Stakeholder Theory, Value, and Firm Performance

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ABSTRACT: This paper argues that the notion of value has been overly simplified and narrowed to focus on economic returns. Stakeholder theory provides an appropriate lens for considering a more complex perspective of the value that stakeholders seek as well as new ways to measure it. We develop a four-factor perspective for defining value that includes, but extends beyond, the economic value stakeholders seek. To highlight its distinctiveness, we compare this perspective to three other popular performance perspectives. Recommendations are made regarding performance measurement for both academic researchers and practitioners. The stakeholder perspective on value offered in this paper draws attention to those factors that are most closely associated with building more value for stakeholders, and in so doing, allows academics to better measure it and enhances managerial ability to create it.

KEY WORDS: value, performance measurement, corporate performance, stakeholder theory, happiness

STAKEHOLDER THEORY HAS INFILTRATED the academic dialogue in management and a wide array of disciplines such as health care, law, and public policy (Freeman, Harrison, Wicks, Parmar & de Colle, 2010). Much attention has been paid to some basic themes that are now familiar in the literature—that firms have stakeholders and should proactively pay attention to them (i.e., Freeman, 1984), that stakeholder theory exists in tension (at least) with shareholder theory (i.e., Friedman, 1970), that stakeholder theory provides a vehicle for connecting ethics and strategy (i.e., Phillips, 2003), and that firms that diligently seek to serve the interests of a broad group of stakeholders will create more value over time (i.e., Campbell, 1997; Freeman, 1984; Freeman, Harrison & Wicks, 2009). Nevertheless, there are so many different interpretations of basic stakeholder ideas that theory development has been difficult (Scherer & Patzer, 2011).

In spite of its importance to stakeholder theory, little attention has been devoted to questions regarding what it means to create value for stakeholders and how we can measure it. Part of the reason for the relative absence of discussion may be that researchers assume they know what value means. For example, much heat and

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debate in the stakeholder literature regards the issue of who has legitimacy and to whom managers have responsibilities (e.g., Donaldson & Preston, 1995; Freeman, 1994; Goodpaster & O'Halloran, 1994; Mitchell, Agle & Wood, 1997). At their core, these studies are about who should have claim to the spoils of the firm. For instance, legitimate stakeholders presumably should get a larger share. An inherent assumption in this literature is that the concept of value is already understood as economic value (i.e., Agle, Mitchell & Sonnenfeld, 1999). If the only relevant value created by a firm is economic then the legitimacy arguments may actually feed animosity among stakeholders—that they are all vying for a piece of the economic pie, and each wants a larger share. This type of animosity is contrary to the underlying philosophy that has characterized stakeholder theory emphasizing the "joint-ness" of stakeholder interests and the need for all stakeholders to benefit over time through their cooperation (Freeman, 1984; Freeman, Harrison & Wicks, 2007).

Another major stream of literature addresses the size-of-pie issue by attempting to link good (i.e., generous, fair) stakeholder treatment with the creation of value (i.e., Berman, Wicks, Kotha & Jones, 1999; Choi & Wang, 2009; Hillman & Keim, 2001; Preston & Sapienza, 1990). The underlying assumption of most studies of this type is that economic measures capture the value created through good treatment of stakeholders, thus sidestepping the notion that much of the value stakeholders get from working with stakeholder-friendly firms may not be captured in economic measures. While economic returns are fundamental to a firm's core stakeholders, most stakeholders want other things as well (Bosse, Phillips & Harrison, 2009). Attention to these other factors may prove critical to understanding why firms succeed over time, why stakeholders are drawn to (and remain with) some firms, and which firms do the most for their stakeholders.

These two important streams in the stakeholder literature demonstrate the need for a more thorough evaluation of the concept of value. A stakeholder-based perspective of value is important from a managerial perspective because managers tend to focus attention on things that lead to higher performance based on what actually gets measured (Kaplan & Norton, 1992; Sachs & Rühli, 2011). Rather than focusing primarily on economic measures of performance, a stakeholder-based performance measure challenges managers to examine more broadly the value their firms are creating from the perspective of the stakeholders who are involved in creating it. Thus, it gives managers the information they need to engage stakeholders where they are and enhance managerial ability to use such insights to create more value. At its core, this perspective is about creating a higher level of well-being for the stakeholders involved in a system of value creation led by the firm.

From an academic researcher's perspective, most empirical studies based on stakeholder theory have used a measure of stakeholder performance as the independent variable, with some measure of economic performance as the dependent variable (i.e., Berman et al., 1999; Choi & Wang, 2009; Hillman & Keim, 2001). If a broad-based measure of stakeholder performance instead becomes the dependent variable, with an organizational action or phenomenon as the independent variable, then there is much greater potential to understand how that phenomenon is influencing the overall value the firm creates. Further, this perspective suggests

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that while recommendations made by business scholars on how managers can create economic value may have merit, they could also lead managers to take actions that create economic value while reducing other types of stakeholder value. This, in turn, not only diminishes the value of the insights, it also raises questions about the ability of the firm to sustain its economic performance over time—especially if efforts to focus on financial returns ignore or erode bases of support from some of the firm's stakeholders.

In this paper we begin by discussing the concept of value, noting some of the ways it has been understood and using this understanding as a platform to argue for why we need a more complex view that is grounded in stakeholders. We then develop a four-factor model of stakeholder value and turn to operationalizing it using the existing literature on happiness as one way of demonstrating the practicality of our model. We conclude by noting implications and directions for future research.

ECONOMIC FOUNDATIONS FOR UNDERSTANDING VALUE

Revisiting some foundational texts and thinkers in economics provides useful insights for this project. Adam Smith (1776) provides at least two important perspectives on "value." First, a central premise of *The Wealth of Nations* is that individuals know what is best for them—that value is something that individuals should define for themselves and not allow governments or others to choose in their stead (Smith, 1776). Although Milton Friedman (1970) is often criticized as providing an amoral vision of business, a careful reading of his work also highlights the importance of moral ideals, particularly individual freedom—to decide how to live, where to work, what to buy (i.e., what is of "value") and under what terms (i.e., what "value" they are willing to pay to receive the value they seek). The push to emphasize individual freedom and reject allowing others (e.g., government, one's peers) to make choices for oneself is precisely the impetus that drives our inquiry—that individual differences in defining value are fundamental.

Second, Smith (1776) emphasizes that healthy markets allow customers to choose—what they will buy, from whom (i.e., among a number of potential vendors for any given item), and under what terms. Such a market also operates for other stakeholder roles, including for employment (e.g., for whom will I work, under what terms, for what compensation). We know from the basics of markets that people will tend to make choices that provide them the most value for what value they give up. When they can find a better deal—i.e., more value for what they give up for it—people will tend to shift from their previous choice to this better deal over time. As such, if firms want to be successful, they need to find ways to improve what they do to better appeal to their customers.

If we shift to other thinkers who were key in the evolution of economic thought and current understandings of "value," two figures stand out: Jeremy Bentham and J. S. Mill. Jeremy Bentham, widely credited as the "father" of utilitarianism, began the focus on value as measured by specific aggregate measurements of pleasure and pain. For him morality and good public policy were best understood in terms of decisions that maximized pleasure and minimized pain—irrespective of whether

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such choices went against tradition, authority, or rule-based notions of morality (e.g., Kant). In Bentham's view pleasure and pain were sensory-based phenomena that could be measured and systematized across all persons (Bentham, 1970). Other than attending to factors like duration and intensity that related to the total utility of an experience, Bentham viewed all pleasures and pain of equal standing (i.e., no qualitative differences).

While utility remained the core foundation for morality (and what should drive public policy), Mill believed there were critical differences across types of pleasure and pain, suggesting qualitative differences that had to be taken into account in any approach to defining or measuring utility. Mill was particularly enamored with the life of the mind and the higher pleasures it offered. Such innovations complicated the notion of "value" within utility, suggesting that value was more than simple pain and pleasure. Mill's shift in focus in thinking about utility is captured in the language of the "greatest happiness" principle. That is, utility is not simply a collection of raw sensory experiences, but a way of understanding how certain experiences enabled one to live a better life. Mill's innovation, forcing scholars to appreciate the qualitative differences in utility, has had wide influence (e.g., Sidgwick , 1981: 441, defines utility as "happiness"; Shaw, 1999, defines utility as "well-being"), including the emergent research on "happiness" in management (e.g., Haidt, 2006; Judge and Kammeyer-Mueller, 2011). Later in this paper we will return to the concept of happiness as a potentially useful way to think about measuring how stakeholders feel about the value they receive through their interactions with a firm.

Modern economic thought emerged from this intellectual backdrop, particularly as it relates to utility and the measurement of outcomes. Questions about utility and its relevance for modern economics have been explored in a wide array of literatures, particularly under the headings of "welfare economics" and "social choice theory," and relevant research has been developed by philosophers, economists, political scientists, game theorists, and others (Hausmann & McPherson, 2006; Sen, 1987). Value has been tied to a variety of factors: value as determined by price; value as determined by labor; value as determined by exchange; and value as determined by production (see Table 1). Sen (1987; 1998) argues for an array of factors, beyond aggregate utility, as important dimensions of value to both the individual and society, such as the creation of capabilities essential to development and living a good or happy life.[1]

Our position in this paper is consistent with many scholars who have criticized the trend in economic thought, influential in an array of literatures (including management), that has brought a narrowing in conceptions of value (Hausman & McPherson, 2006: 133; Satz, 2010: 60; Sen, 1998). While simplification of the construct of value enables certain research capabilities (e.g., complex mathematical modeling), it also tends to obscure other critical aspects of utility relevant to a discussion of value—particularly dimensions that extend beyond profitability and economic returns. This paper draws upon some of the theory already crafted on utility and value while using a stakeholder perspective to address a context and set of concerns that have not been highlighted in existing research on value. For the purposes of this paper, we will define "value" broadly as anything that has the potential to be of worth to

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Table 1: A Sampling of Relevant Notions of "Value"

Value in Exchange: the idea that value is based on how much a given item is within in a marketplace exchange (e.g., Adam Smith; Neoclassical Economics). Value here is negotiated and inter-subjective.

Value of Use: value here is based on a subjective evaluation of how much an item is worth to a particular individual; may not be visible to others and may vary from zero to nearly infinite value.

Value of Labor: value is based on how much labor was required to create an item (e.g., David Ricardo; Karl Marx; classical economics). Value here is determined independent of individual preferences and set by a quality inherent to the object (i.e., by labor).

Value of Production: value is based on the total costs involved to produce an item (e.g., like Value of Labor, but adding in other related costs to produce an item). As with Value of Labor, value is set independent of individual preferences.

Intrinsic v. Extrinsic Value: one way to think about value is whether it is intrinsic, or an inherent feature, of an item—or whether it is simply a vehicle or means to some other good (i.e., extrinsic). Most goods in the marketplace are "extrinsic." A sandwich is good for satisfying my hunger; money helps me feel important or secure—both are "extrinsic" goods. However, some things are good in and of themselves. Kant calls a good will an inherent good; virtues also would qualify as inherent goods.

Subjective v. Objective Value: related to the distinction between intrinsic and extrinsic good is the contrast between subjective and objective notions of value. While there are numerous ways of defining both terms, subjective typically refers to the assessment of an individual and what they happen to like, while objective typically refers to a norm that operates across individuals or at a higher level of analysis (e.g., a universal moral norm; a social value; a human right).

Sources: Hausman & McPherson, 2006; Sen, 1987.

stakeholders. The term "utility" will be understood to reflect value a stakeholder receives that actually has merit in the eyes of the stakeholder—it is a function of the stakeholder's utility function, which expresses the stakeholder's preferences for particular types of value.

STAKEHOLDER THEORY AND VALUE CREATION

Smith's (1776) argument that healthy markets allow individuals to choose is similar to Freeman's (1984) perspective that all stakeholders are "customers"—they all have decisions to make in terms of whether the utility a firm provides them is greater than what they give up from other opportunities. By this logic, firms that tend to make their stakeholders better off will be ones that are able to retain their support and participation and thrive over time. Stakeholders themselves determine their own utility functions based on individual preferences, consistent with Smith (1776) and Friedman (1970). Their preferences come from perceptions regarding how transactions, relationships and interactions with the firm influence the utility they receive. As mentioned previously, we will suggest in a later section that one possible way to measure those perceptions is in terms of the happiness stakeholders feel with regard to the utility they obtain pertaining to both tangible and intangible factors.

A central premise of much of the literature on stakeholder theory is that focusing on stakeholders, specifically treating them well and managing for their interests, helps a firm create value along a number of dimensions and is therefore good for firm performance (e.g., Donaldson & Preston, 1995; Freeman, 1984; 1994; Freeman, Harrison and Wicks, 2007; Harrison, Bosse & Phillips, 2010; Jones, 1995; Jones & Wicks, 1999). The existing empirical literature, reviewed by Freeman, Harrison, Wicks, Parmar, and de Colle (2010), is generally supportive of a positive relationship between stakeholder-oriented management and firm performance, which is almost always measured in terms of financial returns (i.e., Berman et al., 1999; Choi &

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Wang, 2009; Hillman & Keim, 2001). Thus, as we mentioned previously, in most stakeholder-oriented empirical studies stakeholder performance is the independent variable *rather than* the dependent variable. Consequently, the empirical stakeholder literature itself reinforces the idea that financial returns are the most relevant measure of the value created by a firm.

Financial performance is important to many of a firm's stakeholders, but it is not the only aspect of value that is important to stakeholders. Consistent with Freeman's (1984) fundamental idea that a firm should serve multiple stakeholders, firm performance might be defined as *the total value created by the firm through its activities, which is the sum of the utility created for each of a firm's legitimate stakeholders*. Phillips (2003) identifies a firm's legitimate (or normative) stakeholders as those groups to whom the firm owes an obligation based on their participation in the cooperative scheme that constitutes the organization and makes it a going concern. They include customers, communities in which the firm operates, suppliers of capital, equipment, materials, and labor. Firms may have other legitimate stakeholders specific to their own situations.

Conflict or Cooperation

Much of the existing business literature posits that the interests of stakeholders are in conflict. This is understandable. A simple identification of stakeholders and their interests tends to generate lists that point even the casual observer in different directions as we move from one group to the next. Particularly if we start with the view that the firm has a fixed pie of resources, each group will be vying for as many of those resources as they can—and the success of any one group in getting resources diminishes the amount left for the others. Folding in assumptions from agency theory about the motivation and disposition of stakeholders, particularly that they are self-interested and with guile (Williamson, 1985), the picture of deep-seated conflict among stakeholder interests is vividly drawn. In contrast, one of the underlying arguments, found repeatedly in the stakeholder literature as well as the inter-firm networks literature, is that firms tend to perform better when they see stakeholder interests as joined, or at least largely overlapping, than firms that see them as primarily conflicting (i.e., Dyer & Singh, 1998; Freeman, 1984; Freeman, Harrison & Wicks, 2007; Freeman, Wicks & Parmar, 2004).

Fortunately, we know from the experience of real firms that organizations are able to operate in ways that draw in stakeholders and create enough overlap in their interests for them to function. Conflicts of interest and tensions among stakeholders still exist, particularly in cases that highlight those potential tensions (e.g., where the focus is on the allocation of a fixed pie of resources at a given point in time). However, stakeholder theory highlights the underlying overlap of stakeholder interests in generating value and describes the operations of a firm as a mechanism for all stakeholders to become better off over time (Freeman, Harrison & Wicks, 2007). This argument is supported by the idea that *stakeholders depend on the firm and its other stakeholders to satisfy their own interests*. Stakeholder interests are inseparably connected in a system of value creation in which each stakeholder

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provides resources or influence in exchange for some combination of tangible and/or intangible goods (Sachs & Rühli, 2011). The quality of contributions of each stakeholder to the system influences the total value created in the system (Susniene & Vanagas, 2006).

Part of what holds stakeholder cooperation together and generates utility for stakeholders is the presence of shared norms that go beyond strict self-interest. Researchers from a variety of disciplines have demonstrated that most people operate within norms of fairness and reciprocation (Becker, 1986; Cialdini, 1984; Cropanzano & Mitchell, 2005; Fehr & Gachter, 2000; Rabin, 1998; Rawls, 1971), while other scholars have gone so far as to suggest that love is a motivating agent in organizations (i.e., Argandoña, 2011)—all of which may provide both direct and indirect (e.g., enabling behaviors like trust that lead to increased value creation) forms of value for stakeholders. The fact that they voluntarily come together to participate as stakeholders of the firm is powerful evidence that their interests are overlapping and reinforcing to a substantial degree.

A STAKEHOLDER-BASED PERSPECTIVE ON VALUE

We now present a stakeholder-based perspective on firm performance that is derived from the value a firm creates through its activities. It is based on the core ideas that all of the firm's legitimate stakeholders have customer-like power to engage or not to engage with a firm and that the utility that is created for one stakeholder is dependent, in part, on the behavior of the firm's other stakeholders. Furthermore, stakeholders determine their own utility functions. The amount of utility they receive from the firm influences whether they choose to engage with the firm and how they act when engaged in transactions with the firm.

Our perspective focuses on four factors that emerge from a focus on stakeholders and the value they seek from relations with a firm. The factors incorporate not only the tangible value stakeholders seek, but also consider the process and distribution of value (Harrison, Bosse & Phillips, 2010). The four factors are defined in terms of the perceived utility stakeholders receive from the firm, consistent with the idea that perception influences utility (Barney, 2011). They are: 1) stakeholder utility associated with actual goods and services, 2) stakeholder utility associated with organizational justice, 3) stakeholder utility from affiliation, and 4) stakeholder utility associated with perceived opportunity costs.

These factors were selected among the many that could have been included specifically because they have been identified in previous research to be important to stakeholders (Ashforth & Mael, 1989; Bosse et al., 2009; Spiller, 2011; Susniene & Vanagas, 2006) and they are broad enough to incorporate much of what stakeholders seek through their interactions with a firm. Consequently, they are closely associated with the motivation of stakeholders to cooperate in the value creating activities of the firm. That is, each category is important at the individual level, yet it simultaneously relates to the value that is sought by the group of stakeholders associated with the firm and therefore helps establish how and why they cooperate successfully over time (e.g., they seek these particular goods and services; they value the sense

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of fairness and shared norms the firm provides; they believe they get the best deal from their association). While there are a wide array of other specific things one might cite as important to individual stakeholders, there is a need for parsimony in any model: to offer a model that is both specific enough to capture core features and broad enough to capture the range of the phenomenon in question.

Physical Goods and Services

Perhaps the most obvious source of utility for stakeholders is found in the physical goods and services provided by the firm, where physical goods also include financial remuneration in a variety of forms. Economists have studied exchanges of goods and services for centuries. The field of marketing also has developed elaborate theories regarding how customers determine the amount of value they are willing to part with in exchange for something they want. Some of the value given up includes time and effort, as well as uncertainty regarding the extent to which whatever is purchased will really provide the expected level of utility. A reasonable goal for the firm with regard to its customers is to create goods and services that are perceived as providing a highly positive ratio between the utility received and the value given up (Barney, 2011).

Similar thinking is applicable to all of a firm's legitimate stakeholders (Freeman, 1984). Suppliers give up goods and services as well as time and other resources, and are subject also to transaction uncertainties, in exchange for financial (and other forms of) payment. Financiers provide capital and face uncertainty as they hope for returns from the firms in which they invest. Employees give of their time, efforts, and other resources in exchange for wages and other firm-specific tangible benefits. Communities provide locations and infrastructure and frequently also provide a large part of the work force in exchange for tangible benefits such as employment of its citizens, tax revenues, and economic growth (through local purchases). Other stakeholders may also be included in this list depending on the situation of the firm. As with customers, the goal for a firm is to create the best value possible as perceived by stakeholders such that the utility they receive is sufficient to warrant continued, cooperative engagement with the firm.

Organizational Justice

Researchers from a variety of disciplines have demonstrated that most people operate within norms of fairness and reciprocation (Becker, 1986; Cialdini, 1984; Cropanzano & Mitchell, 2005; Fehr & Gachter, 2000; Rabin, 1998; Rawls, 1971). The organizational justice literature examines several types of fairness. Distributional justice means that actors believe that material outcomes received as a result of transactions with another party are perceived as fair in comparison with the material outcomes received by other parties (Adams, 1965; Rabin, 1993). Procedural justice pertains to the fairness of the rules and procedures used to assist in making decisions that have an impact on another party (Colquitt, Conlon, Wesson & Porter, 2001). Interactional justice describes the ways people treat each other in regular

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interactions (Cropanzano, Bowen & Giulliland, 2007). A firm that treats stakeholders respectfully would be considered interactionally just.

Organizational justice is important to value creation because people reciprocate and they value being treated fairly (Blau, 1964; Simon, 1966). For instance, a worker who is paid more than their opportunity cost of staying with a particular employer is likely to reciprocate by providing more than their minimal effort at work (Akerlof, 1982). From a purely economic perspective a firm that pays more than an employee's opportunity cost is wasting resources. We acknowledge this, but would argue that the reciprocation argument does not apply only to financial remuneration. Distributive justice, most closely associated with economic factors, is supplemented by perceptions of procedural and interactional justice as stakeholders assess how much utility they are receiving from a firm. For example, a firm might provide a wage and benefits that satisfy, but do not exceed, employee expectations based on distributive justice. However, employees might still receive utility from the firm that is worthy of positive reciprocity due to the way they are treated from the perspectives of both procedural and interactional justice. Similar logic applies to all of a firm's stakeholders. The key is to determine what matters to stakeholders and to provide for them an amount of utility that they perceive as favorable (Harrison, Bosse & Phillips, 2010). Negative reciprocity can likewise have a negative impact on human behavior (Bewley, 1998).

Thus far our discussion has focused on dyadic relationships between a firm and each of its individual stakeholders, and the resulting reciprocity. However, stakeholder theory also provides a lens for understanding how the way a firm treats one stakeholder can influence relationships with other stakeholders (Freeman, Harrison & Wicks, 2007; Rowley, 1997). In other words, the influence of the whole group of stakeholder relationships on the value created is greater than the sum of the influence of each relationship taken separately. This form of interdependence is associated with a phenomenon called generalized exchange (Ekeh, 1974).

Generalized exchanged involves multiple actors who are part of an integrated set of transactions in which reciprocations are indirect in the sense that there is not a one-to-one correspondence between what actors take from and give to another actor (Ekeh, 1974; Bearman, 1997). Because people have memories, it is even possible for much time to elapse between events that are significant to the actors (Wade-Benzoni, 2002). The actors put events in the context of other events that have happened over time. Generalized exchange explains why stakeholders are sometimes willing to sacrifice some of the value they receive if they believe it is in the best interests of other stakeholders or the firm over time. For instance, employees may be willing to take a pay cut or suppliers may be willing to re-write a contract if they believe it will be good for the firm's entire network of stakeholders (Harrison et al., 2010). Other examples of generalized exchange are found in the kinship structures of primitive peoples, barn raisings, or sharing software on the Internet (Molm, Collett & Shaefer, 2007). Bosse et al. (2009: 449) explain that "third-party observers of an exchange will systematically reward or punish those they perceive as fair or unfair, respectively." Generalized exchange, then, provides a partial answer to the question

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of why the whole of stakeholder relationships can be greater than the sum of its parts. That is, the way a firm treats one stakeholder influences relationships with others.

Trust, understood as a willingness of one party to be vulnerable to another with the expectation of non-opportunistic behavior, is important to both reciprocity and generalized exchange and is fostered by the presence of fairness in relationships among parties (Mayer, Davis and Schoorman, 1995). Assuming bounded rationality (Cyert and March, 1963), a stakeholder is probably unlikely to exhibit behaviors such as incremental effort, generosity, and loyalty unless there is some expectation that the firm can be trusted to reciprocate by distributing some of the additional value created back to the stakeholder. This additional value might come in the form of more or better tangible goods and services, which may include financial remuneration (distributional), greater consideration of the needs of the stakeholder in organizational decision processes (procedural) or simply better treatment during transactions (interactional). Trust is also important to the transfer of sensitive yet valuable information between stakeholders and the firm (Harrison et al., 2010), which is essential to the rapid and efficient development of new technology that is a hallmark of value creation in the modern global economy.

Organizational Affiliation

Stakeholders also receive utility from affiliating with organizations that exhibit behaviors that are consistent with things they value. They identify with the firm. Social identity theory explains that people tend to classify themselves into social categories associated with organizations and other types of groups in an effort to understand who they are (Ashforth & Mael, 1989). If the firm embodies characteristics that are considered valuable by, for example, its employees, organizational affiliation can provide feelings of connectedness, esteem, and empowerment (Ashforth & Mael, 1989; Hogg & Turner, 1985). As employees invest energy, effort, time and attention in the firm they develop feelings of "ownership," which provides a sense of responsibility, shared interest, and motivation to work at high levels (Pierce, Rubenfeld & Morgan, 1991; Vandewalle, Van Dyne & Kostova, 1995).

Utility through affiliation occurs, in part, through the ability of actors to obtain benefits from their membership in social networks (Lee, Lee & Pennings, 2001; Nahapiet & Ghoshal, 1998; Portes, 1998). From a stakeholder perspective, group affiliation can motivate stakeholders to care about one another's interests and the success of the firm (Hartman, 2011; Putnam, 2000). In fact, Hartman (2011: 96) suggests a similar notion about affiliation—that it can support collective action that benefits all stakeholders involved and serves the larger good they seek through their cooperation. Stakeholder desire for affiliation encourages stakeholders to contribute to creating more value and discourages them from behavior that destroys it.

Utility through affiliation may also provide esteem and satisfaction. By esteem, we mean that people feel as though they are supporting an organization whose behavior they see as virtuous or desirable. Satisfaction in this context refers to actual feelings of happiness as stakeholders interact with an organization that exceeds what they might feel when interacting with some other firm in the same way. For

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example, a customer may feel happier about buying a product from a firm simply because their own value system is in some way consistent with the expressed and actualized values of that firm.

Esteem and satisfaction can work in both positive and negative directions. A stakeholder can feel bad about identifying with a firm that has engaged in activities that are inconsistent with their own values, such as damaging the environment or contracting with suppliers who use child labor in third-world countries. This does not mean that stakeholders will necessarily cease to conduct business with the offending firm. Our perspective suggests that the utility stakeholders gain from affiliation with a firm is only one part of the package, which is then combined with the other factors: tangible utility, justice and fairness, and opportunity cost. For example, a stakeholder may continue to do business with a firm if the purely economic value of doing so outweighs the negative effects of affiliation. But it does mean that there is less motivation to do so than there would be if the firm was perceived by the stakeholder as a virtuous organization.

Opportunity Costs and the Interconnectedness of Factors

Thus far we have defined utility in terms of 1) the tangible benefits created for stakeholders associated with the products and services of the firm, 2) the intangible benefits stakeholders enjoy based on just and fair treatment, and 3) the benefits of affiliating with particular organizations. Embedded within each of these factors is the notion of opportunity costs (Kerins, Smith & Smith, 2004; Spiller, 2011). As mentioned previously, utility is based on perception (Barney, 2011), and perception is influenced to a great degree by whether stakeholders believe they are getting a good deal from the organization compared with what they might expect to receive through interactions with other firms that serve similar purposes. For instance, members of a firm's community are likely to compare the amount of value they receive in terms of tax revenues or employment opportunities to other firms in the community of similar size and scope or even firms in other communities. Suppliers, customers, financiers, and employees make similar comparisons.

In addition to the interconnectedness of the concept of opportunity costs with the three other factors, each of those factors overlaps the others to some degree. For example, the way a firm treats a stakeholder with regard to justice and fairness influences their perceptions of the virtuousness of the organization (and thus utility from affiliation) and also the way the stakeholder feels about the tangible goods and services obtained from the relationship. Similarly, tangible utility from goods and services influences perceptions of justice (especially distributive justice) as well as utility from affiliation. Of course, utility from affiliation also influences stakeholder perceptions about the other two factors. What emerges from this discussion is a picture of a firm at the center of a network of stakeholders whose behavior is influenced, in part, by the treatment the firm gives to other stakeholders (Susniene & Vanagas, 2006). It is a value creation cycle, consistent with the systems perspective that what happens at one part of a system influences other parts of the system

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directly, and that eventually the influence returns to the initial part of the system to reinforce the original occurrence.

For example, consider a case in which employees believe that they have received a good deal in terms of the total value they receive from a firm, compared with their opportunity cost. Those employees, according to the principle of reciprocity, are likely to give effort and loyalty above that which would otherwise be the case (Vandewalle, Van Dyne & Kostova, 1995). Their behavior can result in better products or products that are produced more cheaply, which allows the firm to increase its value proposition to customers. As value to the customer increases, so does demand. Demand leads to growth in sales and profits, which provides more value to investors and surplus profits that managers can reinvest, with part of that reinvestment going back to employees as value in the form of higher compensation. An assumption important to this cycle is that the firm will continue to incorporate distributional justice such that a portion of the incremental value will be distributed back to employees to reinforce their behavior.

The value creation cycle also supports negative reciprocity. For this example, we will begin with the customer. Assume that managers, in an effort to spike short term profits to enhance their own welfare with respect to compensation, reduce the value proposition to customers either through unjustified price increases or reduction in the quality of the product. In essence, they are then transferring value from customers to the firm, and ultimately to themselves (through bonuses or other forms of compensation). Customers recognize the reduced value and demand drops. Without continuing through the rest of the cycle, it is easy to understand how eventually the total value created in the system will be reduced. If managers persist in their behavior they might reduce the value proposition to customers again, resulting in a loss of customer demand for products, which in turn erodes future prospects for the firm.

COMPARISON OF STAKEHOLDER-BASED WITH OTHER PERSPECTIVES ON FIRM PERFORMANCE

Thus far in this paper we have examined and adopted concepts from some of the fundamental economics and stakeholder literatures pertaining to the construct of value. We have built on this foundation a stakeholder-based perspective of performance defined as the sum of the utility created by a firm for its legitimate stakeholders. We will now briefly compare this stakeholder-based performance perspective to three other popular performance measurement perspectives, not for the sake of a detailed comparison, but to highlight ways in which our approach differs from: a shareholder perspective, the Balanced Scorecard and the Triple Bottom Line.

Shareholder-Based Financial Performance

Firm performance for much of the business and economics literature is focused on providing financial returns, variously referred to as profits, return on investment (ROI), economic rents, or shareholder returns (for a review, see Barney, 2011, chapter 1). Many scholars believe that shareholders should be the highest priority firm stakeholder (i.e., Berle & Means, 1932; Rappaport, 1986; Jensen, 2001; Wal-

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lace, 2003), in part because shareholders do not have a specifiable contract with the organization, which makes them residual claimants (Fama and Jensen, 1983). The logic continues that providing the maximum possible return to shareholders is the primary duty of firm managers. However, even if one resource provider or another does have the residual claim, why should a firm be obligated to maximize that residual at the expense of other resource providers? It might also be argued that stakeholders that provide more or better resources to a firm than their contracts require are also entitled to some of the surplus value created (Barney, 2011).

Jensen (2001) argued for a single corporate objective function, "I argue that since it is logically impossible to maximize in more than one dimension, purposeful behavior requires a single valued objective function" (297). However, much has happened in the financial markets to expose well-entrenched economic theories upon which such arguments have been made. The Nobel laureate economist Paul Krugman (2009) wrote, "As I see it, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. . . . Economists will have to learn to live with messiness. That is, they will have to acknowledge the importance of irrational and often unpredictable behavior, face up to the often idiosyncratic imperfections of markets and accept that an elegant economic 'theory of everything' is a long way off." Similarly, Barney (2011) admits that tackling issues associated with measuring performance from the perspective of multiple stakeholders is important even if it makes the process more complex.

From a stakeholder perspective, financial performance metrics are important because they are important to all of the firm's core stakeholders, but they are incomplete and oversimplify the roles of, and utility received by, the various stakeholders involved in firm success (Barney, 2011). Financial measures offer an important but limited perspective on value creation, particularly when they are tied to efforts to quantify events in terms of specific and measurable financial outcomes in the short or medium term—and thus reduce the ability and/or desire of managers to think more broadly about what a firm might do to increase total value across stakeholders. We should remember that what is tracked tends to be what gets managerial attention in an organization (Kaplan & Norton, 1992; Sachs & Rühli, 2011). Measuring performance through tangible and intangible factors that are important to core stakeholders, as proposed herein, allows organizations to better understand what stakeholders want and need—both as a retrospective measure of how well firms have done and to help form new ideas about how firms will perform in the future. If the ability to create utility for stakeholders matters, and is a central predictor of future firm performance, then it is important to find ways of capturing more complex notions of value in a systematic and comprehensible fashion.

Furthermore, most financial performance measures are so aggregated that they are not particularly useful in pinpointing problems within the organization (Johnson & Kaplan, 1987). In contrast, if an organization is using performance metrics that track utility created across multiple stakeholders, it is in a much better position to pinpoint potential sources of problems within the system that are reducing the amount of total value created.

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The Balanced Scorecard and Triple Bottom Line

Some progress has been made with regard to measuring (and controlling) performance across multiple perspectives. The two most prominent examples are the Balanced Scorecard (Kaplan & Norton, 1992) and the Triple Bottom Line (Elkington, 1999). A multiple-perspective approach has also been advocated by other authors (i.e., Atkinson, Waterhouse & Wells, 1997; Cameron, 1980; Chakravarthy, 1986; Connolly, Conlon & Deutsch, 1980); however, we will focus on the Balanced Scorecard and Triple Bottom Line because they have received considerable attention and have been influential with practitioners.

The Balanced Scorecard examines firm performance from the perspective of finances, customers, innovation and learning, and internal efficiency. In advocating for the Scorecard, Kaplan and Norton (1992) argue: "Senior executives understand that their organization's measurement system strongly affects the behavior of managers and employees. Executives also understand that traditional financial accounting measures like return on investment and earnings per share can give misleading signals for continuous improvement and innovation. . . . The traditional financial performance measures worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today" (172).

Some of the arguments made by Kaplan and Norton (1992) apply equally well to a stakeholder-based performance construct. For instance, they argue that their four performance areas are connected. This is also an important feature of our stakeholder-based perspective. Furthermore, their model is multi-stakeholder in that they recommend measuring customer perceptions directly and employee issues indirectly through their internal efficiency construct. However, they leave out some important stakeholders, such as suppliers and communities, who also supply essential resources. And although the Scorecard measures four areas, *the primary dependent variable is still financial returns* (Kaplan and Norton, 1992). The other three areas are present to facilitate maximizing profits—thus, instead of creating a richer conception of value, this sort of measure attempts to oversimplify and monetize it, creating the appearance of measurability and commensurability across categories. In essence, this perspective on value simply adds additional factors to consider and measure while retaining the conception of value provided by the shareholder view.

The Triple Bottom Line, on the other hand, includes the broad interests of society directly (Elkington, 1999). It is based on the idea that firms should measure performance from the perspective of economic, environmental, and social value added. It is strong in its ability to raise the awareness of the firm's broader performance in the eyes of its managers, and helps to increase the accountability of firms. Along similar lines, Porter and Kramer (2011) recently argued that organizations should adopt a "shared value" approach that encourages the generation of profits that also create social benefits. The Triple Bottom Line and Porter and Kramer's arguments are part of a rich stream of discussions in the management literature by business and society scholars under the label of corporate social responsibility (CSR). For these scholars, business has to think about not just economic value but the ways in which it creates value in social, environmental, and moral terms. CSR has become

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a vehicle for a wide array of scholars, critics and activists to criticize what they perceive as excessive self-concern by business elites and to encourage firms to bring more attention and resources to address issues (i.e., create "value") across a range of topics such as the natural environment, sexual harassment, worker job security, outsourcing of jobs, education, regulation, corporate governance, and the like.

Perhaps because of its moral foundation, stakeholder theory is often used to support CSR propositions (Phillips & Freeman, 2008; Phillips, Freeman & Wicks, 2003). However, stakeholder theory was not developed to advocate for societal interests nor was it about building value within entire economies—except to the extent that as firms create more value for themselves and their stakeholders they are, in essence, advancing the interests of society (Freeman, 1984; Walsh, 2005). Phillips and Freeman (2008), noted experts on the topic, "claim that stakeholder theory does not apply to entire economies" (103). According to Phillips, Freeman, and Wicks (2003), "'Stakeholder' is not synonymous with 'citizen' or 'moral agent' as some wish to interpret it. Rather, a particular and much closer relationship between an organization and a constituency group is required for stakeholder status. The theory is delimited and non-stakeholder should remain a meaningful category" (491).

It is precisely the way in which the TBL and CSR try to incorporate concerns for factors that extend beyond profits that differentiates them from a stakeholder approach. First, both approaches distinguish "economic" from "social" and "environmental" categories, reinforcing the idea that these are extra responsibilities for a traditional business. Such a conceptualization has been criticized for reinforcing the separation thesis—the notion that business and ethics (or society or the environment) are categorically and conceptually separate spheres of activity (see Freeman, 1994; Wicks, 1996). The language and conceptual tools used by TBL and CSR advocates makes the separation thesis an inevitable problem and feeds into the criticism of shareholder advocates like Friedman that "social responsibilities" are not only optional, but that they cut against the moral duties of managers.

Second, the categories added for consideration (i.e., society and environment) are not clearly or directly tied to value creation for stakeholders and the utility they seek in the firm. External (rather than internal) firm forces draw attention to these factors. While stakeholders through their cooperation in firms will tend to want to improve society and not harm the environment, it isn't clear the extent to which they will do so in their capacity as stakeholders. Thus, TBL and CSR differ from the perspective offered in this paper in that our factors are not shaped by society (e.g., public policy analysts) or environmental activists, but by what stakeholders seek as utility through their interactions with the firm. To that extent, one criticism of our stakeholder-based perspective may be that it lacks concern for society, the environment and minority interests, although stakeholders may bring these concerns with them as they judge the value of their affiliation with a firm. Firms that ignore the concerns of their stakeholders with regard to societal dimensions risk reducing the utility those stakeholders perceive they are getting from the firm. Rather than a weakness, this is simply a practical manifestation of the stakeholder approach as we have applied it. It is essential to have social and environmental concerns raised by

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other groups (e.g., governments, non-profits) to either encourage or require firms to improve their performance in areas that are of interest to society as a whole.

Finally, it is not clear how the various factors in either the CSR approach or the Triple Bottom Line relate to each other and thus provide direction for managers beyond the hope that concern with non-economic factors may enhance the bottom line. In contrast, our model highlights the inter-connection of factors, how each relates to stakeholder utility, and why all are important to firm success.

MEASURING THE VALUE CREATED THROUGH A FIRM'S ACTIVITIES

An ongoing theme of this paper is that stakeholders receive value that extends beyond economic benefits. Consequently, measures of the utility created for stakeholders should consider both economic and other benefits stakeholders seek. Both practitioner and academic researcher aspects of measuring utility are relevant to this discussion. Our discussion of the measurement implications for academic research is positivist in the sense that we are assuming a process based on technical analysis in which researchers use large samples of data and statistical methods to explain observable phenomena (Scherer & Patzer, 2011). Thus, the measures described in that section will be fairly objective in nature but not as rich as what might be obtained through personal involvement.

On the other hand, we acknowledge that researchers may also become involved in case research in which they communicate directly with the focal actors to ascertain what they value and how the firm has influenced their well being. Scherer and Patzer (2011) refer to this approach as post-positivist, and explain that it is necessary when normative issues need to be addressed. The post-positivist or interpretive approach allows the researcher to determine whether observations are more a function of unchangeable laws or volatile situations that are subject to change. Participating with the focal actors in the information collection process allows an observer to gain a clearer picture of their interests, values, and the way they interpret the world (Habermas, 1990). The practitioner approach, discussed first, is almost entirely post-positivist. Consequently, it allows for collection of rich information that is useful in understanding what the firm can do to serve its stakeholders and thus create more value.

Practitioner Measures of Value Creation Through the Construct of Happiness

There are a variety of ways one might specify and operationalize our four-factor model (and the broader notion of stakeholder utility). The essential ingredients include 1) recognition that the purpose of a firm, and thus its performance, is based on the amount of value the firm provides to its stakeholders, 2) inclusion of both economic and non-economic factors that provide utility to stakeholders, 3) inclusion of measures for all of a firm's primary stakeholders, 4) recognition that different stakeholders are likely to value different things (i.e., their utility functions are different) and 5) measures should have the capacity to recognize a level of utility to stakeholders that exceeds mere satisfaction with the firm.

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The fifth requirement is essential because reciprocity and generalized exchange, which provide a foundation for the creation of additional value, require more than just a base level of stakeholder satisfaction (Bosse et al., 2009; Harrison et al., 2010). For example, a stakeholder that is merely satisfied with their affiliation with a firm or with the level of distributional (including economic), procedural, or interactional fairness may not have an incentive to cease relations with the firm but likewise is not particularly motivated to give additional effort, exhibit a high level of loyalty, engage in more value creating activities with, or provide more potentially valuable information to the firm. To tap into this additional value creating behavior the firm needs to provide a level of utility that is above the base level. We believe that one way to get at this higher level of utility is through the construct of happiness. That is, a stakeholder is not merely satisfied, but is happy (or potentially very happy) about the amount of utility received from one of more aspects of engaging with the firm. Happiness as a way of understanding utility received and thus the value provided to stakeholders builds from the ideas of Mill (1961) and connects to more recent writings (i.e., Gilbert, 2005; Haidt, 2006; Sidgwick, 1981; Shaw, 1999).

Haidt's (2006) work, in particular, is interesting in light of the utility-creating notions of organizational justice we have examined herein, as he advocates for respect, empathy, and a balance between internal and external factors as the keys to happiness. Our work runs in parallel with Haidt's ideas on happiness in that external factors can be interpreted in terms of the tangible utility gained from goods and services and internal factors that come from the perceived utility that arises from just and fair treatment, from social capital, and from the intangible benefits of esteem and satisfaction associated with affiliating with an organization that exhibits behavior that is considered virtuous.

As Judge and Kammeyer-Mueller (2011) point out, most of the organizational research on happiness has been conducted in the context of work. However, happiness research is increasing in both volume and breadth (Blanchflower & Oswald, 2011; Judge & Kammeyer-Mueller, 2011), and from a stakeholder perspective happiness is just as important to a supplier or customer as it is to an employee. We will define happiness in terms of the way stakeholders feel about the intangible and tangible utility they receive through their association and interactions with the firm. The idea of going directly to stakeholders to measure happiness is consistent with Gilbert's (2005) observation that experience is only observable to the people who have it. As mentioned previously, it is a post-positivist or interpretative approach in which the investigator is involved directly with the subject (Scherer & Patzer, 2011). We are making this final connection because we believe it is more practical to measure stakeholder happiness than it is to try to measure the actual utility received, especially since each stakeholder has a different utility function, even *within* groups such as employees, customers or suppliers.

Does heterogeneity within stakeholder groups make any attempt to measure happiness (and thus utility) meaningless? We believe it does not for two reasons. First, it is nearly impossible for a firm to make all of its stakeholders happy all of the time. Second, for reasons already elaborated upon in this manuscript, we would expect a meaningful correlation between the amount of value a firm creates and the

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proportion of stakeholders within a group who consider themselves happy with the firm. Thus, if a high proportion of stakeholders within a group are unhappy it is a good indication that the firm has a problem in that area. According to the theory presented herein, such a problem can hinder creation of incremental value within the system. We should also mention one of the risks of collecting this sort of information is that the process can raise the expectations of stakeholders and thus make it more likely that the firm will disappoint them.

Happiness, which psychologists often refer to as subjective well-being (Diener, Lucas & Oishi, 2002; Kahneman & Krueger, 2006), can be measured in a number of ways. Perhaps the most common is self-report questionnaires (Pavot & Diener, 1993). Because of potential problems associated with self-report measures such as situational priming and cognitive biases, researchers have also used a technique called Experience Sampling Method that has participants stop what they are doing and make notes on their experiences (Stone, Shiffman & DeVries, 1999). Other techniques include informant reports from people who are close to the respondent (Sandvik, Deiner & Seidlitz, 1993), coding of observational data (Frey & Stutzer, 2002) and memory recall of positive versus negative events (Siedlitz, Wyer & Diener, 1997). Information about stakeholder happiness may also be obtained from consultants and outside sources, such as rating agencies or reviews found in periodicals (i.e., *Fortune*'s "100 Best Companies to Work For").

If a relationship of trust has been established stakeholders are more likely to be honest about how happy they are, especially if distributional justice has been exhibited in the past and a stakeholder therefore believes that any additional value created in the firm as a result of the information they share is likely to improve their own situation. Overall happiness with the utility a stakeholder receives from a firm is important and is likely to influence stakeholder behavior; however, it may not be particularly helpful in terms of diagnosing problems or finding new ways to create value for stakeholders. Consequently, happiness should be measured for multiple dimensions for each primary stakeholder. Table 2 (left column) contains examples of the types of dimensions that might be measured. The list is not intended to be definitive, especially since stakeholders themselves determine their own utility functions. It is, however, a good starting point for those things firms might consider as they examine the value they are providing to their stakeholders.

Measures for Academic Research

Academic researchers may use a case-based method to gather rich information about the happiness of firm stakeholders. A case method is superior to large sample statistical studies based on objective measures if the goal is to sort out normative issues or to distinguish between constant influences and situational factors that are subject to change (Scherer & Patzer, 2011). However, frequently it is difficult to make generalizations based on case research that apply to a broader group of companies. For these situations, we believe that effective (albeit not perfect) measures can be selected from archival sources or obtained through primary sources such as surveys.

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Table 2: Examples of Performance Measures from Multiple Stakeholder Perspectives

	Potential Categories for Measuring Happiness/Well-being	Potential Proxies for Researchers
Employees	Various components of employment contract (i.e., pay, benefits, perquisites) Perceived fairness of decision making processes Perceived treatment (i.e., respect, inclusiveness) Perceived authenticity (i.e., what firm says, it does) Consistency between stated vs. realized firm values (i.e., honesty) Promotion policies/upward mobility Firm's environmental performance Firm's position/performance on other societal issues Also, objective measures such as turnover, legal actions	Compensation and benefits Workplace benefits (i.e., fitness center, child care) Legal actions or, if unionized, grievances Productivity measures Inclusion on list of best companies to work for Internal promotions to top management Turnover KLD Health and Safety Concern or Strength KLD Workforce Reductions KLD Pension/Benefits Concern or Strength KLD Cash Profit Sharing
Customers	Product/service features Perceived treatment during transactions (i.e., respect, fairness) Perceived authenticity (i.e., what firm says, it does) Firm's environmental performance Firm's position/performance on other societal issues Also, objective measures such as repeat business, legal actions	Growth in sales Consumer reports on products/services Reputation rankings KLD Product Safety Concern KLD Marketing or Contracting Controversy KLD Quality Ranking of Products KLD R&D/Innovation Ranking
Suppliers	Perceived treatment during transactions (i.e., respect, fairness) Firm's environmental performance Firm's position/performance on other societal issues Nature of payments (i.e., size, speed) Also, objective measures such as longevity, availability of supplies	Days payable (from accounting statements) Longevity of supplier relationships (available in 10-K for some firms) Legal actions
Shareholders	Financial returns Perceived riskiness of investment Governance structure and policies Disclosure of pertinent information/transparency Firm's environmental performance Firm's position/performance on other societal issues Also, objective data on returns and risk	Shareholder returns Price-to-earnings ratio (P/E) Risk associated with returns (i.e., variance and beta) Number of shareholder proposals Compensation levels of top managers (KLD Compensation High or Low) KLD Ownership Concern
Community	Perceived impact on community/environment (per community leaders or general perceptions) Perception of integrity of firm Also, objective data on number of positive/negative encounters, community service, charitable and infrastructure contributions	Tax breaks or other advantages provided to the firm New local regulations that affect firm Legal actions KLD Tax Disputes or Investment Controversies KLD Negative Economic Impact KLD Generous Giving

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Consistent with stakeholder theory, academic measures of organizational performance should be measured from the perspective of multiple stakeholders so as to capture as much value as possible. For example, in order to gain a more complete picture of the value created or destroyed in a large scale organizational change such as moving a headquarters or engaging in an acquisition, studies of these sorts of phenomena should include measures from the perspective of several stakeholder groups such as customers, employees, shareholders, suppliers and local communities, rather than focusing on just one. These measures should also address the idea that more value is created when the firm provides a level of utility to a stakeholder that goes above the norm (happiness). Consequently, the best measures allow firms to be compared to other firms in general or to firms in their industries. Multiple sources of information about a particular stakeholder, where available, are better than relying on one source of information. This provides triangulation. Finally, proxies should be allowed. A researcher may not be able to ask a stakeholder directly how happy they are with a firm, but might be able to determine what the firm is doing for the stakeholder that can realistically make that stakeholder happy. For instance, although it is especially difficult to assess supplier happiness, there is one thing a firm can do that arguably makes a difference to the supplier—pay bills quickly. Consequently, a measure like cost of goods sold divided by accounts payable might serve as one possible proxy for the happiness of suppliers.

The right column of Table 2 contains examples of a variety of possible measures of (and proxies for) value created for stakeholders. It is not intended to be exhaustive but rather representative of what is available or can be obtained through primary research. Several KLD variables are included in the table.[2] Although the KLD data are oriented towards social responsibility (Sharman, 1996), a lot of it applies also to how a firm treats its stakeholders (see Berman et al., 1999; Hillman & Keim, 2001). Frequently researchers combine the scores from five KLD areas to form a composite measure of performance: community, employees, diversity, the environment, and products. These measures consolidate values from over 50 KLD variables. We recommend instead that researchers examine each of the individual variables closely and include only those that best fit their theory (Chatterji & Levine, 2006) rather than relying on the five-factor measure simply because is has been used previously. Table 2 includes a number of KLD *shareholder* variables that have been left out of most of the empirical research using KLD data. Also included in the table are suggestions for proxies to measure value created for suppliers. We are not aware of any studies in the stakeholder literature that account for this important stakeholder.

DISCUSSION AND IMPLICATIONS

This paper argues that the utility stakeholders seek is complex and pertains to more than just economic value. Firms that provide more utility to their stakeholders are better able to retain their participation and support. Furthermore, stakeholders depend on both the firm and its other stakeholders to satisfy their own interests. We develop a four-factor perspective on the utility stakeholders receive from a firm as a more complete construct of firm performance than popular financial performance

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measures. The stakeholder-based perspective of performance can help managers determine where their attention is needed in order facilitate the creation of more value. Collecting non-financial information on firm performance has also been found to enhance communication, learning and coordination within firms (Dossi & Patelli, 2010).

Similarly, a stakeholder-based perspective on performance may lead researchers to consider the influence of organizational activities and phenomena on a much wider range of stakeholders. Indeed, our argument begins as an affirmation of Freeman's (1984) original claim that attending to stakeholders and their interests is a critical starting point for managers and provides a foundation that drives their ongoing success. At present, there are very few studies that examine the influence of firm activities on a broad group of stakeholders (a notable exception is Waddock and Graves, 2006). For major advances to be made in the empirical stakeholder literature, stakeholder-based performance should be the dependent rather than the independent variable. We would also argue for further conceptual and empirical work examining our model (and rival perspectives on value for stakeholders).

One issue for future research relates to the question of cooperation and conflict regarding stakeholders (and their interests). The argument made in this paper is that stakeholder theory suggests that cooperation, rather than conflict, should be the primary managerial mindset (e.g., Freeman, 1994; Freeman, Harrison & Wicks, 2007). Stakeholders do not always cooperate, and their interests can conflict, particularly when one operates from a theoretical lens that highlights such potential conflict (e.g., agency theory). Thus, future work might explore an array of questions about cooperation and conflict among stakeholder interests raised by a focus on value creation. For example, there is need to further investigate the creation of processes and valid norms among stakeholders (e.g., Habermas, 1990) as a means of resolving (potential) conflicts in ways that are both normatively sound and instrumentally viable (e.g., Jones and Wicks, 1999). Similarly, there are potential conflicts between the utility that stakeholders and firms seek versus what society may value; research is needed both to document consistent kinds of gaps between the two potential means to close the gap (e.g., regulation, incentives, education, public policy). Future research might also explore whether the resources an organization expends in creating utility for its stakeholders is more than compensated for by the additional value created within the firm's system.

From a practical perspective, much of management research has focused on financial performance as the exclusive criterion of interest; thus, it tends to provide prescriptions that optimize financial performance rather than the total value created. For example, the merger and acquisitions literature has been dominated by research focusing on shareholder returns. Consequently, researchers and practitioners who use this literature to derive firm recommendations are biased in terms of maximizing the financial success of an acquisition rather than creating value in broad stakeholder terms. We understand by now that there are human costs associated with mergers and acquisitions, but what strategies can a firm making an acquisition use to reduce those costs and possibly even enhance value created for employees, communities, suppliers and so forth. If the total value is considered, how are management decisions likely to change? The same might be said for restructurings, joint ventures, new product devel-

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opment, various types of training programs, management succession, or plant location decisions. This shift in perspective opens up the ability to create more value (and a broader array of value) for stakeholders. Also, the perspective may lead managers to utilize moral imagination (Werhane, 1999), seek creative solutions, and make choices that might otherwise seem counter-intuitive from a shareholder-dominated approach.

Some scholars argue that there is a risk that too many performance measures will reduce the influence of any one measure in terms of what managers focus on (Chatterji & Levine, 2006; Jensen, 2001). However, unlike Jensen's single performance objective, our perspective is about joint value maximization and the processes through which it is achieved (Zajac & Olsen, 1993). As managers focus on creating utility for their stakeholders, across both tangible and intangible factors, more value is created. Neglect of any one stakeholder could set off a downward spiral in the system as the firm's other stakeholders respond to what they observe. Consequently, our position is that the real risk, from a managerial position, is that managers will become focused on too few objectives representing too few stakeholder interests, rather than too many.

We would like to say in closing that it is not our intention to suggest that the four factors we have identified are the only important factors. We selected factors that are highly relevant to stakeholder theory (because our stated purpose was to provide a stakeholder-based model). Our factors are also closely associated with the amount of value a firm creates and is able to create in the future. They are broad based and include both economic and noneconomic factors, consistent with our argument that both types of factors are important to the amount of utility stakeholders receive from interactions with a firm. However, other factors may be found to be as or more important as this stream of research continues.

Similarly, we use the happiness construct as an example of the way some of our ideas might be specified in research. Of course, happiness was also a part of some of the original writings on value and utility, and is regaining popularity as a variable of interest. One evidence of this fact is that the National People's Congress in China recently declared that increasing happiness is more important than increasing GDP (Economist, 2011). Nonetheless, it would be a mistake to focus exclusively on stakeholder happiness in future research. One of the major themes of this paper is that multiple measures of firm performance are superior to just one (i.e., financial returns). A singular emphasis on happiness would be subject to the same criticisms.

Value, what it means, how it is created and how we measure it cuts to the core of our understanding of organizations. It also speaks to the fundamentals of what it means to live well, something that has been a perennial concern of ethicists (e.g., Solomon, 1992). This work highlights the need for actually doing the hard work of developing new measures of firm performance based on the value a firm creates for its stakeholders, and going out and gathering data—both for academics and for firms. From a managerial perspective, collecting this data can be a powerful signal to stakeholders about their commitment to them, can lead to innovation and enhanced efficiency because of the new information that is obtained during the process, and may provide more than mere intuition to guide the underlying logic of how a firm creates outstanding performance. Creating processes for engaging stakeholders and understanding value creation from their perspective is critical to firm success and the ability to remain a vibrant business in the future.

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NOTES

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1. There are also contributors within economics and political theory who have argued for objective constraints or limitations on pursuits of utility maximization, whether by individuals or across society, based on normative principles. For example, Rawls (1971) and Nozick (1974) both argue for the critical and fundamental role of individual freedoms that limit efforts to maximize utility.

2. In 2010 MSCI acquired RiskMetrics, who had previously acquired KLD (Kinder, Lydenberg & Domini) Research and Analytics. The KLD data are now called the ESG (environmental, social and governance) indexes, but to avoid confusion we are keeping the traditional name most often found in the research literature.

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