

Towards a Property Rights Foundation for a Stakeholder Theory of the Firm

Joseph Mahoney
UIUC College of Business

Cheryl Carleton Asher
Villanova University

James Mahoney
Federal Reserve Bank of New York

Abstract

This paper suggests that due to the changing nature of the firm in today's business world, viewing shareholders as the sole residual claimants is an increasingly tenuous description of the actual relationships among a firm's various stakeholders. Thus, a shareholder wealth perspective is increasingly unsatisfactory for the purpose of accurately answering the two fundamental questions concerning the theory of the firm: that of economic value creation, and the distribution of that economic value. The thesis of the current paper is that examining the firm from a property rights perspective of incomplete contracting and implicit contracting provides a solid economic foundation for the revitalization of a stakeholder theory of the firm in strategic management and in expanding the resource-based theory of the firm. In order to make progress in strategic management, a clearer conceptual and empirical understanding of implicit contracting is required. The perspective outlined in this paper provides for a more accurate direction towards both measuring economic value creation, and analyzing the distribution of that value. It is also submitted that such a perspective has important implications for corporate governance, particularly when managers must balance conflicts among stakeholders to achieve the goal of maximizing economic value.

This research paper was part of the 2004 Academy of Management Business Policy Strategy (BPS) Division Symposium in New Orleans, LA titled: "The Role of Individual Stars, and Stakeholders in Creating and Appropriating Rents," which was co-organized by Teppo Felin (Emory University) and Jamal Shamsie (Michigan State University). We thank Ruth Aguilera, Russ Coff, Andrea DeMaskey, Jonathan Doh, Anna Grandori, Henry Hansmann, David Ikenberry, Charlie Kahn, Matt Kraatz, Steve Michael, Nicolai Foss, Jack Pearce, and Dave Ziebart for their comments and suggestions. The usual disclaimer applies. The views expressed in this paper are those of the authors and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

Published: 2004

URL: http://www.business.uiuc.edu/Working_Papers/papers/04-0116.pdf

Towards a Property Rights Foundation for a Stakeholder Theory of the Firm¹

Cheryl Carleton Asher

Assistant Professor
Department of Economics
College of Commerce and Finance
Villanova University
1007 Bartley Hall
800 Lancaster Avenue
Villanova, PA 19085-1678
Phone: (610) 519-4159
Email: Cheryl.asher@villanova.edu

James M. Mahoney²

Federal Reserve Bank of New York
33 Maiden Lane
New York, NY 10045
Phone: (212) 720-8910
Email: jim.mahoney@ny.frb.org

Joseph T. Mahoney

Professor of Strategy
Department of Business Administration
College of Business
University of Illinois at Urbana-Champaign
339 Wohlers Hall
1206 South Sixth Street
Champaign, IL 61820
Phone: (217) 244-8257
Email: josephm@uiuc.edu

¹ This research paper was part of the 2004 Academy of Management Business Policy & Strategy (BPS) Division Symposium in New Orleans, LA titled: “The Role of Individual Stars, and Stakeholders in Creating and Appropriating Rents,” which was co-organized by Teppo Felin (Emory University) and Jamal Shamsie (Michigan State University). We thank Ruth Aguilera, Russ Coff, Andrea DeMaskey, Jonathan Doh, Anna Grandori, Henry Hansmann, David Ikenberry, Charlie Kahn, Matt Kraatz, Steve Michael, Nicolai Foss, Jack Pearce, and Dave Ziebart for their comments and suggestions. The usual disclaimer applies.

² The views expressed in this paper are those of the authors and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

Towards a Property Rights Foundation for a Stakeholder Theory of the Firm

Abstract

This paper suggests that due to the changing nature of the firm in today's business world, viewing shareholders as the sole residual claimants is an increasingly tenuous description of the actual relationships among a firm's various stakeholders. Thus, a shareholder wealth perspective is increasingly unsatisfactory for the purpose of accurately answering the two fundamental questions concerning the theory of the firm: that of economic value creation, and the distribution of that economic value. The thesis of the current paper is that examining the firm from a property rights perspective of incomplete contracting and implicit contracting provides a solid economic foundation for the revitalization of a stakeholder theory of the firm in strategic management and in expanding the resource-based theory of the firm. In order to make progress in strategic management, a clearer conceptual and empirical understanding of implicit contracting is required. The perspective outlined in this paper provides for a more accurate direction towards both measuring economic value creation, and analyzing the distribution of that value. It is also submitted that such a perspective has important implications for corporate governance, particularly when managers must balance conflicts among stakeholders to achieve the goal of maximizing economic value.

Towards a Property Rights Foundation for a Stakeholder Theory of the Firm

The two fundamental questions in the history of economic thought concern the theory of economic value and the theory of the distribution of this value (Schumpeter, 1954). These two persistently challenging questions are also -- or, arguably should be -- the two fundamental questions concerning the so-called “theory of the firm” as developed within industrial organization economics since the 1930s (e.g., Coase, 1937), within corporate finance since the 1950s, and more recently within the discipline of strategic management. For the purpose of the current paper, we largely focus on prospects for developing within the discipline of strategic management a new theoretical approach to address these two fundamental questions, one which is based primarily on a *property rights foundation for a stakeholder theory of the firm*.³

The strategic management discipline has made some conceptual and empirical progress in the past two decades on addressing the first of these two fundamental questions of economic value creation, although it has been primarily from a shareholder

³ Seminal works in classical property rights literature include Alchian and Demsetz (1972), Coase (1960), and Demsetz (1967). The modern property rights approach, discussed in Hart (1995) builds on Grossman and Hart (1986) and Hart and Moore (1990). Whereas the modern property rights research literature equates ownership with residual control rights, classical property rights theory defines ownership as residual rights to income (residual claimancy). On the one hand, the appropriate allocation of residual control rights suggests mitigating ex post contractual problems, while on the other hand effectively aligning residual claims leads to mitigating ex ante contractual problems. *Both* residual claimancy and residual control (ex ante and ex post contractual) issues are at the heart of a definition of ownership. The strategic management research literature has begun to both utilize and develop both the classical and modern property rights theory in recent years (e.g., Argyres and Liebeskind, 1998; Chi, 1994; Foss and Foss, 1999; Kim and Mahoney, 2005; Liebeskind, 1996; Miller and Shamsie, 1996; Oxley, 1999). However, the implications of property rights theory for stakeholder analysis are still at a nascent stage of development (Aguilera and Cuervo-Cazurra, 2004; Aguilera and Jackson, 2003; Donaldson and Preston, 1995; Grandori, 2004; Thompson and Driver, 2002; Zingales, 2000).

wealth perspective, rather than from a broader stakeholder perspective, which we espouse in this paper. The second of these two fundamental questions of how the economic surplus generated by the firm is, or should be, allocated among the various *stakeholders*⁴ has been given little research attention. The thesis of the current paper is that in order to answer more accurately these two fundamental questions concerning economic value creation and the distribution of this economic value, a property rights theory of the firm from a stakeholder perspective must first be developed.

Development of a property rights theory of the firm should prove fruitful in moving forward the strategic management field's primary theory --- i.e., resource-based theory (e.g., Penrose, 1959; Peteraf, 1993; Rumelt, 1984; Wernerfelt, 1984) --- beyond a shareholder wealth perspective. This shareholder wealth perspective focuses on whether

⁴ There are numerous definitions of stakeholders in the governance research literature, based in part on the economic salience of these stakeholders (Aoki, 1984, 2001; Carroll, 1989; Charreaux and Desbrieres, 2001; Clarke, 1998; Friedman and Miles, 2002; Frooman, 1999; Gioia, 1999; Hill and Jones, 1992; Hosseni and Brenner, 1992; Jawahar and McLaughlin, 2001; Jones and Wicks, 1999; Kaler, 2003; Kassinis and Vafeas, 2002; Logsdon and Yuthas, 1997; Lowendahl and Revang, 1998; Mahon, 2002; McLaren, 2004; Mitchell, Agle and Wood, 1997; Orts and Strudler, 2002; Phillips, Freeman and Wicks, 2003; Preston, 1990; Rowley, 1997; Ryan and Schneider, 2003; Scholes and Clutterback, 1998; Scott and Lane, 2000; Shankman, 1999; Trevino and Weaver, 1999; Wheeler and Sillanpea, 1998; Windsor, 2002; Winn and Keller, 2001). For the purposes of the current paper we define stakeholders broadly as those persons and groups who either voluntarily or involuntarily become exposed to risk from the activities of a firm (Clarkson, 1995). Thus, stakeholders include shareholders (preferred and common), holders of options issued by the firm, debt holders (Parrino and Weisbach, 1999), (banks, secured debt holders, unsecured debt holders), employees (especially those investing firm-specific human capital) (Blair, 1995, 1996; Blair and Stout, 1999; Child and Rodrigues, 2004), local communities (e.g., charities) (Morris, Rehbein, Hosseini and Armacost, 1990), environment as "latent" stakeholders (e.g., pollution) (Barth and McNichols, 1994; Buysse and Verbeke, 2003; Driscoll and Starik, 2004; Hennques and Sadorsky, 1999; Phillips and Reichart, 2000), the government (as tax collector) (Brouthers and Bamossy, 1997; Buchholz and Rosenthal, 2004), customers and suppliers (Freeman, 1984; Freeman and Evan, 1990; Freeman and Liedtka, 1997; Freeman and Reed, 1983). These stakeholders often gain substantially when the firm does well and suffer economic losses when the firm does poorly. Bowman and Useem state that: "To exclude labor and other stakeholders from the governance picture ... is theoretically tidy and empirically foolhardy" (1995: 34).

resources are valuable, rare, inimitable and non-substitutable (the so-called VRIN criteria) (Barney, 1991) for achieving sustainable competitive advantage (typically from a shareholder wealth perspective).⁵ However, a stakeholder perspective indicates that it is no longer tenable to regard the shareholders as the only residual claimants, who are defined as persons or collectives whose relationship to the firm gives rise to a significant residual interest in the firm's success or failure. This fundamental change in perspective is considered promising because a careful study of the property rights literature informs not only the determination of economic value creation, but also enables analysis of distributional conflicts (Coff, 1999; Kim and Mahoney, 2002; Libecap, 1989). In order to provide an economic theoretical foundation for stakeholder theory, we consider next property rights theory.

⁵ Indeed, the VRIN criteria of valuable, rare, inimitable and non-substitutable of Barney (1991) bear a strong resemblance to the Hart and Moore (1990) emphasis on economic value, asset specificity and non-substitutability. The commonality of the property rights theory and the resource-based theory is that both theories rely on market frictions. An important difference is that the property rights theory is seeking a set of market frictions to explain the efficient boundary of the firm, while resource-based theory is seeking a set of market frictions to explain the firm achieving economic rents. We conjecture here that the set of market frictions to explain economic rents in resource-based theory will be a sufficient set of market frictions to explain the boundary of the firm (ownership) in property rights theory (see Mahoney, 2001). We thank Anna Grandori for encouraging us to make these theoretical connections explicit in the current paper.

What are Property Rights?

The fact that multiple definitions have been attached to the single term ‘property rights’ has been a source of confusion in the property rights literature. Legal scholars, for example, generally consider a narrow definition of property rights in terms of legal recourse available to owners of property (either tangible or intangible) in the case of inappropriate actions by non-owners. More generally, property rights refer to *any* sanctioned behavioral relations among decision makers in the use of potentially valuable resources; such sanctioned behaviors allow people the right to use resources within the class of non-prohibited uses. This more inclusive definition of property rights is conceptually broad and emphasizes both the legal aspect of property rights *and* the social conventions that govern (business) behavior, such as corporate culture and reputation (North, 1990). Property rights include any social institutions that define or delimit the range of privileges regarding specific resources granted to individuals. Private ownership of these resources may involve a variety of property rights including the right to exclude non-owners from access, the right to appropriate the stream of economic rents from use of and investments in the resource, and the right to sell or otherwise transfer the resources to others (Libecap, 1989). Conceptualizing property rights to have multiple dimensions has the important economic implication of many different people being able to hold *partitions* of rights to particular facets of a single resource.

According to Coase (1960), it is useful to think of resources as *the bundle of rights* rather than physical entities. Thus, from the property rights perspective, resources that a firm “owns” are not the physical resources but rather are the property rights. In the property rights approach the corporation is viewed as a “method of property tenure”

(Berle and Means, 1932: 1). Utilizing such a property rights perspective of the firm, one can systematically examine each stakeholder in this “method of property tenure.” For example, managers may have golden parachutes, stock options, and decision rights over organizational resources. Workers may have property rights concerning such factors as notification of layoffs, severance payments, or pension benefits. Such bundles of property rights are the source of potential economic value creation because relation-specific assets generate quasi-rents, or positive externalities due to complementary assets and co-specialization (Mahoney, 1992; Teece, 1986). Specifically, property rights are the conduits upon which economic value of resources can be channeled to high yield uses. Thus, property rights theory complements resource-based and dynamic capabilities research (Mahoney and Pandian, 1992; Teece, Pisano and Shuen, 1997).⁶

⁶ Currently, resource-based theory is lacking in at least two respects that can be remedied by property rights theory: (1) resource-based theory assumes away certain appropriability problems due to both positive externalities such as complementary and co-specialized resources (Helfat, 1997; Teece, 1986), and negative externalities, such as, the lack of oil field unitization for migratory oil (Kim and Mahoney, 2002; Libecap, 1989), and hence, cases where property rights resources are not secure often fall outside of its analytical framework; and (2) the presence of a feedback loop with distribution issues impacting productive utilization of resources falls outside current resource-based theory. Extant property rights theory enables us to relax the implicit resource-based view assumption that property rights to resources are secure, and thus take into account processes where there are struggles in establishing property rights that enhance the realized economic value of resources.

Why is a New (Property Rights) Theory of the Firm Needed?

Since this property rights view has been expressed in the research literature for several decades, an explanation is required as to why a renewed interest in the property rights research literature in the field of strategic management is warranted. This paper examines three reasons why a new property rights theory of the firms is now needed. First, changes in the (reconstructed) conceptualization of the firm is needed because the nature of the firm (in the world of management practice) is changing, especially in a business environment with increasing importance placed on intellectual property rights and knowledge-based resources and capabilities (Itami and Roehl, 1987; Madsen, Mosakowski and Zaheer, 2003; March 1991; McEvily and Chakravarthy, 2002; Nelson and Winter, 1982). With the increasing relevance of intangible assets and knowledge-based capabilities, dealing effectively with potential contractual (property rights) problems due to asymmetric information and distribution conflicts becomes increasingly important.

Intangible capital, especially capital embedded in a firm's social and human capital, generally requires different organizational structures from those used for tangible capital to address the exercise of property rights by the firm. In an economy with a well developed legal system, it is unlikely that a firm will have problems exercising its property rights over its tangible property, its physical plants, and its equipment. Most legal systems are quite effective at addressing physical property disputes. The firm generally does not have the ability to retain the legal ownership of its intangible resources embodied in its employees – resources such as technical expertise, marketing know-how, or industry knowledge. Therefore, if an employee decides to leave a firm to join a

competitor or to start up a new competing firm, the firm must develop alternatives to the legal system – or nuanced structures within the existing legal framework – when dealing with disputes involving these intangible resources,

A second reason for proposing a new property rights theory of the firm is that changes in the nature of the firm motivate a new conceptualization of the firm from which economic value creation emerges. For example, many (but by no means all) large conglomerate firms --- the evolution of which in the 1920-1960 time period was extensively documented by Chandler (1962) --- have been broken up, and some of the strategic business units have been spun off as stand-alone firms (Woo, Willard, and Daellenbach, 1992). Vertically integrated enterprises --- the evolution of which in the 1840-1920 time period was extensively documented by Chandler (1977) --- have often moved toward vertical de-integration, and toward more decentralized forms for the purpose of achieving both more efficient tactical coordination and more effective strategic collaboration (Leiblein and Miller, 2003). Such changes in the structures of corporations give rise for the need to reevaluate the tools and overall framework used to analyze these organizations.

Perhaps most importantly, business enterprises that historically could be usefully understood in large measure as leveraging physical assets to achieve both economies of scale and economies of scope (Chandler, 1990) are now becoming increasingly dominated by firm-specific human and organizational capital. For example, the 1990s wave of initial public offerings of purely human capital firms, and technology firms whose main resources are key employees, is challenging our understanding of the nature of the firm, where economically valuable human resources (Lado and Wilson, 1994) are

often operating with commodity-like physical assets. Therefore, both human and organizational capital are now emerging as the most crucial organizational assets (Williamson, 1996), and such fundamental economic changes arguably call for changes in governance in terms of the constraints on management, compensation and/or board representation (Hillman, Keim and Luce, 2001; Huse and Rindova, 2001; Luoma and Goodstein, 1997).⁷ Along these lines, currently one of the more tangled thickets in corporate law concerns the proper interpretation of corporate constituency statutes at the state level, and the question of to whom, exactly, do the directors of the firm owe their fiduciary duty. Typically, these statutes require directors to consider the “best interests of the corporation” as a whole (Blair, 1995).

Indeed, consideration of distributional conflicts among stakeholders and the evolution of property rights are essential for a more complete strategic management (resource-based) theory of realized and not just potential economic value creation (Kim and Mahoney, 2002). As resource-based theory is extended to studying economic value creation in transitional economies and intellectual property (Takeyama, 1997), property rights theory will take on even greater managerial significance. Indeed, in the property

⁷ If the defining dimension of the firm is that it substitutes authority for the price mechanism in determining how decisions are made (Coase, 1937; Williamson, 1985), what are the decision control rights of shareholders in a firm that consists of economically valuable human resources operating with commodity-like physical assets? In such a firm, should workers also be allocated decision control rights? Such governance issues can already be witnessed in medical practices, investment banks (especially “boutique” banks), law firms, and advertising firms (Zingales, 2000). Blair states that: “A knowledge company’s primary resource and principal competitive advantage is the knowledge that its employees possess, which may or may not be captured in some form of intellectual property such as patented drugs, copyrighted books, or proprietary software. Where the critical resources are embodied in the employees and corporate boundaries are shifting rapidly, the traditional notion of remote and uninvolved shareholders as owners of corporations is an inherently unsuitable basis for thinking about how these institutions should be governed” (1995: 292).

rights perspective, where there are positive transaction costs, an important source of economic value creation stems from reduction of the dissipation of economic value in the exchange process (Barzel, 1997; Libecap, 1989).⁸

As a result of these fundamental economic changes, the boundaries of the firm are in constant flux and governance structure decisions can typically be anticipated to change the boundaries of the firm, and (perhaps less apparent) can consequently influence the outcomes for economic value creation and distribution among stakeholders. Indeed, to more fully understand and explain “what is going on here?” --- to use Williamson’s (1996) fundamental governance question --- requires that the strategic management discipline become informed beyond its current (implicit) intellectual focus (e.g., by becoming more informed about rudimentary aspects of corporate law, and by analyzing more deeply the competitive structure of both strategic factor input markets and output markets).

A third reason for a new property rights theory of the firm is the need to address more accurately the fundamental question of economic valuation in a business world where the economic maximization of a single residual claimant is becoming increasingly tenuous. The connections between the property rights theory of the firm and the

⁸ There is also another important sense in which resource-based theory and property rights theory are complementary: the more economically valuable the resources the more economic incentives there are to make property rights of such resources more precise, and the more precisely delineated the property rights of these resources, the more economically valuable resources become (Libecap, 1989; Mahoney, 1992). The process of making property rights of resources more precise can be another way of looking at the economic value creation process. Systems of property rights are, in essence, conduits upon which value-creating activities are implemented so that resources can be channeled to these higher-yield uses (Kim and Mahoney, 2002). We hasten to add that asymmetric information and distributional conflicts may limit resources from being channeled to these higher yield uses. Consideration of distributional conflicts and the (imperfect) evolution of property rights are essential for a more complete resource-based theory of (realized) economic value creation.

economic value creation of the firm have not been made apparent even in contemporary state-of-the-art strategy research literature. Such fundamental connections are important to make clear.

When the stakeholder perspective of the firm is considered, and the entire economic value created by the firm is of importance, one needs to consider the discounted sum of the economic payoffs generated by the firm minus the economic opportunity costs of the input resources used. However, a coherent theory of the economic value creation of the firm presupposes a definition of what a firm is, as well as an understanding of the prices paid in strategic factor markets for input resources, usually the opportunity costs of alternative uses of these resources.

It is not only shareholders and management who extract economic value from the firm beyond their opportunity costs. Unionized workers, for example, may receive economic compensation above their next-best alternative. The stakeholder perspective then requires that the *entire* economic value of the firm include the economic rent appropriation by union workers. More generally, in the case of collective action or small-numbers bargaining situations, the balance of bargaining power to extract economic value may reside in the hands of suppliers, customers, labor or other stakeholders, whose benefits beyond their opportunity costs should be taken into account in order to capture the firm's entire economic value-added. While, of course, such an approach is economically very sensible, this stakeholder perspective is clearly at odds with the traditional shareholder wealth approach used in most finance textbooks, which identifies the economic value of the firm as the value of all market claims outstanding.

Whether this financial shareholder wealth approach or the (older-style) strategic management stakeholder approach is justified depends on what theory of the firm we hold. Thus, the theory of the firm has important consequences for the theory of economic valuation, which is one of the two fundamental questions of the strategic management discipline, and is of enormous relevance to managerial practice. The theory of the firm has fundamental implications for understanding (and arguably in the long-run influencing) economic value creation and distribution. Towards this objective, we next consider more closely the modern property rights research literature.

Two Property Rights Perspectives

Here we consider two prominent theories of the firm from a property rights perspective. First, the theory of the firm as a nexus of explicit contracts (and complete contracting) is analyzed. Second, the theory of the firm as a nexus of explicit and implicit contacts (and incomplete contracting) is further developed.

The Firm as a Nexus of Explicit Contracts. Clearly, the currently dominant (agency) theory of the firm in strategic management --- and a conceptualization of the firm prevailing in corporate finance --- can be traced to the seminal articles of Alchian and Demsetz (1972) and Jensen and Meckling (1976). This conceptualization defines the firm as a nexus of contracts. Sometimes this definition includes only explicit contracts and is typically studied from a (ex ante) complete contracting perspective (while allowing for asymmetric information and divergent goals between principal and agent). From this perspective, the only residual claimants are the shareholders and therefore shareholders warrant the control rights to make decisions. Thus, the economic basis for shareholders' supremacy is established.

Zingales (2000) comments, however, that to accept this conceptualization of the firm at face value, one has to take a strictly legalistic view of contracts. Although from a legal perspective, shareholders are the only residual claimants, in fact, a firm's decisions influence the economic payoffs of many other members of the nexus, sometimes even to a greater extent than that of the shareholders. The claim that shareholders are the firm's only residual claimants fails to fit the economic facts in almost all real-world business circumstances (Pitelis, 2004). First, employees are important residual claimants especially when firm-specific human capital is involved. Second, creditors can be

important residual claimants. Third, complex network relationships among industrial suppliers and customers produce interdependencies and lead to important residual gains and losses.

The academic economic counterpart to such a legalistic view of the firm of shareholder supremacy is the conceptualization of the firm as a nexus of explicit contracts in a world of complete contracting. In such an agency model --- especially in its more formal mathematical form --- there are no residual rights of control, by definition, since the nexus of explicit contracts are posited to specify in advance all the future economic payoff-relevant contingencies.⁹

Indeed, this mathematical formulation of the principal-agent model (e.g., Holmstrom, 1982) is a rather modest modification of “contingent claims contracting,” where agency theorists have modified the theory to take into account asymmetric information. Such complete contracting solutions posited by agency theory are hardly satisfactory, however, in the world of business experience where contracts are usually

⁹ The complete contracting approach is not necessary to defend the shareholder value maximization criterion for the firm. For example, one line of argument in favor of shareholder value maximization in a world of incomplete contracting is that shareholders have less contractual safeguards than other stakeholders (Williamson, 1985). Moreover, Hansmann (1996) maintains that one advantage of involving only shareholders in corporate governance is that both corporate decision-making costs and managerial discretion will be reduced (Grandori, 2004; Jensen, 2001; Oswald, 1998; Sternberg, 1996, 2000). We thank David Ikenberry for bringing this latter point to our attention. In this paper, we accept the critique that there are potential problems in moving to a stakeholder perspective, including potential increased discretion on the part of management and potential increased costs of corporate decision making. We maintain, however, that there are potential benefits of moving towards the stakeholder view, which we highlight in the text. To balance these potential costs and benefits may require case-specific analysis: There may not be a single ‘best’ governance structure. Therefore, we are not arguing that we should abandon the shareholder as an important claimant, but rather we are arguing that we should at least allow the consideration of other claimants. In fact, there may be many cases (e.g., under the complete contracting assumption) where the results from a shareholder-only perspective will indeed coincide with the results from a stakeholder perspective. However, there will likely be many other cases where the results from the two perspectives will not coincide.

incomplete. Real-world business contracting is typically incomplete if for no other reason than bounded rationality (Simon, 1978; Williamson, 1985). Such incomplete contracting occurs because making (ex ante) complete contingent claims contracting is too costly, if not outright impossible, to achieve.

The agency perspective (Holmstrom, 1982; Jensen and Meckling, 1976) posits that explicit complete contracting has to a superlative degree contractually protected (ex ante) all stakeholders, other than the shareholders, against any negative consequences resulting from the choices of managers representing the equity holders. Indeed, any potential negative economic consequences have already been anticipated and factored in by all other stakeholders within the explicit contract. Therefore, the shareholders, as the only residual claimants, should be allocated decision rights.

Thus, the proper goal from the agency theory perspective --- indeed, the only legitimate objective from an economic efficiency perspective within such a model --- is for the firm to maximize shareholder wealth. Consequently, the fiduciary duty of the managers acting as an agent for the principals (i.e., the shareholders) is to maximize the stock price of the firm. The economic logic under the nexus of explicit contracting perspective is since (by definition under this perspective) the shareholders are the only ones who bear risks from discretionary decisions made, the firm should be governed to maximize shareholders' value by maximizing net present value (NPV) via, for example, the discounted cash flow approach.

With this explicit contracting framework as a foundation, the stock price has become the complete arbiter of social value and has been used exclusively as the way to evaluate the social consequences of decisions made by the firm, such as corporate

investments, mergers & acquisitions, and other corporate events. Hence, a proliferation of event studies that use share price movement as the sole criterion in the evaluation of strategic corporate actions is evident not only in industrial organization economics and corporate finance, but also in the discipline of strategic management.

The Firm as a Nexus of Explicit and Implicit Contracts. Such a retrenchment from the stakeholder perspective, in our view, is a primary reason why the current state of theoretical development of the theory of the firm, the theory of economic valuation in its entirety, and the theory of the distribution of that economic valuation is poor. What to do? In answering this question we begin by noting that in recent years there has been developing within industrial organization economics and corporate finance a new conceptualization of the property rights theory of the firm, which considers both explicit and *implicit* contracting (Zingales, 2000). This seemingly minor change in premises has profound consequences for how we are to understand the theory of the firm, the economic valuation of the firm in its entirety, and the distribution of this economic value.

For example, when considering both explicit and implicit contracts when assessing the economic value generated by the firm, one needs to assess the economic surplus captured by all stakeholders.¹⁰ A more economically cogent stakeholder approach to economic valuation, thus, would be to discount the entire economic value

¹⁰ For example, Blair (1995) reports that accounting profits may represent less than 60 percent of the total economic rents and quasi-rents generated by corporate activities in the United States in 1993. The remainder of the economic rents went to employees as returns for specialized human capital. Blair (1995) goes on to argue that rarely do we consider this specialized human capital as one part of what the corporation as a whole should be trying to maximize. In fact, finance texts typically assume that the NPVs for all stakeholders (other than the shareholders) are zero in competitive strategic factor input markets. Thus, by definition, maximizing NPV refers to maximizing the NPV exclusively in terms of shareholder value.

generated by the firm. To move from this stakeholder economic valuation to stockholder wealth evaluation, however, requires a theory of economic value distribution of how the economic surplus is divided among different stakeholders, be they financial claim-holders (e.g., holders of equity, debt or options issued by the firm) or non-financial ones (e.g., employees, key customers, and suppliers).

In short, the modern property rights theory of the firm (initiated by Grossman and Hart, 1986; Hart and Moore, 1990) will in the long-run, we believe, lead --- to a consequence quite unintended by these property rights authors --- towards a revitalization of a stakeholder theory of the firm.¹¹ Prospects for developing a solid economic foundation for a new stakeholder theory of the firm are quite promising in the next generation of strategic management research both because of its sufficient intellectual rigor and its obviously superior relevance in dealing with real managerial problems.

¹¹ Interestingly, some have reinterpreted the modern property rights theory of the firm of Grossman and Hart (1986) and Hart and Moore (1990) --- the GHM model --- to support the shareholders' wealth maximization approach (Shleifer and Vishny, 1997). However, such an interpretation misses the key point of the modern property rights approach that it might be efficient to allocate formal control rights to the stakeholder who has a lot of de facto power, as is the case for key workers who can easily leave (Blair, 1995; Zingales, 2000). These alternative views support Donaldson and Preston's astute commentary that: "The theory of property rights, which is commonly supposed to support the shareholder theory of the firm, in its modern and pluralistic form supports the stakeholder theory of the firm instead" (1995: 88). Boatright (2002) draws a similar conclusion and provides the provocative commentary that: "The present system of corporate governance appears to sanction, indeed mandate, that managers externalize [externality] costs wherever possible" (2001: 1849). Holmstrom (1999) provides a model with distinctive features from that of the GHM model. In this model, the firm is viewed as a sub-economy in which the top management team has the decision rights to regulate trade by assigning tasks, delegating authority, and delineating principles for how explicit and implicit contracts are to be structured. Kim and Mahoney (2005) list over 40 published papers that extend and/or critique the GHM model, with Holmstrom (1999) being a prominent example. It should be noted that modern property rights theory supports a narrow, rather than a broad, definition of stakeholders emphasizing those who make critical firm-specific capital investments (Blair, 1995; Hart, 1995). We thank Anna Grandori for bringing this important theoretical point to our attention.

In recent years, the firm has become understood as a nexus of both explicit and *implicit* contracts, which are understood from an *incomplete contracting* perspective (Aghion and Bolton, 1992; Baker, Gibbons and Murphy, 2001, 2002; Hart and Moore, 1990). Thus, the firm is no longer simply the sum of its components readily available on the market but is rather a unique combination of potentially complementary and co-specialized assets that can possibly be worth more (or less) than the sum of its parts.

For example, consider a firm with the reputation for upholding the “implicit contract” of not expropriating “quasi-rents” that have been generated by employees investing in firm-specific human assets (Klein, Crawford and Alchian, 1978; Williamson, 1985). Or put differently, the firm has a credible policy of rewarding employees fairly on the basis of their economic contribution to the firm, regardless of how much lower the economic value of these specialized human skills would be compensated in the marketplace as the employees’ next best option outside the firm. Relying on such a non-tradeable reputation (Dierickx and Cool, 1989), the employees can be anticipated to be willing to make firm-specific human capital investments that are greater than they would have been willing to make in the marketplace, where complete explicit contracting is not feasible. If such firm-specific human capital investments are indeed economically valuable, and could not have been elicited by explicit contracting, then the firm’s non-tradeable reputation adds economic value and represents an organizational asset. Similarly, a subcontractor exploring for oil will buy site-specific new equipment only if there is a warranted belief that the contracting oil firm will not try to squeeze the

subcontractor's economic rents once the subcontractor has made a sunk cost relationship-specific investment (Shleifer and Summers, 1988).¹²

More generally, from this incomplete contracting theoretical perspective, other contracting parties besides the stockholders are not fully protected by explicit contracting, thereby undermining the foundational premise of shareholders' supremacy. Unlike in the mathematical principal agent model, in the real-business world of incomplete contracting sometimes stakeholders will have their economic wealth unexpectedly expropriated (Shleifer and Summers, 1988). From this modern property rights perspective, Zingales inquires: "If many members of the nexus [of contracts] are residual claimants, why are shareholders necessarily the ones affected the most by the firms' decisions? Even if they are, are they the party that benefits the most from the additional protection granted by the control rights?" (2000: 1632).

Of course, once we admit that implicit contracts are part of the "nexus of contracts" then our conceptualization of the firm differs from its legal counterpart.

¹² Two challenges face managers in attempting to build and maintain a reputation for fair treatment of stakeholders in an implicit contract. First, the managers of the firm are subject to periodic shareholder vote, so that a future management team that does not share the current management stakeholder philosophy may replace the current management team. Second, managers that currently embrace the stakeholder focus may reconsider their approach if the firm faces financial difficulties; for example, the only way for the firm to survive an economic downturn may be to renege on promises embedded in previous implicit contracts. Therefore, even if a management team embraces the stakeholder approach, it could have difficulties ensuring that these 'time consistency' problems do not undermine their efforts.

Indeed, the firm may have implicit contracts with other stakeholders such as bondholders (Parrino and Weisbach, 1999), suppliers, and customers, among others.¹³

This implicit contracting view of the firm is far removed from the complete contracting approach.¹⁴ Indeed, the very idea of implicit contracting is premised upon a world of positive transactions costs and market frictions (Arrow, 1974; Williamson, 1996) where there are inefficiencies in foreseeing, negotiating, writing, and enforcing explicit contracts. Of course, if it turns out that both firms and government regulations are superior to a market solution, from a public policy perspective we still will need to evaluate what market frictions implicit contracts are trying to attenuate, and we need to carry out a comparative economic efficiency assessment of regulation and implicit contracting by the firm. In sum, we need a comparative economic assessment of the firm, the market, and government regulation in evaluating our institutions of capitalism.

¹³ Empirical research studies frequently focus on stakeholder issues in terms of the bottom line to shareholders (Harrison and Freeman, 1999; Hillman and Keim, 2001; Waddock and Graves, 1997). In this vein, there are many excellent research papers demonstrating the importance of including the customer as a stakeholder. For example, product recalls generate negative market returns (Davidson and Worrell, 1992); product innovations through R&D are generally shown to be positively associated with market stock price (Sougiannis, 1994); and improved customer satisfaction measures are found to be value relevant to shareholders (Ittner and Larcker, 1997). These empirical papers suggest an “instrumental approach” (Jones, 1995) in which concern for other stakeholders are in the enlightened self-interest of shareholders. A particularly noteworthy empirical study found that because private information and associated relationship-specific activities are intrinsic to bank lending, borrowers incur significant economic costs in response to unanticipated reductions in bank durability (Slovin, Sushika and Polonchek, 1993), and thus are stakeholders that indeed bear risk due to the actions of banks.

¹⁴ Indeed, in the current paper, we not only argue for the superior relevancy of the incomplete and implicit contracting perspective, but we also suggest that within this implicit contracting perspective that there be an “intrinsic commitment” to the stakeholder view, which encompasses developing both a theory of economic value creation, in its entirety, and *a theory of the distribution of this economic value creation*.

Once we recognize the existence of implicit contracts (and incomplete contracting), then other stakeholders besides the shareholders are residual claimants and these stakeholders may need to be protected.¹⁵ It is now not clear whether decision rights should reside exclusively with shareholders, because the unfettered pursuit of shareholders' value maximization may lead to inefficient strategic actions, such as the breach of valuable implicit contracts. While in theory such discretionary financial contracting can be desirable (Ayres and Gertner, 1989; Boot, Greenbaum and Thakor, 1993), it is often troublesome when carefully scrutinized in real-world business practice (Shleifer and Summers, 1988). For instance, hostile takeovers sometimes result in the takeover firms terminating defined benefit pension funds mid-stream to enable economic transfers from workers to shareholders (Shleifer and Summers, 1988). Pontiff, Shleifer and Weisbach (1990), in their sample of 413 takeovers, find that pension funds were reverted by 15.1% of acquirers in the two years following hostile takeovers compared to 8.4% in the two years following friendly takeovers. Further, reversions tended to occur when the potential for wealth transfer was the greatest. These empirical results are consistent with the view that hostile takeovers sometimes do (and may in some cases well be primarily intended to) breach implicit contracts between firms and employees. Economic efficiency losses will occur because stakeholders who anticipate opportunistic

¹⁵ The issue of incomplete contracts has also been addressed in the legal field. Ayres and Gertner (1989) discuss the distinction between immutable rules and default rules and the use of each to fill the gaps in incomplete contracts. Applying their work to the discussion here, it may be that some stakeholders would need to be protected through the establishment of immutable rules, particularly those who are not able to contract with the firm as they are either not part of the discussion (environmental concerns) or they are too dispersed a group (consumers). Other groups, such as employees or suppliers, may be protected through the use of default rules, though the question still remains as to what form such default rules should take. An important consideration, we would argue, is that the default rules should be designed to minimize transaction costs. We thank Charles Kahn for bringing this research literature to our attention.

behavior will be reluctant to enter into implicit contracts with the firm (see also, Ippolito and James, 1992).

Moreover, the presence of implicit contracts makes it impossible to identify precisely the entire economic value created by the firm. As a result, stock price changes are not reliable arbiters of social welfare changes even when financial markets are perfectly (strong-form) efficient (Demski, 2003; Mahoney and Mahoney, 1993). Therefore, we should not draw social welfare conclusions from event study analysis that incorporates only share price reactions to informative events.

Suggestions for Possible Research Agendas

In terms of further development of the stakeholder perspective, we believe that the distinction offered by Bereman, Wicks, Kotha and Jones (1999) between an “instrumental approach” (Bowen, DuCharme and Shores, 1995; Greenley and Foxall, 1997; McGuire, Sundgren and Schneeweis, 1988; Ogden and Watson, 1999) --- in which concern for other stakeholders is in the enlightened self interest of shareholders --- and an “intrinsic commitment” view --- concern for stakeholders as ends and not merely as means (Agle, Mitchell and Sonnenfeld, 1999; Blair, 1998; Donaldson and Dunfee, 1994; Meznar, Nigh and Kwok, 1994) --- has much to offer.¹⁶ While the current paper focuses primarily on an instrumental approach to stakeholder theory, developing research along the lines of intrinsic commitment to the stakeholder view also looks promising (Donaldson, 1999). We fail to see why advocating the maximization of the entire economic value is labeled as merely a value judgment, while advocating the maximization of shareholder wealth is rarely labeled so. In fact, a minimum ethical standard of holding to the desirability of Pareto improving strategic moves would support the maximization of the entire economic value (and appropriate side-payments could then, in theory, be distributed).

¹⁶ A more fine-grained and potentially useful classification has been offered by Donaldson and Preston (1995), which offers three interrelated but distinct aspects of the stakeholder theory: *descriptive accuracy* (does the theory describe or explain characteristics or behaviors observed in the world of experience?), *instrumental power* (can the theory be used to identify connections between stakeholder analysis and traditional corporate objectives?), and *normative validity* (can the theory be used to guide managers in the moral or philosophical decisions to be made in the corporation?).

The current paper makes the case for the stakeholder perspective from an instrumentalist approach. However, a well-developed theory of justice (Rawls, 1971) needs to be applied to the second fundamental question of the distribution of economic value among various stakeholders. As Andrews noted: “Coming to terms with the morality of choice may be the most strenuous undertaking in strategic decision” (1980: 89). Similarly, Barnard (1938) maintains that executive leadership requires the personal capacity for affirming decisions that lend quality and morality to the coordination of organized activity and to the formulation of purpose.¹⁷

In addition to highly influencing the Carnegie School (Cyert and March, 1963; March and Simon, 1958; Simon, 1947), Barnard (1938) also influenced Selznick (1957). Selznick (1957: 138-139) writes that:

This process of becoming infused with value is part of what is meant by institutionalization. As this occurs, *organization management* becomes *institutionalized leadership*. The latter’s main responsibility is not so much technical administrative management as the maintenance of institutional integrity. ... The building of integrity is part of what we have called the “institutional embodiment of purpose” and its protection is a major function of leadership.

If one is convinced that property rights systems are conduits through which resources can be channeled to their highest-valued uses, several empirical implications emerge. Countries in which the legal regimes of property rights are more poorly protected will find it harder to attract financial capital or develop specialized human

¹⁷ Ansoff (1965: 35-36) noted that the Carnegie School’s *Behavioral Theory of the Firm* (Cyert and March, 1963), which emphasized firm-level objectives derived from a negotiated outcome by subgroups, has much in common with stakeholder theory. Moreover, the “inducements-contributions model” of Barnard (1938) and Simon (1952) in which each participant (e.g., entrepreneur, employee, customer) is offered an *inducement* (e.g., revenue from sales, wages, goods and services) for participation in the organization and in turn makes a *contribution* to the organization (e.g., costs of production, labor, purchase price) was an early seminal research framework from the stakeholder perspective (see Mahoney, 2005).

capital (North, 1990). Furthermore, within a given legal regime, industries that rely on resources that have attributes that are inherently more difficult to specify completely (*ex ante*) in a standardized contract (e.g., it may be more difficult to contract on intellectual or creative outputs than on commodity-like outputs), will find it necessary to develop relational contracts between the firm and the specialized resources. Within an industry, firms that are innovators in specialized relational contracts will be able to attract financial capital and will be better positioned to outperform their non-innovating rivals in terms of sales growth or return on assets.

Even within countries with well-developed legal regimes, changes over time may be suggestive of the importance of better-defined property rights. In the United States, for example, the movement away from defined benefit pension funds towards defined contribution pension funds may have been motivated in part by the fact that defined contribution pension funds have better defined property rights over the economic value that the pension fund participants will receive when they retire.¹⁸

The study of lease contracts could potentially provide a window into the world of implicit versus explicit contracts. Consider, for example, vendor-financing terms. Vendor financing occurs when the manufacturer of a product helps the buyer find funding to purchase the product. As the asset becomes more specialized, the contract becomes more explicit about contingencies – often the manufacturer or its financing arm becomes the depository of information regarding the primary sale and the resale markets

¹⁸ Conceptually, the firm has a greater capacity than the pension plan participant to bear the investment risk associated with pension assets. However, as Shleifer and Summers (1988) argue, (*ex ante*) risk sharing between the firm and the participants can become opportunistic (*ex post*) risk shifting because the (legally enforceable) property rights held by the pension fund beneficiaries are, in general, poorly defined.

for the product. Medical equipment leases, for example, provide for the termination of the lease if a better technology comes along, which is much different from the conditions of leases for less specialized assets, such as automobiles. In addition, a close study of the various contingencies in more specialized assets such as medical equipment, software, or commercial airliners, may bring a heightened understanding of the complexities of assigning property rights in industries with innovation paths that are hard-to-predict, and where the study of incomplete contracting, and implicit contracting have clear relevance in the discipline of strategic management.

A solid understanding of property rights from a stakeholder approach sheds light on well documented but poorly understood strategic management decisions and processes. For example, the Saturn car division of General Motors' original mission, governance structure, and internal processes fit the key criteria of a stakeholder firm. Employees establish themselves as influential stakeholders who contribute to problem solving, conflict resolution, and quality improvement (Kochran and Rubenstein, 2000). Saturn emerged as a stakeholder firm because the company and union leaders who shared power jointly, decided to create and develop an organization that would utilize workers' skills and knowledge and that would provide employees with a voice in the governance process.

Conclusions

In the current paper, we note that the research governance literature in strategic management over the past two decades has been dominated by agency theory and its conceptualization of the firm as a nexus of complete explicit contracting. While the past twenty years in the discipline of strategic management have clearly witnessed a vast improvement in the scientific rigor within the research journal publications in strategic management, we argue here that such rigor has come at a high price in terms of managerial relevance.

Our main point here is that it is far superior to have a reasonably accurate understanding of the right (stakeholder) issues in the discipline of strategic management than rigorous and perhaps even precise answers to less relevant or contrived (shareholder wealth) questions. Indeed, scholars from the complete contracting approach (which essentially suppresses economic problems stemming from bounded rationality and limited information processing) often finesse the really difficult stakeholder questions that managers typically face.

The intellectual heritage of the discipline of strategic management owes much to what used to be called business policy (e.g., Andrews, 1971; Ansoff, 1965). This early business policy (and typically case study) perspective was unabashedly dedicated to a stakeholder perspective --- which made the subject of management within the business school truly differentiated from the stockholder wealth perspective of industrial organization economics and corporate finance. However, in recent years, the discipline of strategic management, perhaps due in part to the pursuit of greater academic standing and scientific legitimacy, has significantly retrenched from the stakeholder perspective

(both in research journals and major textbooks) and has gravitated toward the shareholder wealth perspective, where stock price data are readily available.

We argue that the modern property rights perspective of incomplete contracting and implicit contracting provides a solid economic foundation for the revitalization of a stakeholder theory of the firm in strategic management. In order to make progress in strategic management an improved (conceptual and empirical) understanding of implicit contracting is needed. Currently, a firm's assets are certainly understated by the economic value of the implicit contracts with a firm's employees, when valuable firm-specific human capital is excluded from the balance sheet (DeAngelo, 1982). The same can be said for the economic value that other stakeholders bring, or the loss in economic value these stakeholders suffer when decisions are made strictly on the basis of shareholder value. For example, financial distress can create a tendency for the firm to take actions that are harmful to debt-holders and other non-financial stakeholders (Baden-Fuller, 1989; Cornell and Shapiro, 1987; Jog, Kotlyar and Tate, 1993; Opler and Titman, 1994). If the goal is to maximize total economic value, and this value is to be allocated among those contributing to/gaining from this economic value then one needs a property rights stakeholder theory, which recognizes the role each of these groups plays in the creation and distribution of that economic value.

References

- Aghion, P. and P. Bolton (1992). An 'incomplete contracts' approach to financial contracting. Review of Economic Studies, 59: 473-494.
- Agle, B. R., R. K. Mitchell and J. A. Sonnenfeld (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. Academy of Management Journal, 42: 507-525.
- Aguilera, R. V. and A. Cuervo-Cazurra (2004). Codes of good governance worldwide: What is the trigger? Organization Studies, 25: 417-446.
- Aguilera, R. V. and G. Jackson (2003). The cross-national diversity of corporate governance: Dimensions and determinants. Academy of Management Review, 28 (3): 447-465.
- Alchian, A. and H. Demsetz (1972). Production, information costs and economic organization. American Economic Review, 62: 777-795.
- Andrews, K. (1971, 1980). The Concept of the Corporation. Homewood, IL: Irwin.
- Ansoff, I. (1965). Corporate Strategy. New York, NY: McGraw Hill.
- Aoki, M. (1984). The Cooperative Game Theory of the Firm. Oxford, UK: Clarendon Press.
- Aoki, M. (2001). Towards a Comparative Institutional Analysis. Cambridge, MA: MIT Press.
- Argyres, N. and J. P. Liebeskind (1998). Privatizing the intellectual commons: Universities and the commercialization of biotechnology. Journal of Economic Behavior and Organization, 35: 427-454.
- Arrow, K. J. (1974). The Limits of Organization. New York, NY: W. W. Norton.
- Ayres, I, and R. Gertner (1989). Filling gaps in incomplete contracts: An economic theory of default rules. Yale Law Journal, 99: 87-130.
- Baden-Fuller, C. W. F. (1989). Exit from declining industries and the case of steel castings. Economic Journal, 99 (December): 949-961.
- Baker, G., R. Gibbons and K. J. Murphy (2001). Bringing the market inside the firm? American Economic Review, 91 (2): 212-218.
- Baker, G., R. Gibbons, and K. J. Murphy (2002). Relational contracts and the theory of the firm. Quarterly Journal of Economics, 117: 39-83.
- Barnard, C. I. (1938). The Functions of the Executive. Cambridge, MA: Harvard University Press.

- Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17: 99-120.
- Barth, M. E. and M. McNichols (1994). Estimation and market valuation of environmental liabilities relating to Superfund sites. Journal of Accounting Research 32 (Supplement): 177-209.
- Barzel, Y. (1997). Economic Analysis of Property Rights. Cambridge, MA: Cambridge University Press.
- Bereman, S. L., A. C. Wicks, S.L. Kotha and T. M. Jones (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. Academy of Management Journal, 42 (5): 488-506.
- Berle, A. A. and G. C. Means (1932). The Modern Corporation and Private Property. New York, NY: Macmillan.
- Blair, M. M. (1995). Ownership and Control. Washington, D.C.: Brookings Institution.
- Blair, M. M. (1996). Wealth Creation and Wealth Sharing. Washington, D.C.: Brookings Institution.
- Blair, M. M. (1998). For whom should corporations be run?: An economic rationale for stakeholder management. Long Range Planning, 31 (2): 195-200.
- Blair, M. M. and L. Stout (1999). A team production theory of corporate law. Virginia Law Review, 85: 247-328.
- Boatright, J. R. (2002). Contractors as shareholders: Reconciling stakeholder theory with the nexus-of-contracts firm. Journal of Banking and Finance, 26: 1837-1852.
- Boot, A. W. A., S. I. Greenbaum and A. V. Thakor (1993). Reputation and discretion in financial contracting. American Economic Review, 83 (5): 1165-1183.
- Bowen, R. M., L. DuCharme and D. Shores (1995). Stakeholders' implicit claims and accounting method choice. Journal of Accounting and Economics, 20: 255-295.
- Bowman, E. H. and M. Useem (1995). The anomalies of corporate governance. In E. H. Bowman and B. Kogut (Eds.), Redesigning the Firm (pp. 21-48). New York, NY: Oxford University Press.
- Brouthers, K. D. and G. J. Bamossy (1997). The role of key stakeholders in international joint venture negotiations: Case studies from Eastern Europe. Journal of International Business Studies, 28 (2): 285-308.
- Buchholz, R. A. and S. B. Rosenthal (2004). Stakeholder theory and public policy: How governments matter. Journal of Business Ethics, 51 (2): 143-153.
- Buysse, K. and A. Verbeke (2003). Proactive environmental strategies: A stakeholder management perspective. Strategic Management Journal, 24 (5): 453-470.

- Carroll, A. B. (1989). Business and Society: Ethics and Stakeholder Management. Cincinnati, OH: South-western.
- Chandler, A. A. (1962). Strategy and Structure. Cambridge, MA: MIT Press.
- Chandler, A. A. (1977). The Visible Hand. Cambridge, MA: Belknap Press.
- Chandler, A. A. (1990). Scale and Scope. Cambridge, MA: Belknap Press.
- Charreaux, G. and P. Desbrieres (2001). Corporate governance: Stakeholder versus shareholder value. Journal of Management and Governance, 5: 107-128.
- Chi, T. (1994). Trading in strategic resources: Necessary conditions, transaction cost problems, and choice of exchange structure. Strategic Management Journal, 15: 271-290.
- Child, J. and S. B. Rodrigues (2004). Repairing the breach of trust in corporate governance. Corporate Governance, 12 (2): 143-152.
- Clarke, T. (1998). The stakeholder corporation: A business philosophy for the information age. Long Range Planning, 31 (2): 182-194.
- Clarkson, M. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. Academy of Management Review, 20 (1): 92-117.
- Coase, R. H. (1937). The nature of the firm. Economica, 4: 386-405.
- Coase, R. H. (1960). The problem of social cost. Journal of Law and Economics, 3: 1-44.
- Coff, R. W. (1999). When competitive advantage doesn't lead to performance: Resource-based theory and stakeholder bargaining power. Organization Science, 10: 119-133.
- Cornell, B. and A. C. Shapiro (1987). Corporate stakeholders and corporate finance. Financial Management (Spring): 5-14.
- Cyert, R. M. and J. G. March (1963). A Behavioral Theory of the Firm. Englewood Cliffs, NJ: Prentice-Hall.
- Davidson, W. N. and D. L. Worrell (1992). The effects of product recall announcements on shareholder wealth. Strategic Management Journal, 13: 467-473.
- DeAngelo, L. E. (1982). Unrecorded human assets and the "hold-up" problem. Journal of Accounting Research, 20: 272-274.
- Demsetz, H. (1972). Toward a theory of property rights. American Economic Review, 57: 347-359.
- Demski, J. S. (2003). Corporate conflicts of interest. Journal of Economic Perspectives, 17 (2): 51-72.
- Dierickx, I. and K. Cool (1989). Asset stock accumulation and sustainability of competitive advantage. Management Science, 35: 1504-1514.

- Donaldson, T. (1999). Making stakeholder theory whole. Academy of Management Review, 24: 237-241.
- Donaldson, T. and T. W. Dunfee (1994). Toward a unified concept of business ethics: Integrative social contracts theory. Academy of Management Review, 19: 252-284.
- Donaldson, T. and L. E. Preston (1995). The stakeholder theory of the corporation: concepts, evidence and implications. Academy of Management Review, 20 (1): 85-91.
- Driscoll, C. and M. Starik (2004). The primordial stakeholder: Advancing the conceptual consideration of stakeholder status for natural environment. Journal of Business Ethics, 49 (1): 55-73.
- Foss, K. and N. Foss (1999). Understanding ownership: Residual rights of control and appropriate control rights. Working paper, Copenhagen Business School, Denmark.
- Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Englewood Cliffs, NJ: Prentice Hall.
- Freeman, R. E. and W. M. Evan (1990). Corporate governance: A stakeholder interpretation. Journal of Behavioral Economics, 19 (4): 337-359.
- Freeman, R. E. and J. Liedtke (1997). Stakeholder capitalism and the value chain. European Management Journal, 15 (3): 286-296.
- Freeman, R. E. and D. L. Reed (1983). Stockholders and stakeholders: A new perspective on corporate governance. California Management Review, 25 (3): 88-106.
- Friedman, A. L. and S. Miles (2002). Developing stakeholder theory. Journal of Management Studies, 39 (1): 1- 21.
- Frooman, J. (1999). Stakeholder influence strategies. Academy of Management Review, 24: 191-205.
- Gioia, D. (1999). Practicability, paradigms and problems in stakeholder theorizing. Academy of Management Review, 24: 228-232.
- Grandori, A. (2004). Corporate Governance and Firm Organization. New York, NY: Oxford University Press.
- Greenley, G. E. and G. R. Foxall (1997). Multiple stakeholder orientation in UK companies and the implications for company performance. Journal of Management Studies, 34 (2): 259-284.
- Grossman, S. and O. Hart (1986). The costs and the benefits of ownership: A theory of vertical and lateral integration. Journal of Political Economy, 94: 691-719.
- Hansmann, H. B. (1996). The Ownership of Enterprise. Cambridge, MA: Harvard University Press.

- Harrison, J. S. and R. E. Freeman (1999). Stakeholders, social responsibility and performance: Empirical evidence and theoretical perspectives. Academy of Management Journal, 42 (5): 479-487.
- Hart, O. (1995). Firms, Contracts, and Financial Structure. Oxford: Clarendon Press.
- Hart, O. and J. Moore (1990). Property rights and the nature of the firm. Journal of Political Economy, 98: 1119-1158.
- Helfat, C. E. (1997). Know-how and asset complementarity and dynamic capability accumulation: The case of R&D. Strategic Management Journal, 18: 339-360.
- Hennques, I. and P. Sadorsky (1999). The relationship between environmental commitment and managerial perception of stakeholder importance. Academy of Management Journal, 42 (1): 89-99.
- Hill, C. W. L. and T. M. Jones (1992). Stakeholder-agency theory. Journal of Management Studies, 29 (2): 131-154.
- Hillman, A. and G. D. Keim (2001). Shareholder value, stakeholder management and social issues. What's the bottom line? Strategic Management Journal, 22: 125-139.
- Hillman, A., G. D. Keim and R. A. Luce (2001). Board composition and stakeholder performance: Do stakeholder directors make a difference? Business and Society, 40 (3): 295-314.
- Holmstrom, B. (1982). Moral hazard in teams. Bell Journal of Economics, 13 (2): 324-340.
- Holmstrom, B. (1999). The firm as a subeconomy. Journal of Law, Economics, and Organization, 15 (1): 74-102.
- Hosseni, J., and S. Brenner (1992). The stakeholder theory of the firm: A methodology to generate value matrix weights. Business Ethics Quarterly, 2 (2): 99-120.
- Huse, M. and V. P. Rindova (2001). Stakeholders' expectations of board roles: The case of subsidiary boards. Journal of Management and Governance, 5: 153-178.
- Ippolito, R. A. and W. H. James (1992). LBOs, reversions, and implicit contracts. Journal of Finance, 47 (1): 139-167.
- Itami, H. and T. W. Roehl (1987). Mobilizing Invisible Assets. Cambridge, MA: Harvard University Press.
- Ittner, C. D. and D. L. Larcker (1997). Are non-financial measures leading indicators for financial performance? An analysis of customer satisfaction. Journal of Accounting Research, 35: 1-35.
- Jawahar, I. M. and G. L. McGlaughlin (2001). Toward a descriptive stakeholder theory: An organizational life-cycle approach. Academy of Management Review, 26: 397-414.

- Jensen, M. C. (2001). Value maximization, stakeholder theory, and the corporate objective function. Journal of Applied Corporate Finance, 14 (3): 8-21.
- Jensen, M. C. and W. Meckling (1976). Theory of the firm: Managerial behavior, agency costs and capital structure. Journal of Financial Economics, 3: 305-380.
- Jog, V. M., I. Kotlyar and D. G. Tate (1993). Stakeholder losses in corporate restructuring: Evidence from four cases in the North American steel industry. Financial Management, (Autumn): 185-201.
- Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics: A survey. Academy of Management Review, 20 (2): 404-437.
- Jones, T. M. and A. C. Wicks (1999). Convergent stakeholder theory. Academy of Management Review, 24 (2): 206-221.
- Kaler, J. (2003). Differentiating stakeholder theories. Journal of Business Ethics, 46 (1): 71-83.
- Kassins, G. and N. Vafeas (2002). Corporate boards and outside stakeholders as determinants of environmental litigation. Strategic Management Journal, 23 (5): 399-415.
- Kim, J. and J. T. Mahoney (2002). Resource-based and property rights perspectives on value creation: The case of oil field unitization. Managerial and Decision Economics, 23 (4): 225-245.
- Kim, J. and J. T. Mahoney (2005). Property rights theory, transaction costs theory, and agency theory: An organizational economics approach to strategic management. Managerial and Decision Economics, forthcoming
- Klein, R., V. Crawford and A. Alchian (1978). Vertical integration, appropriable rents and the competitive contracting process. Journal of Law and Economics, 21: 297-326.
- Kochan, T. A. and S. A. Rubinstein (2000). Toward a stakeholder theory of the firm: The Saturn partnership. Organization Science, 11 (4): 367-386.
- Lado, A. A. and M. C. Wilson (1994). Human resource systems and sustained competitive advantage: A competence-based perspective. Academy of Management Review, 19: 699-727.
- Leiblein, M.J. and D. J. Miller (2003). An empirical examination of transaction- and firm-level influences on the vertical boundaries of the firm. Strategic Management Journal 24: 839-859.
- Libecap, G. D. (1989). Contracting for Property Rights. New York, NY: Cambridge University Press.
- Liebeskind, J. P. (1996). Knowledge, strategy, and the theory of the firm. Strategic Management Journal (Winter Special Issue), 17: 93-107.
- Logsdon, J. M. and K. Yuthas (1997). Corporate social performance, stakeholder orientation, and organizational moral development. Journal of Business Ethics. 16: 1213-1226.
- Lowendahl, B. and O. Revang (1998). Challenges to existing theory in a postindustrial society. Strategic Management Journal, 19 (8): 755-773.

- Luoma, P. and J. Goodstein (1997). Stakeholders and corporate boards. Institutional influence on board composition and structure. Academy of Management Journal, 42 (5): 53-563.
- Madsen, T. L., E. Mosakowski and S. Zaheer (2003). Knowledge retention and personnel mobility: The nondisruptive effects of inflows of experience. Organization Science, 14: 173-191.
- Mahon, J. F. (2002). Corporate reputation: A research agenda using strategy and stakeholder literature. Business and Society, 41 (4): 415-445.
- Mahoney, J. M. and J. T. Mahoney (1993). An empirical investigation of the effect of corporate antitakeover amendments on stockholder wealth. Strategic Management Journal, 14 (1): 17 – 31.
- Mahoney, J. T. (1992). Organizational economics within the conversation of strategic management. In P. Shrivastave, A. Huff and J. Dutton (Eds.), Advances in Strategic Management, 8: 103-155.
- Mahoney, J. T. (2001). A resource-based theory of sustainable rents. Journal of Management, 27: 651-660.
- Mahoney, J. T. (2005). Economic Foundations of Strategy. Thousand Oaks, CA: Sage Publications
- Mahoney, J. T. and J. R. Pandian (1992). The resource-based view within the conversation of strategic management. Strategic Management Journal, 13: 363-380.
- March, J. G. and H. A. Simon (1958). Organizations. New York, NY: John Wiley and Sons.
- March, J. G. (1991). Exploration and exploitation in organizational learning. Organization Science, 1: 71-87.
- McEvily, S. K. and B. Chakravarthy (2002). The persistence of knowledge-based advantage: An empirical test for product performance and technological knowledge. Strategic Management Journal, 23: 285-305.
- McGuire, J. B., A. Sundgren and T. Schneeweis (1988). Corporate social responsibility and firm financial performance. Academy of Management Journal, 31 (4): 854 – 877.
- McLaren, D. (2004). Global stakeholders: Corporate accountability and investor engagement. Corporate Governance, 12 (2): 191-201.
- Meznar, M. D. Nigh and C. C. Y. Kwok (1994). Effects of announcements of withdrawal from South Africa on stockholder wealth. Academy of Management Journal, 37 (6): 1633-1648.
- Miller, D. and J. Shamsie (1996). The resource-based view of the firm in two environments: The Hollywood film studios from 1936 to 1965. Academy of Management Journal, 39: 519-543.
- Mitchell, R. K., B. R. Agle and D. J. Wood (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review, 22: 853-896.

- Morris, S. A., K. A. Rehbein, J. C. Hosseini and R. A. Armacost (1990). Building a current profile of socially responsive firms. IAB Proceedings: 297-303.
- Nelson, R. R. and S. G. Winter (1982). An Evolutionary Theory of Economic Change. Cambridge, MA: Harvard University Press.
- North, D. C. (1990). Institutions, Institutional Change and Economic Performance. Cambridge, MA: Cambridge University Press.
- Ogden, S. and R. Watson (1999). Corporate performance and stakeholder management: Balancing shareholder and customer interests in the UK privatized water industry. Academy of Management Journal, 42 (5): 526-538.
- Opler, T. C. and S. Titman (1994). Financial distress and corporate performance. Journal of Finance, 49 (3): 1015-1040.
- Orts, E. W. and A. Strudler (2002). The ethical and environmental limits of stakeholder theory. Business Ethics Quarterly, 12: 215-233.
- Oswald, L. J. (1998). Shareholders v. stakeholders: Evaluating corporate constituency statutes under the takings clause. Journal of Corporation Law (Fall): 1-28.
- Oxley, J. E. (1999). Institutional environment and the mechanism of governance: The impact of intellectual property protection on the structure of inter-firm alliances. Journal of Economic Behavior and Organization, 38:283-309.
- Parrino, R. and M. S. Weisbach (1999). Measuring investment distortions arising from stockholder-bondholder conflicts. Journal of Financial Economics, 53: 3-42.
- Penrose, E.T. (1959). The Theory of the Growth of the Firm. New York, NY: John Wiley.
- Peteraf, M. (1993). The cornerstones of competitive advantage: A resource-based view. Strategic Management Journal, 14: 179-191.
- Phillips, R. A., R. E. Freeman, and A. C. Wicks (2003). What stakeholder theory is not. Business Ethics Quarterly, 13 (4): 479-502.
- Phillips, R. A. and J. Reichart (2000). The environment as a stakeholder? A fairness-based approach. Journal of Business Ethics, 23 (2): 185-197.
- Pitelis, C. N. (2004). (Corporate) Governance, (shareholder) value and (sustainable) economic performance. Corporate Governance, 12 (2): 210-223.
- Pontiff, J. A. Shleifer, and M. S. Weisbach (1990). Reversions of pension assets after takeovers. Rand Journal of Economics, 21: 600-613.
- Preston, L. E. (1990). Stakeholder management and corporate performance. Journal of Behavioral Economics, 19 (4): 361-375.
- Rawls, J. (1971). A Theory of Justice. Cambridge, MA: Belknap Press of Harvard University Press.

- Rowley, T. (1997). Moving beyond dyadic ties: A network theory of stakeholder influences. Academy of Management Review, 22: 125-139.
- Rumelt, R. P. (1984). Toward a strategic theory of the firm. In R. Lamb (Ed.), Competitive Strategic Management. Englewood Cliffs, NJ: Prentice Hall, pp. 556-570.
- Ryan, L. V. and M. Schneider (2003). Institutional investor power and heterogeneity: Implications for agency and stakeholder theories. Business and Society, 42 (4): 388-429.
- Scholes, E. and D. Clutterback (1998). Communication with stakeholders: An integrated approach. Long Range Planning, 31 (2): 227-238.
- Schumpeter, J. (1954). History of Economic Analysis. New York, NY: Oxford University Press.
- Scott, S. and V. Lane (2000). Stakeholder approach to organizational identity. Academy of Management Review, 25 (1): 43-62.
- Selznick, P. (1957). Leadership in Administration: A Sociological Interpretation. Berkeley, CA: University of California Press.
- Shankman, N. A. (1999). Reframing the debate between agency and stakeholder theories of the firm. Journal of Business Ethics, 19 (4): 319-334.
- Shleifer, A. and L. H. Summers (1988). Breach of trust in hostile takeovers. In A. J. Auerbach (Ed.), Corporate Takeovers: Causes and Consequences, pp. 33-56. Chicago: University of Chicago Press.
- Shleifer, A. and R. Vishny (1997). A survey of corporate governance. Journal of Finance, 52: 737-783.
- Simon, H. A. (1947). Administrative Behavior. New York, NY: Macmillan.
- Simon, H. A. (1952). A comparison of organization theories. Review of Economic Studies, 20 (1): 40-48.
- Simon, H. A. (1978). Rationality as process and as product of thought. American Economic Review, 68 (May): 1-16.
- Slovin, M. B., M. E. Sushka and J. A. Polonchek (1993). The value of bank durability: Borrowers as bank stakeholders. Journal of Finance, 48 (11) 247-266.
- Sougiannis, T. (1994). The accounting-based valuation of corporate R&D. The Accounting Review, 69: 44-68.
- Sternberg, E. (1996). Stakeholder theory exposed. Corporate Governance Quarterly, 2 (1): 4-18.
- Sternberg, E. (2000). The defects of stakeholder theory. Corporate Governance, 5 (1): 3-10.

- Takeyama, L. N. (1997). The intertemporal consequences of unauthorized reproduction of intellectual property. Journal of Law and Economics, 40: 511-522.
- Teece, D. J. (1986). Profiting from technological innovation: Implications for integration, collaboration, licensing, and public policy. Research Policy, 15: 285-305.
- Teece, D. J. G. Pisano and A. Shuen (1997). Dynamic capabilities and strategic management. Strategic Management Journal, 17 (Winter): 11-25.
- Thompson, G. and C. Driver (2002). Corporate governance and democracy: The stakeholder debate revisited. Journal of Management and Governance, 6 (4): 111-130.
- Trevino, L. K. and G. R. Weaver (1999). The stakeholder research tradition: Converging theorists --- not convergent theory. Academy of Management Review, 24 (2): 222-228.
- Waddock, S. A. and S. Graves (1997). The corporate social performance-financial performance link. Strategic Management Journal, 19: 303-317.
- Wernerfelt, B. (1984). A resource-based view of the firm. Strategic Management Journal, 5: 171-180.
- Wheeler, D. and M. Sillanpea (1998). Including stakeholders: The business case. Long Range Planning, 31 (2): 201-210.
- Williamson, O. E. (1985). The Economics Institutions of Capitalism. New York, NY: Free Press.
- Williamson, O. E. (1996). The Mechanisms of Governance. Oxford: Oxford University Press.
- Windsor, D. (2002). Stakeholder responsibilities: Lessons for managers. Journal of Corporate Citizenship, 6 (Summer): 19-35.
- Winn, M. I. and L. R. Keller (2001). A modeling methodology for multi-objective multi-stakeholder decisions: Implications for research. Journal of Management Inquiry, 10 (2): 166-181.
- Woo, C., G. Willard and U. Daellenbach (1992). Spin-off performance: A case of overstated expectations? Strategic Management Journal, 13(5): 433-447.
- Zingales, L. (2000). In search of new foundations. Journal of Finance, 55 (4): 1623-1653.