities and thereby to core capabilities (core competences). However, they only indicate feed-forward learning flows. If we want to get a full picture of organizational learning, both feed-forward learning and feedback learning flows should be taken into account. Feed-forward learning represents new knowledge introduced to or accumulated in the organization and feedback learning indicates existing knowledge is transferred or reinforced in the organization. The directions of these two learning flows are opposite and they cancel each other out when they influence the same object.

By integrating Crossan et al.'s (1999) 4I learning framework and Ciborra and Andreu's (2001) learning ladder model, we can elaborate how core competences change within an organization through organizational learning by an integrated organizational learning model (shown in Figure 1).

Following Leonard-Barton (1992) and Dosi, Nelson and Winter (2000), the knowledge set of an organization in this integrated model includes three levels—organizational routines, capabilities, and core competences (core capabilities). According to Dosi et al. and Ciborra and Andreu (2001), organizational routines refer to both intentional and unintentional patterned, repetitious activities performed by individuals related to firm-specific resources; organizational capabilities, which display a more abstract feature compared to organizational routines, refer to stable ability to achieve the organizational goals; core competences (core capabilities) refer to a firm's capabilities that have strategic potential to cope with changing environment, which is similar to Lei's (1996) definition.

Figure 1: The integrated organizational learning model



Source: adapted from Ciborra and Andreu (2001) and Crossan et al. (1999)

The integrated model divides organizational learning into two dimensions. The first dimension refers to the 4I processes, including both feed-forward and feedback learning. When feed-forward learning occurs, new knowledge is generated from individual level to group level and thereby to organizational level. On the other hand, feedback learning transfers existing knowledge (once new knowledge has been institutionalized) from organization level to group level and then to individual level. The second dimension refers to the interplays of new and existing knowledge sets between different levels. Similar to Ciborra and Andreu's (2001) typology, there are also three types of organizational learning loop; however, we incorporate both feed-forward and feedback learning flows as the same as the first dimension and redefine these learning loops as followings.

The first is the routinization learning loop. Feed-forward learning at this stage indicates activities to create new organizational routines for the purpose of getting better performance, resulting from employing existing or new resources as new technologies are brought in. Feedback learning loop at this stage stands for efficiently performing or improving organizational routines that focus on making the most of standard resources.

The second is capability learning loop. Feed-forward learning at this stage is (new) capabilities forming as a result of continuous combining or reformulating organizational routines. In the mean time, this loop also involves the quest for new organizational routines due to needs from new capabilities. On the other hand, feedback learning refers to reinforcement of current capabilities by performing or improving existing organizational routines and reinforcement of current organizational routines due to maintaining current capabilities. In particular, Ciborra and Andreu (2001) indicated that routinization and capability learning loops signify static efficiency of the firm, which aims at continuous improvement capabilities with specialization in using resources in specific situations.

The third is the strategic learning loop. At this stage, feed-forward learning loop means that capabilities may be transformed into (new) core competences, which can provide strategic potential for the firm. Ciborra and Andreu (2001) highlighted that both the competitive environment and the business mission of a firm provide the mechanism for endorsing its capabilities that might be transformed into core competences. The competitive environment faced by a firm represents its external selection mechanism that distinguishes which capabilities are strategically important. The firm's mission represents its internal selection mechanism that helps identify whether capabilities are relevant to its strategic expectations. In the mean time, this loop also involves quest for new capabilities due to needs from new core competences.

On the other hand, feedback learning at this stage refers to reinforcement of current core competences due to no strategic challenges emerging from external environment or internal mission and reinforcement of current capabilities backed by existing core competences.

The interplays of these learning loops may result in two distinctive learning styles that climb up or down the learning ladder: ascending learning and descending learning. Both feed-forward and feedback learning flows may display these two learning styles. As for feed-forward learning flows, ascending learning refers to new organizational routines searching for new capabilities and, in turn, new core competences. It denotes the bottom-up locus of knowledge creation where new organizational knowledge is formed across levels from organizational routines to capabilities and then to core competences of the firm. Similarly, descending learning refers to a top-down process that new core competences quest for new capabilities and, sequentially, new organizational routines.

With regard to feedback learning flows, ascending learning refers to how existing organizational routines reinforce current capabilities and, in turn, present core competences. It represents the locus of knowledge reinforcement where existing organizational knowledge is strengthened across levels from organizational routines up to capabilities and further up to core competences of the firm. Similarly, descending learning refers to existing organizational knowledge being reinforced across levels from core competences down to capabilities and further down to organizational routines.

However, organizational learning may not always occur in a standard order, namely either bottom-up from organizational routines or top-down from core competences. Ciborra and Andreu (2001) argued that organizational learning might occur at any level when knowledge sharing is beyond the boundaries. They used a "DNA double helix" as a metaphor to demonstrate knowledge sharing across different organizations, indicating that knowledge can be created through combining two learning ladders of different organizations with any possible overlapping components. In other words, organizational learning may occur at or be resulted from any level of the learning ladder (organizational routines, capabilities or core competences).

In summary, organizational learning is a stream of complex social processes interwoven by feed-forward and feedback learning flows and by ascending and descending learning styles at different levels. Nevertheless, both feed-forward learning and feedback learning are important. Without feed-forward learning there is no knowledge creation; without feedback learning new ideas or knowledge cannot sustain. These processes result in organizational knowledge change or accumulation, signifying alteration in organizational routines, capabilities or core competences. Having incorporated the micro-macro connection between organizational learning and competence building, we can examine how stakeholder engagement may influence competence building, based on our analysis of the relationship between stakeholder engagement and organizational learning.

STAKEHOLDER ENGAGEMENT, ORGANIZATIONAL LEARNING, AND COMPETENCE BUILDING

According to the above discussion, different perspectives of stakeholder management denote various portrayals of stakeholder relations. In particular, Antonacopoulou and Meric (2005) argued that it is important to reframe stakeholder analysis and, thus, to broaden the concept of stakeholder relations from "contractual arrangement" (that focuses on power relations) to "interdependency contract" (that places interactions between stakeholders in the center). Due to diversity generation and consensus building, the interactions between the firm and its different stakeholders provide a closer interdependency and opportunities for organizational learning for the firm. Accordingly, on the one hand, knowing and learning processes can reframe the relationships between a firm and its stakeholders (from balancing power to questing for common goals); on the other hand, engaging good stakeholder relationships may facilitate valuable organizational knowledge (core competences) to emerge.

We also argue that we did not take into account some other perspectives of stakeholder relations. For instance, Yamak (2005) adopted an institutional view of stakeholder relations and argued that macro-institutional factors (such as business systems, consequential authority relations, and power distribution) are the most important forces that shape stakeholder positions. As the focus of this paper is to examine the relationship between stakeholder engagement and organizational learning, we regard these macro-institutional factors as exogenous variables and their influences are beyond the analysis of this paper.

Antonacopoulou (2006) provided a good foundation for the correlation between stakeholder engagement and organizational learning. Based on the complexity theory, Antonacopoulou argued that learning is a mode of connecting diverse elements, which is supported by politics and power and results from self-organization. In particular, Antonacopoulou identified four aspects of organizational learning—“diversity”, “inter-connectivity”, “politics and power”, and “self-organization/emergence”. This view is coherent with Crossan et al.’s (1999) 4I learning framework. Firstly, diversity indicates variation and opportunity, which can enhance entrepreneurial intuiting that brings new insights into the organization. Secondly, as interpreting a novel concept within an organization needs supporting power for knowledge to be further developed, politics and power signal different degrees of freedom and constraint that may influence learning. Thirdly, the integrating process requires catalyst such as inter-connectivity for consensus building and generating collective knowledge. Fourth, self-organization/emergence reveals the feature of complex adaptive systems that are capable of renewing themselves; self-organization/emergence represents the process of institutionalizing collective knowledge in an organizational context (i.e., organizational routines, capabilities, core competences, etc.).

In order to unfold the interaction between stakeholder engagement and organizational learning, we identify four main tasks of stakeholder engagement based on Svendsen and Laberge (2005), corresponding to the four aspects of learning proposed by Antonacopoulou (2006). These tasks are: (1) to include diverse stakeholders, (2) to co-create shared values and develop trust, (3) to balance different stakeholder interests, and (4) to generate new knowledge and innovative solutions to complex issues.

To include diverse stakeholders is the first task of stakeholder engagement. Similarly to the traditional approach, the starting point for stakeholder engagement is also stakeholder analysis. Hart and Sharma (2004) maintained that managers should not focus only on identified, significant, or powerful stakeholders; they argued that critical stakeholders of a firm change over time and might emerge from the poor, weak, or isolated ones. Hence, stakeholder analysis requires a dynamic perspective, rather than a stable list (Antonacopoulou and Meric, 2005). With representative variety and a dynamic approach to stakeholder relations, stakeholder engagement enhances diversity in the process of strategic decisions and provides opportunities for entrepreneurial intuiting that may facilitate development of new insights.

The second task of stakeholder is to balance different stakeholder interests . According to Freeman and McVea (2001), “rather than offsetting one against another" (p.195), stakeholder management suggests that the angles of all critical stakeholders be considered in the strategic decision-making process. Various stakeholders provide different signals (with different power) for both attention to, and interpretation of, new ideas in the process of knowledge creation. Besides, interpreting new ideas within an organization needs supporting power for knowledge to be further institutionalized. Critical stakeholders provide fertile sources of power to support interpreting, especially for those who hold scarce resources, applicable knowledge, or social networks, etc. (Lawrence, Mauws, Dyck and Kleysen, 2005).

The third task of stakeholder engagement includes cocreating shared values and developing trust between the firm and its stakeholders. Both trust and shared values are glue for connecting different parties to strengthen their interdependencies. In particular, trust building is a precondition for developing shared values. Good stakeholder relations can shape (and be shaped by) these interdependencies through co-creating shared values and developing trust. In this sense, stakeholder engagement facilitates inter-connectivity between the firm and its diverse stakeholders (Antonacopoulou and Meric, 2005). It paves the way for consensus building, which supports integrating process that is essential to the generation of collective knowledge in an organizational learning process.

The fourth task is to generate new knowledge and innovative solutions to complex issues. As indicated by Antonacopoulou (2006), self-organization emphasize that social systems are capable of regenerating themselves by linking a variety of resources and forces both inside and outside the organization. By generating new knowledge or innovative solutions to strategic issues, stakeholder engagement provides the energy for self-organization that can institutionalize collective knowledge in an organizational context (reflected in emergence of organizational routines, capabilities, core competences, etc.) through deeply connecting diverse internal and external stakeholders.

Linking Svendsen and Laberge's (2005) four tasks of stakeholder engagement to the four aspects of learning suggested by Antonacopoulou (2006) and Crossan et al.'s (1999) 4I learning framework, we can identify the relationship between stakeholder engagement and organizational learning (summarized in Table 1).

Taking on the view that organizational learning is consistent with the social-process approach, we regard organizational knowledge and learning as social and constructed processes. According to Cohendet and Llerena (2003), there are a variety of overlapping communities within a firm, which are the main sources contributing to organizational learning through the complex processes of interactions between members within the communities and interplays between these communities. Stakeholder engagement has great potential to facilitate organizational learning if successful stakeholder relationships have been established. In other words, when a firm develops inclusive relationships with its different stakeholders, it also creates a myriad of learning communities pertaining to each type of critical stakeholder. In this paper we call them "communities of stakeholders". By identifying critical stakeholders, conducting inclusive activities, and balancing different stakeholder interests and power, a firm can work together with its diverse stakeholders to pursue common goals and cocreate innovative solutions for complex issues. Communities of stakeholders could be a type of design for reframing stakeholder relations in a pattern of learning partnership.

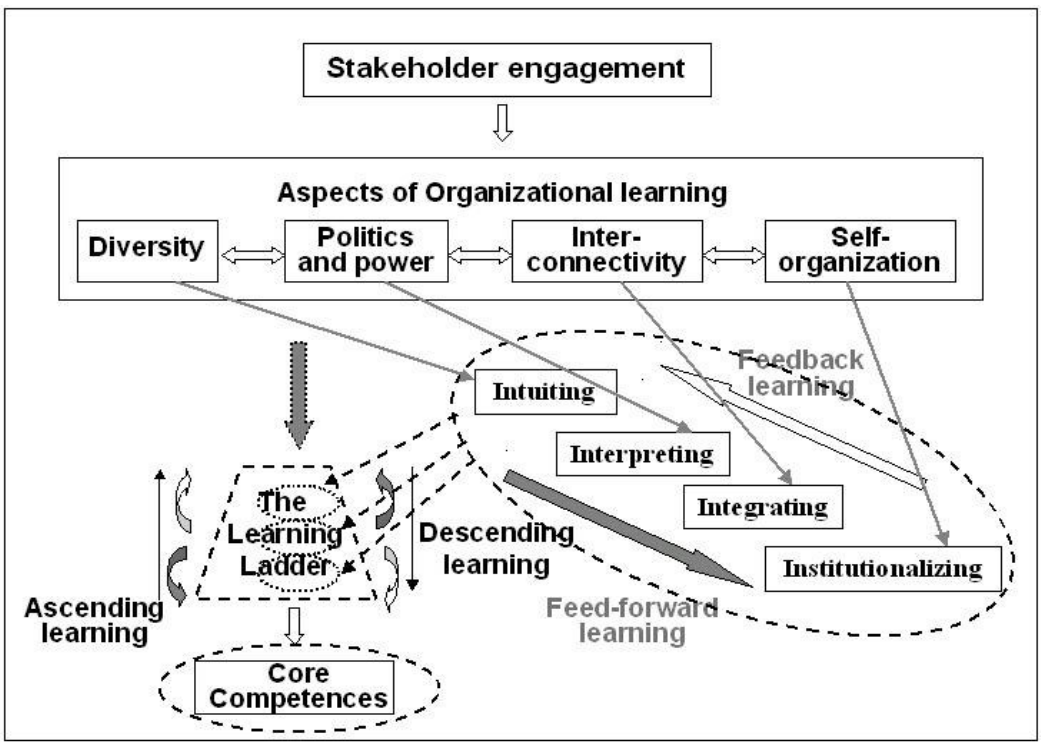
Table 1 Stakeholder engagement and organizational learning

Tasks of stakeholder engagement	Aspects of organizational learning	Process of organizational learning
To include diverse stakeholders	Diversity	Intuiting
To balance different stakeholder interests	Politics and power	Interpreting
To cocreate shared values and develop trust	Inter-connectivity	Integrating
To generating new knowledge and innovative solutions to complex issues	Self-organization/emergence	Institutionalizing

Figure 2 shows a conceptual framework linking stakeholder engagement to the four aspects of organizational learning and the previous integrated organizational learning model (in Figure 1). This framework describes how stakeholders can play the role of partners in building firm competences through a series of organizational learning processes.

According to the previous integrated organizational learning model, organizational learning results from complex interactions between feed-forward and feedback learning flows at any of the three levels (of a learning ladder). Stakeholder engagement may trigger organizational learning at the first dimension by way of involving stakeholders in the organizational learning processes—intuiting, interpreting, integrating, and institutionalizing, corresponding to the four aspects—diversity, politics and power, inter-connectivity, and self-organization/ emergence. At the second dimension, influence from stakeholder relations on organizational learning may further induce feed-forward or feedback learning across different levels, which may reinforce or reformulate existing organizational routines, capabilities or core competences.

Figure 2: A conceptual framework linking stakeholder engagement, organizational learning and core competence building



Taking the capability level as an example, an existing type of capability is influenced by two opposite forces coming from the feed-forward learning quest for new capabilities (due to new core competences or new organizational routines) and feedback learning flows for reinforcing existing routines (due to existing core competences or existing organizational routines). When feed-forward learning is dominant, the firm tends to renew this existing type of capability. Alternatively, when feedback learning is dominant, the firm tends to maintain such type of capability. Similar situations apply to the other two levels, organizational routines and core competences. Thus, stakeholder engagement facilitates continuous interplays between feed-forward and feedback learning flows. As two different learning flows may influence organizational knowledge at any level of the learning ladder (organizational routines, capabilities or core competences), new knowledge might emerge through self-organization as a result of further ascending learning and/or descending learning across the learning ladder. Thus, stakeholders can be learning partners of a firm by means of active interactions between them. In other words, stakeholder engagement can play the role as a facilitator that enhances new core competence to emerge through a series of complex organizational learning processes.

CONCLUSION

This paper has attempted to examine the relationship between stakeholder engagement and competence building. Based on a review of the extant literature, we have incorporated a micro-macro connection between organizational learning and competence building. According to this connection, we have further developed a conceptual framework linking stakeholder engagement and organizational learning, comprising Antonacopoulou's (2006) four aspects of organizational learning (diversity, politics and power, inter-connectivity, and self-organization/emergence). This framework demonstrates stakeholder relations may have significant effects on organizational learning. Stakeholder engagement can influence organizational learning processes: including intuition, interpretation, integration, and institutionalization. Influence from stakeholder interactions can further generate feed-forward and feedback learning flows (moving up or down) through the learning ladder of the firm, which may renew or reinforce the existing organizational routines, capabilities or core competences. Hence, stakeholder engagement can play the role of facilitator in reframing firm competences. This framework provides implications for managers to collaborate with stakeholders for value creation through organizational learning.

The concept of stakeholder engagement highlights the importance of stakeholder thinking in strategy process, including engaging stakeholder relationships and building shared interests in order to manage the business environment. Thus, managers' mission is to develop and implement a strategic program that balances and integrates various relationships and different objectives in a multi-stakeholder context (Wheeler et al., 2003). This stance is consistent with Amin and Cohendet's (2003) dual perspective of the firm, indicating that the firm needs to manage both transactions and competences simultaneously. On the one hand, firms should understand value and expectations of diverse stakeholders and determine the appropriate interest allocation among them. On the other hand, the main task of firm managers is creating values for its multiple stakeholders. Our conceptual framework emphasize that fostering stakeholder relationship can enhance economic value through organizational learning.

A potential limitation of our study is that we did not discuss the effect of stakeholder engagement on social capital (see e.g., Andriof and Waddock, 2002; Ayuso, Rodríguez and Ricart, 2006). However, we consider this effect to be beyond the scope of this paper and to require separate analysis. Based on the framework in this paper, there are some directions that merit further research. First, we argue that a firm may form different learning communities by distinctive stakeholder groups. How these learning communities operate needs further investigation through empirical studies. Second, this framework has not included micro-institutional factors such as firm size, ownership and life-cycle that may influence stakeholder positions. Exploring these micro-institutional factors can offer useful implications for managers as it may identify the effects on organizational learning by different stakeholder interactions in different context.

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