

The Future of Stakeholder Management Theory: A Temporal Perspective

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Abstract We propose adding a temporal dimension to stakeholder management theory, and assess the implications thereof for firm-level competitive advantage. We argue that a firm's competitive advantage fundamentally depends on its capacity for stakeholder management related, *transformational* adaptation over time. Our new temporal stakeholder management approach builds upon insights from both the resource-based view (RBV) in strategic management and institutional theory. Stakeholder agendas and their relative salience to the firm evolve over time, a phenomenon well understood in the literature, and requiring what we call *level 1* adaptation. However, the dominant direction of stakeholder pressures can also change, namely, from supporting resource heterogeneity at the firm level to fostering industry homogeneity, and vice versa. When dominant stakeholder pressures shift from supporting heterogeneity towards stimulating homogeneity in industry, the firm must engage in *level 2* or *transformational* adaptation. Stakeholders typically provide valuable resources to the firm in

an *early stage*. Without these resources, which foster *heterogeneity* (in line with RBV thinking), the firm would not exist. At a *later stage*, stakeholders also contribute to inter-firm *homogeneity* via isomorphism pressures (in line with institutional theory thinking). Adding a temporal dimension to stakeholder management theory has far reaching implications for this theory's practical relevance to senior level management in business.

Keywords Competitive advantage · Institutional theory · Resource-based view · Stakeholder management theory · Temporal perspective

Introduction

The analytical stakeholder approach to strategic management examines the firm within a myriad of relationships, and argues that devoting appropriate attention to all legitimate stakeholders is important to achieve superior performance (Argandona 1998; Donaldson and Preston 1995; Freeman 1984; Gibson 2000; Laplume et al. 2008; Ruf et al. 2001). The firm responds to multiple stakeholders for different reasons and in various ways (Berrone et al. 2007). Here, systematic attention to stakeholders can be viewed as a means for the firm to rise above the conventionally assumed objective of shareholder profit maximization. According to Kaler (2006), those with a moral claim on the actions of the firm are its stakeholders, namely consumers, employees, competitors, suppliers, government, as well as other actors in society. These actors forge enduring and ongoing ties of strategic importance with the firm that can contribute to its competitive advantage in the long term. However, if stakeholder involvement negatively affects the firm's operations, this can be detrimental to the firm's bottom line (O'Higgins 2010).

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The extant research on stakeholder management consists of three distinct streams: descriptive, instrumental, and normative (Donaldson and Preston 1995). *Descriptive* research mainly explores corporate characteristics driving firm behavior vis-à-vis stakeholders, as well as management perceptions of obligations to stakeholders. Research in the *instrumentalism* sphere examines the organizational outcomes of stakeholder management in terms of financial and social performance, organizational learning, and innovation. Concurrent with the development of the descriptive and instrumentalist views is the ongoing scholarly debate on the need for a *normative* basis of stakeholder management theory as a prescriptive tool for management.

Despite the important insights gained from past research, the significance of a stakeholder management approach to understand the transition over time from firm heterogeneity to more homogeneity in industry (and vice versa) has not yet been fully explored. Such fundamental moves in the primary direction of stakeholder pressures deserve managerial attention, as they can profoundly affect the firm's ability to maintain competitive advantage. The move towards more homogeneity in industry typically entails stakeholders pushing (large) incumbents with a resource base considered unique to become more similar to other firms. Opposite moves are also possible, and occur in cases of industry disruptions, whether as the result of breakthrough innovations, new entrants from other industries, sudden changes in customer needs, etc. In such cases, the dominant pressure from stakeholders is to support the innovating or newly entering firm in gaining competitive advantage based on resource heterogeneity, and to move away from the status quo in industry.

As Friedman and Miles (2002, p. 1) argued, "previous literature has led to a lack of appreciation of: the range of organization/stakeholder relations that can occur; the extent to which such relations change over time; as well as how and why such changes occur." While there has been growing attention devoted to the integration of the stakeholder management approach with other significant conceptual frameworks in strategic management such as the resource-based view (RBV), further research should also examine how adding a temporal dimension to stakeholder management might explain fundamental shifts in stakeholder management when stakeholders shift from supporting resource heterogeneity toward seeking more homogeneity in industry, and vice versa.

The purpose of the present paper is to introduce a temporal model of stakeholder management theory that incorporates insights from both the RBV and institutional theory (DiMaggio and Powell 1983; Scott 1987), but infused with insight from transaction cost economics (TCE) and innovation theory. Drawing on the RBV, this paper argues that the critical processes of accessing

valuable resources and achieving sustainable competitive advantage can be usefully described by a stakeholder approach to management at the *early stage*, i.e., the stage immediately following the firm's birth (or the stage immediately following a significant innovation), whereby resource heterogeneity is critical. The RBV suggests that inter-firm differences arise because of the unequal distribution of resources, itself the result of market imperfections. The RBV is thus particularly well positioned to describe and explain the firm's growth process in the *early stage* by focusing on the processes of resources accumulation and exploitation (Barney 1986). The stakeholder approach emphasizes achieving the most effective and efficient access to—and usage of—these resources through stakeholder management, which should aim at reinforcing resource heterogeneity. Here, what matters is not just the technical processes of accumulating and combining resources that have value-creating features, but the social construction of a network of stakeholders as resource providers, who help the firm achieving heterogeneity, i.e., a unique position in industry (Gulati et al. 2000).

However, over time stakeholder preferences evolve and their stakes change based upon the strategic issues considered relevant at a particular point in time (Freeman 1984). A unique type of change is that of stakeholders shifting away from supporting resource heterogeneity towards seeking more homogeneity in industry. Homogeneity seeking is the domain of institutional theory, which seeks to answer the question of what forces make organizations more similar (DiMaggio and Powell 1983). For instance, suppliers may apply pressures at the inter-firm level on their buyers, and compel the latter towards conformity with particular standards or preferences. The converse can occur as well, namely when buyers build up market power over time and gain significant bargaining power over their suppliers. Other actors (i.e., other than suppliers) can exert similar pressures. At the industry-level, the institutional context typically triggers public and regulatory pressures and industry-wide norms, rules and beliefs that define or enforce socially acceptable economic behavior. In this *late stage* of firm-level (and industry-level) development, wherein firms have reached maturity and established businesses generate relatively stable cash flows, institutional forces seeking homogeneity among firms become stronger. Modern institutional theory is particularly well equipped to address the stronger forces towards homogeneity, as it emphasizes social justification and the adoption of common practices (Oliver 1997).

By combining and contrasting elements from the RBV, with its focus on managerial processes to achieve heterogeneity among firms, and institutional theory, with its focus on the processes driving homogeneity in industry, this paper effectively introduces a temporal stakeholder

management model. As noted above, the dominant requirements for effective stakeholder management in the *early stage* of any firm's existence are related to the social construction of resource heterogeneity, in line with the RBV. In a *later stage* of the firm's life, institutional forces seeking more homogeneity among firms will typically play a more dominant role in stakeholder management, with the firm engaged in a network of actors seeking mainly conformity and social acceptability.

Since competitive advantages erode in the longer run (Jacobsen 1988), "due to the instability of bargaining power profiles over time and the responses of external markets to rents" (Coff 1999, p. 128), it is important to identify the key stakeholders potentially involved in this erosion process, as well as their strategic preferences. In this particular case, the value of a sole stakeholder management focus on resource heterogeneity declines over time as compared to a stakeholder management approach focus that accommodates homogeneity, i.e., common practices among firms. More specifically, once the relevant stakeholders are identified, it is critical to understand the role they play in the processes pushing towards more inter-firm homogeneity, and to reflect on the stakeholder management strategies that can be pursued to benefit from the push towards greater homogeneity, while maintaining requisite heterogeneity of resource access and utilization.

We distinguish among five stakeholder groups (beyond shareholders) conventionally recognized in stakeholder management theory (e.g., Argandoña 1998; Donaldson and Preston 1995; Friedman and Miles 2002). These include the firm's suppliers, consumers, employees, competitors, and government/regulatory agencies. In other words, in addition to recognizing industry rivals and government as stakeholders, we follow Freeman et al. (2004, p. 365), who suggest that "business is about putting together a deal so that suppliers, customers, managers and shareholders all win continuously over time."

For each of these stakeholders, this paper discusses in a stylized fashion how they can provide firms with initial competitive advantage by making resources accessible (consistent with the RBV perspective), but later pressure firms towards homogeneity (consistent with institutional theory thinking). Here, we need to take into account that the purpose of stakeholder management is precisely to use these forces towards homogeneity in ways that support competitive advantage. Indeed, Oliver (1997) suggests that firms need not necessarily 'acquiesce' when faced with external institutional pressures, but may pursue idiosyncratic strategies that include "compromise", "avoidance", "defiance," and "manipulation" to gain competitive advantage. The main point made here, however, is that the substance of effective stakeholder management processes, conducted in a context of stakeholders predominantly

supporting resources heterogeneity (as in the firm's *early stage*) will be different from what is required in a context with stronger stakeholder pressures towards inter-firm homogeneity (as in the *later stage* of the firm's life).

Obviously, access to resources also remains important in the *later stage* of the firm's life, and some common standards or behavioral patterns in an industry (or broader organizational field) may be important in the *early stage* as well, but the point is that the firm would simply not come into existence without privileged access to—and the idiosyncratic combination of—at least some resources from stakeholders, and would not survive through *later stages* without showing an appropriate level of conformity with what other economic actors in industry are doing so as to gain legitimacy as perceived by a broad set of stakeholders.

From a managerial perspective, this paper describes the need for the firm to transition from *early stage*—idiosyncratic capitalization on the resources provided by stakeholders—toward *later stage*—equally idiosyncratic response to institutional pressures towards inter-firm homogeneity—so as to gain and sustain competitive advantage over time.

The list of stakeholder groups considered here, for illustrative purposes, as being the most relevant is by no means exhaustive: in any given case, the actual set of stakeholders relevant to the firm results from a dynamic process, whereby stakeholders may even move from one category to another (Carroll and Buchholtz 2009). Nevertheless, our stakeholder set does include the actors viewed relevant in most of the mainstream stakeholder management research, having been shown in that research as exerting major influence on firm management. In addition, this approach highlights the areas in strategy research with substantial potential for applying a temporal view of stakeholder theory. The temporal model proposed here does more than merely providing additional explanatory power to existing stakeholder theory models, which in and of itself, would also constitute a worthwhile academic endeavor. As Post et al. (2002, p. 25) argued: "successful stakeholder management also involves learning, because stakeholder characteristics and interests change over time." The present paper demonstrates that adding a temporal view to stakeholder theory to explain firm-level competitive advantage, moves our understanding of stakeholder preferences, and their impact on the firm, from a static to a dynamic conceptualization. Indeed, our temporal view does not simply entail managing a stakeholder network wherein the goals and stakes of the actors change and thus require adaptation. Our temporal view addresses the quantum-leap type, transformational change in stakeholder management that is required when the 'switch' occurs from stakeholders primarily supporting resource heterogeneity towards seeking mainly inter-firm homogeneity.

Literature Review

RBV

The RBV of the firm, which has had a major impact on the field of strategy, is based on conceptualizations of resource selection, access, accumulation, and (re)combination. This perspective suggests that resources management is largely a function of intra-firm choices guided by motives of efficiency, effectiveness and profitability (Conner 1991), additional strategic elements such as buyer and supplier power, and industry structure. Hence, resources management depends at least partly on market imperfections preventing rivals to pursue the same strategy as the firm under study. These market imperfections include barriers to acquisition, imitation, and substitution of key resources (Barney 1986; Penrose 1959; Schoemaker and Amit 1994).

Inter-firm differences precisely arise when there is an unequal distribution of resources as a result of imperfect markets (Barney 1986; Dierickx and Cool 1989). Barriers to resource mobility benefiting one particular leading firm can generate long-term constraints on other firms' abilities to generate rents, to the extent that these other firms are hampered in gaining access to—or somehow duplicating or substituting—critical resources held by the leading firm. The rent potential of a resource depends fundamentally on the characteristics of the resource itself, i.e., whether it is valuable, rare, inimitable, non-substitutable, etc. (Amit and Schoemaker 1993; Barney 1991; Mahoney and Pandian 1992; Peteraf 1993). Furthermore, the accumulation of resources and combinations thereof into assets with high levels of specificity (e.g., specialized skills and valuable physical location) can also have a profound influence on rent generation and on what constitutes optimal governance (Barney 1991; Williamson 1985). Here, the RBV touches TCE thinking, since TCE always focuses on the choice of resources that should be utilized within the firm (as with employees and equity capital), rather than merely accessed through external market contracts (as with outside suppliers and debt capital). TCE also pays attention to optimal internal governance and the optimal management of the interface with external stakeholders, in the sense that the idiosyncratic attention to be devoted to their claims should be commensurate with the uniqueness of the resources they bring to the firm. As a complement to the RBV, TCE thinking thus also addresses the essence of stakeholder theory, but with the latter focused more on the overarching web of relationships between the firm and its stakeholders, rather than on economizing in the context of individual transactions or classes of transactions.

Apart from TCE, the modern theory of innovation management also complements insight from the RBV on how to manage the innovation process in its entirety, by

focusing on the role of the various resource providers in ultimately making it possible for an innovation value chain to be commercially successful, e.g., by minimizing disruptions in the functioning of these resource providers (Afuah 1998). From a stakeholder management perspective, what matters here is not only the artful orchestration of the resources committed to the innovation process, but also the skillful social re-engineering of the network of stakeholders who provide resources and ultimately share (or evolve so they 'grow to share') the same goals and interests as the innovating firm. As mentioned by Hall and Martin (2005), social re-engineering may prove difficult to achieve when secondary stakeholders (not studied in the present paper), who were excluded from the innovation value chain, try to become involved. Their attempts at influencing the innovation process can often be interpreted as a defense of the status quo, i.e., homogeneity in industry and prevailing practices threatened by the innovation process, but successful disruptive innovation precisely requires the firm to focus on resource heterogeneity in its stakeholder management, rather than paying attention to stakeholders whose main interest is to maintain the status quo.

From an RBV perspective, firms are motivated to achieve economic optimization, which drives resources management, and thereby the firm's conduct and performance. Variations across firms in resource strategies are a result of market imperfections that inhibit access to—or replication/substitution of—valuable resources. Thus, a firm's competitive advantage is the outcome of deliberate resources selection, access, accumulation, and recombination, based on systematic assessment and value-optimizing, managerial decisions in a context of resource mobility barriers (Ginsberg 1994; McGee and Thomas 1986; Zajac and Bazerman 1991).

Institutional Theory Perspective

The institutional theory perspective proposes that individuals tend to be approval-seeking, susceptible to social influence, and habituated to tradition and societal expectations. The institutional theory view applies to firms because, in essence, firms are social constructions, created and managed by individuals. As such, firms also operate within socially constructed limits and within a framework of norms, values, and assumptions of acceptable (i.e., legitimate) economic behavior (Oliver 1997).

In contrast to the RBV, which emphasizes economic optimization, normative rationality in institutional theory encompasses social justification and social obligations (Zukin and DiMaggio 1990). Institutional theorists suggest that social conformity contributes to organizational success due to increased legitimacy, resources, and survival

capabilities (Baum and Oliver 1991; DiMaggio and Powell 1983; Scott 1987). Activities within the firm that are institutionally embedded are those taken for granted or so strongly endorsed by corporate culture and the related power structure that management no longer questions the adequacy of—or rationale for—those behaviors. These activities are enduring, socially accepted, resistant to change and not wholly reliant on rewards for their persistence (Oliver 1992).

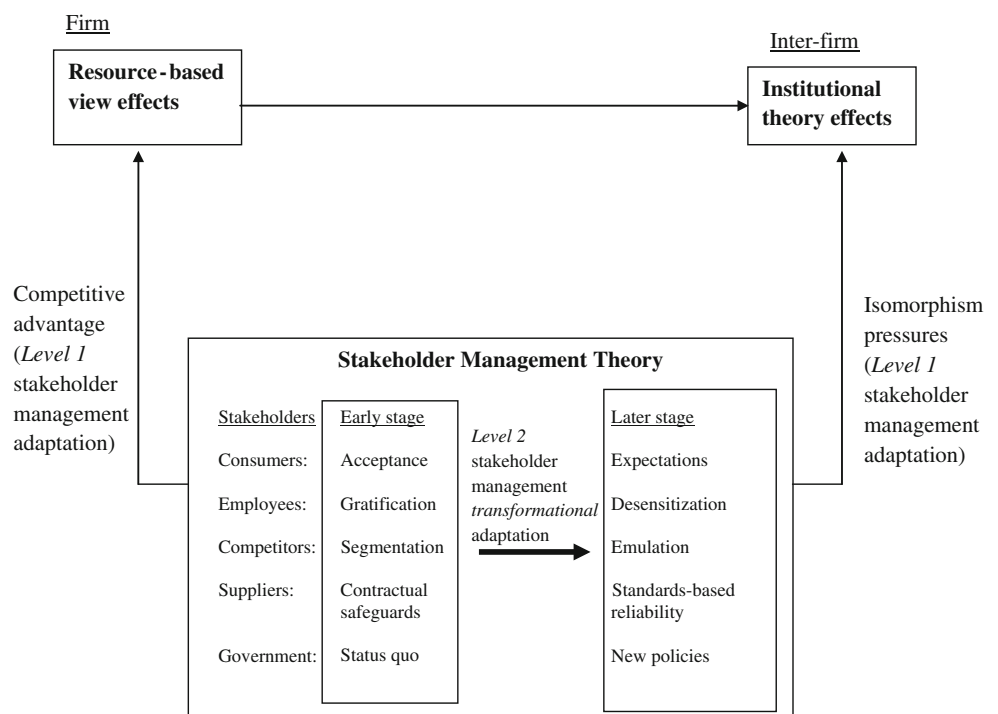
Institutionalization, in the sense of viewing as legitimate and adopting common practices, is not limited to the individual and organizational levels. While managers’ habits and norms, as well as corporate culture and shared beliefs, shape commonly performed activities at the individual and organizational levels, respectively, pressures from government, strategic networks and general societal expectations, for example, influence what is considered socially acceptable behavior across firms. These social pressures—often common amongst firms in the same sector—trigger inter-firm homogeneity as companies begin to adopt similar structures and processes (DiMaggio and Powell 1983). As was the case with the earlier discussion of the RBV, TCE can also be viewed as a complementary lens to institutional theory thinking. Transaction cost economizing implies “regulating” the institutional pressures that will be taken on board by firms. For example, suppliers with short-term contracts are unlikely to influence the firm to purchase long-term, highly specific assets supporting these short-term contracts, as this would amount to poor governance, see Nordberg and Verbeke (1999). In

other words, TCE provides “governance guidelines” to the firm for managing each stakeholder, driven largely by the symmetry (or the lack thereof) between the nature of the contracts (and claims) held by each stakeholder and the corresponding demand (institutional pressure) emanating from this stakeholder. Modern innovation theory also provides useful insight here. When stakeholders plead for conformity to behavior and practices they consider legitimate, a piecemeal social engineering approach may again be required from the firm, to prevent stakeholders from harming the innovative value chain, especially in cases of high performance ambiguity, in the sense of how the expected or realized performance of the innovative product, practice or even entire value chain is interpreted by the firm’s management vis-à-vis the various stakeholders (Hall and Martin 2005).

Temporal Model of Stakeholder Theory

Figure 1 outlines a temporal model of stakeholder theory, whereby we distinguish between two stages, namely an *early* stage and a *later* stage in stakeholder management. Adopting this simple, two-stage model benefits parsimony and clarity of exposition, but also implies foregoing some detail and complexity in the evolving relationships between the firm and its stakeholders. However, what really matters in this context are the processes of moving in an idiosyncratic fashion from a stakeholder strategy built primarily upon the concept of stakeholders providing resources that

Fig. 1 Adding a temporal dimension to stakeholder management theory: Two levels of adaptation



support *firm-level heterogeneity*, to a strategy focused more on managing institutional pressures towards conformity. The latter strategy needs to address these isomorphic pulls in ways that defy the tendency towards competence commodification.

Our model does contribute to a better understanding of these processes. As shown in the model, stakeholder theory suggests that, at the outset, various stakeholders provide sources of competitive advantage to the firm in the form of resources and higher-order resource combinations, i.e., capabilities, valued for their potential to generate rent. Examples of capabilities include technological capabilities, marketing knowledge, various forms of tacit knowledge, etc. (Barney 1991; Mahoney and Pandian 1992; Rao 1994; Schoemaker and Amit 1994). Initial differences in selecting resources, and in accessing, accumulating and combining these, imply firm heterogeneity, which is defined as “relatively durable differences in strategy and structure across firms in the same industry that tend to produce economic rents and a sustainable competitive advantage” (Oliver 1997, p. 701).

During this *early stage*, a firm’s competitive advantage is sustainable, to the extent that competitors cannot imitate its value-creating strategy, i.e., its unique way of combining resources (Barney 1991). The firm’s idiosyncratic stakeholder management strategy consists of more than uniquely combining amorphous resources vis-à-vis rival companies. Each resource instrumental to the value creation process is provided by a stakeholder, which means that a ‘complete’ strategy consists of orchestrating both resources and the network of resource-providing stakeholders.

During the transition from this *early stage* to a *later stage*, the preferences of the various stakeholders (consumers, employees, competitors, suppliers, and government) evolve in a fundamental way, and so do the stakeholder relations (Phillips 2003). In the *early stage*, consumers may reward firms that augment their products with even minor socially responsible attributes (e.g., use of organic fertilizers in the food industry), with increased consumption and loyalty. As time progresses, expectations gradually form and many consumers begin to view those socially responsible attributes as a requirement, and may expect additional product features, or in general terms “more value for money.” This change in stakeholder demands requires what could be called a *level 1* stakeholder management adaptation strategy, meaning that sustainable competitive advantage needs to take into account the evolving nature of existing and new stakeholder demands, but there is little complexity or ambiguity here (Hall and Martin 2005; Mitchell et al. 1997).

However, at the *later stage*, from an institutional theory perspective, the blend of social and economic relations among firms, common dependencies, as well as competitive-

advantage benchmarking, pressures firms towards conformity that gives rise to inter-firm homogeneity. Market isomorphism pressures from the same stakeholders will determine what constitutes acceptable economic behavior. Activities subject to such pressures will lead firms to adopt more homogenous strategies, structures, and systems (DiMaggio and Powell 1983) though taking into account that firms that cannot achieve differentiation in the eyes of stakeholders exhibit relatively poor financial performance (Brammer and Millington 2008). In other words, what is required at this stage is a *level 2* stakeholder management adaptation strategy. Here, the key to success is not the creative management of stakeholders to achieve heterogeneous, value-creating resource combinations, but rather establishing a perception of legitimacy in the sense of behavior and practices acceptable to stakeholders. Neither the resources used, nor resource combinations crafted, must be seen as geared solely towards achieving heterogeneity, but on the contrary must serve achieving similarity. Responding to stakeholder pressures to conform can obviously not constitute the sole basis of stakeholder management, meaning that any *level 2* adaptation strategy, accommodating demands for conformity, must always build on an earlier *level 1* foundational approach that focuses on heterogeneity in resource use and combination. The same is true for the opposite move, from a situation of substantial inter-firm homogeneity and *level 1* adaptation to evolving stakeholder goals and preferences, to industry disruption via new, unique resource combinations, each requiring a completely different stakeholder management approach and *level 2* learning.

Competitive Advantage: Combining Stakeholder Theory and the RBV

Within the mainstream strategic management literature, the RBV provides a comprehensive explanation as to the driving forces underlying firm-level competitive advantage, whereas stakeholder management theory is regarded as a somewhat secondary set of frameworks associated primarily with research in business ethics and corporate social responsibility (CSR). However, it is more appropriate to view the two perspectives as complementary, rather than competing, theories (Freeman et al. 2010). The RBV considers firm-level competitiveness as an outcome of resources management. In this regard, effective stakeholder management is crucial, as a firm is highly dependent on its stakeholder network for resource selection, access, accumulation, and combination.

Stakeholder theory also supports the relationship between the RBV and firm performance, meaning the development of competitive advantage to fuel the creation of economic rents. In other words, stakeholder management capacity represents itself a higher-order capability in firms. For instance, one

source of firm-level competitive advantage lies in accessing and further combining resources that are, *inter alia*, valuable, rare, inimitable, and non-substitutable (Barney 1991). Effective stakeholder management with suppliers and customers provides firms with intangible assets such as a good reputation and high-quality relationships. These intangible assets are difficult to imitate by competing firms as no two reputations or relationships are identical. As a result, firms that have a greater capacity to access valuable resources thanks to their reputation and relationships can be expected to command a stronger competitive advantage, which yields higher financial performance and increased economic value (Fischer and Reuber 2007).

Inside the firm, the RBV perspective suggests that valuable resources may be combined into unique strategic human resources management systems or organizational processes. Internal stakeholders (e.g., employees) routinely make firm-specific investments via organizational learning that are essential to the firm's competitiveness. This effect is particularly pronounced in industries that rely on high human asset specificity in research and development, such as the information technology and pharmaceutical sectors. A firm can enhance its competitive position to the extent that it can motivate its internal stakeholders to invest more effort into the firm (Oliver 1997).

Overall, stakeholder theory addresses some of the limitations of the RBV. *First*, the RBV has been criticized for its lack of prescriptive capacity—it does not explain how firms should manage resources to maintain their competitive advantage (Priem and Butler 2001). In contrast, stakeholder theory not only provides insight into how firms should manage their stakeholders to access resources, and further *develop* competitive advantage, but also recognizes that a firm's stakeholder network is in itself a *source* of competitive advantage (Harrison et al. 2010). *Second*, the RBV does not provide guidance on how economic rents should be distributed after they have been created (Barney and Arkan 2001). Stakeholder theory suggests that compensation should be given to stakeholders to encourage their continued support. Furthermore, compensation is not limited simply to the issue on how to create and capture economic rents in a mechanistic fashion, but also prescribes behavior viewed as desirable from the perspective of the firm's stakeholders (e.g., customers may regard a firm's charitable donations to the local community as highly favorable). As Freeman et al. (2010, p. 116) have asserted, “the RBV needs stakeholder theory to be complete.”

Temporal Perspective of Stakeholder Theory: Evolving Preferences

Whereas the types of preferences at play in the RBV and institutional theory are relatively static in nature (Oliver

1997), the preferences of the main stakeholders in stakeholder management theory are constantly evolving. RBV theorists assume that economic rationality, motivated by efficiency and profitability, is bounded mainly by uncertainty, limited information, and heuristics biases when managers make resource decisions. Decisions on resources are vulnerable to managerial biases, and value-maximizing choices are imperfect due to partial information and uncertainty about future outcomes (Amit and Schoemaker 1993). Within this context, the relevant stakeholders and their demands on the firm may change over time, thus requiring stakeholder management adaptation, but this remains largely what we denote as *level 1 adaptation*.

Institutional theorists contend that managers make decisions based on normative rationality, which is bounded by historical precedents and trajectories, social justification, norms, and habits. At the organizational level, companies react to institutional pressures, which may also be evolving over time. Here again, what matters is effective *level 1* adaptation, in this case adaptation to keep conforming to pressures for homogeneity.

The above, *level 1* adaptation processes, are relatively well understood in contemporary scholarly work on stakeholder management. However, our temporal view goes beyond *level 1* adaptation processes and suggests that stakeholder preferences may undergo a fundamental change in direction, namely from supporting heterogeneity towards seeking homogeneity in industry, thereby also requiring *level 2* or *transformational*, stakeholder management adaptation. Below, we focus in greater detail on the reasons for the fundamental redirection of stakeholder preferences from supporting heterogeneity to seeking homogeneity, that trigger the need for *level 2* adaptation by the firm.

Role of the Consumer

First and foremost, this discussion begins with a consideration of the role of current consumers. As Eesley and Lenox (2006, p. 769) described it, a stakeholder targeting “a firm's current revenue stream is likely to be more salient than one that is targeting a potential revenue stream.” At the *early stage*, consumers themselves are open to different choices and inducements. They have a systematic and reflective decision-making process for ‘search goods’, i.e., those products whose attributes and qualities can easily be determined before purchase (Nelson 1970). Consumers consciously and actively search for goods that provide them with the rewards or experiences they seek. They reward firms that fulfill their needs with loyalty, purchase intent, positive attitude and also minimized scepticism if they feel that a firm has considered a number of moral and ethical consequences of its actions (Pirsch et al. 2007).

However, as consumers become more knowledgeable in terms of product research and selection, certain product characteristics previously considered as exceptional (e.g., socially responsible attributes) and heterogeneously provided by a single firm, come to be expected. As one example, an evolved sense of expectations is particularly apparent with regard to ecotourism. Today, consumer perceptions have changed so dramatically that travelers now have “ceaseless expectations for unique and culturally authentic travel experiences that protect and preserve the ecological and cultural environment” (Dodds and Joppe 2005, p. 13). Consumers will no longer make purchase decisions based solely on the presence of differentiated product characteristics, but rather, may even regret their past purchase decisions based on the absence of such attributes. Support for the “single firm” providing heterogeneous “ecotourism value” is being replaced by seeking offerings in industry from a multitude of companies that provide common ecotourism services, and whereby extra value can come, e.g., from the firm working with local partners or providing cost efficiencies to customers. It could be argued that these last two sources of competitive advantage are still based on heterogeneous resources utilized by the firm, but our key point is simply that the nature of the relationship with its customers on ecotourism matters has changed fundamentally: what used to be a source of uniqueness and made the firm’s reputation, must now be replaced by efforts to convince the customer that the standard norms in industry are being respected, as a precondition for this stakeholder considering the firm’s offering.

Role of the Employee

While existing employees have typically adopted the culture, norms, and traditions of their current firm, prospective employees more readily contemplate opportunities from competitor firms that can better provide them with the types of compensation to improve their overall wellbeing. Both existing and prospective employees, however, play an integral role in shaping work practices in firms.

Employees look for signals that management has heard their concerns. As Russo and Perrini (2010, p. 218) suggest: “the cultivation of close relationships with workers and the social or business environment makes it possible to establish expectations in social relationships.” According to Hosmer and Kiewitz (2005), firms should go beyond immediate fairness considerations to those of derivative obligations; for example, they should provide ethically appropriate benefit packages for employees (e.g., based on ‘living wage’ considerations) even if they operate in a country where such responsibilities are not legally required. In turn, if they can satisfy employee demands,

they will be rewarded with increased worker loyalty, morale, and productivity (Moskowitz 1972; Paret and Eibert 1975). Evidence also suggests that firms have used responsiveness to ethical demands, particularly in industries with skilled labor shortages, as a means to recruit prospective workers (Siegel 1999).

As Hill and Jones (1992, p. 136) have explained, “change at one point in time may favor managers; change in a subsequent period may shift the balance of power towards other stakeholder groups.” At the *later stage*, many workplace incentives become institutionally embedded due to employee desensitization to these programs. Desensitization is defined as a reduction in emotion-related physiological reactivity to stimuli (Carnagey et al. 2007). It can be adaptive and unintentional, and is not limited to undesirable stimuli. By definition, stimuli can be positive, negative, or neutral. Repeated exposure to a stimulus may lead to the desensitization in terms of emotional reactions to that stimulus which instigates changes in cognitive and affective responses such as decreased attention to, sympathy for, and positive attitudes towards, the stimulus (Anderson and Bushman 2002). Evidence suggests that these cognitive and affective determinants influence subsequent behavioral outcomes such as lower and delayed likelihood of action (Bartholow et al. 2006). Over time, employees may become desensitized to certain worker-focused programs and thus, they no longer attribute to the firm the same level of concern for employee well-being associated with those programs as compared to the past. Again, what was perceived as a heterogeneous resource deployed by the firm, and in this case made it an attractive employer, now becomes viewed as a minimum quality threshold to be respected, for employee retention, thereby changing the nature of the relationship firm and employees.

Role of the Competitor

According to the RBV, the primary sources of rents are derived from scarce natural resources (e.g., land, raw materials, commodity-type inputs), human resources and expertise (e.g., managerial talent), technological resources (e.g., process technology), financial resources and intangible resources (e.g., reputation) (Dyer and Singh 1998). Individual firms erect barriers to imitation to preserve profits and in a first stage an industry may be strongly segmented, in the sense of a high, perceived resource heterogeneity among companies. However, over time competitors will move towards benchmarking and will attempt emulating the key success factors characteristic of market leaders. Effectively imitating competitors in terms of resources management (from resource selection and access to resource recombination) does not occur instantaneously, and may take substantial time, especially in the

presence of strong market imperfections (McWilliams and Siegel 2001). For example, initial core competencies may become core rigidities and prevent adopting new managerial practices (Leonard-Barton 1992). Some stakeholders may even become obstacles to achieving corporate objectives (Goodpaster 1991), in this case through preventing the firm from adopting proven practices utilized by other companies. “A firm’s learning domain is defined in part by where it has been” and thus, it will experience difficulty when trying to alter its competencies (Teece 1988, p. 265). However, despite the incumbents’ difficulties in embracing change, from a microeconomics supply perspective, a large, diversified firm can take advantage of economies of scale and scope, and spread the costs of new (incremental) initiatives over many products and services (McWilliams and Siegel 2001). This lowers the cost per unit of developing new products or incorporating new processes into the firm’s organizational systems. Smaller firms, without equivalent prowess to engage in *scaling up*, will have to adopt a wait-and-see approach until demand (e.g., from consumers, employees, etc.) promises a return that will compensate for the costs of implementing new programs.

The point of all the above is simply that in the longer run, and in spite of barriers to imitation, any firm’s competitive position based on resource heterogeneity becomes contestable. This is especially true for high-velocity markets, where competitive advantage is particularly short-lived (Eisenhardt and Martin 2000). In other words, homogeneity will creep in, consistent with the predictions of institutional theory, even if adopting common practices in industry may sometimes be more ceremonial than substantive. As a result of the fundamental erosion of the firm’s heterogeneous resource bundles and capabilities, stakeholder management vis-à-vis rivals also needs to change. For example, industry-wide common responses to triple bottom line pressures as seen in glossy CSR reports are now commonly adopted by competing firms irrespective of their underlying motives and social values (Bartkus and Glassman 2008).

Role of the Supplier

Firms and suppliers are almost by definition part of a social network. According to TCE theory, the goal of the firm in the context of relationships with suppliers is to reduce transaction costs associated with “buy” decisions. The aim is to minimize contractual hazards and opportunistic behavior from suppliers, through using contractual safeguards (Williamson 1985). At the *early stage*, high asset specificity will normally lead to bilateral dependency between buyer and supplier and therefore trigger complex formal contracting, whereby the buying firm is focused solely on the technical aspects of the supplier contract, and the need to secure access

to the supplier’s heterogeneous resources. However, as the buyer–supplier relationship develops and contractual safeguards mature, there is an enhanced sense of mutual reliability and grounded confidence (i.e., grounded in shared, past experiences, and mutual hostages) between the firms that one party will not exploit—with guile—the vulnerabilities of the other party (Barney and Hansen 1994). This evolving relationship lowers contracting costs and increases the returns that both partners can obtain from their relationship. Overall, close relationships create a sense of security with suppliers (Murillo and Lozano 2006), and firms may find it appropriate to jointly prepare for future challenges in their supply chains and to integrate more sophisticated mutual adjustment mechanisms in their daily operations, at least if complex contracts are warranted, given the nature of the underlying supply transactions (Maloni and Brown 2006). Relational contracting elements grow in importance, reflecting *level 1* stakeholder management adaptation by both parties.

However, at the *later stage*, what was highly asset specific, i.e., a heterogeneous resource, typically becomes more of a commodity-type input, and the supplier (or buyer) may wish to diversify its client (or supplier) base. Substantial past contracting experience where performance ambiguity has been eliminated may lead to a change in focus from complex contracting clauses to simple contracts and deterrence-based reliability, meaning that the credible threat of losing future business in case the contract is not properly executed may be a sufficient safeguard. In other words, each party become more interested in making sure that the contract meets “industry standards”, in terms of what constitutes fair pricing, quality features, renegotiation and exception clauses, etc. Again, a move towards pursuing what is legitimate and common in industry replaces the initial focus of each party supporting and reinforcing the other’s resource heterogeneity.

Role of the Government

The role of government is to co-create a society that will improve its citizens’ wellbeing and to lay the foundations (inter alia through laws and the enforcement thereof) of a fair marketplace for businesses to compete and prosper. Stable government regulations and policies provide firms with the consistency they need for strategic planning, whereas frequent power changes in government lead to an uncertain and undesirable business environment. To the extent that governments attach importance to business preferences, they will often be motivated to maintain the status quo so as to reduce uncertainty, and will only make incremental adjustments to their policies affecting business, thus triggering *level 1*, stakeholder management adaptation processes in these firms.

As Harrison and St. John (1996, p. 49) explained, “political power influences environmental uncertainty. Stakeholders with political power have the ability to influence events and outcomes that have an impact on the organization, whether or not they have a financial stake in the organization.” Research has shown that managers responsible for environmental matters perceive the greatest salience from regulatory and government-related stakeholders (Murillo-Luna et al. 2008).

Because governments most often are motivated primarily to maintain the status quo, fundamental change does only occur sporadically, e.g., in a crisis situation, when the build-up of fiscal pressures or constituencies’ demands for change can no longer be overlooked. For instance, governments have implemented stricter environmental protocols due to concerns for climate change voiced by constituencies. In many countries with growing immigrant populations, governments have recommended—and courts have upheld—the need for more minority representation (e.g., immigrant employees) in firms. Ultimately, governments will depart from their preferred decision-making process of minute, incremental change when the policy of ‘action through inaction’ is no longer legitimate from the perspective of their voters. In that case, firm-level stakeholder management vis-à-vis government typically needs to engage in *level 2* adaptation, and shift towards more cooperation and coordination with other firms in industry to create a legitimate conduit for voicing industry concerns, and avoiding new industry-wide policies from government that would negatively affect all firms in industry.

Inter-firm Homogeneity: Influence of Stakeholder Management Theory on the Institutional Theory Perspective

From an RBV perspective, firm heterogeneity is the result of market imperfections and resource mobility barriers. From an institutional theory perspective, inter-firm homogeneity is a function of social and economic interrelations among firms. Firms in the same industry conform to many influences, common knowledge and understandings achieved over time, and are thus propelled towards similarity (DiMaggio and Powell 1983; Scott 1987).

The main sources of market isomorphism pressures—that is, the influences favoring conformity by actors in an organizational field that define or prescribe socially acceptable economic behavior (Scott 1995)—can be determined by analyzing evolving stakeholder preferences. The five main sources of inter-firm homogeneity are: market demand characteristics, human asset specificity, competitor imitation, market networks, and the regulatory environment (Oliver 1997). These sources of homogeneity expose firms to common social influences, define what

resources firms are permitted to deploy, and affect the mobility of resources across firms.

Market Demand Characteristics

Consumers contribute extensively to inter-firm homogeneity when their expectations towards acceptable product characteristics or firm behaviors have become “normalized.” Through their collective decision-making and purchasing power, they begin to define what is acceptable social behavior in the marketplace (e.g., environmentally friendly materials, organic food ingredients, etc.). Firms in the industry that do not meet consumer expectations will risk rents reductions (e.g., from boycotts) and the effects of a damaged reputation (e.g., negative word-of-mouth from social media). As a result, firms are pressured into mirroring the industry leaders, e.g., in terms of socially responsible actions, and must invest heavily in assets and capabilities that allow them to meet or exceed the expectations imposed on them by consumers.

Human Asset Specificity

Large groups of employees may demand further work-related benefits when they become desensitized to early workplace incentive programs and no longer view the firm with the same level of reverence for those initiatives as in the past. The cost of personnel turnover is substantial as it provides a direct channel of proprietary information flow from one firm to another. This cost is further exacerbated with the risk of large-scale employee turnover, in cases whereby the firm’s operations and knowledge-base reside within the collective skills sets of many employees rather than being wholly vested in a single individual (Nelson and Winter 1982).

Individuals who work in an industry often develop capabilities in the form of tacit knowledge and skills that are transferable between firms in that industry. When the above turnover process occurs, human capital transfers, especially the transfer of individuals with specialized knowledge such as technical expertise, reduce the asymmetrical distribution of capabilities across firms, and contribute to inter-firm homogeneity (Oliver 1997).

Competitor Imitation

Firms often directly imitate successful competitors (e.g., through adopting similar technologies) or indirectly use them as role models (e.g., through benchmarking) via competency blueprints or the hiring of outside consultants when the pressure for change is greater than institutional hindrances (Oliver 1997). A reduction in firm heterogeneity results when firms copy each other in areas such as

organizational structuring, product development, process control, and sales and marketing.

Inter-firm homogeneity further increases when inter-firm structural and strategic diversity is reduced. This is often a result of high research and development costs. Imitations in research and development reduce uncertainty for firms when the risks and costs of pioneering technology are high, particularly for smaller firms that hold a follower-type market position. As Oliver (1997, p. 708) argued, “effective competency blueprints reduce firm heterogeneity by increasing the availability and competitors’ level of understanding of firm capabilities.”

Market Networks

From a network perspective, suppliers are embedded within a network of relationships with many other buyers and suppliers (Gulati et al. 2000). The sharing of resources and tacit capabilities, such as a network reputation, specialized technical expertise, and product development capabilities, reduces resource mobility barriers and contributes to inter-firm homogeneity (Reed and DeFillippi 1990). Inter-firm homogeneity will broaden when the network expands to include more relationships with potential suppliers. This will typically occur when an initial focus on special contracts to absorb asset specificity, as a particular form of resource heterogeneity, is replaced by standard contracts for the supply of the input that has become more commodity-like over time.

Regulatory Environment

When constituencies viewed relevant by government perceive the default policy of “business as usual” as being no longer acceptable, government will introduce regulatory measures that firms must now abide by as part of the cost of conducting business. A new or revised regulatory regime typically limits inter-firm diversity by constraining firms’ range of permitted resource options, and by imposing constraints on resource inputs and production deployment based on societal expectations. Other resource standards may include affirmative action requirements such as acceptable human capital inputs (e.g., minority representation in a firm) and pollution control standards (DiMaggio and Powell 1983; Meyer and Rowan 1977).

Application of the Model: Maintaining Competitive Advantage

We have shown above, using a stakeholder management theory lens, that stakeholders provide firms with

heterogeneity and competitive advantages in an *early stage*, but then at a *later stage* contribute to inter-firm homogeneity through pressures favoring shared practices. Both in the *early* and *later* stages, firms must engage in *level 1* stakeholder management adaptation processes. However, the most unique feature of a firm’s stakeholder management system may be its ability to make quantum leaps from responding to—and using—stakeholders supporting resource heterogeneity to stakeholders seeking more inter-firm homogeneity.

The extant literature has stressed the importance of protecting both resource capital and institutional capital (Oliver 1997). Resource capital refers to the value-enhancing, rare and inimitable assets and capabilities of the firm. Examples include patented technology, brand names, employee talent, and customer loyalty. Resources must be protected from competitor imitation, and constantly enhanced through industry benchmarking and adding quality features to ensure optimal value. In this context, institutional capital refers to firm-specific resource utilization strategies that facilitate the optimal use of resource capital. Examples include training programs for employees to accelerate the effective adoption of new technology, management leadership programs to develop the firm’s human capital base, and decision support systems to encourage resource innovations. Institutional capital itself can be enhanced through, e.g., the internal monitoring of incentive programs and the use of cross-functional teams to encourage innovations. Overall, resource capital and institutional capital are complementary sources of competitive advantage (Oliver 1997).

In addition to the mainstream view described above, this paper provides a somewhat different perspective on how to achieve competitive advantage: firms should adopt both *level 1* and *level 2* approaches to manage their relationships with stakeholders and diffuse appropriate resource capital strategically through their institutional channels by leveraging the evolved, *later-stage* stakeholder preferences to their advantage. For instance, while employee training programs and even new technology may be rare, inimitable, and valuable in the *early stage*, these will inevitably be observed and imitated by competitors. Evolving stakeholder preferences, which contribute to isomorphism pressures, will further facilitate the diffusion of resource capital leading to inter-firm homogeneity. Consequently, rather than fighting this change process, firms should learn to appreciate and take on board the *later-stage* preferences of their stakeholders and strategically craft new resource capital bundles, adapted to new stakeholder preferences, so that their competitive advantage is maintained. Alternatively, the firm can try to craft new legitimacy for its extant resource capital by interacting with—and trying to influence—key stakeholders.

To illustrate the last point above, consider the nature of CSR that varies from one time period to the next (Svendsen 1998). A firm with proprietary resource capital such as a new oil extraction technology, the exploitation of which is both profitable and socially responsible, may affect the *later-stage* preferences of government bodies by influencing public policymakers to introduce regulations that would require all firms in an industry to adopt the new technology so as to benefit society (e.g., in the environmental sphere) beyond the prevailing industry standards. If successful, the technology will become the benchmark and all firms must invest heavily (e.g., by obtaining a license to use the technology) to continue operations. Undoubtedly, the innovating firm could have taken a traditional approach to competitive advantage by simply protecting its technology and guarding against imitation, but by opting to anticipate evolving stakeholder preferences, it has now secured its position as the industry leader displacing firms that (initially) chose not to invest in more socially responsible technology. Although “industries vary in their perceptions of—and response to—stakeholder pressures” (Buysse and Verbeke 2003, p. 463), this strategy would allow the firm to maintain its competitive advantage, amidst the transformation towards inter-firm homogeneity.

Conclusion

Our central thesis in this article is that a firm’s relationships with its stakeholders evolve over time, and are subject to *level 1* and *level 2* adaptation processes, critical to sustaining competitive advantage. In line with earlier work by Brammer and Millington (2008) in the context of CSR, we do not suggest that *more* adaptation is always better. In other words, our article does not imply that firm-level actions to cater to stakeholder demands, including actions related to CSR, should necessarily have a high intensity during the firm’s entire life cycle. Stakeholder engagement should always serve value-creating purposes and competitive advantage, and its opportunity cost should be carefully assessed. As was made clear by Brammer and Millington (2008), the firm’s life cycle does matter in managerial decisions on resource allocation towards satisfying specific stakeholders’ demands. These scholars also found salient stakeholders typically attaching more importance to the firm’s “social sensitivity” when it has matured, rather than earlier in its life cycle.

We have made two contributions to the extant literature. The first contribution involves formally adding a temporal dimension to mainstream stakeholder management thinking. The temporal approach suggests in a stylized (and obviously simplified) fashion that at least two distinct “stages” in a firm’s life should always be considered. Each

stage is associated with its own *level 1* adaptation process, but the actual transition from one stage to another requires *level 2* adaptation. What we call *level 1* adaptation is consistent with the extant literature: the content and saliency of stakeholder claims may change over time, and effective stakeholder management should purposefully adapt to such changes, taking into account the costs and benefits of such adaptation. In contrast, *level 2* or *transformational* adaptation reflects the wholesale change in direction of several stakeholder pressures from supporting firm-level heterogeneity towards seeking more inter-firm homogeneity (or the opposite move from homogeneity seeking towards more heterogeneity, e.g., in case the firm starts pursuing breakthrough innovations), thereby also requiring a fundamental transformation in stakeholder management processes.

The stylized nature of our model becomes apparent when considering that an innovating firm’s birth and corresponding features of heterogeneity in the *early stage* of its life, fostered by an idiosyncratic resource base, typically upsets the ‘status quo’ in industry. In other words, a successful entry by an innovator typically disrupts the prevailing stakeholder forces in industry that favor homogeneity. What we call the *early stage*, from the firm’s view, may thus actually represent a disruption of long established industry practices, including how firms manage their stakeholder relationships in the face of dominant pressures towards homogeneity.

The main reason for an innovator’s success, when given a stakeholder management interpretation, is precisely that its unique stakeholder network at the outset provides resources that are somehow different from what prevails in industry. The innovator also introduces a different set of practices to manage its stakeholder network (or at least parts of this network) as compared to prevailing practices in industry, thereby creating economic value.

Inside the firm, these two stages can also be considered at the level of newly established subunits, and even new product introductions. In the *early stage*, stakeholders contribute resources to the firm in an idiosyncratic fashion, thereby increasing *heterogeneity* as the precondition for successful value creation. However, subsequently, in a *later stage*, these same stakeholder groups also contribute to *inter-firm homogeneity* via isomorphism seeking, thereby ultimately requiring *level 2* adaptation by the firm.

Our paper’s second contribution is that we have made explicit the linkages between stakeholder management theory and the RBV in strategy. Stakeholder management theory supports the proposed relationship between a stronger resource base provided by stakeholders and firm performance, as successful firms typically draw heavily in the *early stage* on their idiosyncratic stakeholder networks for resources selection, access, combination, and accumulation.

Here, stakeholder management theory and the RBV are clearly complementary, but with TCE providing guidance on how to manage ‘contracts’ with each stakeholder, and innovation theory suggesting to look at the innovation value chain in its entirety.

However, at the *later stage*, the RBV needs additional insight from institutional theory to explain how the evolving agendas of five major stakeholder groups, namely consumers, employees, competitors, suppliers, and government all affect stakeholder management adaptation. More specifically, the concept of dominant stakeholder pressures *switching* direction from promoting heterogeneity towards fostering homogeneity in industry has not been discussed previously in generic terms in the extant literature, but is—in our view—a critical cornerstone of a general stakeholder management theory.

Building upon RBV thinking and institutional theory, again infused with elements from TCE and innovation theory, we have argued that the five main sources of isomorphism pressures, each related to a particular stakeholder contributing to inter-firm homogeneity, are: market demand characteristics, human asset specificity, competitor imitation, market networks, and the regulatory environment. Although the traditional RBV focus on protecting resources from competitor imitation remains important, we arrive at a somewhat different suggestion to maintain competitive advantage vis-à-vis rivals. The view offered here suggests that firms should leverage the *later-stage* stakeholder agendas to their advantage, by *anchoring* elements of their resource base to the various pillars (i.e., the main stakeholder groups) active in their institutional environment. Here, *level 2* or *transformational adaptation* to satisfy stakeholders promoting homogeneity in industry must be added to the firm’s prior sole focus on maintaining resources heterogeneity. This may imply, inter alia, that conventional “lone wolf” behavior vis-à-vis industry rivals and other stakeholders is being complemented or even supplanted by initiatives fostering cooperative behavior, e.g., in the sphere of joint standard setting.

Our temporal perspective with two generic levels of stakeholder management adaptation will hopefully become the foundation of an entirely new stream of scholarly work on dynamic adaptation to changes in salient stakeholder demands. One key question to be answered is how and when firms actually start *level 2* adaptation, taking into account that more homogeneity (at least as perceived by some stakeholders) may serve sustaining competitive advantage, but may also bring significant costs. Does management wait until several stakeholders have changed direction from supporting heterogeneity to seeking homogeneity, or does the firm play the role of *first mover*, perhaps even taking the lead in industry-wide initiatives towards more homogeneous practices. The mirror image of

this situation is the timing of decisions by established firms or new entrants to break away from prevailing stakeholder management practices in industry, and to give (renewed) priority to seeking heterogeneity of their resources base via their stakeholder management.

Another important question revolves around the co-existence and co-evolution of those stakeholder management practices that seek to maintain requisite heterogeneity of the firm’s resource base, and the practices serving the opposite purpose, namely to accommodate stakeholder demands for common practices across firms. Perhaps it is ultimately the capacity to select, govern, and adjust appropriately the mix of practices that serve respectively heterogeneity-supporting stakeholder forces and homogeneity seeking ones that is the key to competitive advantage in the long run.

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