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Stakeholder theory, strategy, and organization: Past, present, and future

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Abstract

We reflect on the past, present, and future of stakeholder theory, focusing on its link to strategy and organization scholarship. Stakeholder theory was originally conceived as a theory of strategic management, but for most of its history it largely developed without having a noticeable impact on strategy research. This has changed in the past decade, however, with the strategy field making a "stakeholder turn." We highlight the streams of research at the forefront of this turn, including work on "behavioral stakeholder theory," 'stakeholder strategy theory,' and "stakeholder governance." We conclude with an outlook on how stakeholder theory can help strategy scholars develop a theory of managing value creation that explicitly acknowledges both the economic and moral nature of relationships in and around organizations.

Keywords

behavioral stakeholder theory, instrumental stakeholder theory, new stakeholder theory, stakeholder governance, stakeholder strategy

> *Clear thinking about the organization of stakeholders and their cooperative role in value creation is needed more now than ever.*
>
> (Phillips et al., 2019: 3)

Introduction

Stakeholder theory was originally developed as a theory of, or perhaps rather a perspective on, strategic management (Freeman, 1984). However, subsequent work remained largely disconnected from developments in the strategy field because strategy scholars became increasingly concerned with grounding their work in economic theories and concepts (e.g. Rumelt et al., 1991), while

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stakeholder theorists became increasingly concerned with grounding their theory in normative ethics (Dmytriyev et al., 2021). Over the past 10–15 years, however, the strategy field has made a "stakeholder turn," with more and more mainstream strategy scholars adopting a stakeholder perspective (e.g. Barney, 2018; Klein et al., 2012; Zollo et al., 2018). In this essay, we reflect on this stakeholder turn, interpreting it as an attempt to develop a new type of strategy theory.

We do so in three steps. First, we consider how the initially diverging developmental paths of stakeholder theory and strategic management scholarship have begun to reconverge. We then give an overview of the main strands of strategic management scholarship that have furthered stakeholder theory over the course of the past decade. Finally, we reflect on how the reconvergence of stakeholder theory and strategy theory can help strategy and organization scholars develop "clear thinking about the organization of stakeholders and their cooperative role in value creation." In particular, we discuss how what McGahan (2021) refers to as the "new stakeholder theory" (NST) implies a promise of a new type of strategy theory: a theory of value creation and value appropriation that explicitly and simultaneously addresses the economic *and* moral side of human organization.

The past: divergence and reconvergence

Stakeholder theory is typically traced back to Edward Freeman's (1984) book *Strategic Management: A Stakeholder Approach*. Although Freeman's book was a strategic management text, stakeholder theory and strategic management subsequently developed largely in isolation from each other (Bosse and Sutton, 2019; Dmytriyev et al., 2021). One reason for this is that Freeman's book coincided with an economic turn in strategy research (Wicks and Harrison, 2017): in the 1980s, research in the newly established field of strategic management became increasingly grounded in economic theorizing (e.g. Barney, 1991; Porter, 1980; Rumelt et al., 1991).

Since its inception, stakeholder theory has explicitly positioned itself as an alternative to economic theorizing (Freeman et al., 2010). Whereas traditional economic theorizing emphasizes market competition as the main driver of social welfare, stakeholder theory emphasizes cooperation (Freeman and Phillips, 2002). Whereas traditional economic theorizing, and in particular agency theory, sees managers' duty as maximizing the financial market value of firms (Friedman, 1970; Jensen, 2002), stakeholder theory holds that the job of managers is to foster cooperative relationships with stakeholders by balancing their interests (Freeman et al., 2010). And whereas traditional economic theorizing assumes that humans behave as *Homo economicus*, rationally pursuing their self-interest by responding to financial incentives, stakeholder theory holds that human behavior is much more complex than that (Freeman et al., 2010; Jones, 1995).

Given these differences, the economic turn in strategic management took the development of strategy theory in a rather different direction than the one envisaged by stakeholder theorists. At heart, stakeholder theorists see strategic management as managing social relationships: the central idea of the theory is that strategy is about building the fair and durable relationships with the firm's stakeholders that are essential to value creation (Dmytriyev et al., 2021). In that sense, stakeholder theory is a theory that explicitly incorporates an economic dimension (value creation), a social dimension (managing relationships) and a moral dimension (fairness). This contrasts with traditional economic theorizing, which eliminates the social and moral dimensions of human interactions by reducing all interactions to arm's length exchanges that rely on monetary incentives to align interests. By heavily leaning on traditional economic theorizing, much of the work in the strategy field in the 1980s and 1990s ended up largely ignoring the social and moral side of strategy and organization.

A second reason for the divergence between stakeholder theory and strategic management is that stakeholder theory became increasingly concerned with normative ethics (Dmytriyev et al., 2021).

Donaldson and Preston (1995) identified three varieties of stakeholder theory: (1) descriptive work that describes what managers do when managing stakeholders, (2) normative work that prescribes what managers ought to do based on moral and philosophical principles, and (3) instrumental work that explains the relationship between stakeholder management and firm performance. Of these three varieties, instrumental stakeholder theory is the natural bridge between stakeholder theory and other strategic management scholarship. However, in the 1980s and 1990s, the stakeholder literature was primarily descriptive and normative, with only limited work of the instrumental variety and almost no empirical work (Dmytriyev et al., 2021; Laplume et al., 2008). As a result, stakeholder theory seemed to many strategy scholars to be more in the domain of (applied) philosophy than management.

Against this background, we can interpret the more recent developments at the intersection of strategy and stakeholder theory as a rejoining of themes. Over the past 15 years we see a rapprochement between the two literatures, resulting in work that is explicitly aimed at bridging the gap between the (economic) theorizing in strategy and the ethical concerns of stakeholder theorists. One reason for this rapprochement is no doubt a strongly felt practical need among both scholars and practitioners to reconsider the role of business in the wake of the corporate scandals of the early 2000s, the 2007–2008 financial crisis, and the mounting societal pressure on firms to embrace their social responsibility, which has culminated in initiatives such as the UN's 17 Sustainable Development Goals (Amis et al., 2020).[1]

Another, more theoretical reason is that in the past 20 years, both strategy and economics research have developed in ways that are well-aligned with a stakeholder view of the firm. First, strategy scholars have largely shifted their attention from explaining competitive advantage, typically defined in terms of a firm's superior ability to generate economic profit, to the complex relationship between value creation and value appropriation. This development has gone hand in hand with a shift from a unitary agent view of the firm to a nexus of contracts view (Asher et al., 2005; Coff, 1999; Wang et al., 2009), in which a firm is seen as a coalition of stakeholders (Stoelhorst, 2021). Second, economics has also changed, in particular with respect to its behavioral foundations. Behavioral economists (e.g. Fehr and Schmidt, 1999; Kahneman et al., 1986) have shown that humans are not the selfish and rational actors portrayed in traditional economic theorizing, but that they have complex social preferences and respond to moral norms as well as financial incentives, as stakeholder theorists have long emphasized. As we will argue below, these two developments not only help explain the reconvergence of strategy theory and stakeholder theory, but also hold the promise of the development of a new theory that combines the ethical concerns of stakeholder theorists with the focus on explanatory rigor of strategy scholars.

The present: the stakeholder turn in strategy

Perhaps unsurprisingly, much of the reconvergence of strategy and stakeholder theory has revolved around instrumental stakeholder theory, with strategy scholars becoming increasingly interested in theoretically unraveling and empirically testing the effects of stakeholder management on firm performance. As a result of this work, however, we can also discern the emergence of entirely new streams of research on stakeholder theory.

Testing the key proposition of instrumental stakeholder theory

In its original manifestation, instrumental stakeholder theory is explicitly concerned with integrating ethical concerns into economic theorizing (Jones, 1995). However, the theory is nowadays mostly associated with its central proposition: that an approach to managing stakeholders that aims for fair relationships that balance stakeholders' interests will positively affect a firm's performance (Donaldson and Preston, 1995; Jones, 1995).[2] Following earlier work by Berman et al. (1999) and Hillman and Keim (2001), strategy scholars have provided empirical evidence for a positive relationship between a stakeholder orientation and various measures of firm performance, such as financial performance (Choi and Wang, 2009; Henisz et al., 2014), survival (Vurro et al., 2021), and innovation (Flammer and Kacperczyk, 2016).

Additional work has also qualified this relationship by identifying contingencies (Brulhart et al., 2019; Garcia-Castro and Francoeur, 2016; Gras and Krause, 2020) and dimensions of firm performance for which the relationship is negative (e.g. distant search in employees' innovation activities, see Gambeta et al., 2019). While such empirical work typically operationalizes a stakeholder orientation as giving equal importance to all stakeholders, researchers have also started investigating the impact of investing more in some stakeholder relationships than in others (Garcia-Castro and Francoeur, 2016; Laplume et al., 2022), which is in line with stakeholder theory's argument that balancing stakeholders' interests does not necessarily imply treating all stakeholders equally (Phillips, 2003; Phillips et al., 2003).

Behavioral stakeholder theory

The label "behavioral stakeholder theory" (Bundy, 2019; Crilly, 2019) refers to a stream of "microfoundations" research that develops individual-level behavioral explanations for the organizational-level propositions of stakeholder theory. One example is research that builds on insights from social psychology and behavioral economics to unravel the behavioral mechanisms underlying the main proposition of instrumental stakeholder theory: that a stakeholder approach will increase firm performance (Jones, 1995).[3] This work offers a nuanced understanding of stakeholders' cooperative behaviors by going beyond the self-interest assumption underlying traditional economic theorizing and considering how fairness (Bridoux and Stoelhorst, 2014; Bridoux and Vishwanathan, 2020; Harrison and Wicks, 2013), reciprocity (Bosse et al., 2009; Bridoux and Stoelhorst, 2016; Harrison et al., 2010), and values (Bundy et al., 2018; Lange et al., 2022) may also motivate cooperation. Acknowledging that depending on the situation (e.g. the firm's treatment of its stakeholders, or the fit between stakeholders' values and the firm's values) different motives may drive stakeholders' behavior, this work offers new explanations for value creation (Bridoux and Stoelhorst, 2016; Tantalo and Priem, 2016), value distribution (Bridoux and Vishwanathan, 2020), and competitive advantage (Harrison et al., 2010; Jones et al., 2018).

By considering the social and moral motives underlying stakeholder behaviors, behavioral stakeholder theory also naturally connects to work that moves away from studying dyadic firm–stakeholder relationships in isolation and that considers the impact of a focal stakeholder's behavior on the relationships between the firm and its *other* stakeholders (Qian et al., 2021) as well as on the relationships *among* stakeholders (Ni et al., 2014; Rowley, 1997). How the firm treats other stakeholders can not only be a signal of trustworthiness (Qian et al., 2021) but can also encourage stakeholders to treat other stakeholders well (Ni et al., 2014). This broader view is important, as other stakeholders are the source of many of the constraints that managers face when they attempt to lead their organizations toward more responsible behavior (Bridoux and Vishwanathan, 2020; Phillips et al., 2010; Werder, 2011).

Stakeholder strategy theory

We use the label "stakeholder strategy theory" to refer to work that adopts a stakeholder perspective to redevelop existing strategy theories. An example is recent work that redevelops resource-based theory (RBT) from a stakeholder view of the firm (Barney, 2018; Stoelhorst, 2021). This work reflects strategy scholars stepping away from the unitary agent view of the firm, which RBT imported from neoclassical economics. This view, in which the firm is treated as if it were a single individual (or an instrument of a single shareholder) made it impossible for the original RBT to address value appropriation (Coff, 1999), which became problematic as strategy scholars turned their attention from explaining competitive advantage to the relationship between value creation and value appropriation. By redeveloping RBT from a stakeholder view of the firm, the recent work adds more precision to both RBT and stakeholder theory itself. In fact, Barney (2018) and McGahan (2021) have argued that neither RBT nor stakeholder theory are complete without the other.

While rethinking RBT from a stakeholder perspective stands out as a prime example of stakeholder strategy theory, strategy scholars have also taken aim at economic theories proper. For instance, a team of *Academy of Management Review* (AMR) editors has emphasized the need to rethink traditional economic theories of the firm on the basis of a stakeholder view (Alvarez et al., 2020). One example of doing so is work that integrates a stakeholder approach with agency theory by proposing that corporations can pursue multiple objectives (Mitchell et al., 2016) and by proposing that firm performance is better served when boards consider CEOs as being driven not only by self-interest, but also by fairness and reciprocity (Bosse and Phillips, 2016).

Stakeholder governance

Closely related to stakeholder strategy theory is a fast-growing stream of research on stakeholder governance (e.g. Bridoux and Stoelhorst, 2022; Klein et al., 2012, 2019; McGahan, 2020). This literature may be seen as stakeholder theory's proof of the pudding because it not only addresses issues that are theoretically fundamental, but that also have tremendous practical import. In the words of another team of AMR editors, "a theory of stakeholder governance could be among the most important theoretical—and deeply practical—contributions to the field of management in the 21st century" (Amis et al., 2020: 501). This literature reflects strategy scholars stepping away from the notion that the purpose of the firm is to maximize profits and shareholder value, which informed much of the earlier theory development in the field.

An important part of this literature applies a property rights perspective to corporate governance (Asher et al., 2005; Klein et al., 2012, 2019; Stoelhorst & Vishwanathan, forthcoming). Adopting a nexus of contracts view of the firm, this literature conceptualizes the firm as a coalition of stakeholders voluntarily engaging in joint value creation. Governance, then, is about the allocation of property rights (control rights and claim rights) so as to maximally support joint value creation. In line with earlier work on strategic human capital (Wang and Barney, 2006; Wang et al., 2009), a central idea is that firm-specific investments are important for value creation and that to encourage such investments corporate governance should protect all stakeholders that make them from hold-up (Hoskisson et al., 2018; Klein et al., 2012), which can be achieved by giving these stakeholders control and/or claim rights (Klein et al., 2012, 2019; McGahan, 2020). Stoelhorst and Vishwanathan (forthcoming) extend this reasoning in a stakeholder theory of corporate governance in which all stakeholders that are vulnerable to opportunistic behavior by other stakeholders are given such rights.

In addition to this corporate governance focused work, there is also work that takes a broader view of stakeholder governance. For example, linking corporate strategy and governance, Bettinazzi and Feldman (2021) conceptualize different types of divestitures as increasingly costly responses to conflicts among stakeholders, thereby adding to the negotiated adaptations of firms' governance described by Klein et al. (2019). Others have noted that stakeholder governance extends beyond the traditional domain of corporate governance (Bridoux and Stoelhorst, 2022;

Gatignon and Capron, 2020). One reason for this is that some "external" stakeholders—that is, those outside of what strategy scholars usually see as the firm's boundaries—may make firm-specific investments that are crucial for value creation (Bridoux and Stoelhorst, 2022). For example, Odziemkowska and Dorobantu (2021) study contracting between firms and local communities. Another reason is that, as Bacq and Aguilera (2022) have pointed out, the beneficiaries of responsible innovation may be parties that contributed little, if anything, to value creation. More generally, there is an emerging literature that explicitly questions the comparative efficiency of different types of organizational forms (e.g. for-profit organizations, social enterprises, cooperatives) in furthering value creation and social welfare (Cabral et al., 2019; Luo and Kaul, 2019).

The future: a new strategy theory?

There has been a great deal of discussion about whether "stakeholder theory" is actually a theory (Parmar et al., 2010). In its current form, it is clearly not a (single) theory in the sense of a connected set of relationships among concepts with agreed-upon mechanisms and clear boundary conditions (Bacharach, 1989). Recognizing this, leading proponents of stakeholder theory have described it as "a genre" (Parmar et al., 2010: 406) that includes work that may be diverse but that nevertheless has "a family resemblance" (Phillips et al., 2019: 3). What holds this genre together is the original objective of stakeholder theory, which is to develop an alternative to the traditional economic narrative of the role of firms in a capitalist system (Freeman et al., 2010; Freeman and Phillips, 2002). Seen in this light, the work of strategy scholars highlighted above adds additional members to an already broad family of stakeholder theories, which is in line with the historical development of stakeholder theory as a genre of theorizing. In contrast, the stakeholder-oriented work in strategy may be seen as a discontinuity in the development of strategy theory. We will focus our discussion of the future on the promise of this discontinuity.

New stakeholder theory as a new theory of strategy

Anita McGahan (2021) recently coined the term NST for the work at the intersection of stakeholder theory and strategy that we highlighted above. In our view, this label signals two things. First, it emphasizes the long-standing concern of strategy scholars with developing theory that strikes a balance between explanatory rigor and managerial relevance. In fact, the economic turn in strategy in the 1980s, which we highlighted as one of the reasons that stakeholder theory and strategy theory initially developed largely in isolation from each other, can in large part be understood as an attempt to increase the rigor of strategy theory. The label NST similarly signals a concern with explanatory rigor: it refers to stakeholder research that favors building causal explanations over normative ethics.

But the label also signals something else, which is the prospect of not just a "new" stakeholder theory, but of a *new strategy theory*. As we saw above, the work at the intersection of stakeholder theory and strategy is stepping away from two assumptions that are (either implicitly or explicitly) at the heart of many of the traditional theories in strategy: that the firm should be run in the interest of shareholders, and that human behavior is accurately described as purely self-interested. Rejecting these assumptions means opening the door to the development of a theory of strategic management that is at the same time more rigorous *and* more relevant than received theory: more rigorous because it is more realistic about human behavior, and more relevant because its increased realism also gives it the potential to inform a more humane and sustainable way of managing firms—one that does not merely see firms and their managers as passively serving the impersonal financial logic of markets, but as positive instruments to shape a better world.

Seen in this way, the promise of the NST project is no less than the development of a new theory of strategic management: one that at least rivals the explanatory rigor of extant strategy theory, but that also explicitly incorporates the social and moral side of human behavior and organization. After all, the work highlighted above recognizes, first, that a firm's resources are supplied and developed within a network of relations with stakeholders, second, that acquiring and leveraging resources is therefore first and foremost a matter of managing social relations, and third, that the (formal and informal) moral norms that govern these social relations play a central role in both a firm's own performance and its (positive or negative) contribution to social welfare.

Building blocks for a new strategy theory

We see three theoretical building blocks in the recent literature that, together, provide a foundation for a new theory of strategy. The first is the recognition that we cannot understand value creation and value appropriation without putting the *interdependence* among stakeholders center stage. Stakeholders simultaneously cooperate to create value and compete to appropriate that value (see Brandenburger and Stuart, 1996). The second building block is the recognition that *human behavior is motivated by both self-interest* and *moral sentiments*. This is especially important because value creation by interdependent stakeholders essentially takes the form of solving collective action problems (Bridoux and Stoelhorst, 2016, 2022; Klein et al., 2019), which involve a tension between actors' individual self-interest and the collective interest. This tension can be overcome when stakeholders do not act as *Homo economicus* because relationships are governed and managed to successfully appeal to their social preferences and moral sentiments (Bridoux and Stoelhorst, 2016). The third building block is to view *the firm as a nexus of formal and informal contracts*. It may seem counterintuitive to adopt a view of the firm that many strategy scholars will associate with agency theory and shareholder primacy (Jensen and Meckling, 1976), but the nexus of contracts view has long been a building block of stakeholder theory (Jones, 1995) and simply invites us to consider the system of relationships among free individuals forming collectives to jointly create value (see Freeman and Phillips, 2002).

In combination, these three building blocks hold the promise of a theory of strategic management in terms of designing, managing, and governing organizations in ways that trigger stakeholders' moral sentiments and that, in doing so, allow them to sustain cooperation in the face of the collective action problems that are inherent in joint value creation (see Bridoux and Stoelhorst, 2022). As the recent literature on stakeholder governance emphasizes, this can be done by creating, maintaining, and adapting formal contracts (allocations of property rights) and informal contracts (norms) that stakeholders perceive as fair.

Future work toward a new strategy theory

While the building blocks for a new type of strategy theory may be emerging, much theoretically exciting and practically urgent work remains to be done, both in further developing the theory itself and in empirically testing it. We offer some suggestions with respect to (instrumental) stakeholder theory's main dependent variable (organizational performance), its main independent variable (stakeholder orientation), its behavioral assumptions, and its relationship to managerial practice.

One area for future research concerns the dependent variable of the theory. To go beyond the (often implicit) financial market logic of much theorizing in strategy, strategy and organization scholars will not only have to consider economic value created for non-shareholder stakeholders (for an example, see Lieberman et al., 2017), but will also need to conceptualize *non-economic* value creation (Harrison and Wicks, 2013). Stakeholder theorists have already taken stabs at this problem, proposing to focus on happiness (Jones and Felps, 2013) or wellbeing (Harrison and Wicks, 2013). Others have argued against reducing non-economic value to any single objective because stakeholders hold multiple basic and nonreducible needs and values (Mitchell et al., 2016). On this latter view, organizations should not be organized around one but multiple objectives. This work on broader conceptualizations of, and measurement instruments for, organizational performance links in with discussions about the purpose of the firm. This need not reduce the theorizing to normative ethics: "purpose" can also be studied as the outcome of interactions among stakeholders that can trigger different aspects of human (moral) psychology. One question that could be investigated is in which contexts stakeholders (including a firm's managers) are more likely to support the adoption of objectives that are not in their immediate self-interest.

A second area of research concerns the theory's independent variable. There is both a need for further work on conceptualizing what, exactly, a "stakeholder orientation" is, and on establishing convincing measures for it. For example, to measure stakeholder orientation empirical research tends to rely on corporate social responsibility (CSR) ratings, which are easily accessible to researchers but have been criticized for their low validity (Chatterji et al., 2016). Moreover, the use of these ratings goes against the argument that CSR and stakeholder management are quite different things (Phillips et al., 2003). Moreover, they reflect the assessment of outside parties based on information provided by the firm as opposed to stakeholders' own perceptions, which drive stakeholders' responses. It would therefore be useful to develop new measures for a firm's stakeholder orientation (see Brulhart et al., 2019).

A third area concerns the behavioral assumptions underlying future theorizing. Developing a behaviorally well-founded theory requires agreement on a specific set of motivational *and* cognitive assumptions (Foss and Hallberg, 2014), which should capture the essence of human psychology in collective action situations. Behavioral stakeholder theory has already suggested a list of motivational assumptions, but there is a need to also consider cognition and the interplay between cognition and motivation in shaping stakeholder interactions. For example, Crilly and Sloan (2012) show that how top managers conceptualize their firm's relationships with society affects the number of stakeholders they pay attention to. Similarly, how stakeholders cognize about their relationship with a firm is likely to affect the degree to which they will display self-interested or cooperative behavior (Bridoux and Stoelhorst, 2016).

Finally, while the three previous areas of research are mainly concerned with developing more rigorous theory, the ultimate goal of strategy theories is to inform managerial practice. The practical relevance of a new strategy theory along the lines suggested above would be to inform work on how specific organizational design decisions, managerial practices, and governance structures can help stakeholders achieve more cooperation in the face of the collective action problems inherent in joint value creation. It is this work, in particular, that one would expect in the field of strategic *management* and strategic *organization*. Work along these lines is all the more important in light of the many new organizational forms that continue to emerge in response to technological innovation (e.g. virtual organizations) and legal innovation (e.g. benefit corporations), which often raise entirely new questions about the nature of stakeholder relations.

Conclusion

In conclusion, we fully expect the stakeholder turn in strategy to be a lasting phenomenon. Strategic management research will likely always have a primary focus on organizational performance, but the recent work at the intersection of stakeholder theory and strategy is preparing the way for rigorous strategy research that is no longer exclusively concerned with financial market performance. This should help future generations of strategy and organization scholars in the important work of developing theories that can inform managerial practices that will make firms better able to serve humanity, as opposed to the other way around.

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Notes

1. In the wake of these societal changes and calls on management scholars to pay attention to the social responsibility of business (Margolis and Walsh, 2003), in addition to stakeholder theory a number of other related, but theoretically distinct, streams of research have also gained a more solid footing in the field of strategy and organization, including work on corporate social responsibility, on firms' nonmarket strategies, and on social movements. As these streams of research are not primarily aimed at further developing stakeholder theory, they are outside the scope of our essay.
2. Note that this is different from the notion of instrumental corporate social responsibility (CSR), which denotes firms being motivated to engage in CSR only because they expect it to pay off financially. Instrumental stakeholder theory is not about motives but outcomes. Its purpose is *not* to make an instrumental case for stakeholder management, but to predict the outcome of different ways of managing stakeholder relations, with an emphasis on the comparative efficiency of developing fair relationships.
3. Another example is work in the tradition of Mitchell et al. (1997) which offers explanations for when and why managers do, or do not, pay attention to particular stakeholders' interests (e.g. Crilly and Sloan, 2012, 2014).

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