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Should all Stakeholders be Treated Fairly? Identifying Stakeholders that Legitimately Matter

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ABSTRACT
A key contribution of stakeholder research is that a firm's purpose and objective is influenced by those stakeholders who have a legitimate stake in a firm's business activities. Yet, identifying those that have a legitimate stake remains a challenge in stakeholder research. This research draws on legitimacy arguments to explain how stakeholders develop accountability and reliability in their legal and moral claims and how legitimacy influences a firm-manager's obligations of fairness to these stakeholder groups. A concept of directness, consisting of close and relational specific exchanges, is introduced to explain this legitimation process. Directness offers accountability and reliability when an obligation of fairness is owed to those stakeholders that have a legitimate stake to a firm's business activities. This directness-legitimation process influences a firm-manager's fairness obligations and provides an important normative underpinning to the stakeholder concept.

KEYWORDS
Fairness; legitimacy; stakeholder identification; close exchanges; relational specific exchanges

While stakeholder theory has been one of the most significant developments in contemporary management research, the task of identifying those individuals that have a legitimate stake in a firm's business activities remain a subject of much debate (Crane & Ruebottom, 2011; Mainardes, Alves, & Raposo, 2011; Miles, 2017; Mitchell, Weaver, Agle, Bailey, & Carlson, 2016; Phillips, Freeman, & Wicks, 2003). Such debate centers on the definition of the stakeholder concept itself (Freeman, 1984; Mainardes et al., 2011; Miles, 2017; Phillips, 2003). According to Phillips (2003), "common to nearly all stakeholder definitions is the notion that a stakeholder is any individual or group of individuals that is the legitimate object of managerial or organizational attention, while others are not" (p. 25). Researchers have argued that stakeholders are a legitimate object of interest when they have a legitimate claim to a firm's business activities (Clarkson, 1994; Greenwood, 2007; Hill & Jones, 1992; Kaler, 2002; Lea, 2004; Noland & Phillips, 2010; Phillips, 2003). A claim establishes an exchange relationship in which a special obligation or responsibility is owed (Hill & Jones, 1992; Kaler, 2002; Lea, 2004; Phillips, 2003). This obligation involves a commitment by the firm-manager to treat a stakeholder's claims fairly (Bosse, Phillips, & Harrison, 2009; Elms & Phillips, 2009; Greenwood, 2007; Miles, 2017; Phillips, 2003; Santana, 2012) above all other social actors (Elms & Phillips, 2009; Phillips, 2003). This fair treatment influences a firm-manager's normative obligations to its stakeholders and, as a result of these obligations, legitimizes a stakeholder's claims to a firm's business activities.

While the legitimacy of a stakeholder's claims is important to the stakeholder concept (Mainardes et al., 2011; Miles, 2017; Santana, 2012), there is uncertainty surrounding the assignment of obligations and claims in a social exchange (Kaler, 2002; Lea, 2004). Such uncertainty has been explained in terms of legal and moral exchanges (Kaler, 2002; Lea, 2004). Legal exchanges involve a contract in which the exchange of a stakeholder's contributions of resources leads to the stakeholder having a legal claim to its firm's successes (Hill & Jones, 1992). Yet, organizational economists have long recognized that there are uncertainties in a firm-manager's ability to monitor its stakeholder's productive contributions (Alchian & Demsetz, 1972; Williamson, 1975). Such uncertainty introduces a risk wherein a stakeholder cannot assert legal claims to their productive contributions. This uncertainty can undermine the legitimacy of a stakeholder's legal claims. In addition, stakeholders also engage in a moral exchange when they have a moral claim in how their resources should be used in a firm's business activities

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(Greenwood, 2007; Jones & Wicks, 1999; Noland & Phillips, 2010). Yet, moral exchanges are based on an underlying moral freedom in which a firm-manager has the freedom to endorse or reject its stakeholder's moral claims (Lea, 2004). Hence, when examining legal and moral exchanges, there is an uncertainty in a stakeholder's exchange relationships wherein a firm-manager cannot be held legally or morally responsible for claims that cannot be fully asserted (see also Kaler, 2002; Miles, 2017).

The uncertainties surrounding the assertion of a stakeholder's claims raises two research questions. First, how can stakeholders become objects of legitimate interest when they face uncertainties in asserting their legal and moral claims? Resolving these uncertainties is important to the stakeholder concept, because if a stakeholder cannot assert their claims, the stakeholder does not have a stake in its firm's business, thus rendering the concept of a stakeholder meaningless. Second and subsequently, since an obligation of fairness is owed to only those stakeholders that have legitimate claims (Elms & Phillips, 2009; Mainardes et al., 2011; Phillips, 2003), how do stakeholders develop such obligations when their claims cannot be asserted with certainty? An explanation of how stakeholders develop obligations of fairness is an important subject of inquiry because a stakeholder only has influence when the firm-manager can be held accountable to its stakeholder's claims (Kaler, 2002). The assertion of a stakeholder's claims is therefore not only important to determining a stakeholder's stake in a firm's business activities, but this stake creates an obligation of fairness that enables the stakeholder to influence a firm-manager's responsibilities to its stakeholders.

As legitimacy is widely recognized as a response to resolving uncertainties in a social exchange (Hannan & Freeman, 1984; Meyer & Rowan, 1977), the objective is to develop a theory of stakeholder legitimacy that addresses these aforementioned research questions. This research draws on the legitimacy concepts of accountability and reliability (Hannan & Freeman, 1984; Meyer & Rowan, 1977) to overcome the uncertainties surrounding a stakeholder's legal and moral exchanges. Specifically, this research introduces a relational concept of directness in which close (Coleman, 1988) and relational specific exchanges (RSE) (Dyer, 1996; Lui, Wong, & Liu, 2009) increase the accountability and reliability in a stakeholder's legal and moral claims. This directness offers a legitimacy that reduces the uncertainties of a legal and moral exchange in which an obligation of fairness is owed to accountable and reliable stakeholders. A central contribution of this research is that, through this directness, stakeholders become objects of legitimate interest when they can demonstrate an accountability and reliability in their social exchanges. Accountability and reliability are central to the definition of the stakeholder concept because they identify obligations that are distinct to legitimate groups above all other social groups.

To further this research's theory of stakeholder identification, its definitions, assumptions, scope condition, unit of analysis, and method of theorizing are first outlined. To explain this research's concept of legal and moral uncertainties, a review of agency and related claimant explanations are offered. The legitimacy concepts of accountability and reliability (Hannan & Freeman, 1984; Meyer & Rowan, 1977) and the relational concept of directness – close and RSE- are introduced and propositions surrounding this research's directness-legitimacy process are highlighted. The insights of this research's theory of stakeholder identification are also highlighted. Lastly, this research concludes with a discussion of its contributions to stakeholder research.

Theoretical developments

Definitions, units of analysis, assumptions, scope conditions and method of theorizing

The development of theory, and particularly in the area stakeholder research, requires a clear outline of its underlying definitions, assumptions, scope condition and units of analysis (Suddaby, 2010). While efforts to define a universally accepted definition of the stakeholder concept remains highly contested (Mainardes et al., 2011; Miles, 2017), there is a general consensus that the "essence of a stakeholder is the organizational-stakeholder relationship" (Miles, 2017, p. 440). A stakeholder's claim is central to explaining this relationship (Clarkson, 1994; Greenwood, 2007; Hill & Jones, 1992; Kaler, 2002; Lea, 2004; Noland & Phillips, 2010; Phillips, 2003). A stakeholder's claim involves "entitlement, interest, right, title, stakes, commitments, contracts and bonds" (Miles, 2017, p. 451) when a corresponding responsibility or obligation is owed (Kaler, 2002). More specifically, as organizational-stakeholder relationships involve legal and moral exchanges, a stakeholder's legal and moral claims establish a stake in a firm's business activities to which corresponding legal and moral responsibilities are owed by the firm-manager (Kaler, 2002; Lea, 2004). Yet, while legal and moral claims are important to defining legal and moral exchanges, it cannot be assumed that stakeholders have the power to enforce the claims in these exchanges (Miles, 2017). This is

because a firm-manager is often placed at the center of all legal and moral exchanges (Alchian & Demsetz, 1972; Hill & Jones, 1992; Mainardes et al., 2011; Williamson, 1975). With a firm-manager's centralized position, a stakeholder is subordinate to a firm-manager's power and influence when the stakeholder does not have the power to enforce their claims (Hill & Jones, 1992; Mainardes et al., 2011; Miles, 2017). Hence, in defining the organizational-stakeholder aspects of the stakeholder concept, stakeholders are defined by individuals who have legal and moral claims in a firm's business activities when their claims are subject to the power and authority of the firm-manager.

With this definition, this research assumes that the stakeholder and the firm-manager are in an asymmetric power relationship (Hill & Jones, 1992; Mainardes et al., 2011; Miles, 2017). By being at the center of all legal and moral exchanges, the firm-manager controls the flow of an organization's resources to its stakeholders (Hill & Jones, 1992; Mainardes et al., 2011). This centralized position has roots in organizational economic explanations wherein the firm-manager is delegated authority by its shareholders to manage the flow of resources to its stakeholders (Hill & Jones, 1992). Yet, as there have been increasing calls for the firm-manager to engage in corporate social responsibility (Greenwood, 2007) and organization citizenship behaviors (Bryson, Cunningham, & Lokkesmoe, 2002), firm-managers face an increasing social responsibility to take into account the welfare interests of its stakeholders (Noland & Phillips, 2010). This research will argue that a stakeholder's legitimate claims create an obligation of fairness that introduces a leadership role for the firm-manager to treat its stakeholder's claims fairly.

This research's scope condition is confined to the examination of corporate firms that face a dual objective of maximizing profits and advancing the welfare interests of its stakeholders. In other words, this research is not well-suited for explaining non-profit organizations because the managers of non-profit organizations are likely to be subordinate to the power and influence of their stakeholders (i.e. servant leadership). Thus the legitimizing processes of the stakeholder would be different from those of a profit minded business. With this research's scope condition, the unit of analysis is from the perspective of the stakeholder (e.g. Mitchell, Angle, & Wood, 1997; Santana, 2012). This focus is important because despite the importance placed on the stakeholder concept, stakeholder research tends to be organization-centric or managerially focused (Miles, 2017).

With this research's definitions, assumptions, scope condition and unit of analysis, a propositional approach to theory development is offered (Cornelissen, 2017). While popular, propositional theorizing faces a number of challenges (Cornelissen, 2017; Delbridge & Fiss, 2013). Propositions require cause-effect relations that have a "clear focus and have a circumscribed scope" and "break new ground" (Cornelissen, 2017, pp. 3–4; see also Delbridge & Fiss, 2013; Whetten, 1989). A clear definition of the concepts, assumptions, scope conditions, and unit of analysis underlying the causal relationships of propositions are important for their development (Suddaby, 2010). Hence, the previous discussions are important for, not only advancing this goal, but also for providing the basis for developing this research's propositions. In addition, as the utility of a theory is dependent upon breaking new ground, the insights of this research's theory of stakeholder identification are extended to explain phenomena outside of its circumscribed scope (Cornelissen, 2017, p. 3). Specifically, this research offers insights to explaining the identification of those stakeholders that lack legitimate legal and moral claims. This insight offers a broad as well as a narrow view of the stakeholder identification process.

Legal uncertainties

In explaining the uncertainties surrounding organizational-stakeholder exchanges, a concept of legal uncertainties is offered. Legal uncertainties involve ambiguities surrounding a stakeholder's legal claims to a firm's value added activities. This legal uncertainty is rooted in claimant explanations of a legal claim. Claimant researchers argue that a stakeholder's legal claims are identified by those individuals who have contributed resources to the achievement of a firm's value added activities (Hill & Jones, 1992; Kaler, 2002; Mitchell, Van Buren, Greenwood, & Freeman, 2015). By contributing these resources, the firm-manager has a legal responsibility to reciprocate returns in proportion to a stakeholder's legal claims (Phillips, 2003). For instance, employment contracts suggest employees have a legal claim to receive wages in proportion to their productive contributions (Kaler, 2002). Yet, transaction cost economics has long argued that legal disputes in contractual exchanges occur because of ambiguities in specifying and measuring the performance of contracted parties (Williamson, 1975).

Such transactional difficulties are particularly problematic when stakeholders operate within a team production setting. Within this setting, each stakeholder's productive contributions are pooled with the

productive contributions of other team members. Each individual's productive contributions become inseparable from those of others (Alchian & Demsetz, 1972; Jones & Butler, 1992; Ng & James, 2016). With this non-separability, the firm-manager cannot uniquely observe the marginal contributions of each stakeholder (Alchian & Demsetz, 1972; Jones & Butler, 1992; Ng & James, 2016). Yet, since a stakeholder's legal claims are dependent on their marginal contributions to the team production function, this non-separability renders that a stakeholder's legal claims cannot be directly assessed by the firm-manager. With this uncertainty, a firm-manager cannot be held legally responsible to claims that cannot be directly observed. Hence, legal uncertainty is defined by the legal contractual exchanges of a team production function in which the firm-manager is not held responsible to legal claims that cannot be directly monitored or verified.

Moral uncertainties

Moral uncertainties involve a risk in which stakeholders cannot assert their moral claims with certainty (Lea, 2004). Unlike legal claims, a stakeholder's moral claims are not based on a stakeholder's productivity. But rather, moral claims involve placing normative conditions or restrictions in the use of a stakeholder's resources (Jones & Wicks, 1999). Such moral claims are rooted in the moral aspects of stakeholder engagement research (Greenwood, 2007), which is defined by "practices that the organization undertakes to involve stakeholders in a positive manner in organizational activities" (Greenwood, 2007, p. 318). This stakeholder engagement involves a participatory form of decision making when a stakeholder's inputs are actively sought in a firm-manager's decision-making process (Greenwood, 2007; Noland & Phillips, 2010). This stakeholder engagement offers stakeholders a moral claim or stake on how their resources are to be deployed in a firm-manager's decisions (Greenwood, 2007; Jones, Felps, & Bigley, 2007; Noland & Phillips, 2010). Yet, because moral exchanges are inherently voluntary, a stakeholder cannot mandate or legislate its moral claims to the firm-manager because, according to Lea (2004), "if we become overly legalistic about these responsibilities we may restrict moral choice, which is essential to the attribution of moral value … In some sense, the point of being moral is that you have freedom to choose to be that way, not that you are forced to act that way and have not choice" (pp. 210–211). As result, due to the freedoms inherent in moral choice, moral uncertainty is defined by moral exchanges of a team production function in which the firm-manager cannot be held responsible to moral claims that cannot be legally enforced.

Stakeholder legitimacy

While stakeholder research has not made provisions for addressing such legal and moral uncertainties (e.g. Kaler, 2002; Lea, 2004), institutional researchers have long argued that legitimacy offers a means for resolving uncertain social exchanges (Hannan & Freeman, 1984; Meyer & Rowan, 1977). Legitimacy is defined by a process that involves "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions … " (Suchman, 1995, p. 574). Although such legitimacy can take on a variety of forms (Suchman, 1995), the spread of rational norms in modern society has placed increasing demands on actors to demonstrate actions that are accountable and reliable. Individuals/organizations are accountable when they can offer a rational account of the cause and effects of their actions. Reliability refers to situations in which individuals/organizations conduct actions that are repeatable and consistent (Hannan & Freeman, 1984). Individuals/organizations who engage in this accountability and reliability are ascribed legitimacy because they conform to the rational norms of modern society. This conformance offers an important means to overcome uncertain market exchanges (Hannan & Freeman, 1984; Meyer & Rowan, 1977) because actors who offer a rational account of their actions introduce a transparency to market exchanges, and those who are reliable reduce the variability or unanticipated risks of such exchanges.

From the standpoint of accountability, social actors ascribe legitimacy to individuals when they can demonstrate a capacity to document how resources are transformed into output (Hannan & Freeman, 1984). This accountability involves being able to document "how resources have been used and to reconstruct the sequence of organizational decision, rules and actions that produce particular outcome." (Hannan & Freeman, 1984, p. 152; see also Meyer & Rowan, 1977). For instance, accountability involves offering a rational account of how a stakeholder's productive contributions are causally related to the team production function. This accountability legitimizes a stakeholder's legal claims by offering a transparency to a stakeholder's productive claims. This accountability is important to a stakeholder's legal exchanges because in the absence of this accountability, a firm-manager cannot be held legally accountable to a stakeholder's productive contributions.

In addition to this accountability, reliability refers to a legitimacy in which social actors "have the capacity to produce products of a given quality repeatedly" (Hannan & Freeman, 1984, p. 153). More specifically, reliability is concerned with reducing the variability or unanticipated risks in an individual's/organization's performance (Hannan & Freeman, 1984). For instance, transaction cost economics has long recognized that opportunistic individuals can disproportionately appropriate the rents/returns of their exchange partners (i.e. hold up) (Williamson, 1975). This opportunism is a source of variability or unanticipated risk that can severely disrupt the reliable performance of an exchange. Stakeholders who can demonstrate an ability to consistently and repeatedly engage in a social exchange are ascribed a legitimacy because their reliability demonstrates a commitment to overcoming the opportunism in a social exchange. A consequence of this reliability is that it legitimizes a stakeholder's moral claims. Namely, since a stakeholder's commitment demonstrates that the stakeholder can be counted on as a reliable exchange partner, their moral claims to a firm-manager's decision making process can be trusted or relied upon. That is, reliability is important to a stakeholder's moral exchange because it increases the legitimacy of a stakeholder's moral claims in a firm-manager's decision making process.

Directness

While accountability and reliability are important to establishing a stakeholder's legitimacy, an understanding of how stakeholders develop this legitimacy remains underdeveloped. For instance, in Miles' (2017) meta-review of stakeholder identification research, she notes " … the problem of stakeholder identity may be connected to a poor understanding of legitimacy … " (p. 445). To address this shortcoming, this research draws on a relational concept of "directness" – consisting of close and relational specific exchanges (RSE) – to explain a stakeholder's accountability and reliability. In particular, since accountability and reliability are socially constructed processes (Meyer & Rowan, 1977), this research argues that a stakeholder's directness offers two related advantages. First, directness increases a stakeholder's accountability and reliability in their legal and moral claims. Second and subsequently, this legitimacy overcomes the legal and moral uncertainties of a social exchange in which a special obligation of fairness is owed to these legitimate stakeholders.

A summary of the propositions surrounding the directness-legitimation process is shown in Figure 1 and their constituent elements are explained as follows.

Close exchanges

In drawing on social network research, close exchanges are defined by intimate, frequent, and personal exchanges in which individuals share a common set of beliefs and experiences (Coleman, 1988). Close exchanges offer an agency in which the intimate and personal exchanges open-up opportunities for individuals to directly monitor the actions of other closely connected individuals (Coleman, 1988). The purpose of

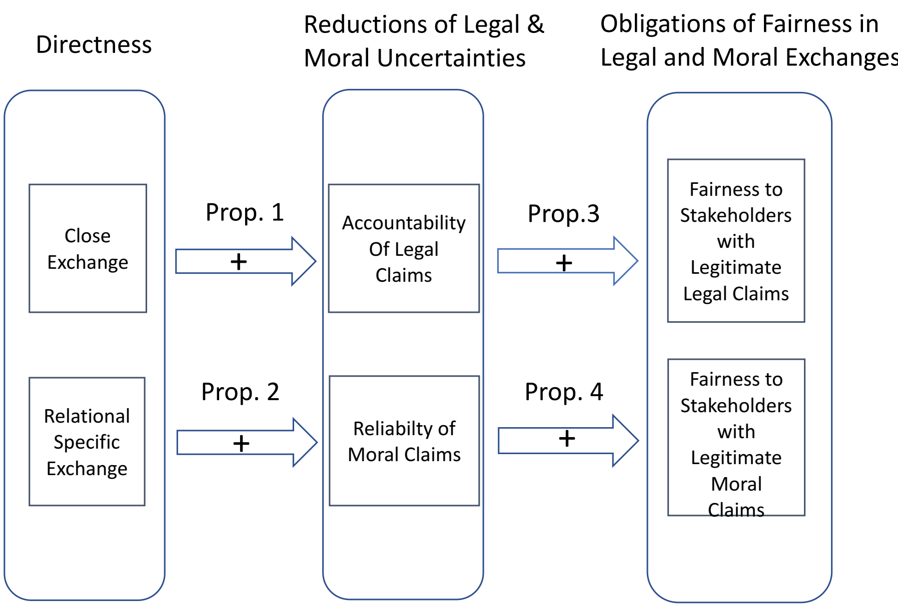

Figure 1. Directness-legitimacy process.

such close exchanges is to promote a monitoring of proximally near/related members and to reinforce norms of cooperation amongst such members (Coleman, 1988). This monitoring function is also described by Moran (2005) where he notes "because, all of one's contacts in closed networks know and interact with each other, they are more likely (than in open networks) to convey and reinforce norms of exchange and more easily monitor their observance and enforce sanctions" (p. 1131).

Reduction of legal uncertainty

By drawing on the monitoring function of close exchanges, legal uncertainties are reduced in two ways. First, close exchanges increase the transmission of difficult to codify information (Hansen, 1999; Moran, 2005). Difficult to codify information consists of tacit knowledge that is transferred through repeated exchanges (Hansen, 1999). As each stakeholder's productivity is ambiguous, their productivity cannot be directly codified. Nevertheless, closely connected individuals tend to more frequently share information with those who have related experiences (Coleman, 1988; Moran, 2005). Such close exchanges offer multiple and repeated opportunities to learn from the experiences of related others (Hansen, 1999; Tortoriello, Reagans, & McEvily, 2012). Stakeholders who engage in these close exchanges have repeated opportunities to identify and learn about each other's productivity. Second, close exchanges promote the diffusion of complex information that involves inter-dependencies among transacting units. These interdependencies are difficult to transmit because each of the transacting units needs to understand its relationship with others (Hansen, 1999; Moran, 2005; Tortoriello et al., 2012). A stakeholder's close exchanges with other team members increases their ability to assess each other's productivity as well as a stakeholder's ability to understand their inter-dependencies. Close exchanges thereby promote a transfer of complex information wherein these interdependencies enable each stakeholder to identify their non-separable contributions to the team production function. By drawing of these properties, close exchanges promote a transmission of difficult to codify and complex information for which the stakeholder not only offers a rational account of their legal claims, but as a result, reduces the legal uncertainties of a social exchange.

Proposition 1: Close exchanges increase the accountability in a stakeholder legal claims.

Role specific exchanges (RSE)

In addition to close exchanges, directness also includes relational specific exchanges (RSE). RSE consist of a stakeholder's specialized commitments to the team production function in which such commitments expose the stakeholder to the risks of opportunism. These RSE share strong parallels to the transaction cost economics' concept of asset specificity (Williamson, 1975). Transaction cost economics has long argued that asset specific investments introduce opportunistic problems of holdup wherein parties to an exchange can withhold or exploit the specialized commitments of others (Williamson, 1975). While relational exchange (e.g. Dyer, 1996) and organizational economics (Williamson, 1975) researchers have offered competing explanations on the role of opportunism, RSE in a team production function favor a cooperation of partner experiences. This cooperation occurs because due to the non-separable nature of the team production function, a stakeholder who holds up the firm-manager also holds up the specialized contributions of other stakeholders. This hold up reduces incentives for other stakeholders to commit their specialized assets to the team production function and thus reduces the collective benefit of co-specialization (Dyer, 1996). Hence, unlike transaction cost economics explanations of opportunism, RSE favor a co-specialized assets and experiences because RSE enable members to leverage the collective benefits of team production.

To elaborate on this cooperation, a stakeholder who develops RSE signal a commitment that they will act in the best interest of the collective and not act opportunistically (Lui et al., 2009). This commitment signals a trust in which the stakeholder is willing to bear the risk that others will not appropriate the benefits of a stakeholder's specialized commitments (Mayer, Davis, & Schoorman, 1995). By engaging in such acts of trust, a stakeholder's RSE offer synergies that mutually reinforce the specialized commitments of others. This co-specialization is consistent with Dyer's (1996) empirical study of Japanese Keiretsu exchanges in which he found that an investment of RSE positively influenced a party's ability and willingness to leverage the specialized efforts of others (see also Lui et al., 2009).

By increasing this cooperation of specialized commitments, RSE develop a trust that increases a stakeholder's reliable performance. Institutional researchers have argued that an actor develops reliable performance by making a commitment of assets to a reproducible social structure (Hannan & Freeman, 1984; Meyer & Rowan, 1977). RSE promote the development of a reproducible social structure in which a stakeholder's specialized commitments to discovering the co-specialized benefits of team production

reproduces the very commitment that sustains this discovery. This reproducible social structure is supported by developments in relational exchange research in which RSE have been found to promote an increasing cooperation of co-specialized assets and experiences (De Vita, Tekaya, & Wang, 2011; Dyer, 1996; Lui et al., 2009). This increased cooperation is caused by a co-specialization of assets that promotes a trust in the specialized commitments of others which then reinforces a further commitment of specialized assets (Dyer, 1996; Levin & Cross, 2004; Lui et al., 2009). This research argues that RSE promote a type of reproducible social structure in which the specialized commitments to the team production function promotes a trust in the specialized commitments of other team members. This trust reinforces each team member's commitments to the team production function which then increases each member's reliance on the specialized contributions of others. As this reproducible social structure reinforces each team member's specialized commitments, this structure increases each member's reliable performance. This increase in reliability occurs because the reproducible structure produces a trust that reduces the risk that each member will take advantage of the specialized contributions of others and thus increasing their reliable performance. As a result of this trust, RSE promote the development of a reproducible social structure that increases a stakeholder's reliable performance to the team production function.

Reduction of moral uncertainty

As RSE increase a stakeholder's reliable performance, RSE reduce moral uncertainty by offering a reliability to a stakeholder's moral claims. This reliability not only reduces the opportunism in a stakeholder's specialized commitments, but it also offers a legitimacy to a stakeholder's moral claims. A stakeholder's moral claims are based on their repeated commitments of specialized assets to the team production function in which these repeated commitments are dependent upon the specialized commitments of others. This reliability offers a legitimacy to a stakeholder's moral claims because a stakeholder's repeated commitments demonstrate that the stakeholder knows how to best leverage their specialized commitments in the team production function. These specialized commitments suggest that while a firm-manager cannot be forced into accepting its stakeholder's moral claims, the firm-manager has an incentive to take into account the moral claims of its reliable stakeholders. This incentive arises because in order to realize the co-specialized benefits of team production, the firm-manager would need to take into account the moral claims of its reliable stakeholders. Hence, by engaging in RSE, stakeholders develop a reliable performance that not only legitimizes their moral claims, but this legitimacy reduces the moral uncertainties in the firm-manager's decision making process.

Proposition 2: RSE positively influence the reliability in a stakeholder moral claims.

Firm-manager obligations: principle of fairness

By developing an accountability and reliability in a stakeholder's legal and moral claims, directness – close and RSE- creates an obligation of fairness. The principle of fairness has played an important influence to explaining a firm-manager's normative obligations (Elms & Phillips, 2009; Mainardes et al., 2011; Miles, 2017; Phillips, 2003; Santana, 2012). This principle is stated as follows:

> "whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted" (Phillips, 2003, p. 26)

This obligation means that when a stakeholder has a legitimate claim in a co-operating scheme, such as a team production function, a duty of fairness is "owed over and above all other social groups" (Phillips, 2003, p. 30). This principle however does not imply that stakeholders who lack legitimate claims are not considered by the firm-manager. Phillips (2003) explains,

> "when it is indicated that a particular group is owed no stakeholder based-obligations, it would be a mistake to interpret this as meaning that the organization has no moral relationship what so ever with that group. Simply because a person or group does not merit the additional moral consideration [fairness] conferred upon normative stakeholders does not mean that they may be morally disregarded." (p. 30)

Individuals regardless of the legitimacy of their claims are owed a basic moral duty in which individuals should not be subject to slavery, religious/racial/sexual discrimination, lying and breaking of contracts, stealing of property, and physical harm (Phillips, 2003). Phillips (2003) argues that an obligation of fairness does not dismiss such basic moral duties because "distinct from duties and basic human rights, which exists simply by virtue of one's humanity, obligations of stakeholder fairness are *additional* moral obligations that are

created based on the actions (in this case the voluntary receipt of benefits) of the parties" (pp. 26–27). Stated differently, a principle of fairness does not preclude moral duties to other social groups, it simply states that stakeholders with legitimate legal and moral claims are owed an "additional or special obligation" of fairness that is over and above existing moral commitments made to these other groups (Phillips, 2003, p. 30).

Yet, while the principle of fairness has played an important normative role to stakeholder research, an explanation of fairness obligations under legally and morally uncertain settings has not been examined. For instance, while both Santana (2012) and Phillips (2003) recognize the importance of legitimacy in fairness obligations, they do not explain the sources of this legitimacy. This research appeals to the accountable and reliable properties of directness to explain the legitimacy underlying such fairness obligations.

Obligations of fairness in legal exchanges

Since close exchanges increase the accountability in a stakeholder's legal claims, a stakeholder's accountability creates an obligation of fairness in legal exchanges. Stakeholders are owed an obligation by the firm-manager to be treated fairly, meaning a stakeholder's legal claims are rewarded an amount proportionate to their productive contributions (Phillips, 2003). This obligation of fairness follows the meritocracy aspects of the fairness principle wherein the firm-manager faces a normative obligation " … to distribute the benefits of their activities as equitable as possible among stakeholders, in light of their respective contributions, costs and risks" (Phillips et al., 2003, p. 488). Yet, because of legal uncertainties, such an obligation is owed only to those stakeholders that offer a rational account of their productivity. A firm-manager is owed an obligation of fairness to such stakeholders because by offering a rational account of their legal claims, the firm-manager cannot dispute the productive contributions of its stakeholder members. Stakeholders who fail to develop accountability in their legal claims cannot be expected to be owed an obligation of fairness. Stated differently, stakeholders cannot be owed this obligation of fairness because if stakeholders are awarded legal claims to activities that cannot be rationally accounted for, there is no reason for other stakeholders to develop an accountability in their legal claims. This lack of accountability would result in a voluntary exchange in which free riding problems will destroy the marginal contributions of all team members. In a more general sense, a firm-manager who indiscriminately applies an obligation of fairness to all social members would undermine the benefits of a cooperative exchange to which would undermine the entire basis for a firm to exist (Bosse et al., 2009).

Proposition 3: The accountability in a stakeholder's legal claims positively influences a firm-manager's obligation of fairness to such legitimate groups.

Obligation of fairness in moral exchanges

As a stakeholder's RSE increase the reliability of their moral claims, this legitimacy creates an obligation of fairness in moral exchanges. However, unlike accountability, the reliability in a stakeholder's moral claims involves a fairness that extends beyond meritocracy considerations (see also Elms & Phillips, 2009). The reliability in a stakeholder's moral claims promotes a fairness in a firm-manager's decision-making process. Specifically, according to Greenwood (2007), an engagement of stakeholders in a firm-manager's decision-making process promotes a fairness in the decision-making process. This stakeholder engagement promotes fairness because individuals are more likely to perceive decisions as fair if they had a stake in the decision process (Greenwood, 2007; Noland & Phillips, 2010). In the context of this research, as a stakeholder's RSE develop a reliability in their moral claims, this legitimacy creates an obligation by the firm-manager to take into account the stakeholder's moral claims into its decision-making process (e.g. Greenwood, 2007; Levin & Cross, 2004; McVea & Freeman, 2005). If a firm-manager acted otherwise, it would mean that stakeholders who had not made specialized commitments to the firm are given the same priority in the decision-making process as those that had made such commitments. This prioritization would make a firm-manager's decision-making process unfair. This is because stakeholders with RSE have willingly or voluntarily exposed their specialized commitments to the risks of opportunism (Mayer et al., 1995), while others who have not, are granted the same legitimacy. As a result, in order to develop a fairness in a firm-manager's decision-making process, a firm-manager is owed a special obligation of fairness to only those stakeholders with reliable moral claims.

Proposition 4: The reliability in a stakeholder's moral claims positively influences a firm-manager's fairness to such legitimate groups.

Extension to the stakeholder identification process: a broad vs. narrow identification of stakeholders

While this research offers a legitimate explanation of the stakeholder identification process, the challenge

with many legitimacy explanations is they tend to favor a narrow as opposed to a broad identification of stakeholders. This narrow and broad identification of stakeholders has been the subject of a long standing debate in stakeholder research because it raises significant questions on the boundaries of the stakeholder concept (Mainardes et al., 2011; Miles, 2017; Phillips, 2003). The insights of this research's stakeholder identification process are extended by examining the role of legitimacy in this narrow vs. broad debate.

In first explaining this debate, broad explanations are based on an influencer definition of the stakeholder concept (Freeman, 1984; Frooman, 1999). According to this view, stakeholders are identified by any individual or group that has the power to influence a firm's objectives (Freeman, 1984). This influencer definition would include a broad array of social groups, such as media companies, competitors, social activist groups, governmental agencies etc. (e.g. Bryson et al., 2002; Frooman, 1999). While comprehensive, the challenge with this influencer definition is that virtually any individual with influence could be identified as a stakeholder. This comprehensiveness can thus "threaten the meaningfulness of the term stakeholders" (Phillips, 2003, p. 28). This criticism is also shared by Miles' meta-review of stakeholder research in which she describes that "influencer definitions are subject to criticisms for permitting an unfeasibly wide range of actors to be recognized as organizational stakeholders. Merely having the power to influence offers little discrimination" (Miles, 2017, p. 451). In contrast to this broad or influencer definition, narrow explanations seek to offer a greater precision in the stakeholder concept (Miles, 2017). Stakeholders are defined on the basis that a normative obligation is owed to individual groups. The legitimacy explanations described by this research's concept of directness – as well as other legitimacy explanations (e.g. Elms & Phillips, 2009; Mitchell et al., 1997; Phillips et al., 2003; Santana, 2012)- follow this narrow view. According to this view, a stakeholder's legitimate claims impose on the firm-manager a normative obligation to attend to their claims above all other social groups. In that, stakeholders who lack legitimate claims are not owed any additional obligation by the firm-manager and thus will not be considered a legitimate object of interest. While offering a greater precision to the stakeholder concept, the challenge with this narrow view is that broader social groups who do not have legitimate claims to a firm's business will be excluded from a manager's attention (e.g. Frooman, 1999).

Normative (narrow) and derivative (broad) stakeholders

In order to address this broad vs. narrow debate, this research appeals to Phillip's (2003) concepts of normative and derivative stakeholders. Normative stakeholders are defined by "those stakeholders to whom the organization … has an obligation of fairness, over and above other social actors simply by virtue of their being human" (p. 30). In the context of this research, a stakeholder's directness – close and RSE- creates a legitimacy – accountability and reliability- in a stakeholder's legal and moral claims. This legitimacy creates a normative obligation of fairness to such groups and thus determines a stakeholder's normative status. Hence, through a stakeholder's directness, a stakeholder's accountability and reliability identifies the members of Phillip's (2003) normative stakeholders. Furthermore, since an obligation of fairness only reflects an additional obligation (Phillips, 2003), a stakeholder's accountability and reliability do not imply that broader social groups are not considered by the firm-manager. These broader social groups are described by Phillip's (2003) concept of derivative stakeholders. Derivative stakeholders are defined by "those groups whose actions and claims must be accounted for by managers due to their potential effects upon the organization and its normative stakeholder" (Phillips, 2003, p. 31). Unlike normative stakeholders, derivative stakeholders do not have direct claims to a firm's business and thus are not owed a special obligation of fairness. Yet, derivative stakeholders are a legitimate concern to the firm-manager because their legitimacy " … is derived from their ability to affect the organization and its normative stakeholders" (Phillips, 2003, p. 31). With this derived form of legitimacy, the firm-manager does not owe any special obligation of fairness to the derivative stakeholder. But to the extent that the derivative stakeholder can influence its normative stakeholders, the firm-manager owes an obligation to manage their influences in the best interests of its normative group (Phillips, 2003).

For instance, according to Frooman's (1999) case of the Star-Kist tuna company, Earth Island Institute (EII) -an environmental/animal activist social group- had no legitimate legal or moral claims to the Star-Kist company. Yet despite their lack of legitimacy, EII had the power to instigate a consumer boycott of Star-Kist tuna. This boycott influenced Star-Kist's normative stakeholders involving consumers, shareholders and employees who had direct claims to Star-Kist's business. While EII lacked the direct claims of these normative groups, EII was a legitimate concern to Star-Kist's managers because according to Phillips (2003), the manager owed a responsibility to its normative members to take into account the influences of this derivative group.

Normative and derivate stakeholder group identification

With Phillip's (2003) characterization of normative and derivative stakeholder groups, the accountability and reliability created by a stakeholder's directness – closeness and RSE- can play an important role in bridging these groups. In that, even though a derivative stakeholder lacks a directness – closeness and RSE- with the firm-manager, the derivative stakeholder is still legitimate. The derivative stakeholder derives its legitimacy from its ability to influence those normative stakeholders that have legitimate legal and moral claims to a firm's business activities. Specifically, directness develops an accountability and reliability in a stakeholder's legal and moral claims wherein an obligation of fairness defines the members of a normative group. Hence, since a derivative stakeholder derives its legitimacy from normative groups, the derivative stakeholder derives their legitimacy from the accountability and reliability of the normative group. As result, the firm-manager has an obligation to not only treat its normative group members fairly, but the firm-manager also has a responsibility to account for the influences of derivative stakeholders on these normative groups. This obligation suggest that a stakeholder's directness offers a legitimacy that identifies both normative and derivative stakeholder groups. This directness offers an important extension to theories of stakeholder legitimacy because the broader recognition of stakeholder groups enables the firm-manager to engage in corporate social responsibility (Greenwood, 2007) and related organization citizenship behaviors (Bryson et al., 2002). Future research is called for to further examine the insights of this research's directness-legitimacy process.

Conclusions and discussions

The identification of stakeholders remains one of the central challenges facing the stakeholder concept (Mainardes et al., 2011; Mitchell et al., 2015). A theory of stakeholder legitimacy was developed to identify those stakeholders that are of a legitimate interest to the firm-manager. In particular, as legitimacy is a response to resolving uncertain social exchanges (Hannan & Freeman, 1984; Meyer & Rowan, 1977), a concept of directness consisting of close and RSE was argued to reduce the uncertainties of a legal and moral exchange. Such reductions of uncertainty develop an accountability and reliability in a stakeholder's legal and moral claims in which a special obligation of fairness is owed. Through this directness, a stakeholder's accountability and reliability not only offer a fairness that is important to the normative tenets of the stakeholder concept, but this directness enables a firm-manager to identify those stakeholders that are objects of legitimate interest. By drawing on this research's directness-legitimacy process, this research offers three contributions to stakeholder research.

First, claimant explanations have played an important role in defining organizational-stakeholder relationships (Miles, 2017). Claimant explanations of the stakeholder concept implicitly rest on a "perfect duty" (Kaler, 2002) argument in which stakeholders are legitimate objects of interest only when their claims have a counterpart responsibility. Specifically, unlike influencer definitions, Kaler (2002) argues that a stakeholder's claims only have an influence to a firm's business when the firm-manager can be held responsible to such claims. In the absence of this counterpart responsibility, a stakeholder's claims could not influence a firm-manager's behavior. Hence, an implicit assumption held by a claimant definition of the stakeholder concept is that social exchanges are based on a perfect duty when there is a strong assignment of legal and moral claims and responsibilities in a social exchange. Yet, since organization-stakeholder relationships involve an asymmetric power relationship, a claimant stakeholder lacks the power to enforce such claims (Miles, 2017). That is, due to the power and influence of the firm-manager, the firm-manager has an "imperfect duty" (Kaler, 2002) when a duty or responsibility is not owed. Directness offers an accountability and reliability in which legal and moral responsibilities are owed to a stakeholder's claims. This legitimacy not only resolves the "imperfect duties" (Kaler, 2002) found in organization-stakeholder relationships, but as result offers a more perfect assignment of responsibilities and claims that is central to claimant explanations of the stakeholder concept.

Second and subsequently, stakeholders are often identified on the basis of their salient attributes wherein few have examined the attributes of the stakeholder relationship itself (e.g. Fassin, 2012). The emphasis on stakeholder attributes have been explained by Mitchell et al.'s (1997) stakeholder salience model. According to their model, managers prioritize their attention to stakeholders on the basis of their salient attributes of power (e.g. Frooman, 1999), legitimacy and urgency. For instance, according to Frooman (1999), the firm-manager attended to stakeholders, such as EII, on the basis of their power and influence. This research adds that the directed attributes of a stakeholder's relationship can play an important role in explaining a stakeholder's salience. Namely, close and RSE

introduce a salience in which an obligation of fairness is owed by the firm-manager. This salience is not a property of a stakeholder's attributes, but a property of a stakeholder's ability to socially construct directed exchanges with its firm-manager. The implication of this socially constructed view of stakeholder salience is that it introduces a greater role for stakeholder agency. As most organization-stakeholder exchanges are managerial focused (Miles, 2017), this socially constructed view of stakeholder agency offers a rebalancing of this focus in stakeholder research.

Third, narrow and broad definitions of stakeholders continue to be a source of debate in stakeholder research (Miles, 2017). Given the multitude of stakeholder definitions (e.g. Mainardes et al., 2011; Miles, 2017), narrow or claimant definitions offer a greater conceptual rigor to the stakeholder concept (Kaler, 2002; Phillips, 2003). Yet, stakeholder theory was initially developed in response to offering a more comprehensive approach to strategic decision- making (Freeman, 1984). This research's concept of directness offers insights to leveraging the benefits of both broad and narrow explanations. Directness not only develops a legitimacy when an obligation of fairness is owed to normative (i.e. narrow) stakeholder groups, but this obligation also derives a legitimacy for derivative stakeholders (i.e. broad). As narrow definitions of the stakeholder concept are closely associated with legitimacy explanations (e.g. Mitchell et al., 1997), a contribution of this research's concept of directness is that it offers a legitimacy that broadens the narrow explanations of claimant research. This broadening effort is important to advancing the strategic management tenets of stakeholder research (Freeman, 1984).

To advance future research, this research offers some empirical directions to measuring this research's concept of directness. A variety of relational exchange researchers have drawn on survey instruments to measuring close and RSE (e.g. Dyer, 1996; Lui et al., 2009; Moran, 2005). Close exchanges can be measured by the frequency of interactions between the firm and its various stakeholders. In using a 5-point Likert scale, this frequency can be administered to firms with the following survey question: "please indicate those stakeholders to which you have a close relationship with and please indicate the frequency of this relationship" (see also Lui et al., 2009). A similar approach can also be used to measure the RSE in a team production function. For instance, in using a 5-point Likert-type scale, Lui et al. (2009) measured asset specificity with the following survey questions: "we have invested in a lot of time and effort in building up our relationship with this [partner] … if this partner were to switch to one of our competitors, it would be a big loss to us … we see this supplier developing into a long-term partner" (p. 1217). By asking these questions, a socio-matrix of close and RSE can be created to measure the directness of the team production function. Large values of this socio-matrix imply a greater directness. For instance, as trust promotes an increasing commitment of specialized assets (Lui et al., 2009), RSE should increase over time. Hence, this trust can be measured by the period-to-period increases in the socio-matrix of RSE. While there are other empirical considerations, these directions offer an initial basis to measuring this research's directness concept.

In addition, while this research is focused on a stakeholder's legitimacy process, a firm-manager's legitimacy with its stakeholders is also an important consideration because it influences a firm's ability to retain and attract resources from its stakeholders (Suchman, 1995). Thus, one direction for future research is to examine how the legitimizing processes of the firm-manager influences its legitimacy with its stakeholders and how such legitimacy influences the governance of firm-manager-stakeholder exchanges. Lastly, as there have been increasing efforts to bridge the insights of stakeholder research to entrepreneurship, future studies can extend this research's directness-legitimation process to an entrepreneur's value creation process. Specifically, as the identification of entrepreneurial opportunities often involves the resolution of uncertainty, the identification of such opportunities may require a resolution of legal and moral uncertainties in an entrepreneur's social exchanges. This resolution can be used to identify opportunities that advance both an entrepreneur's and its stakeholder's valued interest. Future research is thus called for to extend this research's directness-legitimacy arguments to such entrepreneurial settings.

Disclosure statement

No potential conflict of interest was reported by the author.

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