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A Values-based Approach to Understanding Corporate-Stakeholder Interactions

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Abstract

This paper develops a model of focal firm-stakeholder interactions incorporating the values of each party and the possible impact of incomplete contracts between them. The paper offers a values-based analysis of the forces driving the interaction between the parties. Firms exist in a web of perceived obligations and rights. We argue that entities in firm-stakeholder relationships have operational goals supported by terminal and instrumental values that affect the way that the parties behave and interact with others. Since various parties to an interaction may have different values and goals, this model allows for strategic interactions. While some relationships are bound by law or contract, others are not. Thus, the outcome cannot be prescribed with certainty, so an important question is whether the desired outcomes can be enforced. We draw upon contract theory to explore these issues, noting that performance under any contract is problematic since it cannot be assured in advance. We argue that the determinants of outcomes between the focal firm and its stakeholder groups are affected by the values and goals of each entity, while the nature of the contracts between them and the environment within which the interactions occur influence what can be achieved.

Keywords Evolutionary system design · Inter-organizational relationships · Incomplete contracts

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1 Introduction and Objective

This paper presumes that firms struggle for resources, acknowledgments, and attention. As cynosures of resources, corporations make claims on others, and others make reciprocal claims on them.[1] Eden and Ackermann (2021, p. 1004) argue that possible stakeholders are those who have an interest "in the future of the organization and its proposed strategies and may wish to take action to encourage failure or success." Fostering failure or success may take the form of denying or providing the focal organization with resources that it needs to succeed. The stakeholders themselves have "aspirations, needs and wants" (Eden and Ackermann 2021, p. 1002) that the focal organization may need to address in order to achieve its own goals. Both the focal firm and stakeholders may have their needs, aspirations, and wants satisfied (or thwarted) by the receipt (or denial) of resources, such as labor, supplies, knowledge, or a good reputation. Consistent with Eden and Ackermann (2021), stakeholders may have either power or interest in affecting the fate of the focal organization. We assume that they have both. If a potentially hostile stakeholder has no power or interest in affecting the focal organization and is not perceived to have such power by the focal firm, that stakeholder falls outside the domain of this paper. A major contribution of this paper is that it provides a values-based model of focal firm/stakeholder interaction in a multi-player setting in which behavior is at least partially governed by contractual arrangements that cannot be fully enforced.

Poorly executed interactions over resource claims create friction and impose costs on one or more of the parties involved. Understanding inter-stakeholder interactions, developing ways to smooth these relationships, and predicting their outcomes more effectively would advance the field of stakeholder research. This paper extends prior research by developing additional ways of viewing inter-stakeholder and focal party interactions, here through the lenses of instrumental and terminal values and operational goals (Shakun 1988). We develop a values-based model capable of being employed in a larger multi-player context, a context which is at least partially governed by contractual arrangements, both formal and informal, complete and incomplete. The nature of contractual arrangements has not been adequately explored before in this multi-player, values-based context.

The Global Reporting Initiative's Reporting Framework (Global Reporting Initiative 2018) notes that stakeholders include the investor community, the broader civil society, labor, the academic profession, and others. Since corporations are stewards of enormous resources, the need for corporate accountability is clear. This is consistent with current demands for Corporate Social Responsibility, an idea that

[1] We regard this assumption as foundational since no firm can be all things to itself. It seems inevitable to us that it must draw on resources from others since it cannot own everything and provide all it needs by drawing on what it has within it. Labor ultimately is supplied by parents having children. Firms cannot own all other kinds of material resources that they draw upon and therefore need financial resources to support them, with these financial resources generated by providing goods and services to those outside the firm both willing and able to pay for them. Aside from cash payments, suppliers may not be willing to deal with firms with bad reputations, e.g., ones openly selling products produced in the Chinese province of Xinjiang. The perceived moral ethical probity of the firm may, therefore, count as well."

underlies much of the argument in this paper since its focus is on the responsibility of corporations to other elements that surround them, such as labor, their communities, and the environment.

The traditional idea that law and regulation will control corporate behavior has long been suspect. For example, Jensen (1993) writes that "the legal/political/regulatory system is far too blunt an instrument to handle the problems of wasteful management behavior effectively." Thus, shareholders' and other stakeholders' interests are at risk, underlining the need to advance the theory of corporate-stakeholder relationships. Accordingly, a more detailed understanding of the corporation in its environment is necessary. An important contribution of this paper is that we address this issue by expanding on previous research that used Shakun's (1988) Evolutionary Systems Design (ESD) to explain basically dyadic interactions between auditors and client firms within the single domain of accounting practice. This was adequate for the limited purposes of those papers, but it fails to meet the more general need for a values-based model capable of engaging in a larger, multi-player setting in which behavior is at least partially governed by contractual arrangements that cannot be fully enforced. As used by Kleinman and Palmon (2000) and Kleinman et al. (2016), Shakun's (1988) ESD model was adequate for those purposes, but it does not provide insight into the problems introduced due to the existence of "incomplete contracts" with contractual bounds that may be impossible to enforce fully. More of the world falls into this domain than the auditor–client relationship explored by Kleinman and Palmon (2000) and Kleinman et al. (2016). Accordingly, this paper extends the contribution made in those works.

In developing this model, we consider the literature on corporate-stakeholder interactions and notice that it lacks consideration of the values of each party and the possible impact of incomplete contracts between them. We then draw on relevant literature on auditor–client relationship that does incorporate those factors and consider how the model could be extended to encompass a broader, more varied set of domains, not limited by a particular occupational culture. We believe that this is an important contribution of this work.

2 Literature Review

This paper develops a model of focal organization-stakeholder motivations and interactions that expands on previous literature. Our model applies Shakun's (1988) Evolutionary Systems Design (ESD) model to corporations and related entities to understand them better. Such an understanding should be useful to future researchers who seek to explore this topic. Without a strong underlying model concerning the drivers of stakeholder relationships, answering important questions about the nature of these relationships will fail. This paper seeks to provide such a model. While previous research used Shakun's Evolutionary Systems Design to model the nature of relationships between parties within a broadly defined, single domain (see Kleinman and Palmon 2000; Kleinman et al. 2016), this paper extends Shakun's model by incorporating Hart's (2003) incomplete contract theory and includes parties within multiple domains in its model-building. Doing so adds greater richness to the modeling effort by incorporating a broader set of values and a more varied inter-organizational field to capture the greater complexity facing the interacting parties.

Key to this effort is understanding who the stakeholders are and, given that this is a values-based model, understanding which values we can reasonably ascribe to the stakeholders and the focal firm. Definitions of stakeholders vary. For example, Ackermann and Eden (2011, p. 180) state that a "…Stanford Research Institute memorandum conceptualized stakeholders as 'those groups without whose support the organization would cease to exist' (Freedman and Reed 1983, p. 89)." Eden and Ackermann (2021) say that stakeholders are those whose actions can foster the success or failure of the focal organization. However, other writers suggest including groups or individuals who are affected by the organization, as well as those who can affect it, among an organization's stakeholders (Bryson et al. 2002; Freedman and McVea 2001). Thus, who stakeholders are is related to the multifarious nature of the demands they can make on the organization. Bryson et al. (2002) conceptualize stakeholder broadly, whereas Ackermann and Eden (2011, p. 179) cites a conceptualization limited to those "without whose support the organization would cease to exist" (e.g., Freedman and Reed 1983, p. 89.) For our purposes, stakeholders are defined as entities or individuals that the focal organization believes it must consider in its interactions with its environment and those stakeholders. As Spender (2018, p. 14) notes, managers have "to deal with their firm's situation and its specific facts. No general model would suffice." The focal firm must understand who its stakeholders are in order to avoid the kinds of blunders that arise from rushing to judgement using practices that Nutt (2004) characterizes as prone to failure and that result in misallocation of corporate resources. In effect, failing to consider the values and goals of parties in counter-positions results in difficult to model situations. Nutt's (2004) preferred set of actions are fostered through understanding the counterparties' (i.e., stakeholders') goals and values by having decision-makers identify the concerns and claims of key stakeholders in order to improve the arena of action, making their objectives clearer and choosing the objective that sets forth an "arena of action with the broadest possible scope" (p. 13), and using several perspectives to create a greater opportunity to find options that otherwise might not be found.

Jones et al. (2018, p. 371) argue that prior literature has not developed an adequate theory about the circumstances within which stakeholder relationships can be beneficial to firms. They argue that existing theory falls short because "There is a paucity of theory on the contexts in which the incremental benefits of instrumental stakeholder theory–based stakeholder relationships are most likely to exceed the costs." Eden and Ackermann (2021) believe that stakeholder relationships needed for the firm's survival must be fostered. Expanding on that idea, we adopt the premise of Shakun's (1988) Evolutionary Systems Design Model (ESD) and argue that the terminal value of the firm and how the firm plans to achieve it via its instrumental values and operational goals is the key to understanding the behaviors and interactions of the focal firm and its stakeholders.

Terminal values may be seen as constituting the purpose of the entity. Shakun (1988) describes terminal values as those involving high order ends of the corporation. As for instrumental values, these can be characterized as the entity's strategy, a characterization consistent with a preferable or desired mode of conduct enabling the operational goals. Operational goals can be seen as particular actions that a firm plans to undertake in order to implement the strategy (instrumental value) it employs to achieve its purpose or terminal value. Shakun (1988, p. 4) notes that "Operational goals are defined by specific unambiguous operations and are characterized by performance measures. They are operational expressions of values." The ethical and core values of the firm are important factors underlying its choice of terminal and instrumental values and its operational goals.

Survival is clearly the ultimate terminal value. More specific examples could be the purpose of a software company to be taken over by Microsoft in 10 years or for a biotech company to find a cure for the Alzheimer disease. To successfully achieve its purpose the software company strategy could be to develop a program that translates any Microsoft computer program to 50 languages leading to hiring in its first year 10 linguistic scientists as one of many operational objectives. Similarly, an example of possible biotech company's instrumental value is to have a world class fully equipped laboratory manned with highly reputable researchers. An operating objective could be to offer $1,000,000 in grants to researchers who are willing to explore the validity of old Chinese herbal substances believed to slow down the aging process.

Real world examples of terminal values and instrumental values can be ascertained from the vision and mission statements issued by public corporations. Amazon's terminal value communicated in its vision statement is "to be earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices." The strategy to achieve this vision, as expressed in the mission statement is to "serve consumers through online and physical stores and focus on selection, price, and convenience."[2] Similarly, the vision and mission statements of Microsoft communicate that its terminal value is "to help people and businesses throughout the world realize their full potential." The accompanied instrumental value is "to empower every person and every organization on the planet to achieve more."[3]

These terminal and instrumental values will enable a very large number of operating goals. A valid example for both companies is improving the effectiveness of their virtual assistant as measured by customer satisfaction index by 10% a year.

Further, Tesla's terminal value is to be "the most compelling car company of the 21st century, as expressed in its 2022 vision statement. Its mission statement reveals that the instrumental value is "to accelerate the advent of sustainable transport by bringing compelling mass-market electric cars to market as soon as possible."[4] A good example for a related operational goal is reported in the New York Post 9/19/2022 Business Briefs" column page 21 "Tesla aims to double vehicle sales in Germany in 2022."

[2] https://fourweekmba.com/amazon-vision-statement-mission-statement/#:~:text=Amazon's%20mission%20statement%20is%20to,and%20endeavors%20to%20offer%20its.

[3] https://panmore.com/microsoft-corporation-vision-statement-mission-statement-analysis

[4] https://fourweekmba.com/tesla-vision-statement-mission-statement/

Similar to the focal firm other stakeholders have their own values and objectives (see Appendix). These complicate the focal firm ability to effectively use its instrumental values and operational goals as tools to achieve its terminal values. By viewing the inter-stakeholder and focal party interactions through the lenses of instrumental and terminal values and operational goals this paper develops a values-based model capable of being employed in a larger multi-player context. A context which is at least partially governed by contractual arrangements, both formal and informal, complete, and incomplete. The nature of contractual arrangements has not been fully explored before in this multi-player, values-based context.

To develop this model, we consider the contributions of past research and the lack of a values-based presentation. We then draw on relevant literature by Kleinman and associates, noting that it is limited to the auditor–client and accounting domains. Given this limited set of applications, we consider how the model could be extended to encompass a broader, more varied set of domains that are not limited by a particular occupational culture or set of cultural blinders and expectations. We further survey existing literature on stakeholder relationships, note the lack of a model like ours and the contribution that an extension of the previous work by Kleinman and associates could make to understanding the broader domains of firm-stakeholder relationships. The original uses of the Shakun (1988) model did not consider the notion of formal and informal contracting between the parties. Without considering contracting, the sense of binding of the parties is missing. By recognizing that contracting takes place at some level, it is easier to understand that the parties' interactions are perhaps limited by expectations for some degree of compliance.

Once we develop the overall focal organization-stakeholder model with a contracting component, we apply it to corporate environments. Within those environments, corporations must interact with stakeholders in order to procure material, moral, and reputational resources that it believes are needed to survive and grow. Achieving positive responses from such stakeholders would foster the focal organization's ability to succeed rather than fail. For example, corporations are embedded in communities and have a substantial stake in the available labor, just as labor has a substantial stake in the availability of employment opportunities. Therefore, the two must interact. Theoretically, labor can "walk" if it is dissatisfied with the interaction, but the need for insurance and the uncertainty about alternate job opportunities undermine that idea. Labor may have little ability to leave a firm, and communities cannot always find other sources of work for the unemployed.[5] Labor often has a written contract with the employing firm, strengthening their ties. In contrast to relationships where the ties are strong, the relationship between investors and the corporation seems more fluid. While investors can always sell their shares if they are disappointed with the firm, the investor community may consist of subgroups with different levels of emotional, pecuniary, and/or strategic commitment to remain invested in the firm, so this simple statement may not capture the dynamics of the

[5] Labor's ability to leave employment with a specific focal firm may depends on which labor component is under discussion. Highly skilled labor in a field with short supply may leave easily, aside from issues such as commutation to new jobs and family relocation. Labor that is less skilled or less mobile may be under greater pressure to accede to the focal organization's demands. However, we cannot present all possible permutations for each stakeholder group.

relationship between a corporation and its investors. Ultimately, theory is general, but application depends on specific circumstances unique to the participants in the intended or actual interactions.Thus, the interactions in our model are subject to the goals and opportunity structures that exist in the environment, and the paths to goal achievement are bounded by each party's operational goals and by constraints set by the need for succor from the stakeholders who have their own terminal values with their interactions taking place through the medium of contracts, both complete (when possible) and incomplete.

3 Extending Shakun's (1988) Evolutionary Systems Design Model to a Broader Arena

3.1 The Basic Premise of the ESD Model

The ESD model's basic premise is that each organization has different terminal values that it tries to achieve via its instrumental values and operational goals. However, each organization must act within its environment and face the demands of, and make demands on, stakeholders with some ability to affect the organization's achievement of its terminal values Similarly, the organization has the ability to affect each stakeholder's achievement of its own terminal values. Since both sides seek to act through others, explicit and implicit contracts are formed. Consistent with Hart's incomplete contract theory, these contracts may be incomplete in that they cannot be fully specified because the interactions that underlie them take place over time and are therefore subject to changes in each party's desire to fulfill the contract or because of problems created by changes in the environment surrounding the parties' exchanges. All stakeholders to the interaction and the focal firm itself have characteristics that affect their desire, willingness, and perhaps self-perceived ability to complete the implicit or explicit contract, even apart from the impact of the changing environment. The Appendix describes potential terminal and instrumental values and operational goals for a set of stylized participants.

Shakun (1988, p. 5) writes that, "In ESD decision-makers (players) define and try to attain goals as operational expressions of underlying values." To apply this model to corporate stakeholders, we need to understand the underlying values and operational expressions of the stakeholders and the corporation itself. Kleinman and Palmon (2000, p. 20) state, "According to Shakun, values can be … preferable (i.e., desired) modes of conduct." In addition, Shakun (1988, p. 4) notes that "Operational goals are defined by specific unambiguous operations and are characterized by performance measures. They are operational expressions of values." Thus, terminal values are desired states of existence, whereas instrumental values are modes of conduct.

An important way to understand how Shakun's (1988) ESD model applies to actions in the interorganizational field is evident in Kleinman and Palmon's (2000) description of Shakun's model:

> [It]…argues that behavior is motivated by the attempts to match outcomes to values, with operational goals being the link between values and outcomes.

> The discrepancies or incongruities between the values or desired outcomes of different organizations create conflict between them. The severity and the outcomes of this conflict are mediated by many factors. These factors include organizational, environmental and relational elements that can account for outcomes not predictable or explainable by other theories (p. 17-18).

3.2 Is the 1988 ESD Model Valid Today?

Before proceeding to introduce a model that extends ESD, we question whether the 34-year-old model remains valid today.

Organizational actions are undertaken to achieve some objective. The choice of objectives reflects what is valued by the individuals with the power to steer the organization's activities. For example, individuals who value profitability as a key goal will take steps that they believe will lead to greater profitability. This implies that the underlying assumption of the ESD model is correct. While is the objectives typically valued by organizations may have changed since the ESD model was first developed (e.g., firms might now rank environmental sustainability higher and profits relatively lower), it seems clear that firms will take steps to achieve their desired ends. To achieve their terminal values, firms will need to take actions. These can be characterized as modes of conduct, by which we mean employing instrumental values or operational goals to achieve their terminal value. Thus, we argue that the ESD model meets the test of relevance.

Shakun's ESD model presents a structure for examining the interaction of a firm with its environment and how it must set out operational goals to help it move toward achieving its terminal values. Work by Kleinman and Palmon (2000) and Kleinman et al. (2016) shows that Shakun's ESD model can be useful in exploring a firm's interactions with other entities in its environment over time to achieve its goals. The model's assumptions of motivated behavior are consistent with ordinary expectations about the world. Accordingly, we conclude that the model makes sense.

Given that the model is useful, an additional question is whether the model is valuable. The value of a model rests on its ability to perform needed functions that support issues of interest. We believe that Shakun's ESD model does so, especially as it is expanded here. While the cited papers that use Shakun's model are limited to the accounting/auditing domain, they shed light on the usefulness of ESD as a tool for understanding inter-organizational relationships. This paper builds on those insights to extend the applicability of the ESD model to a broader arena. The stakeholder groups of interest here include environmental, community, labor, and shareholder/investor groups. The prior application of ESD to accounting/auditing was built on the interactions of people who had educational and other characteristics in common since many were accountants or auditors and/or moved in that world, so they shared similar language, beliefs, and mindsets. That is not true in the relationships between corporations and many other stakeholders. Therefore, this paper provides an additional tool for examining focal firm-stakeholder interactions by building on prior literature using a values-based, goal-driven approach. This contracting approach adds further richness to the understanding of stakeholder-focal firm behavior.

4 The Focal Firm-Stakeholders' Interaction Model

4.1 The Basic Premise of the Focal Firm-Stakeholders' Interaction Model

Focal firm resources and patience for dealing with stakeholders' needs and claims on the focal firm are limited, as is the focal firm's ability to focus on extracting what it wants from the stakeholders. At the same time, the focal firm may have several goals in addition to profitability. These goals may include promoting environmental quality, supporting labor, and helping the community. Given inevitably limited resources, another question is how much of each of these activities can be done at the same time, or how meeting such needs should be or must be parceled out among the parties over time. Thus, boards of directors and top management need to balance the interests of the relevant parties (e.g., Stout 2012). The capacity of the human mind is limited (Simon 1947), but, as Spender (2018, p. 23) notes, it is confronted with the Knightian Uncertainty elements of ignorance, indeterminacy, incommensurability, and irrelevance. Therefore, successfully integrating the indistinct and often contradictory preferences of multiple stakeholder groups is likely to exceed the capacity of even the best managers (e.g., see Hasler, 2014). Doing so without bias is also likely to be extremely difficult (e.g., Guszcza et al. 2018). The organizational environment within which interactions take place is complex and can change rapidly, adding to the inability of the focal organization to maximize the effectiveness of any strategy for dealing with stakeholder groups. Thus, seeking optimal solutions is difficult, satisficing is likely to occur (Simon, 1947), and the firm's decisions may be dysfunctional.

Since the parties often cannot unilaterally impose their will upon the environment, they must engage with their stakeholders. The environments themselves may change over time due to previously unforeseen developments, or firms may develop different understandings of how they should act given crises such as anthropogenic global warming. Engaging with stakeholders in even the simplest environments may require the use of contracts, formal or informal, complete or incomplete. Contracts set boundaries on behavior since either party can seek to enforce seemingly violated provisions in court. Even the threat of legal action may serve to keep the parties operating within their bounds. Therefore, contracts are important to the extent that they may be able to interfere with or facilitate the focal firm's attainment of its terminal values via its instrumental values or operational goals.[6] Since the element of

[6] Based on a social network theory approach, Batjargal et al. (2013), argue for the importance of institutional context in regard to the enforcement of contracts. They note that "Weak legal protections through court systems together with predatory inclinations of government bureaucracies often make informal channels of protection the primary and perhaps the only alternative available to entrepreneurs (citation omitted)." We acknowledge the importance of the strength of the court system in providing support for what we consider contract realism, that is, the ability of a party to enforce a contract in a suitable forum. We further acknowledge that this paper' US context places the focal firm and stakeholders in one or more of 50 states, each with its own state legal system. Some of these legal systems may be more robust in terms of judicial efficiency and uniformity with respect to contract law enforcement than others. However, this paper is a modeling exercise that deals with such background variety at a very high level of abstraction. In effect, we assume it does not matter.

trust is built into any long-term interactions in which circumstances, perceptions, and behaviors may change over time, the problem of incomplete contracts becomes significant. Managing any long-term relationship successfully is a matter of skill and luck (e.g., Konnikova 2020) and careful analysis (Ackermann and Eden 2011), any of which may change over time. These occur in an environment that Williamson (1976, p. 257, cited by Spender 2018) characterizes as being affected by "bounded rationality, opportunism, uncertainty, small numbers, information impactedness, and atmosphere."

However, the focal firm is not alone in having terminal values that it seeks to achieve. The stakeholders have unique characteristics that affect their own choices of terminal values and require the implementation of instrumental values to achieve. Again, there is a need for these stakeholders (each of whom can be reconceptualized as a focal firm in its own right) to potentially engage in incomplete contracting (e.g., Hart 2003) with the focal firm. While stakeholders might be able to achieve some or all of their instrumental values without going through the focal firm, that is beyond the scope of this model. Similarly, the focal firm may be able to achieve some of its terminal values without the assistance of its stakeholders. All parties need to be aware that their counterparties may find ways around dealing with them, for example by contracting with another party (e.g., Commons 1924, cited by Spender 2018). This multiplayer aspect argues for the presumption of the inadequacy of any party's efforts to have its way easily. Given such circumstance, Spender (2018, p. 18) notes that it is inevitable that contracts are incomplete. He says that parties to a transaction are "in a state of bilateral dependency" with efficiencies arising through a "dynamic and 'inter-temporal' process." (Spender 2018, p. 18).

We use the concept of "incomplete contracts" to demonstrate that if one side is dependent on the other, or if there is mutual dependence, it is assumed that there is some degree of need for each party to comply with the other's desired performance in an environment in which that "contract" is likely to be incomplete and potentially legally or economically unenforceable.

The concept of contracting can mean different things. Contracts can be formal written documents that include penalties for nonperformance, a key issue in Hart's incomplete contracting theory. Alternatively, they can be verbal and can address each party's presumed earnest representations to promote the terminal or instrumental values of the other party or itself, although that particular language is unlikely to be used. Contracts may also be unstated, representing shared notions of how the parties should behave in a particular context, such as taking steps consistent with each party's operational goals. These contracts may have substance in court, or they may have a moral nature that is not necessarily enforceable in court. That is, they may be contracts toward a (hopefully) worthy undertaking, but not necessarily binding legal agreements.

The environments within which these interactions occur may change over time. For example, interactions between a focal firm and its stakeholders may tend to play out one way before the 2020–2022 COVID19 environment and a different way after the pandemic changed the environment and the parties' perceptions of how best to preserve their interests. Further, each focal firm and its stakeholders exist within their own microenvironments since each faces realities that reflect and affect its concerns. For example, environmentalists' concerns may change with a new administration in Washington, DC, but labor concerns might not. A focal firm's willingness to engage in a particular manner with a subset of its stakeholders may change for competitive and other reasons when its competitors change their willingness to engage with the firm in some way.

4.2 Graphical Presentation of the Focal Firm-Stakeholders' Interaction Model

Our model in Fig. 1 is presented in two parts. Figure 1-A represents Time 1 when the firm faces Environment A, and Fig. 1-B represents Time 2 when the firm faces Environment B. Different environments may affect the characteristics of the focal firm on the left in each figure and the characteristics of the stakeholders on the right in each figure. Thus, our model is effectively multidimensional with time being one dimension.

4.2.1 Characteristics of the Focal and stAkeholder Firms/Entities

Firm and entity characteristics are not enumerated within the figure, but they might include, for example, their profit-orientation, public-spiritedness, technology, ethical culture or commitment to the welfare of the community in which they exist. The focal firm's terminal values are shown on the far-right side of the diagram. Between the focal firm and its terminal values on the right are lines that represent instrumental values that the focal firm seeks to use to achieve its terminal values. Since the focal firm must deal with stakeholders in order to achieve its terminal values, these stakeholders and their own characteristics are shown toward the right side of each part of the diagram. In order to achieve the focal firm's terminal values, it must deal with stakeholders. The focal firm's instrumental values and operational goals affect its ability to achieve any terminal values that are mediated by the need to deal with the stakeholders via the use of incomplete contracts. The characteristics of each stakeholder are shown within each stakeholder box. Stakeholders, like the focal firm, have their own terminal values. In order to achieve these, in the context of this model, they must deal as needed with the focal firm. Like the focal firm, the stakeholders' instrumental values and operational goals affect their ability to achieve any terminal values that are mediated by the need to deal with the focal firm via the use of incomplete contracts. That is why the stakeholders' terminal values are shown to the left side of the diagram. The diagram should be viewed both from left (focal firm) to right (stakeholders) and from stakeholders on the right to the focal firm on the left.

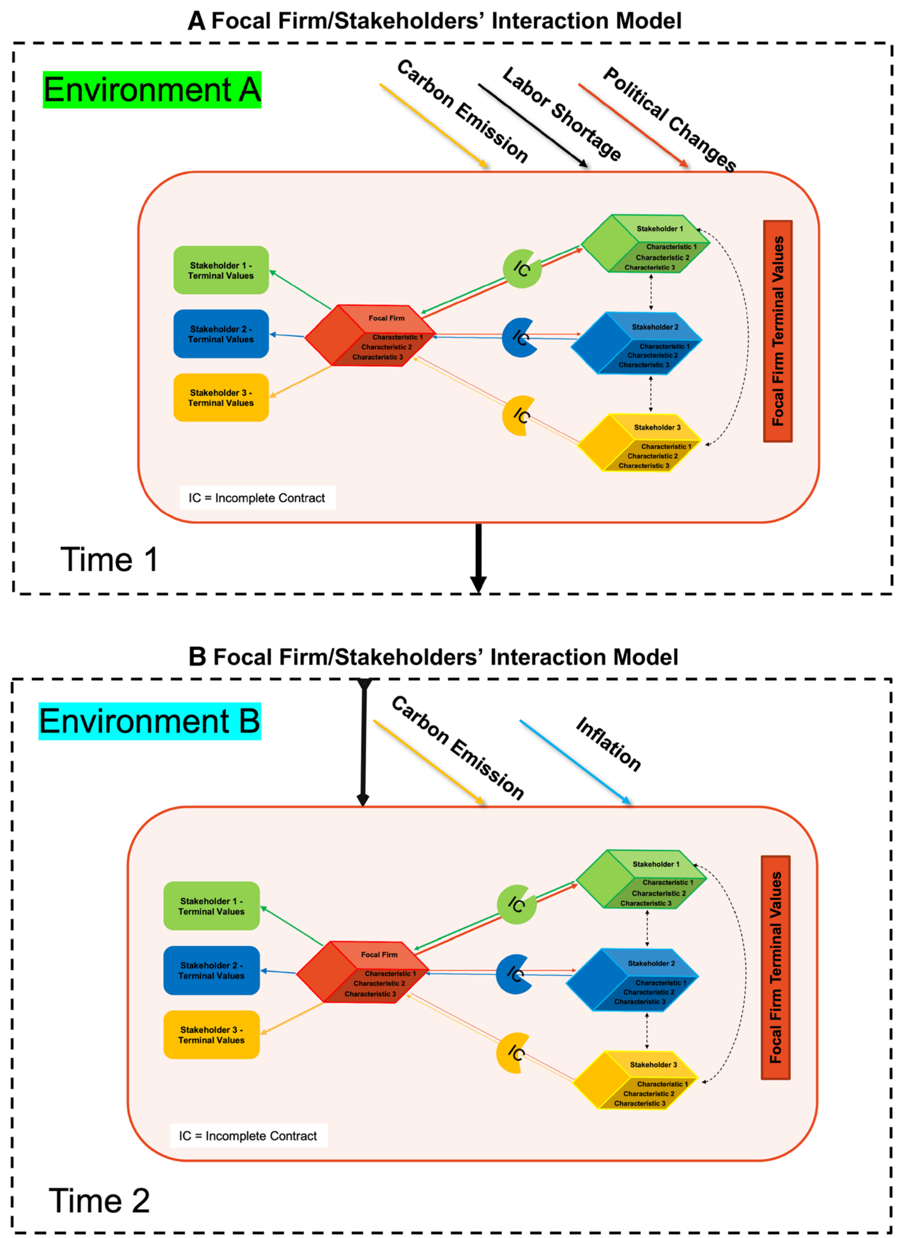

Fig. 1 (**A**) Focal firm/stakeholders' interaction model A(**B**) Focal firm/stakeholders' interaction model B

4.2.2 Justification of Contracts

Between the focal firm and the stakeholder boxes are partial circles labeled IC for incomplete contract. Some of these contracts (e.g., between the focal firm and

Stakeholder 1) are more complete than others (e.g., between the focal firm and Stakeholder 2 or Stakeholder 3). The notion of contracts reflects the importance of having some structure by which the focal firm and relevant stakeholders can engage. Yet, drawing on Hart's incomplete contract theory, complete control by one party over the relevant behaviors of other parties is impossible since not all current or future behaviors can be specified. The varying completion of the three partial circles suggests that some relationships between some stakeholders (Stakeholder 1) and focal firms are characterized by contracts that are more complete than others (Stakeholder 2 and Stakeholder 3). The focal firm engages with the stakeholders in order to achieve its terminal values, shown on the right-hand side of the figure. While not pictured in Fig. 1, these terminal values may be only partially achieved, and perhaps are never totally achievable. This partial achievement of focal firm ends in both Environment A and Environment B are shown by the cut areas in the vertical terminal value descriptions in both environments, that is, the terminal value areas for each stakeholder and the focal firm are shown missing a piece.

4.2.3 Stakeholder Values

Just as the focal firm's achievement of its terminal values may be mediated by one or more stakeholders whose actions are affected by their own characteristics, so the stakeholders may have terminal values that are mediated by the focal firm. Such goals and the nature or usefulness of any incomplete contract, as well as characteristics of the focal firm and the stakeholders may change with differences in Environment A at Time 1 or Environment B at Time 2. That the stakeholder's terminal values may be only partially achievable is shown by the incomplete squares to the left of the focal firm.

4.2.4 Stressors

Stressors that may lead to notable changes in the environment might include, for example, carbon emission issues, labor issues, political changes. These stressors are shown toward the top in Environment A. Conditions change over time, so different environmental stressors might exist in Environment B, such as (continuing) carbon emission issues and inflation, or other (unspecified) problems. How such changes emerge is beyond the scope of this model.

The connecting arrows between the stakeholder boxes show that the stakeholders may have relationships with each other as well as with the focal firm. While beyond the scope of this paper, this is consistent with social network theory conventions.

4.3 Application of the Focal Firm-Stakeholders' Interaction Model to Categories of Stakeholders

This section introduces an interactionist perspective that is then used to perform a stakeholder-oriented analysis of focal firm-stakeholder group interactions. Doing so allows this paper to look at the benefits and disincentives that may arise from each party choosing whether to interact with parties occupying alternative positions, such as labor unions facing the employing-here focal-firm. Failure to engage successfully in such relationships may be detrimental to one or more of these entities. While each entity involved has its own terminal and instrumental values and operational goals, collectivities of individuals within each group (e.g., employees, environmentalists, shareholders, and the focal firm) must have similar terminal and instrumental values and operational goals of their own in order to be considered functionally as part of the group. Freedman et al. (2018 p. 4) state that "Firms form what might be called a predominant stakeholder culture that provides guidance in how managers and employers should treat stakeholders. There is wide variance in stakeholder cultures across organizations. Stakeholder culture represents an opportunity for a firm to differentiate itself from competitors and other firms."

Fligstein and McAdam (2012) develop a multifaceted field model of organizations within their environments. This model includes connections between focal organizations and peer and state counterparties, as well as components within the focal organization representing the existence of internal governance units, internal politics, and the impact of time. They argue (p. 76) that "the state of a field at any given moment is simultaneously shaped by dynamics 'internal' to the field and by events in a host of 'external' strategic action fields with which the field in question has very close and sometimes dependent ties." Fields can be dependent on or have authority over other fields, or they may be unconnected. Some fields are deeply connected to others, whereas other fields are connected to only a few other strategic action fields. Relationships between fields are managed by internal governance units with links between fields being "shaped by a number of factors: resource dependence, mutual beneficial interactions, sharing of power, information flows, and legitimacy," (Fligstein and McAdam, 2012, p. 78). These descriptions are compatible with the networks of relationships between entities in the presentations of Shakun's ESD theory by Kleinman and Palmon (2000) and Kleinman et al. (2016).

Like the Global Reporting Initiative (GRI), this paper notes that there are several key stakeholders for the focal firm, including stockholders, creditors, employees (labor), environmental groups, and community groups. A focal firm's time and attentions are limited, so its preference structures are presumably geared to place the most emphasis on achieving its own terminal values, with less focus on other groups' goals and values even if the focal firm agrees with them. For example, members of an environmentally oriented group will be more interested in fostering action aimed at promoting climate change-resistant behaviors than they will be in fostering better wages for labor even if the environmental group believes better labor wages are desirable. The more labor-oriented group may have the opposite preference strengths. This suggests that the non-focal firm groups may act at cross purposes to each other: one group's gain may be another group's loss as they seek the attention of the focal firm.

The focal firm exists in a web of surrounding stakeholder groups that may—or may not—have relationships with each other as well as with the focal firm.[7] These groups probably know of the other groups' existence or at least the likelihood that counterparties with values dissimilar to their own may also have claims on the focal firm. This may be of concern in some instances, but not necessarily in others. As Freedman et al. (2018) note, aiding one group need not force a decline in the level of value achievement that the focal firm or another stakeholder group receives since the value created by a firm is not fixed. However, there may be instances when greater attention to the needs of one group may reduce the value achievement of another group. Communities may be hurt when employment decreases due to automation, but greater investment in automation may make the local focal firm more competitive against other firms that produce similar products overseas, so job security for remaining workers here may increase, improving terminal value achievement for the labor stakeholder group.[8]

The way that the focal firm will choose to engage with stakeholder groups depends on how it perceives its own need to do so. Whether such decisions are rational is an important question. In the organizational culture literature, Johnson (2018, p. 34) notes that "Actors…are likely 'rational' in the sense that they pursue their own interests rather than someone else's. Rationality, however, is culturally encoded. The factors included in a cost–benefit analysis for one actor and the values assigned to those variables may be quite different from another…." In the context of such decision-making, Johnson (2018, p. 34) continues, "…we must understand the identities, mind-sets, traditions, and habits that provide context." Cultural anthropology indicates that such understandings of what is rational reflect the impact of religious, ethnic, socioeconomic, generational, and other cultural effects on individual behavior (Johnson, 2018).[9] The focal firm is similarly affected since it is managed and staffed by humans who are subject to such influences, even if these influences that are brought into the firm become attenuated due to the influence of self-selection and organizational selection, as well as by individual preferences and perceptions due to the impact of organizational socialization (e.g., Kleinman and Palmon, 2000). Issues of interest will also be affected by the perceptions of focal firm management, which is the product of individuals' beliefs and experiences, however inaccurately remembered (e.g., Johnson, 2018).

[7] The idea of webs of stakeholders has been used in negotiation literature (e.g., Fells, Rogers, Prowse and Ott (2015), business ethics research on how organizational processes impact "the boundaries between the individual, organizational, and societal drivers of corporate philanthropy" (Eger, Miller and Scarles, 2019, p. 141), and in the study of open innovation ecosystems (e.g., Randhawa, West, Skellern and Josserand (2021). In all three instances, the term has been used to describe interactions between a focal firm and others in its environment, as we do here.

[8] Subgroups within groups may exist, raising the question of how subgroups within a given group (e.g., labor) allocate the pain of necessary tradeoffs and whether they can categorize themselves as one stakeholder group. For example, an environmental group may contain factions promoting air quality over water quality and vice versa. Freedman et al. (2018) called this a "finer level of identification." We argue that a group that is perceived by outsiders as a group and that commonly acts as a unified entity despite internal turmoil is indeed a unitary stakeholder group.

[9] For example, Baggini (2018) discusses how different cultures and ethnic groups see themselves.

The issue of perception interacts with the apparatus of judgment of oneself and others. For example, Simon argues that individuals may intend to be rational but often fail to achieve rationality due to limits on their cognitive ability. Simon (1955, p. 99) states that "(the) task is to replace the global rationality of economic man with the kind of rational behavior that is compatible with the access to information and the computational capacities that are actually possessed by man in the kinds of environments in which such organisms exist." Specifically, Simon argues that individuals use satisficing, which he defines as the consideration of available options until an acceptable one is discovered even if it does not optimize the anticipated result for the individual considering the problem. In effect, it is a decision to choose a solution that is good enough, although not optimal. In terms of the ESD model, the information that the focal firm and its stakeholders (i.e., counterparties to the focal firm) have about the terminal values and goals of the other, as well as the degree of motivation and resources that may be brought to bear by the other to achieve these values and goals, is necessarily limited. An important consequence for this model is that the costs to optimize one's own outcomes may be perceived to be too much, resulting in acceptance of an agreement/contract with the other that is less acceptable than what the focal firm or its stakeholders would prefer.

The outcome of these processes is that the nature of the relationship between the focal firm and relevant stakeholders will be more organic, i.e., less reliant on the use of formal contracts. In situations in which great trust is engendered, the parties' behaviors will change fluidly in mutually desirable directions when challenging situations arise. Thus, there is less to fear from incomplete contracts since the familiarity that arises from a strong relationship, the desire to maintain that relationship, and the idea of salvaging future goals despite difficult current circumstances will lead to behaviors that accommodate the stress that the counterparty firm is under and is therefore supportive of that firm. Clearly, being genuinely other-oriented is more likely to lead in this direction than being self-oriented and using Machiavellian techniques to try to maneuver one's stakeholders into supporting one's own position to achieve terminal values. Manipulation seems likely to lead to self-interested sabotage of others, rather than curtailing some potential personal gain or accepting somewhat greater loss to support others with which one has a generally positive and productive history. This is true for both the focal firm and its stakeholder counterparts.

To align stakeholders' behavior with that of the focal firm, a theory of contracting is needed. Under what circumstances might a contract hold, and under what circumstances can a complete specification of required behaviors be avoided? Hart's incomplete contracting theory is used to address these issues.

4.4 Hart's Incomplete Contracting Theory

This paper uses Hart's (2003) incomplete contracting theory to examine the strength of various bindings between the focal firm and its stakeholders. Hart's (2003) incomplete contracting theory is an important addition to the ESD model proffered by Kleinman and Palmon (2000) and Kleinman et al. (2016). It applies a framework of perceived obligation, duty, and legal correctness to the interactions between the focal organization and its counterparts that is missing in that previous ESD work.

Hart (2003, p. C72) defines an incomplete contract as one in which, "the contract is assumed to be incomplete in the sense that the builder… [of a prison, in his example] …can modify the nature of the prison or the nature of prison services in various ways, without violating the contract." This is the situation between stockholders and management since management cannot meaningfully ensure that it can meet its earnings or sales forecasts. While compensation contracts can be constructed to punish management for such failures, research shows that doing so is problematic (e.g., Lowenstein 2017; see also Jensen and Meckling, 1976). Some may push externalities onto another contracting party or onto members of the public who are not part of the contract and who may not even know of its existence. In many ways, the non-contracting party with expectations for the behavior of the focal corporation may have inadequate tools to observe the focal firm and judge its performance.

In his Nobel Prize lecture, Hart (2016) explains that organizations develop because of the difficulty of controlling what others do. That is, Organization B may act or fail to act, either of which may have a negative impact on Organization A. If the two organizations are independently owned, Hart argues, then A may lose badly if B chooses to do something other than what A wants/needs and for which A is economically dependent on B. However, if A owns B, then B must defer to A's wishes, assuming that any deviation by B from A's wishes is observable to A. The essence of Hart's work lies in its exploration of the inability to know what the future holds and how an organization will act depending on its relationship to other parties. This is certainly an important consideration in this paper's evaluation of the strategies and positions of the focal firm and each of its stakeholders, where each party looks to the other to serve its own terminal value-achieving ends, often without the power to enforce complete compliance with its wishes. This is especially the case when future events may cancel out current understandings. As outlined by Hart, the problem is how to deal with incomplete contracts whose elements cannot all be spelled out in advance. As Hart (2016) points out, taking control of another party creates problems of its own. Hart's work extends the work of Williamson (1976), Coates (see Spender 2018) and others by grounding it more formally in a model. In the case of a focal firm and its stakeholders, the ability of any party to take control of the potentially many counterparties from which it seeks resources or at least tolerance becomes impossible, highlighting the need for skillful relationship management.

The next section further explores the meaning of contracting in relation to stakeholder groups.

5 The Dynamics of Stakeholder Relationships and Contracts

Contractual obligations are clearer than limitations in other relationships between stakeholders and the focal corporation. For example, contracts between the firm and the labor union may contain mandatory pay raises or specify work rules. By contrast, can an environmental group bind a corporation to reduce its carbon emissions? Why should a firm agree to such limitations as long as it is meeting the requirements of applicable state and local laws? Law can level the field between combatants, but only if we assume that they are equally capable of influencing its design and enforcement. This may be true in the case of large banks lending to large corporations; both parties have excellent legal teams and the ability to force the other to spend huge sums in its own defense. This is less likely to be true if the forces are ill-matched, that is when one side can afford excellent legal teams, but the other cannot.

The focal firm's various stakeholders may have different levels of ability either to influence the focal firm or to walk away from it. For example, banks and investors have other investment opportunities, although depending on lending restrictions, significant amounts of capital may be tied up with a debtor, so unloading the debt may be a burden due to credit risk-induced losses and interest rate risks on certain types of debt.[10] However, labor is unlikely to have a wide choice of potential employers, depending on the strength of the local and national economy and the transportability of skills to other workplaces. Labor still has some protection in its relationship with the focal firm from contracts and unions. Labor contracts are enforceable, but when they expire, the employer may demand givebacks when negotiating a new contract. Furthermore, management can stonewall the union on contract compliance and/or threaten to move unionized facilities to non-union environments, loosening the power of the union. While there is still a memorialized contract to enforce, the legal onus is on the party seeking to break it. For other stakeholder groups, like communities and environmental groups without contracts or unions, the problems are greater.

Thus, some groups may have easily enforceable contracts, while other groups may have contracts that are difficult to enforce (e.g., see Joyce 2020). Still other groups may not have contracts at all and may have to rely on appeals to broader moral norms of behavior and societal constructs to achieve enforcement of a claimed implicit social contract, which may be the most powerful enforcement engine of all. Still, the appeal to these norms and constructs may be problematic, depending on the nature of the environment surrounding the interacting parties, as well as the determination that each party brings to the challenge over the issue in dispute.

Communities face the possibility that if they confront a firm, it may leave the area entirely. The lost employment may not be made up with new industry or commerce. Its loss may also result in a hit to the tax base. The extent of the damage may depend on the characteristics of the industry, the community, and various roles in the workforce, as well as the state of the economy. This paper is tied specifically to US norms for corporate behavior and governing/regulatory institutions. Communities that are uniquely endowed with resources or have strong comparative advantages to offer focal firms may have a stronger negotiating position. The nature of the focal firm's management team and board of directors' commitment to remain in and be supportive of particular localities are also important in determining the relative

[10] Commons (1924, cited by Spender, 2018) argues that there are at least five parties to every transaction: the two parties that are the buyer and the seller, at least two alternate parties to whom the seller (buyer) could have sold to (bought from), and the "instrument of legal power", which may be conceived of as the regulator or the courts that are needed to enforce any lawful contracts. Contracts on illegal subject matters are not enforceable in US courts.

power/negotiating positions of the parties, as well as constituting one or more of the factors that determine what the relevant parties ask for and are willing to give to the other. However, these considerations are notional, and even a moral commitment to remain in a community, a commitment that strengthens the negotiating position of the community when dealing with the focal firm, may pale if the focal firm becomes endangered by a contest for control. The pushy outsider may feel no commitment to the local area and may believe that the resources that it could acquire through a takeover are more than enough to compensate for the reputational damage it may sustain in the community that it leaves behind.[11]

This paper's model also includes environmentalists as stakeholders to the focal firm. But what is the necessary connection between them? The focal firm may choose to talk green but act otherwise, depending on: (a) its evaluation of public attitudes toward greenness; (b) its evaluation of the extent that perceptions of the company's greenness would impact the firm's profitability; and (c) whether the costs to appear green outweigh the benefits. Of course, it is also possible that the focal firm is governed by those who believe that anthropogenically-caused global warming is a danger that must be dealt with even if the focal firm has enough resources to protect itself and its principals from harm due to global warming. That is, the focal firm's controllers may stand on a principle of acting for the greater good, not just financial self-interest when these two are in conflict. In order to address this issue, we could simplistically assume that the focal firm's management is somewhere on the continuum between pure greed and altruistic beliefs in its willingness to engage with environmental stakeholders. Clearly, in the case of a more idealistically guided willingness to engage with the stakeholders, there would be a greater willingness to cooperate with environmental stakeholders than there would be with more avariciously minded focal firm management. Of course, top focal firm managers may be willing to change their attitudes and policies if circumstances indicate that their cost–benefit calculation is incorrect and they have the internal fortitude to admit error, even just to themselves. Over time, the salience of different parts of the environment may affect judgments, incentives, and the importance of different stakeholders to the success or failure of the focal firm and its ability to achieve its terminal values.

Underlying this web of relationships is social contract theory's "… view that persons' moral and/or political obligations are dependent upon a contract or agreement among them to form the society in which they live" (Internet Encyclopedia of Philosophy 2020). The nature of these obligations depends on society's view of what is required. Along with regulation, these perceived obligations also affect the ability to enforce any postulated social contract. That said, Coase would probably argue that each grouping of relationships is unique (see Spender 2018).

[11] It may be argued as to whether reputation is a resource for firms since even reputedly bad organizations may survive, perhaps because that reputation is not known to many. That said, Eskerod and Jepson (2013, cited by Eden and Ackermann, 2021, p. 1009) state that a company's goal systems "have the potential of being influenced by what others might think." In other words, companies may fear the impact of having a bad reputation.

There are transaction costs to enforcing any contract, and not all of these costs are bearable or desirable. While economic costs to enforce contracts, such as legal fees, are obvious, other costs of enforcement actions include psychological stress and disruption to everyday routines. The ability to bear these costs may differ among parties to each contract.

6 Conclusions and Limitations

6.1 Summary

The Focal Firm-Stakeholders' Interaction model in this paper presents a multi-faceted tool to evaluate actions among many parties in which some interests are held in common, but others conflict. As Kleinman et al. (2016) show, coalitions may form, dissolve, and reform depending on the issue faced. Varying terminal values among some groups may have more or less influence at different times, depending on external environmental factors (see Fligstein and McAdam 2012), Therefore, different operational goals may come into play as the expected effectiveness of those goals are subject to re-evaluation.

The management of potential intergroup conflict is important to all parties. Alliances can be made, and the public forum can be used to force desired solutions on other stakeholders. Fligstein and McAdam (2012, p. 17) define "strategic action as the attempt by social actors to create and sustain social worlds by securing the cooperation of others." This is fundamental to the problem faced by each stakeholder. Fligstein and McAdam (2012, p. 17) note the importance of strategic actors having the ability "to 'get outside of their own heads', take the role of the other, and work to fashion shared worlds and identities." To the extent that the existence of a shared control dilemma is recognized, all stakeholders face the need either to master, come to terms with, or lose out to the preferences of other stakeholders within their shared domain (see Ackermann and Eden 2011). The broader environment within which this takes place is subject to multiple definitions, including the fact that the environment is actually multiple environments. That is, each party faces an environment of its own stakeholders, each with its own terminal values and desire to resolve them. Since the environments can change over time, the firm is surrounded by multiple environments.

In Fligstein and McAdam's (2012) terms, this paper develops a mesolevel description of action within the focal firm's domain of stakeholders. According to Fligstein and McAdam (2012, p. 7), "A mesolevel theory of action implies that action takes place between and within organized groups." In an inter-organizational field comprised of multiple actors with multiple, possibly contradictory goals, success in pushing one's own agenda (in our terms, achieving one's own terminal values) requires social skill, the ability to manipulate people and groups (e.g., through instrumental values and operational goals) in the environment based, as Fligstein and MacAdam (2012, p. 17) write, on "the capacity for intersubjective thought and action that shapes the provision of meaning, interests, and identity in the service of collective ends." Indeed, such social skill is implicit in Freedman et al. (2018) theory of stakeholding. While various stakeholders may have different levels of such skills, we agree with Fligstein and McAdam (2012) that they are important in shaping successful behavior within the inter-organizational field.[12] Thus, we too are "interested in how it is that actors cooperate with one another, even when there is conflict and competition and how this cooperation can work to create larger arenas of action" (Fligstein and McAdam 2012, p. 18; see also Ackermann and Eden 2011). Given how important achieving their terminal values (Shakun 1988) can be to each stakeholder group in this story and given the contradictions in goals and values that each stakeholder group faces with other counterparties to the focal firm, having a framework for such understanding is important. Providing this framework is an important contribution of this paper. Discussing these interactions in the context of complete and incomplete contracts is another important contribution of this model. Discussion of the impacts of contracts, complete and incomplete, on stakeholder interactions is new to this arena and provides fertile fields for future, elucidatory work, as noted below.

6.2 Future Work

Future research could examine the interaction among the stakeholders as they seek to form coalitions with others or undermine the efforts of other stakeholders trying to achieve goals that are contrary to their own. A stakeholder or the focal firm may interact positively with another stakeholder on some issues, but negatively with it on others (e.g., Kleinman et al. 2016). As Ackermann and Eden (2011, p. 181) note, top management teams "must decide which of the many stakeholders identified *must* be addressed if their strategy is to succeed".

Understanding the role of incomplete contracts as part of the nexus among contending/cooperating focal firms and stakeholders is an important addition to Shakun's (1988) ESD model. It provides additional information on how difficult it may be to force compliance given that the environment underlying any particular contract may shift. Future work should also examine how elements of contracts affect the relationships between the focal firm and stakeholder groups. Szabo (1996) notes that important elements of contracts include observability, verifiability, privity, and enforceability. As the nature and relative importance of these components

[12] Of course, success may just mean arriving at a satisfactory enough solution, that is, satisficing, not optimizing (Simon, 1955).

may vary within different combinations of the focal firm and its stakeholders, so does the ability of the parties to evade or enforce the contents of any agreements, formal or informal, complete or incomplete. An extension of Szabo (1996) could explore how the nature of the four contract elements interact with the parties' values and goals to affect the willingness or ability of the parties to act to solve problems in their relationships with their counterparties. This paper offers an analytic tool for understanding the relationships between parties based on the values of each within domains that are at least partially governed by incomplete or complete contracts. Future research should consider whether this model remains valid even when contractual considerations are not involved.

6.3 Limitations

The Focal Firm-Stakeholders' Interaction can be extended beyond our analysis, adding other stakeholder groups and elements. Additional elements should include understanding what happens when a focal firm's stakeholders form coalitions of convenience or ideology and how that affects the outcomes of their interactions. The role of luck and skill in shaping whether stakeholders successfully engage with their environment should also be explored as well as the impact of inaccurate perceptions of the other on this analysis. While empirical research in the inter-organizational field is difficult, such work may develop a more nuanced understanding of how participants act in the interorganizational field and what values and goals and constraints motivate them to do so and shape their acceptance of outcomes.

Game and negotiation theories explorations would represent a natural extension of our model. Here, we provide background considerations useful in doing so, given the various motivating terminal and instrumental values (Shakun 1988) that are ascribed to the parties. The existence of incomplete contracts (Hart 2003) makes the question even more interesting. On one hand, it is a limitation of our paper that we do not undertake this task here. On the other hand, it is an important contribution of our paper that we provide a common substrate that can be used in future efforts to apply game theoretic concepts in this setting.

Appendix: ESD value group analysis

Value group	Terminal values	Instrumental values	Operational goals
Corporation (focal firm)*	Survival Maximized management wealth Maximized firm size High corporate reputation High growth	Behave smartly, as defined by need to achieve terminal values Justify management wealth accumulation Encourage efficiency and decision-making effectiveness Engage in effective public relations strategies Reinvest if acceptable markets provide opportunities	Have financial statements that appeal to stakeholders Attract new resources (labor, capital, prestige, credibility) Make best use of available resources to achieve terminal values Measure response to corporate behaviors Calculate meaningful ROI on investment opportunities
Shareholders	Have best available returns from invested and investable capital Maximization of own wealth Have access to best information that helps self Be secured against others who misrepresent information Enjoy investment in company that pursues desired economic and social goals Maximum risk/return available for stockholdings decisions	Keep an open mind as to investment opportunities Avoid cognitive biases such as sunk cost fallacy Seek information helpful to oneself Define one's own goals clearly (e.g., wealth maximization, fostering social good, however defined) Select investment and corporate voting strategies that maximize one's own economic, social, or other goals	Read investment press Think critically about information and information sources Search out management self-dealing Measure desires against performance using valid metric(s), e.g., GRI reports, CDP (Carbon Data Project) reporting, Fortune 500 ranking Use software and other tools to evaluate risk/return status of existing and proposed investments
Creditors	Have best available returns from lent capital Maximization of own wealth Have access to best information that helps self Be secured against others who misrepresent information Maximum interest income given credit risk	Keep an open mind as to investment opportunities Avoid cognitive biases such as sunk cost fallacy Seek information helpful to oneself Define one's own goals clearly	Read investment press Employ debt covenants and required financial reporting to provide early warning system about debt sustainability Think critically about information and information sources Search out management self-dealing Monitor credit ratings by key rating organizations Monitor credibility of ratings by key rating organizations

Value group	Terminal values	Instrumental values	Operational goals
Labor (unionized)	Labor force living a "good life" Reduced anxiety about employment conditions and status Share in employer prosperity Share in corporate governance	Promote class solidarity Promote participation in union activities Promote financial literacy Promote awareness of corporate impact on membership	Evaluate members' participation in union activities Measure members' awareness of union activities Calculate quality of organizing activities Monitor and publicize employer profitability Take specific steps to identify union with public interest
Community	Celebrate company participation in community Avoid imposing firm externalities (e.g., pollution) on region Have population employed fully at living wages Develop positive view of community Encourage development of community tax base and other resources	Make area palatable for firms Develop idea of corporate citizenship in local firms Provide local employers with skilled and responsible work force(s) Engage in image-building exercises/advertising Provide tax and other incentives to firms to locate in area, thereby generating tax resources	Calculate success in fostering corporate involvement in community Measure quality of school educational outputs Evaluate ability of community to attract highly skilled workers from other areas Do longitudinal evaluations of firms' views of the community and desire to contribute to it
Environmental Groups	Have a livable world Live in a sustainable economy Have corporations accept need to behave in a sustainable fashion	Act to prevent eco-catastrophe Encourage "green" solutions to business problems Change perceptions of role of corporation with respect to the environment	Foster group membership Track public awareness of environmental issues Educate corporate executives about pressing "green" issues Develop "green" partnership ideas or initiatives to promote with focal corporations

***Corporate values are adapted from Kleinman and Palmon (2000)**

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