Results-based stakeholder re-positioning for business sustainability: applicability of the expectancy value-net framework

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Keywords
Results-based stakeholders; re-positioning; business sustainability, expectancy value-net framework; sustainability centricity.

Abstract
Business Sustainability retroverts a stakeholder issue into economic value, productive results, that creates value or wealth (Wheeler, Colbert, & Freeman, 2003). This paper aspires to allocate results-based objectivity to stakeholder re-positioning for business to generate value for sustainable term. This is challenging as the evolution of results-based approach needs arduous capacity-building in response to global business sustainability issues (Balogh, St-Pierre & Di Pippo, 2017). Classical concepts of shareholder wealth maximization have three domains, namely, normative, instrumental and descriptive theory (Donaldson & Preston, 1995). The three is adapted in this research to be depicted as value-net framework (Brandenburger & Nalebuff, 2011). The value-net introduces a number of inter-relationships that fosters co-adaptation and shared value creation (Dagnino & Padula, 2002). The architecture focuses primarily on the actors in any generic business environment and especially on the entities’ results-based orientation. The expectancy-value model may be appropriate here to relate values that stakeholders aspire to responses from business actions with respect to situations (Feather, 1990). This postulation attempts to relate relationship of three parameters, results-based stakeholders, options to repositioning and value-net for business sustainability. The left side is the independent variable nomenclatured as results-based stakeholders, the middle part is the re-positioning vector and the right-hand side represents the dependent variable, value-net for business sustainability. The outcome is the business sustainability matrix. In deciding on how to align expectancy value-net with intermediary dynamics for re-positioning, interests of the stakeholders and the firm should co-evolve. There are several reference frames. These reference frames can be linked to various steps in which stakeholder expectations form and manifest themselves. The first stage of the development of stakeholder expectations occurs necessarily on the level of individuals, as they are affected by the actions of organizations and evaluate all firms in their reach with respect to their behaviour.

Introduction
The value based approach has configured sustainability in the business domain with three facets, corporate social responsibility, stakeholder engagement and doing good time after time after time. The intent is to transfigure a social or an environmental aspect into a business opportunity (Wheeler, Colbert, & Freeman, 2003). The responses of the organizations with respect to changes in the externalities, have necessitated results-based objectivity at four levels, inactivity, reactivity, proactivity and interactivity (Freeman, 2010). The “need for integration” (Freeman, 2010) call for recasting processes on stakeholder re-positioning for business to generate value for sustainable term. This is challenging as the evolution of results-based approach needs arduous capacity-building in response to global business sustainability issues (Balogh, St-Pierre & Di Pippo, 2017). Classical concepts of shareholder wealth maximization have three domains, namely, normative, instrumental and descriptive theory (Donaldson & Preston, 1995). The three is adapted in this research to be depicted as value-net framework.
The value-net introduces a number of inter-relationships that fosters co-adaptation and shared value creation (Dagnino & Padula, 2002). The architecture focuses primarily on the actors in any generic business environment and especially on the entities’ results-based orientation. The expectancy-value model may be appropriate here to relate values that stakeholders aspire to responses from business actions with respect to situations (Feather, 1990). This postulation attempts to relate relationship of three parameters, results-based stakeholders, options to repositioning and value-net for business sustainability (figure 1). The left side is the independent variable nomenclatured as results-based stakeholders, the middle part is the re-positioning vector and the right-hand side represents the dependent variable, value-net for business sustainability.

![Figure 1: Results based value-net framework](image)

**Literature review**

The results based value-net framework (figure 1) creates the literature search criteria on the evolution of results-based approach with capacity-building framework (table 1). Three evolutionary stages of the normative, instrumental, and descriptive tenets configure the results-based measure with respect to the degree of stakeholder integration for business sustainability (Egels Zandén & Sandberg, 2010; McWilliams &Siegel, 2001). Beyond compliance positioning essentially builds on the resource-based perspectives that put the onus on businesses to surpass results (Russo & Fouts, 1997; Prakash, 2001). The value-net for business sustainability parenthesizes ethical out performer, compliant stakeholder and value-net stakeholders for business sustainability. Ethical out-performer posits co-opetition (Brandenburger & Nalebuff, 2011) that co-operate and compete simultaneously with a syncretic approach (Lado, Boyd & Hanlon, 1997). The compliant stakeholder conforms to stainability reporting and exhibits proactive initiative to woo non-compliant stakeholder to transform, thereby creating a value-net (Rinaldi, 2013). The literature posits (Table 1) the next transition to key stakeholder groupings that serve as a value-net for primary and secondary stakeholders (Frow & Payne, 2011). The Practice of Sustainability leads encrypting a sustainability promise. (Sen & Pookayaporn, 2017; Gavan, 2012). The synergistic effect of results based stakeholders and the creation of business sustainability value-net leads to a transform for stakeholder re-positioning. There are two core literature domains, one that focus on rules and the other that focus on expectations. The focus on accountability termed as ‘keen to be green’ (Dwyer, 2009) and stakeholder responsiveness through integrated sustainability reporting (Busco, Frigo, Quattrone & Riccaboni 2013) cause the rules based repositioning. The multiform portrayal of stakeholder repositioning focused on expectations escalate competition, that in turn leads to the postulation on focus of expectations (Jones, 2005).
The critique to the stakeholder theory (Key, 1999; Phillips, Freeman & Wicks, 2003) argues that it provides inadequate explanation of the firm’s behaviour within its environment. The processes of linkage with stakeholders by stakeholder maps (at the rational level), environmental scanning (at the transactional level) is not specifically identified. Furthermore, the complexity of real linkages exists. Thus, an actor can be the member of variety of groups, for example, an employee can be a member of an internal stakeholder group, such as a consumer forum, as well as an environmental activist, at the same time. The stakeholder theory clearly parallels the perspective of CSR in a way that it is responsible to specific shareholder groupings (Snider et. al., 2003).

The results-based value-net framework (figure 1) is drawn from the research construct that has independent, intermediating and dependent variables. The intent is to review the veracity through focused literature review. Table 1 is representative depiction of the sub-parameters corresponding to the (i) results-based stakeholders (ii) repositioning (iii) value-net for business sustainability. Results-based stakeholders is justified to be categorized as independent variable as the sub-parameters, namely, (a) compliance and (b) beyond compliance convey degrees of compliance based on the stakeholder expectations. We have support from stakeholder mapping (Freeman & McVea, 2001); ethics & economics (Jones, 1995), decision rationales (Greer & Downey, 1982), among others. Theory can provide frameworks to evaluate corporate social responsibility through social reporting. The justification behind this approach is the interdependence of the progressive parameters of results-base, repositioning and value-net. They apparently link seamlessly the measurable dimensions, attribute performances, and consequences to values (Woodruff, 1997). Employees need customers to leverage their capital into products that may be marketed. Customers rely on shareholders to invest funds needed to make products they want to buy. The stakeholders influence shareholders. Thus, there is interdependence between parts of the quartet, while innovation acts as an axle to drive all.

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<thead>
<tr>
<th>Literature support for independent variable</th>
<th>Literature support for intermediary variable</th>
<th>Literature support for dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results-based stakeholders</td>
<td>Repositioning</td>
<td>Value-net for business sustainability</td>
</tr>
<tr>
<td>Compliance:</td>
<td>Focus on expectations:</td>
<td>Compliant stakeholder:</td>
</tr>
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<td>Stakeholder mapping (Freeman &amp; McVea, 2001); ethics &amp; economics</td>
<td>Competitive advantage (Porter &amp; Kramer, 2002); ethical dynamics (Snider, Hill &amp;</td>
<td>ethics of competition (Knight, 1923).</td>
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</tbody>
</table>
The organization is under little pressure to engage in any relationship with discretionary stakeholders. Even dependent stakeholders must rely on either other stakeholders or the firm's manager for advocacy or guardianship. Only in the definitive class, stakeholders possess urgent legitimate claims and have the power to act. Strong co-dependence exists (Porter & Kramer, 2002). In order to systematically address legitimate stakeholder claims, firms have to develop internal performance management systems. One of the most ubiquitous and least tangible of all stakeholders is the shadow environment (Parniangtong, 2017). It is the combination of power, urgency and legitimacy that "triggers" action between stakeholder and managers. The key to repositioning is the creation of value-net for business sustainability. The indicative are of two sets (table 2): (i) compliant stakeholder (ii) ethical out-performer for the compliance set and (iii) value-net stakeholder (ii) sustainability-centricity oriented stakeholder for the beyond compliance set. The strategic group analysis considers stakeholders as clusters. In this approach, strategic groups are not stand-alone objects, but are connected via cluster of stakeholders to exert crucial influence. Hence, the classical structure-strategy-performance hierarchy hold. By introducing the concept of company-stakeholder clusters, it is possible to accurately represent the dynamic system. In this case, organizations and shadow environment are interdependent with complex relationships. Thus, companies can be viewed as a 'crystalline structure' (McLarney, 2002). With respect to individual stakeholders, three stakeholder attributes must be assessed: power, urgency and legitimacy (Mitchell et.al.,1997). Power determines the extent to which a party can gain coercive mean to impose its will in a relationship. Urgency is based on the degree to which a delay of managerial attention is unacceptable to the stakeholder. Legitimacy is the importance of the relationship to the stakeholder. It is the combination of power, urgency and legitimacy that "triggers" action between stakeholder and managers.

Table2: Literature review in support of independent, dependent and intermediary variables (representative list, details in references)

Repositioning is considered as an intermediary variable that incorporates the dynamism to the framework. Focus on expectations and focus on rules are two attributes whose respective degree acts as go-between to objective results-base and sustainability-oriented value-net. Literature posits competitive advantage (Porter & Kramer, 2002), influenced by ethical dynamics (Snider, Hill & Martin, 2003) that creates sustainability dynamics of business ethics (Noe & Rebello, 1994). Strategic groups are presence of firms within an industry following similar strategies (McLarney, 2002). Actors in the shadow environment exert external pressure (e.g. regulators and community groups). External forces play a critical role in determining mobility within and between strategic groups. Stakeholders can be categorized as either primary (owners, suppliers and employees) or secondary (actors of the shadow environment). Managing stakeholders is complicated as they are not homogeneous, and it is possible to be a member of a number of stakeholder groups simultaneously. Furthermore, stakeholders depict dynamic characteristics by entering or leaving a domain & creating or destroying power structures (Carroll, 1989).

Focus on rules: Dynamics of business ethics (Noe & Rebello, 1994);

Table: 2017).

Beyond Compliance: Value research (Nilsson-Ollandt, 2017); environmental scanning (Phillips, Freeman & Wicks, 2003).

Focus on rules: Dynamics of business ethics (Noe & Rebello, 1994);


Sustainability centricity: Sustainable competitor centricity (Parniangtong, 2017).


Jones, 1995).

Martin, 2003).

Greer & Downey, 1982;
The extended 'triple bottom-line' of sustainability includes social accounts together with environmental reports. Also, the cost of sustainability can be incorporated into the profit and loss figure. Concepts of 'ecological bookkeeping' rely on a relationship between an “environmental impacts” measured in physical units which is linked to units produced by an “eco-factor”. Total environmental impact is then calculated as the product of these fundamental factors (Nobuyuki Miyazaki, 2001). In recent years, the traditional notion of environmental compliance as an unavoidable expense of doing business is being transformed. Now it is viewed that waste treatment, pollution prevention, recycling are like going ‘beyond compliance’ and not only can represent direct cost savings, but also lead to competitive advantages (Aigner et al, 2003).

There is also established literature on the impact of environmental policy and beyond compliance (Prakash, 2001) that focuses on key managers who champion beyond compliance policy. The selective adoption is explained by considering internal dynamics of the firm. Firms could respond in various ways like being reactive, defensive, accommodative and proactive while dealing with social issues. The stakeholder theory suggests firms should embrace policies considering the preferences of multiple stakeholders.

**Expectancy value-net framework**

The expectancy value-net literature on transformative issues such as co-opération (Brandenburger & Nalebuff, 2011) and sustainable competitor centricity (Parmiangtong, 2017) add robustness. The dynamics of stakeholder re-positioning provides a resurging opportunity to not only attain re-positioning, but also business sustainability, by moving in the direction of greater equity and a reduced concentration on owner's interests (Evans & Freeman, 1993). Further to the distinction of three different ‘aspects’ of the stakeholder theory, i.e., ‘descriptive’, ‘instrumental' and 'normative' (Donaldson and Preston, 1995), it is argued that the ‘aspects’ are actually different uses of the stakeholder theory. Thus, the descriptive aspect describes and explains the nature and operations of companies (Sinkula, Baker & Noordewier, 1997). The instrumental aspect states that the adoption of a stakeholder approach in running companies leads to achieving corporate objectives.

The normative aspect states what functions companies should adopt and provides a moral guideline. It should be emphasized that these aspects are not discrete. Rather, they are ‘nested within each other’. Instrumental ones are supporting descriptive uses and normative uses provide a 'central core' to the others. Existing theories of the firm tend to fall in three general fields: economics, moral philosophy (business ethics) and social sciences (corporate social performance). Economic theories of the firm neglect moral analysis or sublimate it to positivist thinking. Moral theories over-emphasize motivation and moral posture. Social theories focus on structure and strategy with cognizance to moral posture without adequate concern to profitability. All these theories leave gaps. Frederick (2004) tried to fill the gap by using nature and the sciences, as he characterized an “evolutionary firm”, which characterized the business firm as linked to evolutionary natural forces. Five core roles of evolutionary firms are motivator/driver, innovator/generator, organizer/coordinator, enabler/strategizer and moralizer/valuator. This connection between business values and stakeholders, manifest in this paper as expectancy value-net.

The propositions for a general stakeholder theory address three key issues. The first is the question of when stakeholder firms emerge. This point of emergence can be assumed as concurrent to the point when stakeholders start to hold assets that are critical to the firm's success and put their assets at risk in the firm. The second issue is the identification of organizational features contributing to stakeholder firm success. Stakeholders need to add value to ongoing operations and organizational governance systems need to be adapted to complement the contributions of the stakeholders. Finally, conditions under which stakeholder firms are sustainable have to be identified. In this regard, it is especially important that stakeholders have a say in leadership succession (Kochan& Rubinstein, 2000).

The issue of salience of stakeholders to firm's managers depend on the following features: stakeholder attributes are variable, and they are socially constructed, meaning that they are not objective reality. This is exemplified with respect to power: Power is transitory - it can be acquired as well as lost. Secondly, power by itself does not guarantee high salience in a stakeholder-manager relationship, but rather gains authority through legitimacy and gains impact through urgency (Mitchell et al, 1997).
Methodology: A strategic stakeholder response model

In order to make any assertions about how firms can achieve and maintain a competitive, i.e. economically viable, position in a stakeholder environment, the qualitative methodology is adopted. An unique effort in this paper is to configure the results based value-net framework a priori to illuminate the needed literature search. This provides the results-based proposition of this research. However, it needs to be qualitatively derived what strategic options or choices can be attributed to a firm, given a set of stakeholders with well-defined characteristics as well as a set of competitors with service provision attitude. In combination, the value-net is created. Such strategic options can only exist as long as the actions of individual firms within a network of stakeholders and competing firms are interdependent in terms of their impact on the performance of all participating firms. It can be expected that in most industries, more than one firm is connected to the same stakeholder group. Furthermore, stakeholders have to make choices in entering into transactions with firms and spending their resources (e.g. time, political influence) as well as maintain an understanding of what they deem desirable or appropriate in terms of firm behaviour for which the observed actions of incumbent firms serve as a reference frame. Finally, as stakeholder actions have direct implications for the performance of firms there connected to and this can be furthermore expected to hold even for a wider range of firm objective functions. Hence, it can be expected that strategic options for firms in a stakeholder environment do exist for most feasible network configurations.

In fully evaluating the strategic decisions a firm can make with respect to its stakeholders, a very complex network of personal interests, social relationships, societal expectations, power structures and cultural values needs to be untangled. Nevertheless, some fundamental concepts drive a firm’s behaviour in almost any generic stakeholder setting and hence provide the basis for strategic decisions at the firm level. Definition of a stakeholder as ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives’ (Freeman & McVea, 2001). Following this tenet, stakeholders can either be positively or negatively affected by firm behaviour. As firms will have an interest in maintaining their legitimacy, they will only pursue actions with adverse effect on stakeholders if these actions are conducive to their objectives. In more general terms, they will choose the set of actions that yields the best result with regard to the objective function under the constraint that this set of actions does not endanger the legitimacy of the firm. Nevertheless, as this set of actions is complex, dynamic, evolving and usually bound to the inflexible organizational system of a corporation, most firms, or more precisely their managers, do not directly choose a set of actions, but rather implement a business policy, i.e. a set of rules, on the basis of which possible actions are to be evaluated by all organizational elements. As the stakeholder environment is in constant change, these rules have to be dynamic and linked to business processes geared towards both transforming and enforcing them. Combined, the purpose of these processes and rules is to ensure that stakeholder interests are met in such a way that the best possible performance with regard to the firm’s objective is attained. Hence, the firm needs to aggregate and process knowledge about stakeholder interests and establish how serving these interests can support or hinder the pursuit of its objectives. Finally, the firm adjusts its business practices in such a way that the level of stakeholder satisfaction is optimized with respect to the firm’s objective. Two strategic dimensions of firm’s mode of response towards stakeholder interests and expectations can hence be identified: One concerns the information retrieval and processing and the second deals with the level of stakeholder satisfaction a firm tries to maintain. In other words, firms have to choose both how to obtain information about stakeholder interests and how to make use of this information.

Results and discussion:

The outcomes of this research bear well with the expectancy value-net concepts that are essentially rooted in felicitous repositioning. The transformative innovations such as co-opetition (Brandenburger & Nalebuff, 2011) has consonance with the characteristics of results based stakeholders (Table 3). The precept of sustainable competitor centricity (Parniangtong, 2017) is manifested the aim to create sustainability at core. The essence of the research result is the evolving dynamics that sustainability-centric businesses look for.
The outcome is summarized in the business sustainability matrix (Table 3). In deciding on how to align expectancy value-net with intermediary dynamics for re-positioning, interests of the stakeholders and the firm should co-evolve. There are several reference frames. These reference frames can be linked to various steps in which stakeholder expectations form and manifest themselves. The first stage of the development of stakeholder expectations occurs necessarily on the level of individuals, as they are affected by the actions of organizations and evaluate all firms in their reach with respect to their behaviour. On the second stage, individual stakeholders form interest groups that exchange information about aspects of firms’ actions that affect them. On the third step, as these groups grow, they increasingly start to develop capabilities to influence firms’ behaviour directly or indirectly, concurrently, they take the form of organizations and formalize their processes and the knowledge they incorporate. This means that the expectations shared by the members of the groups manifest themselves in a description of desired firm actions. In other words, a set of rules for company behaviour is maintained to describe desired behaviour.

As the norms set by these stakeholder groups become generally accepted as beneficial to social welfare, they are incorporated to the legal code and become legally binding for all considered firms. At this point, the transformation from individual to societal expectation is complete and concerned stakeholder expectations are normalized, made explicit and publicly available. Nevertheless, as an information basis, these rules are imperfect representation of stakeholder interests. This can be attributed to factors such as the complexity of the stakeholder environment, regulatory lag, social cost of administrative actions, incompleteness of written conditions and irrational behaviour by the stakeholders. Albeit these disadvantages of coded expectations, firms may prefer to use them as a reference frame for evaluating their options as opposed to aggregating more direct knowledge about stakeholder expectations. The reason for this is that the procurement and processing of this information, i.e. identifying stakeholders, extracting information from them and transforming this information into a consistent organizational understanding of stakeholder expectations, especially with respect to the legitimacy of these claims and their implications for business processes, requires considerably more resources than relying on expectations which are already coded into behaviour guidelines. Hence, firms have to make a choice regarding whether to form an understanding of legitimacy frontier based on rules derived from expectations or the underlying expectations themselves. This can be regarded to as the information dimension of strategic positioning in a stakeholder environment.

Nevertheless, even after firms have developed an understanding about which stakeholder expectations exists and how these are linked to their operations, they still have to implement this knowledge into all the business processes. The key question in this regard is to what degree stakeholder expectations should be integrated into a firm’s business decisions. This is especially relevant in those cases where serving the stakeholder interests has a direct negative effect on a firm’s performance. Ignoring stakeholder expectations completely or not meeting legitimate demands will only be feasible in the short time, as firms will either lose their legitimacy which will lead to corrective action from stakeholder agents (most notably the government) or lose access to their reference frame, as stakeholders will not engage in information exchange with firms if this does not further their own objectives. Hence, firms can take two different approaches to this problem of integrating stakeholder expectations: Either they regard the stakeholder expectations as a constraint, under which the actions of the firms have to be optimised with regard to their objective function, or they regard stakeholder expectations as additional information about a dynamic stakeholder environment in which actions towards stakeholders has both short-term and long-term implications for the firm’s performance. Following the second policy, firms will not only meet stakeholder expectations, but also exceed them, which can be expected to have a negative direct effect on the firm’s objective function. This negative direct effect is then expected to be overcompensated by a
strategic effect, as stakeholders will not only change their behaviour towards the acting firm, but also their expectations towards both the acting firm itself and its competitors. Hence, after legitimate stakeholder expectations have been identified, firms can choose to either meet or go beyond these expectations. This constitutes the expectancy value-net of business sustainability aggregation in a results-based stakeholder dynamics architecture.

In combination, the expectancy value-net dimension and the intermediary dynamics for re-positioning dimension provide a viable business sustainability matrix (classification model for the behaviour of firms in a stakeholder context. As both dimensions incorporate two fundamental decisions with regard to a firm’s position, a total of four different strategic positions. Firms can choose between these positions, not only to respond to stakeholder demands in the way that is best fit to their capabilities the setup of their stakeholder environment, but also to differentiate themselves from other firms and their respective position in this model. A firms that focuses on rules in the expectancy value-net, can be classified as either a results-based stakeholder or a value-net stakeholder. A firm that exceeds stakeholder expectation in the expectancy value-net, can be assessed as either a value-net stakeholder or sustainability centricity oriented stakeholder.

**Dynamic equilibrium among the four re-positioned stakeholder quadrants**

A firm positioned as to be sustainability-centric. They are poised to offer the level of satisfaction to its stakeholders for it follows only an abstract, outdated and incomplete representation of legitimate stakeholder expectations in the information dimension and restricts itself to making as few concessions as possible in the compliance dimension. Because of this, the firm has the potential to perform very well regard to its objective function on the one hand as it faces the least restrictions with regard to stakeholders, but on the other hand, it will encounter more difficulties in maintaining the stability of its environment and its stakeholder relations, as it is operating directly at the legitimacy frontier and hence always endangered of being subject to corrective actions by stakeholder or stakeholder agents. Because of this, firms constituting results-based stakeholders, will require distinct internal capabilities that enable them to both ensure that strict compliance with evolving rules and regulations is ensured and that all actions initiated by unsatisfied stakeholders are pre-empted, monitored and fitted with an adequate response.

Since the rules and regulations used as an informational reference frame carry a guiding function not only for the firm but also the stakeholders whose aggregated expectations they are designed to represent, results-based stakeholders may employ measures to influence processes in which these rules are created. Possible forms of this behaviour, which typically complement each other, include lobbying, i.e. directly influencing legislative processes, supporting or building advocacy groups and strategically investing in research publications. While these activities are detrimental to the reliability of the informational reference frame, it shall be noted that “good citizens” invariably need to operate under the premise that these rules are imperfect and hence both their business processes and their organizational structure must be geared towards stabilizing volatile relationships and managing disruptive incidents with high stakeholder impact or involvement. Additionally, results-based stakeholders invest in social causes – often unrelated to their own operations – to remedy the adverse effects of potential legitimacy breaches. Due to these offsetting effects, activities geared towards influencing rules may have a positive net effect on the degree to which acting firms reach their organizational objectives.

As results-based stakeholders are least accommodative with respect to stakeholder needs, they will need to devote special attention to the stakeholders they are conducting transactions with. If the relationships with these stakeholders play a crucial role in the pursuit of the firm’s objectives, they will regularly need to improve the attractiveness of the terms underlying the transactions and develop strategies to tie these stakeholders to the firm. Nevertheless, the strategy of being a results-based stakeholder is more likely to be successful where stakeholders are interchangeable, not carrying a strong strategic significance and generally are attributed with characteristics suitable to lower their bargaining power relative to the firm. One important factor influencing bargaining power in stakeholder networks is the ability of stakeholders to form groups. The more connections between individual stakeholders exist, the more likely it becomes that they develop common objectives and a shared understanding about desired actions by the firm, complement their characteristics to gain influence on the firm. This will make...
stakeholder harder to manage from the firm’s point of view. As a result of this, results-based stakeholders can improve their competitiveness if they manage to separate stakeholders (e.g. by diversifying geographically) or chose their set of stakeholders in such a way that the overlaps between functional groups of stakeholders are minimized (e.g. unskilled workers are less likely to support environmentalist groups). In addition to this, “good citizens” will seek to prevent the formation of groups within their stakeholder networks and frequently reward and penalize stakeholder behaviour accordingly.

Results-based stakeholders especially prosper in mature industries where the operating environment is less likely to be disturbed by innovation, where key competitive advantages are derived from internal capabilities like economies of scale or efficient organizational systems and where high barriers to market entry and oligopolistic market structures prevail. These conditions apply to numerous upstream and commodity markets, which also carry the advantage that the customers of the firms are either separated from the firm by means of institutional markets or themselves separate the firm from end consumers by constituting the downstream value-chain. In the latter case, the lower part of the value chain acts as a “filter” for stakeholder demands which are not fully propagated to the acting firm. Due to this effect, downstream firms with a stronger focus on stakeholder relationships might vertically disintegrate and outsource processes and sub-products that carry a high significance for their stakeholders to results-based stakeholders.

Just like the results-based stakeholders, a firm operating as a value-net stakeholder is using rules and regulations as a reference frame for modelling its behaviour towards stakeholders. Hence value-net stakeholders will usually develop capabilities similar to those of results-based stakeholders, especially with regard to ensuring compliance with rules and stabilizing volatile stakeholder relationships. Nevertheless, value-net stakeholder differs from results-based stakeholders in the way that they do not operate directly at the legitimacy frontier but rather offer a higher level of stakeholder satisfaction than strict compliance with the rules would imply. As this behaviour can be expected to have a direct negative effect on the firm’s ability to perform well with respect to its objective function, results-based stakeholders expect offsetting positive strategic effects. The most direct effect of increased stakeholder satisfaction is an increase in the stability of stakeholder relationships for the acting firm. However, as the underlying information basis is inaccurate, results-based stakeholders frequently implement marketing measure to communicate to stakeholders how beyond-compliance measures affect them and relate to their needs. If corresponding internal capabilities enable results-based stakeholders to create a positive predisposition towards their actions in the stakeholders, this will have a positive effect on the firm’s operations. Respective firms will experience less corrective actions by stakeholder, more favourable terms with a greater variety of transaction partners from the stakeholder set and less fluctuation as well as more options in set-up of their stakeholder network. In contrast to results-based stakeholders, a value-net stakeholder will hence be able to choose from a greater variety of business models, maintain higher degrees of vertical and horizontal integration to realize economies of scope and transform stakeholder relationships into strategic assets.

Aside from the instantaneous effect on stakeholder relationships, operating at a safe distance from the limits provided by the legitimacy constraint will allow results-based stakeholders to lower the impact of regulatory fluctuations on their business processes. Especially as stakeholder expectations and hence rules and regulations evolve, results-based stakeholders will experience less friction with respect to their business processes, as they have already been operating at standards above the required level. Therefore, results-based stakeholders will frequently have developed capabilities required to adjust to regulatory discontinuities while competing value-net stakeholder will have to undergo a disruptive change process when respective alterations to the rule frameworks are made. As it is not feasible for stakeholder to operate beyond compliance for all respective rules on all possible dimensions, results-based stakeholders have to create a fit between their portfolio of beyond compliance-measures and the evolutionary development of the regulatory frameworks that surround them to gain a competitive advantage in the response to regulatory adjustments. Two distinct capabilities will enable results-based stakeholders to attain these competitive advantages. The first is the ability to sense emerging policy trends and continuously identify regulatory dimensions representing the most prevalent stakeholder concerns, which can be expected to show the greatest volatility. Apart from this passive approach, results-based
stakeholders can also take leadership positions in defining what behaviour is appropriate and thus influence the evolution of rules and regulations to improve their fit with their respective internal capabilities. Even when this leadership position is not assumed, stakeholder and policy maker will frequently identify individual standards and code of behaviours developed and adopted by results-based stakeholders as universally desirable and will hence shape rules and regulations to the model of these standards.

As a development of rules in regulations, in either a more restrictive or a less restrictive direction, can be beneficial to results-based stakeholders, they will be comparatively less active with regard to influencing rules and regulations. If they are integrated into respective processes, they will regularly follow an integrative approach, i.e. opposing both rules strictly detrimental to stakeholder interests, which will potentially improve the competitive position of competing firms at the legitimacy frontier, as well as rules strictly detrimental to the performance of firms in the stakeholder network, which can potentially hurt their own performance.

In contrast to results-based stakeholders and value-net stakeholders, ethical out-performer model their behaviour in direct response to expectations expressed by their stakeholders. Due to this behaviour, ethical out-performer usually maintains very stable relationships with their stakeholders and realizes favourable contract terms with those stakeholders constituting transaction partners. ethical out-performer are therefore not only able to stabilize their operating environment to the greatest extend but also develop their stakeholder relationships to level where they constitute competitive advantages.

While the advantages of the ethical out-performer position are significant, maintaining it requires considerable resources and commitments from a firm. Most notably, “interest servers” regularly cannot rely solely on information exchange but will implement additional negotiation processes to ensure that stakeholder expectations do not increase continuously in step with their partial fulfilment by the firm. Paired with internal review processes, these negotiations with stakeholders are geared towards creating an collaborative environment where the value created by successful firm operations is divided among all stakeholders according to their contribution, creating a greater bond between the firm and all its stakeholders, which will in turn improve the performance of the firm. However, the implementation of this virtuous circle is exacerbated by both opportunistic behaviour of stakeholders and insufficient means of measuring and accounting for stakeholder contributions.

Therefore, ethical out-performer predominantly operate in industries, markets or value-chain segments in which operations entail a stakeholder set which is not only of low complexity in terms of interest groups and group overlaps but also mostly contains stakeholders whose interests match the firm's interest. For example, firms in knowledge-intensive intensive industries will seek to retain and develop skilled labour while respective measures will also benefit employees, e.g. in terms of job security. Conversely, ethical out-performer often struggle in industries where stakeholder interests do not match their own interests. This is especially significant in cases where negative externalities exist, and the contribution of individual stakeholders is the compensated acceptance of actions producing adverse effects.

While the attributes of involved stakeholder groups crucially influence the viability of an ethical out-performer strategy, the manageability of the ethical out-performer process — constituted by extracting and evaluating expectations in step with negotiating and implementing change measures — can be aggravated or alleviated by rescaling the operations of concerned firms. Firms composed of fewer organizational elements and a restricted number of business processes will find it easier to evaluate expectations and implement changes, while having fewer stakeholders will improve a firm’s ability to extract expectations and negotiate respective changes. The managerial implication of this is that ethical out-performer will often operate in a contained geographical region, have stronger incentives to outsource activities not contributing to their competitive advantages and frequently serve niche markets where substantial market shares can be maintained on the basis of small-scale operations. As the ethical out-performer strategy therefore causes significant diseconomies of scale, firms following it are unlikely to diversify into unrelated businesses.

Similar to results-based stakeholders, ethical out-performer will need to develop capabilities that enable them to follow emerging stakeholder expectations. Nevertheless, in comparison to the regulatory
arrest the set of actions can be expected to develop with greater continuity and less fluctuations, albeit on a higher level. Hence, ethical out-performer can be reactive in the development of their capabilities, even though they regularly have to ensure that they are following best practices and implement continuous improvement strategies as to prevent the formation of a gap between their standards and stakeholder expectations.

The sustainability-centricity oriented stakeholder constitutes the direct counterpart to results-based stakeholders. While results-based stakeholders aim at implementing standards which maximize the firm's performance with respect to its objective function under the constraint that the set of actions is acceptable by the firms' stakeholders, the sustainability-centricity oriented stakeholder will seek to create the maximum benefit for the stakeholders under the constraint that the firm's objective function is satisfied at an acceptable level. For classical objective functions describing variations of shareholder wealth maximization, the strategy of an “ethical out-performer” will find justification only in very few scenarios. An example scenario in this context is the case in which the extensive resource use on serving stakeholder interests creates a level of differentiation regarding the firm’s products or service, without which even greater resource aggregation (e.g. by virtue high prices charged by the firm) could not be achieved. Nevertheless, even in these cases, resource allocation disputes are the likely to persist, unless serving the interest of all stakeholders is included in the objective function of the firm. As the owners, i.e. shareholders, of a firm regularly dictate the objective function, sustainability-centricity oriented stakeholder are often owned by a limited number of shareholders who do not pursue strict personal wealth maximization, but additionally follow philanthropic interests. Not-for-profit organization and individual stakeholder interest groups are other potential owners of sustainability-centricity oriented stakeholder. In stark contrast to results-based stakeholders, sustainability-centricity oriented stakeholder will try to support and nurture the evolution of stakeholder expectations. Rather than passively waiting for stakeholders to recognize their actions as desirable and reflect this is their expectation towards all firms they are connected to, sustainability-centricity oriented stakeholder regularly take a leading role and actively market their standards to stakeholders, often by attacking the mode of behaviour of competing firms. Thus, the presence of sustainability-centricity oriented stakeholder increases both the volatility of the stakeholder expectations as well as the rules and regulations representing them. This, in turn, can be expected to decrease the competitiveness of virtually all other players in the market or industry under consideration.

Just like results-based stakeholders generally want to achieve maximum anonymity with regard to their actions and products, sustainability-centricity oriented stakeholder requires the greatest extend of identification possible. To achieve high degrees of identification, “ethical out-performers” will seek to develop one or several brands, which are to represent both the firms’ innovative potential as well as their leadership in ethical business conduct.

Conclusion: An integrated view

In choosing from the four positions of the framework, firms have to create a fit between their own attributes and the requirements of the desired position. Firms possessing comparative advantages in processing information and integrating the processed information into their business operations will operate “at compliance” in the compliance dimension while firms with distinct capabilities in leadership and process innovation will tend to operate “beyond compliance”. With regard to the information dimension, firms focussed on cost-advantages, employing heterogeneous business processes and maintaining large-scale operations will generally be inclined to use on the rule and regulations as a reference frame while firms focussing on differentiation, and maintaining narrow, well-defined, small-scale business processes will be inclined assess the stakeholder expectation directly.

While firms regularly will take the position in the framework is best suited to their internal capabilities and attributes and the stakeholders linked to their processes, as firms are able to develop and transform their characteristics and change their business processes, firms are also able actively take positions in the framework. This problem of ex-ante positioning is especially pertinent for entrepreneurial firms without an organizational history. If firm and stakeholder attributes are hence removed from the decision-relevant variables in the problem of positioning the firm, in the context of the stakeholder network, the optimal positioning is dependent solely on attributes of competing firms. If the behaviour of
these competitors is mapped with regard to the presented framework and their resulting position as well as their ability to move strategically within the framework are taken as their main attributes, competitors, and therefore also the competitive environment, can be assessed in terms of positions within the framework.

References
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