

IS STAKEHOLDER MANAGEMENT A SUSTAINABLE COMPETITIVE  
ADVANTAGE, REALLY? SOME NOTES ON THE POTENTIAL  
AGENCY PROBLEMS

IE Working Paper

DO8-136-I

03-11-2007

Carmelo Cennamo

Pascual Berrone

Luis R. Gómez- Mejía<sup>1</sup>

IE Business School  
Strategic Management Dept.  
M<sup>a</sup> de Molina 12  
28006 Madrid, Spain  
Tel. (34) 915689733  
Fax. (34) 91 4111361  
Cennamo.phd2009@alumnoie.edu

IESE Business School  
University of Navarra  
Dept. of General Management  
Camino del Cerro del Águila 3  
28023 Madrid, Spain  
Tel. (34) 912113000  
Fax. (34) 913572913  
bberrone@iese.edu

Arizona State University  
Dept. of Management  
Main Campus  
PO Box 814006  
Tempe, Az 85287-4006  
Tel.(480) 965 8221  
Fax (480) 965 8314  
luis.gomez-mejia@asu.edu

**Abstract**

This paper challenges the view that a stakeholder management (SM) strategy constitutes a competitive advantage. Idiosyncratic relationships with stakeholders are *causally ambiguous*. This ambiguity makes SM strategy difficult for competitors to imitate, but also increases managerial discretion and internal disagreement about policy. In particular, SM strategy (1) facilitates agent opportunism; (2) impairs sanctioning mechanisms and thus increases monitoring costs; (3) lessens decision-makers' risk propensity, leading to strategic inertia; and (4) increases strategic-environmental complexity and uncertainty and therefore agent's compensation and incentives.

<sup>1</sup> Corresponding author



## INTRODUCTION

Stakeholder management theory, increasingly prevalent since its formalization by Freeman (1984), holds that systematic attention by executives to all parties who may affect and be affected by the firm's behavior is critical to firm success. Stakeholder management (SM) – defined here as proactive management of issues and claims relevant to groups of stakeholders – is believed to help reduce the pressure and uncertainty of the task environment through implicit long-term contracts that enable cooperation and coordination between the organization and its stakeholders (Freeman, 1984; Jones, 1995). Jones (1995), taking a resource-based view of the firm (Barney, 1986; Peteraf, 1993; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984), claims that those idiosyncratic relationships will constitute a reputational resource for the firm. That is, by addressing stakeholders' claims today, a firm can effectively build a reputational advantage that it can further exploit over time. Causal ambiguity is then argued to help sustain this advantage by creating imitability barriers for rivals (Lippman & Rumelt, 1982; Reed & DeFillippi, 1990).

We challenge this sanguine perspective. We argue that causal ambiguity has a dark side, in the sense that it also impedes the focal firm's managers in leveraging resources for competitive advantage (King & Zeithaml, 2001; Powell, Lovallo, & Caringal, 2006). The firm has limited information on stakeholders' preferences and does not know with any precision how those relate to corporate reputation and, ultimately, to performance. What matters to some members of a stakeholder group might not be significant to others; conflicts are an inevitable mechanism through which coalitions compete to resolve internal inconsistencies and establish what the group should pursue (Coff, 1999; Cyert & March, 1963; Eisenhardt & Zbaracki, 1992; Narayanan & Fahey, 1982). Stakeholders' preferences are not absolute, but relative (Buisse & Verbeke, 2003). And they are not relevant per se; they become strategically relevant only when brought to top management's attention (Dutton & Ashford, 1993). Finally, tastes are not stable. Buisse and Verbeke (2003), for instance, argue that stakeholder salience changes frequently, depending on individual issues which are likely to change across time.

Our major argument is that causal ambiguity will make moral hazard more likely to manifest itself (Carson, Madhok, & Wu, 2006; Coff, 1999; Ouchi, 1980). Under ambiguity, control and incentive mechanisms are likely to be ineffective given the uncertainty of task programmability and outcome measurability (Eisenhardt, 1989), so that managers gain discretion (Hambrick & Finkelstein, 1987; Hambrick & Mason, 1984). They can use SM to change the power structure within the firm and reinforce their dominant position (Coff, 1999). Our final contention is that even a good strategy can be unsuccessfully implemented when internal systems of governance (incentives and monitoring) are weakened by ambiguity about the objectives to be pursued and by the difficulty of assessing performance associated with that strategy. In short, we respond to Mackey, Mackey, and Barney's (2007:820) call for "new theory [which is] required to explain why firms might pursue socially responsible actions that reduce the present value of their cash flows".

## STAKEHOLDER MANAGEMENT THEORY

Stakeholder theorists conceive the firm as part of a wider, open system where it is interdependently linked to many groups of individuals “who can affect or be affected by the achievement of the organization’s objectives” (Freeman, 1984: 46). Donaldson and Preston (1995: 73) posit that each of these groups has a right to be treated “as an end in itself, and not as a means to some other end.” For these reasons, a stakeholder “must participate in determining the future direction of the firm in which it has a stake” (Evan & Freeman, 1988: 97). Freeman (1984) suggests that a firm that systematically considers all stakeholders’ interests will outperform rivals. However, defining who is a relevant stakeholder remains a practical issue.

Mitchell, Agle, and Wood (1997) propose that to get its claims accommodated, a stakeholder must be salient to managers, and to be salient to managers, a stakeholder must have power, legitimacy, and urgent claims. That means a manager must know “who really counts” among stakeholders. Moreover, managers should have enough discretion to decide which claims to accommodate and which interests must be pursued in particular contingencies. The endogenous and changing form of stakeholders’ salience (Hall & Vredenburg, 2005) makes management’s task hardly definable ex-ante and the causal relation with the firm’s performance difficult to establish.

Frooman (1999:193) addresses the issue of “managing potential conflict stemming from divergent interests” by taking a resource dependence approach. The firm relies for resources on the external environment, and the party that controls resources can influence the firm’s strategies. Stakeholders can either withhold a resource or continue to supply it but with strings attached. The firm, by knowing how much interdependency exists between it and the stakeholder, should be able to react effectively. SM could thus be conceived as a *reactive strategy* to cope with changes in the task environment and guarantee the firm the resources it needs (Pfeffer & Salancik, 1978; Thompson, 1967). The goal is quite clear: avoiding disruptions in resource exchange. But how do managers know how to reach it? Can they react to a stakeholder’s action if they cannot accurately assess how it will affect the firm?

In a different vein, Jones (1995) posits that SM increases efficiency by building reputation. Reputation is achieved through policies and decisions that give stakeholders the impression that the firm is a trustable partner. Hence long-term relational contracts will replace formal contracts, saving transaction and governance costs. Notwithstanding the benefits of relational contracts, namely enhanced flexibility and the reduction of bureaucratic costs, Carson et al. (2006) find that relational contracting proves ineffective to constrain opportunism under ambiguity. In their words, “ambiguity reduces sanctions against opportunism (i.e., punishments), thereby increasing its likelihood of occurring. Similarly, under ambiguity, some cooperative acts will be incorrectly sanctioned as opportunistic, reducing incentives for cooperation” (2006: 1060).

Furthermore, reputation may not have the same meaning (and symbols) for the firm as for a specific stakeholder. Even ethical behavior can be misinterpreted because of divergent interests and different points of view. This is more likely to occur under causal ambiguity, as the parties in the relational contract face uncertainty about the benefits they can generate in the exchange relationship (Carson et al., 2006; Dyer & Singh, 1998).

Divergent stakeholders' interests, difficulty in individualizing and addressing stakeholder salience and claims, and uncertainty in establishing idiosyncratic and trustable relationships explain why, once formed, these relationships may be difficult to imitate, giving the firm an advantage. On the other hand, causal ambiguity also impedes the replication and leverage of critical resources within the firm (King & Zeithaml, 2001; Powell et al., 2006; Szulanski, 1996). Its potential advantages are thus questionable.

The effect on managerial discretion is clearer: options available to managers increase under SM. Eisenhardt (1989) argues that in situations where task programmability and outcome measurability are uncertain, managers are not constrained to execute a specific task or judged strictly by a fixed index. The range of possible actions, both substantive (resource allocation and the like) and symbolic (language and personal actions aimed to alter or reinforce standards, norms, values, etc.), is greater under SM, widening the "zone of acceptance" of managerial discretion (Hambrick & Finkelstein, 1987: 374). As determinants of managerial discretion, Hambrick and Finkelstein (1987) specify, among others, the organization's legitimacy and internal political conditions, and the manager's power base and tolerance of ambiguity.

As SM is aimed, among other things, at increasing the firm's legitimacy, by engaging in SM executives may broaden their discretion. When internal political control resides in the hands of powerful shareholders or a group of non-share-owning stakeholders, managers may act only in ways these groups accept. By engaging in SM, managers can use ambiguity to change the power structure within the firm and create or reinforce a dominant position (Coff, 1999). Through coalition building, a manager can actually become a referent point for different groups of stakeholders and occupy a central position within the network. Such a manager "faces only limited barriers in exercising discretion because, by force of personal reputation, he or she is able to act where many others would not even get the opportunity" (Hambrick & Finkelstein, 1987: 388).

Managers in an ambiguous and high-discretion context "will also earn more than their counterparts in low-discretion firms because higher pay levels are needed to compensate these CEOs for bearing this greater risk" (Finkelstein & Boyd, 1998: 181). Moreover, higher discretion and (social) reputation help managers to evade one of the external mechanisms for controlling agency problems: the labor market. When they can influence this market (for instance by coopting the business press or "securing" financial analysts' endorsement (e.g. Farrell & Whidbee, 2002; Farrell & Whidbee, 2003), they may create an exaggerated perception of their own value, further increasing their discretion. Thus,

***Proposition 1: Managers in a firm committed to stakeholders enjoy higher power and discretion because of the causal ambiguity surrounding the relationship between SM and corporate performance.***

Jensen (2002) suggests that managers should have a criterion for distinguishing stakeholders who affect the long-term value of the firm from those who are strategically irrelevant. Berman et al. (1999) and Hillman and Keim (2001) have found empirical evidence that only primary stakeholders (employees, customers, suppliers, competitors) have an impact on financial performance and that their claims be accommodated only when they have strategic value to the firm.

One explanation of these results may rest on the governance mechanisms of the firm. Although shareholders may believe that SM enhances value, they may be reluctant to give managers full discretion without holding them accountable for it. Coombs and Gilley (2005), in their study on the relation of SM and CEO compensation, found that generally the board of directors tends to “punish” CEOs (in terms of compensation) for initiating an SM policy, perhaps because the board cannot see unambiguously that SM improves firm performance. Thus an SM strategy, though promising in terms of long-term value creation, might fail to generate the expected gains because of the internal governance problems likely to arise throughout its execution. The main problem stems from the increase of agent opportunism, monitoring costs, and uncertainty because of the causal ambiguity underlying SM. We now turn our attention to these issues.

### THE AGENCY COSTS OF CAUSAL AMBIGUITY

Strategic management studies have generally framed causal ambiguity within the resource-based view of the firm (King & Zeithaml, 2001; Lippman & Rumelt, 1982; McEvily, Das, & McCabe, 2000; Mosakowski, 1997; Powell, Lovas, & Caringal, 2006; Reed & DeFillippi, 1990). When the firm’s resources and capabilities are tacit, complex, and specific, rivals cannot see how these resources cause superior performance (Barney, 1991; Peteraf & Barney, 2003). Thus causal ambiguity creates effective barriers to imitation (Reed & DeFillippi, 1990).

This argument rests ultimately on the assumption that causal ambiguity is asymmetric: the focal firm understands the link between its competencies and its performance better than its rivals do. However, as Reed and DeFillippi themselves stated (1990: 90-91), it may well be that “ambiguity may be so great that not even managers within the firm understand the relationship between actions and outcomes. [In those circumstances] it may be impossible to utilize competencies for advantage.” King and Zeithaml (2001: 79) found that causal ambiguity “may impede mobility of competencies within an organization, obstructing efforts to sustain competitive advantage”; and McEvily et al. (2000: 294) maintain that “while ambiguity slows the diffusion of superior practices and technologies across firms, it impedes the creation of new knowledge within the firm. The net effect on the persistence of advantage is unclear.” Furthermore, in a causally ambiguous environment managers’ self-serving bias is more likely to manifest itself. Under these conditions, managers could overestimate their abilities and the firm’s capabilities, and neglect competitors’ qualities, harming sustainable performance in the long run (Powell et al., 2006).

The relationship between SM and firm performance is loose, at best, and executives may easily misattribute importance to courses of action that, in fact, may have no effect at all on the successful implementation of SM. Moreover, if stakeholder groups are divergent in their interests, and executives’ perception of those interests is highly ambiguous, executives will be very uncertain about the relative importance of strategic factors.

Ambiguity is not simply about asymmetric information and lack of proper cause-effect relationship measures. It goes beyond that. It is more about a loose understanding of phenomena, a lack of certainty in evaluating the *possible* course (and effects) of an action. Moreover, an SM strategy creates socially constructed belief systems that

“provide highly leveraged environments for exploiting self-serving biases” (Powell et al., 2006: 188). Accordingly, we propose here that high causal ambiguity about the performance effects of an SM strategy will amplify agency costs for the following reasons: (1) the likelihood of agent opportunism increases; (2) sanctioning mechanisms are less effective, resulting in greater monitoring costs; (3) decision-makers’ risk propensity decreases, leading to strategic inertia; and (4) an agent’s compensation and incentives increase as a consequence of higher strategic-environmental complexity and uncertainty.

Employees’ and managers’ effort will be diverted from an organization’s objective when it becomes more unclear (Barney & Hesterly, 1996). When it is difficult to establish cause-effect relationships, it is hard to judge how much of an outcome is due to the agent’s effort and capabilities and how much is owing to unpredictable events and factors. In those circumstances, principals are reluctant to sanction the agent, who is then freed to pursue self-interest (Carson et al., 2006; Ouchi, 1980). Because of the causal ambiguity of the SM-performance relationship, the board of directors faces a higher informational disadvantage in understanding and monitoring management actions (Finkelstein & Boyd, 1998). Monitoring costs rise—perhaps in vain, given the difficulty of unequivocally assessing management’s faults when a strategy is highly ambiguous, like SM.

Another source of agency problems is the decision-making process of the stakeholder-oriented firm. Because stakeholders are interested in securing part of the quasi-rents generated as a result of their relationships with the firm (Sundaram & Inkpen, 2004; Zingales, 1997), they are more likely to favor conservative or risk-averse strategies. Also, firms engaging in SM are likely to be characterized by a highly politicized decision-making process (Jensen, 2002), where all stakeholders’ interests must be systematically considered. It becomes difficult to prioritize among stakeholders’ interests and reach consensus on strategies that might negatively affect some group of stakeholders while favoring others. Risky and innovative strategies are likely to accentuate this political problem, so top managers avoid risk. Hence,

***Proposition 2: Firms committed to stakeholders are more likely to experience strategic inertia; thus they are less likely to outperform competitors in dynamic environments.***

In this political environment it will be more costly to provide managers with the right incentives to undertake optimal risk. Moreover, causal ambiguity makes the environment executives must cope with less predictable since it is both riskier and more complex. They will then require to be compensated for bearing this greater risk and for the capabilities and effort required to manage such a difficult situation (Finkelstein & Boyd, 1998).

This will ultimately represent a double cost for the firm, which might, paradoxically, face a scenario where the agent’s effort decreases while the compensation schedule increases. Incentive mechanisms could be of limited use as well, given the uncertainty managers face about the resources that must be leveraged. To overcome this, the firm needs to buy more information; hence bureaucratic costs increase. Thus,

*Proposition 3: Agent control mechanisms are less effective and more costly for firms pursuing an SM strategy.*

### GOVERNANCE STRUCTURE, MANAGERIAL INCENTIVES, AND SM

Zingales (1997: 3) defines a “*governance system* as the complex set of constraints that shape the ex -post bargaining over the quasi-rents generated in the course of a relationship.” What makes such bargaining necessary is the incompleteness of the contract, which does not perfectly allocate the quasi-rents ex ante. Central to the issue is the classical agency problem: individuals making important decisions do not bear the wealth effects their decisions produce (Fama, 1980; Fama & Jensen 1983a,b; Jensen & Meckling 1976). But in many companies this separation is necessarily given that shareholders-owners have neither managerial capabilities nor, in most cases, any interest in running the business: they are simply willing to invest their money into a company that is expected to give them an ex-post surplus.

In such organizations, agency problems are reduced by separating management (initiation and implementation) from control (ratification and monitoring) (Fama & Jensen 1983a,b). Because specific knowledge is diffused among agents, it is more efficient to delegate management decisions to those agents. And where there are many residual claimants who are mostly unqualified for decision roles, it is more efficient for them to delegate control decisions (Fama & Jensen, 1983a). This corporate governance system is better for principals in the sense that “the separation and diffusion of decision management and decision control limit the power of individual decision agents to expropriate the interests of residual claimants” (Fama & Jensen, 1983a: 309).

Besides internal mechanisms, there are three external systems for controlling agency problems: the stock market, the market for corporate control (takeovers), and the labor market. The stock market, by pricing common stocks and transferring them at low cost, exerts pressure to orient corporate decisions toward the interests of residual claimants. A similar effect is produced by takeovers (Jensen, 1986): when managers are not acting on behalf of principals, the latter can circumvent existing managers and the board by a direct offer to purchase stocks or by campaigning to elect new directors. The job market, by properly reflecting the value of human capital, is claimed to induce managers and external directors to provide the “optimal” effort, knowing that their market value depends on their past and current performance (Fama, 1980; Jensen & Meckling, 1976).

The corporate governance literature has focused on aspects of the governance structure that may influence incentives and monitoring, and hence the optimal allocation of resources. Particularly relevant for our purpose are (1) ownership structure; (2) the effectiveness of markets as external monitoring; (3) the allocation of risk among the company’s members; and (4) the optimal allocation of residual right of control. Each of these is discussed in turn.



## Ownership Structure

Because the separation of ownership and management (Fama & Jensen 1983a,b; Jensen & Meckling 1976) is the first and most important source of agency problems, it is straightforward to assume that ownership structure indeed alters managers' incentives to make specific investments in effort, skills and knowledge, assets, and the like. A classical example of how a change in the ownership structure can influence the incentive to make a specific investment is the Fisher Body case (Klein, Crawford, & Alchian, 1978). The auto body manufacturer Fisher Body refused, in the early 1920s, to relocate its plant close to General Motors' plants because doing so would have reduced its ability to supply other car manufacturers and weakened its bargaining power with GM. GM solved the problem by buying Fisher Body.

However, vertical and horizontal integration usually imply higher organizational complexity, rigidity, and (potentially) costs. Thus there is a trade-off between agency costs and those deriving from managing the higher complexity of the integrated firm; only when the first are larger than the second might it be efficient to integrate the two structures. Transaction costs analysis claims that the firm is a better governance system than the market for the exchange of those resources that have high transaction costs (Coase, 1937; Williamson, 1981, 1985, 1991).

Numerous studies (among others, Daily & Dalton, 1994; De yà-Tortella, Gomez-Mejia, DeCastro, & Wiseman, 2005; Ryan & Schneider, 2002) have analyzed the impact of the concentration and the composition of a firm's ownership, the main idea being that the more diffuse ownership is, the lower will be shareholders' ability to influence and control managers. A straightforward prediction is that within firms with diffused ownership agency problems will be more pronounced because managers enjoy higher discretion and power (e.g., Berle & Means, 1932). In this case, managers may be more prone to engage in SM, in order to secure greater visibility and legitimacy, and to reinforce their power through a network of connections with government administrators, local community leaders, institutions, and the like. Thus,

***Proposition 4: Managers in firms with diffused ownership are more likely to adopt SM policies as a way to strengthen their power.***

On the other hand, we should wonder why a shareholder with neither the will nor the ability to influence managers would invest in a firm where executives are not accountable for financial performance. Fundamentally, this type of shareholder aims to get a surplus out of the money he/she invests into the firm. The investor might be interested in the long-term strategy of the firm incidentally, to the extent that this strategy will increase the firm's market value. But a firm where managers spend available resources on uneconomic projects just to reinforce their own power might well be penalized by the market, and managers would then have fewer resources to spend. Therefore, financial performance could moderate the adoption of SM strategy within firms with dispersed ownership.

***Proposition 4a: For firms with diffused ownership, financial performance will moderate the strength of SM policies management is willing to adopt in order to enhance its power.***

In firms where ownership is more concentrated, controlling shareholders are influential, and usually are members of the board of directors (La Porta, Lopez de Silanes, & Shleifer, 1999). It might be argued that they can and will punish managers who spend the firm's resources in unprofitable activities (Coombs & Gilley, 2005).

On the contrary, we argue that shareholders with a large block of stock are usually interested in the long-term value of the company (Johnson & Greening, 1999; Neubaum & Zahra, 2006), because they cannot sell all the shares they hold on the spot market without suffering a loss (stock price generally decreases when a large number of shares are put on the market). They may therefore recognize SM as a value-enhancing strategy and be willing to provide managers with the necessary discretion (Hambrick & Finkelstein, 1987) to implement it. Graves and Waddock (1994), building on Chaganti and Damanpour's (1991) finding of institutional investors being risk-averse, argue that institutional investors, which usually hold a relevant percentage of shares, might consider corporate social performance (CSP) as a risk-reducing measure and favor it, *ceteris paribus*. Johnson and Greening (1999), suggesting that long-term-oriented institutional investors might believe that social performance would affect financial performance over time, found that pension funds appeared to induce firms to assume a more responsible position toward environmental and people issues. Neubaum and Zahra (2006), arguing that long-term investors who favor CSP are more likely to establish stronger relations with management in order to influence it, found a significant and positive relationship between long-term institutional ownership and CSP.

For their part, managers have a strong interest in persuading large shareholders that SM will enhance value, since it will increase their discretion and, in turn, their compensation; Finkelstein and Boyd (1998) found that CEO compensation is positively related to managerial discretion.

***Proposition 5: Managers in firms with concentrated ownership are more likely to adopt SM policies as a way to gain more discretion, claiming that they enhance value in the long term.***

Some blockholders might well be long-term-oriented yet consider SM a risky investment with highly uncertain return, i.e., a cost. They might focus on financial performance as the only transparent measure of their investment and therefore prevent managers from making risky investments not strictly related to corporate financial value. And, of course, not *all* large shareholders are long term oriented. Johnson and Greening (1999) found that investment management funds have an indirect negative effect on people and environment/product quality dimensions of CSP, while Neubaum and Zahra (2006) detected a negative relationship between short-term investment funds (mutual funds and investment banks) and CSP activism.

Moreover, it might also happen that, although large shareholders could see SM as beneficial to corporate performance, they would not allow managers to implement it because that would increase information asymmetry between principal and agent and weaken their residual right of control. They might then penalize managers who initiated social activities (Coombs & Gilley, 2005). Thus,

***Proposition 5a: Managers in firms with financially oriented controlling blockholders are less likely to adopt SM policies that are not strictly oriented toward financial value.***

### **External Monitoring**

In agency theory, the market is believed to monitor managerial behavior (Fama, 1980; Fama & Jensen, 1983a,b; Jensen, 1986). The argument goes as follows. Internal control mechanisms can be costly or inadequate in monitoring managers. In such a situation, it will be more efficient to use incentives to align the agent's interests with those of the principal (Tosi et al., 1999). When industry performance varies, managers may attribute their failure to unpredictable changes in the market; but if markets function efficiently, managers can use this strategy only in the short term. In the long term, competitors, changes in customers' preferences, and financial and equity markets will pressure the firm to become more efficient and competitive; inefficient firms will fail. Therefore, even if internal governance is ineffective, the market – in the long term – will discipline managers. Takeover bids are generally thought to be one of the forms of external monitoring (Jensen, 1986). An inefficiently managed firm is generally undervalued on the stock market and could be an investment opportunity for external investors, who might bid for the company at a price higher than the current one but less than its potential value, and then restructure the firm and pursue more profitable activities in order to generate a surplus on their initial investment (the takeover bid). Takeovers are generally seen as positive by shareholders, who are paid a higher price than they would get under the current management. But for managers the takeover represents a threat to their jobs and benefits. Hence, the threat of a takeover should induce them to run the firm efficiently.

For firms adopting an SM strategy, we challenge this logic. First, as in any takeover, managers will try to persuade the board and shareholders that the offer does not reflect the true potential value of the firm; and given the information asymmetry between agent and principal, in some cases, managers' allegations may be successful. In the case of firms adopting an SM strategy, managers will argue that the stock market does not reflect the value of this strategy, or that it does so only partially: the future value of the company will be higher than the bid offer because the firm's activities will benefit from cooperation with its stakeholders. Second, the takeover will impair the implementation of the SM strategy and thus destroy existing value. Changes in ownership and management might disrupt the established implicit contracts with stakeholders, who might lose confidence in the mutual commitment. This is a strong argument that both managers and stakeholders could use to oppose the bid. Therefore, takeovers are no longer a credible threat to firms that have adopted an SM strategy.

***Proposition 6: Firms adopting SM policies are more likely to resist takeover bids; and thus, management is more likely to become entrenched.***

Jensen (1986) notices that a conflict of interests between shareholders and managers takes place when organizations generate free cash flows but have low growth prospects. "In these organizations the pressures to waste cash flows by investing them in uneconomic projects is most serious" (Jensen, 1986: 324). Jensen suggests that firm debt limits managers' discretion to use free cash flow, and the threat of failure to make

debt service payments pushes organizations to be more efficient. Hence, debt plays an important role in controlling managerial power and discretion. Firms with high debt have as primary objectives efficiency (reducing costs) and financial performance (value-enhancing activities). Such firms are likely to boost financial performance by redeploying into short-term strategies part of the resources they could otherwise have invested in long-term ones such as SM. On the other hand, when firms have low debt, managers may use slack in resources to enhance their own value, increasing their power and discretion through SM.

***Proposition 7: Managers in firms with relatively low debt and/or with slack in resources are more likely to adopt SM policies as a way to strengthen their power.***

### **Risk Allocation**

A stakeholder-oriented firm should be more concerned about long-term value creation for stakeholders in general than about short-term market value for financial investors. Accordingly, the board of directors may be induced to set a long-term compensation schedule, like a stock option plan, in order to align managers' interests with those of stakeholders. Notwithstanding the potential incentive value of such plans, given the ambiguity generated by SM, they will further increase the difficulty of assessing managers' contribution to firm performance and will widen managers' discretion on short-term operations (on whose success they will not be judged). Also, managers whose compensation is linked to stock option plans may take more than optimal risk when forecasting sure losses.

The Behavioral Agency Model (BAM) developed by Wiseman and Gomez-Mejia (1998) challenges the widely held assumption that managers are risk averse, and rather proposes that they are in fact risk loving when they foresee sure losses. According to the *loss aversion* hypothesis of prospect theory (Kahneman & Tversky, 1979), what drives decision making under risk is a psychological factor called the *certainty effect*. The inclination to overweight certain outcomes relative to those that are merely probable favors risk aversion in the domain of gains and risk seeking in the domain of losses. The BAM has been used, among different applications, to show that family firms, contrary to general wisdom, are risk loving when the family's control of the business – the socioemotional endowment – is at risk (Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), and that stock option plans, as a variable form of compensation, may fail to align incentives and may even pervert them (Deyà-Tortella et al., 2005). If the BAM model is correct, managers who expect compensation losses will take excessively risky decisions in order to recover the losses. This will jeopardize the firm's stability and hence its relations with its risk-averse stakeholders, and reduce the potential benefits that could have been derived from SM. That is, SM may indirectly weaken internal mechanisms of governance by creating incentives to pursue objectives other than its own. When this is the case, even a good strategy can be unsuccessfully implemented.

***Proposition 8: The adoption of long-term compensation plans as an incentive for implementing SM will increase managerial discretion and risk tolerance. As a result, long-term value is less likely to be enhanced and stakeholders' interests are less likely to be met.***

### Residual Right of Control

From an agency theory perspective (Fama, 1980; Fama & Jensen, 1983a,b; Jensen & Meckling, 1976), the organization is a nexus of contracts among owners of factors of production and nonowner stakeholders, with the owners bearing the residual financial risk – the risk that expected payments will not compensate inflows of resources. Therefore, shareholders are the residual claimants in whose interest the firm, implicitly or explicitly, should be managed (Fama & Jensen, 1983b). The assumption is that other stakeholders who provide assets—knowledge, skills, and the like—have their investments protected by specific contracts, so they do not need a residual right of control over the firm (Grossman & Hart, 1986).

This argument has been challenged by some authors (Rajan & Zingales, 1998; Zingales, 1997) who argue that, since contracts are incomplete, there is no reason to state a priori that providers of funds need more protection than, for instance, providers of human capital. Instead, these challengers offer a different explanation of why the residual right of control should be assigned to shareholders. As Zingales (1997: 13) puts it,

A satisfactory explanation of why the residual right belongs to the shareholders can only be obtained in a theory of the firm that explicitly accounts for the existence of different stakeholders and models the interaction between contractual (e.g., ownership) and non contractual sources of power (e.g., unique human capital investments)...the residual right of control over an asset always increases the share of surplus captured by its owner (who has the opportunity to walk away with the asset), but it does not necessarily increase her marginal incentive to specialize. If, as it is likely, a more specialized asset has less value outside the relationship for which has been specialized, then specialization decreases the owner's outside opportunity and, thus, her share of the quasi-rents. Owning a physical asset, then, makes an agent more reluctant to specialize it. As a result, the residual right of control is best allocated to a group of agents who need to protect their investment against ex-post expropriation, but who have little control on how much the asset is specialized.

Allocating the residual right of control to shareholders will protect them from ex-post expropriation without altering their incentive to provide the optimal amount of capital. In contrast, giving such control to other stakeholders would decrease their marginal incentive to specialize their investment into the firm. Sundaram and Inkpen (2004: 354) hold a similar view, namely that non-share-owning stakeholders are risk averse and therefore would deter managers from taking risky decisions. Moreover, as Hansmann (1996) has proposed, a governance system is more inefficient the higher the divergence of interests among principals. Hence, a strategy of stakeholder cooptation (Pfeffer, 1972) may be not an efficient device for corporate governance. While potentially enforcing some commitment for continued support from stakeholders, this strategy will increase their bargaining power and the divergence of interests, creating more ambiguity about the firm's objectives.

To the extent that a firm is a set of specific investments (Rajan & Zingales, 1998; Williamson, 1980), corporate governance should give stakeholders incentives to optimally specialize the asset they supply to the firm. Thus,

***Proposition 9: Allocating the residual right of control to stakeholders would not ameliorate agency problems, and would reduce stakeholders' (and managers') marginal incentive to make specific investments.***

## CONCLUDING REMARKS

SM theory's assumption that SM will naturally establish trust and therefore lead to a cooperative equilibrium is questionable once one considers the divergent incentives of the actors involved in the relation. Some authors, in a different context, notice that trust may rather provide an incentive for free-riding, even within the special relationship among members of family firms (Gomez-Mejia et al., 2001; Schulze, Lubatkin, Dino, & Buchholtz, 2001). In particular, Schulze et al. (2001: 100) argue that altruism as well as opportunism may alter the incentive structure so that "many of the agency benefits gained (e.g., commitment) are offset by self-control and moral hazard." Interestingly, in a study on social structure and competition in interfirm networks, Uzzi (1997) found that trust does not always increase competitive advantage. Governance by trust may rather create constraints: "The same processes by which embeddedness creates a requisite fit with the current environment can paradoxically reduce an organization's ability to adapt" (Uzzi, 1997: 57). In a different vein, Carson et al. (2006) found that relational contracts are not robust to opportunism.

According to the resource-based view (Barney, 1986; Peteraf, 1993; Teece et al., 1997), the firm's competitive advantage derives from idiosyncratic resources that are heterogeneous, rare, and difficult to imitate. Corporate reputation and legitimacy to operate in the market are certainly among those resources. The organization's accumulated "stock" of reputation (Dierickx & Cool, 1989) may be jeopardized by failure to meet stakeholders' expectations. Therefore, a strategy of stakeholder orientation might be seen as a flow-investment necessary to maintain the legitimacy (Thompson, 1967) that allows the firm to exchange resources in the market. SM could also be regarded as a dynamic capability (Teece et al., 1997) crucial for matching internal resources with the changing task environment. Yet the same causal ambiguity that makes reputation extremely valuable for the firm and difficult for competitors to imitate can increase the divergence of opinion upon which SM policies should be pursued, potentially generating conflict as well as managerial discretion.

Jensen & Meckling (1995) suggest that strategic plans reduce information asymmetries, hence moral hazard, by promoting the alignment of interests among the firm's agents through sharing the firm's objectives and values. But we contend that even a good strategy may accentuate the agency costs associated with information asymmetries and moral hazard when the strategy's goal is clear but the causal relation between its policies and firm performance is highly ambiguous. As Barney and Hesterly (1996: 122) posit,

When performance ambiguity reaches very high levels, then neither the measurement of market mechanisms nor bureaucratic monitoring can insure that employees' efforts will be directed towards the organization's goals. Under these circumstances, clan governance is most efficient. Clan governance requires intensive people processing (Ouchi, 1979) or socialization (Ouchi, 1980) and long-term associations within the firm to serve as an effective means of control. These activities are more costly than market and bureaucratic control, however.

The clan mode of control (Ouchi, 1980) requires reciprocity, legitimate authority, and common values and beliefs. The mechanism that regulates its functioning is tradition. It is then probably the most appropriate governance structure to promote the stakeholder society. We should remark, though, that it is hard and costly to achieve this form of governance, given the incentive members have to pursue their own objectives rather than those of the "clan." Although trust establishes norms and expectations, and lowers the perceived risk of exchange, it increases the opportunity for abuse through opportunism (Schulze et al., 2001). This is more likely to happen under causal ambiguity (Carson et al., 2006; Powell et al., 2006).

Hill & Jones (1992), in their *Stakeholder-Agency Theory*, maintain that *institutional structure* can solve monitoring problems. Institutions economize through scale in gathering information in order to monitor management. In the case where they can coordinate the claims of diffused stakeholders they can even influence management's behavior. The problem is not solved, however, for those stakeholders making specific investments into the firm. The threat of withholding their resources is not credible. As a consequence, in the short run managers can leverage the power differentials and strengthen their own power.

Tirole (2001) argues that adopting a flat schedule for managerial compensation could be one way of avoiding the moral hazard associated with SM and promoting a stakeholder society. This is consistent with the economic literature on optimal contracting under high outcome variability, causal ambiguity, and subjective evaluation (MacLeod, 2003; Milgrom & Roberts, 1992). A fixed-wage contract shifts the focus to the behavioral side of management's performance. But, as Eisenhardt (1989) posits, a behavior-based contract is appropriate when managers' task is programmable. We argued throughout our analysis that this is not the case with SM strategy. We are basically left with an "incentive trap" effect. An outcome-based contract could motivate managers to pursue a long-term value creation strategy, such as SM. But in the meantime, given the difficulty of measuring the outcome and its high causal ambiguity, such a contract could create a perverse incentive and increase moral hazard. On the other hand, a fixed-wage contract could reduce managers' opportunism, but it might also reduce their effort by not rewarding the higher complexity and uncertainty SM requires.

## REFERENCES

- Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. 1999. Who matters to CEO? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal*, 42: 507-525.
- Barnard, C. I. 1968. *The functions of the executive*. Cambridge, MA: Harvard University Press.
- Barney, J. B., & Hesterly, W. 1996. Organizational economics: Understanding the relationships between organizations and economic analysis. In C. H. S. R. Clegg & W. R. Nord (Eds.), *Handbook of Organization Studies*: 115-147. London & Thousand Oaks: Sage Publications.
- Barney, J. 1986. Strategic factor markets: Expectations, luck and business strategy. *Management Science*, 32: 1231-1241.
- Barney, J. B. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17: 99-120.
- Barney, J. B. 2001. Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. *Journal of Management*, 27: 643-650.
- Berle, A. A., & Means, G. C. 1932. *The modern corporation and private property*. New York: Macmillan.
- Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. 1999. Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal*, 42: 488-506.
- Boatright, J. R. 2000. Contract theory and business ethics: A review of ties that bind. *Business and Society Review*, 105: 452-466.
- Buyse, K., & Verbeke, A. 2003. Proactive environmental strategies: A stakeholder management perspective. *Strategic Management Journal*, 24: 453-470.
- Carson, S. J., Madhok, A., & Wu, T. 2006. Uncertainty, opportunism, and governance: The effects of volatility and ambiguity on formal and relational contracting. *Academy of Management Journal*, 49: 1058-1077.
- Chaganti, R., & Damanpour, F. 1991. Institutional ownership, capital structure, and firm performance. *Strategic Management Journal*, 12: 479-491.
- Coase, R. H. 1937. The nature of the firm. *Economica*, 4: 386-405.
- Coff, R. W. 1999. When competitive advantage doesn't lead to performance: The resource-based view and stakeholder bargaining power. *Organization Science*, 10: 119-133.
- Coombs, J. E., & Gilley, K. M. 2005. Stakeholder management as a predictor of CEO compensation: Main effects and interactions with financial performance. *Strategic Management Journal*, 26: 827-840.
- Cyert, R., & March, J. 1963. *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall.
- Daily, C. M., & Dalton, D. R. 1994. Bankruptcy and corporate governance: The impact of board composition and structure. *Academy of Management Journal*, 37: 1603-1617.
- Deyà-Tortella, B., Gomez-Mejia, L. R., DeCastro, J., & Wiseman, R. 2005. Incentive alignment or perverse incentives? A behavioral view of stock options. *Management Research*, 3: 109-120
- Dierickx, I., & Cool, K. 1989. Asset stock accumulation and sustainability of competitive advantage. *Management Science*, 35: 1504-1511.



- Donaldson, T., & Preston, L. 1995. The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review*, 20: 65-91.
- Dutton, J. E., & Ashford, S. J. 1993. Selling issues to top management. *Academy of Management Review*, 18: 397-428.
- Dyer, J. H., & Singh, H. 1998. The relational view: Cooperative strategy and sources of interorganizational competitive advantage. *Academy of Management Review*, 23: 660-679.
- Eisenhardt, K. M. 1989. Agency theory: An assessment and review. *Academy of Management Review*, 14: 57-74.
- Eisenhardt, K. M., & Zbaracki, M. J. 1992. Strategic decision making. *Strategic Management Journal*, 13: 17-37.
- Evan, W. M., & Freeman, R. E. 1988. A stakeholder theory of the modern corporation: Kantian capitalism. In T. Beauchamp & N. Bowie (Eds.), *Ethical theory in business*: 75-93. Englewood Cliffs, NJ: Prentice-Hall.
- Fama, E. F., & Jensen, M. C. 1983a. Separation of ownership and control. *Journal of Law and Economics*, 26: 301-325.
- Fama, E. F., & Jensen, M. C. 1983b. Agency problems and residual claims. *Journal of Law and Economics*, 26: 327-347.
- Fama, E. F. 1980. Agency problems and the theory of the firm. *Journal of Political Economy*, 88: 288-307.
- Farrell, K. A., & Whidbee, D.A. 2002. Monitoring by the financial press and forced CEO turnover. *Journal of Banking & Finance* 26: 2249-2276.
- Farrell, K. A., & Whidbee, D.A. 2003. Impact of firm performance expectations on CEO turnover and replacement decisions. *Journal of Accounting and Economics*, 36: 165-196.
- Finkelstein, S., & Boyd, B. 1998. How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation. *Academy of Management Journal*, 41: 179-199.
- Finkelstein, S. 1992. Power in top management teams: Dimensions, measurement, and validation. *Academy of Management Journal*, 35: 505-538.
- Freeman, R. E., & Evan, W. M. 1990. Corporate governance: A stakeholder interpretation. *Journal of Behavioral Economics*, 19: 337-359.
- Freeman, R. E., & Reed, D. L. 1983. Stockholder and stakeholders: A new perspective on corporate governance. *California Management Review*, 25(3): 88-106.
- Freeman, R. E. 1984. *Strategic management: A stakeholder approach*. Boston: Pitman.
- Friedman, M. 1970. The social responsibility of business is to increase its profits. *New York Times Magazine*, September 13: 32-33, 122, 126.
- Frooman, J. 1999. Stakeholder influence strategies. *Academy of Management Review*, 24: 191-205.
- Gomez-Mejia, L. R., Haynes, K., Núñez-Nickel, M., Jacobson, K., & Moyano-Fuentes, J. 2007. Socioemotional Wealth and Business Risks in Family-Controlled Firms: Evidence from Spanish Olive Oil Mills. *Administrative Science Quarterly*, 52: 106-137.
- Gomez-Mejia, L. R., Núñez-Nickel, M., & Gutierrez, I. 2001. The role of family ties in agency contracts. *Academy of Management Journal*, 44: 81-96.
- Granovetter, M. 1985. Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91: 481-510.
- Graves, S. B., & Waddock, S. A. 1994. Institutional owners and corporate social performance. *Academy of Management Journal*, 37: 1034-1046.

- Greenley, G. E., & Foxall, G. R. 1997. Multiple stakeholder orientation in UK companies and the implications for company performance. *Journal of Management Studies*, 34: 259-284.
- Greenley, G. E., Hooley, G. J., Broderick, A. J., & Rudd, J. M. 2004. Strategic planning differences among different multiple stakeholder orientation profiles. *Journal of Strategic Marketing*, 12: 163-182.
- Griffin, J., & Mahon, J. F. 1997. The corporate social performance and corporate financial performance debate. *Business and Society*, 36(5): 5-32.
- Grossman, S., & Hart, O. 1986. The costs and the benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, 94: 691-719.
- Hall, J., & Vredenburg, H. 2005. Managing stakeholder ambiguity. *MIT Sloan Management Review*, 47(1): 11-13.
- Hambrick, D. C., & Finkelstein, S. 1987. Managerial discretion: A bridge between polar views on organizations. *Research in Organizational Behavior*, 9: 369-406.
- Hambrick, D. C., & Mason, P. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*, 9: 193-206.
- Hansmann, H. 1996. *The ownership of enterprise*. Cambridge, MA: Belknap Harvard.
- Hill, C. W. L., & Jones, T. M. 1992. Stakeholder-agency theory. *Journal of Management Studies*, 29: 131-154.
- Hillman, A. J., & Keim, G. D. 2001. Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic Management Journal*, 22: 125-139.
- Hillman, A. J., & Hitt, M. A. 1999. Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of Management Review*, 24: 825-842.
- Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency cost, and ownership structure. *Journal of Financial Economics*, 3: 305-360.
- Jensen, M. C., & Meckling, W. H. 1995. Specific and general knowledge and organization structure. *Journal of Applied Corporate Finance*, 8(2): 4-18.
- Jensen, M. C. 1986. Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, 76: 323-329.
- Jensen, M. C. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, 12: 235-256.
- Johnson, R. A., & Greening, D. W. 1999. The effects of corporate governance and institutional ownership types on corporate social performance. *Academy of Management Journal*, 42: 564-576.
- Jones, T. M. 1995. Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review*, 20: 404-437.
- Kahneman, D., & Tversky, A. 1979. Prospect theory: An analysis of decision making under risk. *Econometrica*, 42: 262-291.
- Kassinis, G., & Vafeas, N. 2002. Corporate boards and outside stakeholders as determinants of environmental litigation. *Strategic Management Journal*, 23: 399-415.
- King, A. W., & Zeithaml, C. P. 2001. Competencies and firm performance: Examining the causal ambiguity paradox. *Strategic Management Journal*, 22: 75-99.
- Klein, B., Crawford, R., & Alchian, A. 1978. Vertical integration, appropriable rents and the competitive contracting process. *Journal of Law and Economics*, 21: 297-326.
- Krackhardt, D. 1990. Assessing the political landscape: Structure, cognition, and power

- in organizations. *Administrative Science Quarterly*, 35: 342-369.
- Kreps, D. 1990. Corporate culture and economic theory. In J. Alt and K. Shepsle (Eds.), *Perspectives on Positive Political Economy*: 90-143 Cambridge: Cambridge University Press.
- La Porta, R., Lopez de Silanes, F., & Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471-517.
- Lippman, S. A., & Rumelt, R. P. 1982. Uncertain imitability: An analysis of interfirm differences in efficiency under competition. *Bell Journal of Economics*, 13: 418-438.
- Luoma, P., & Goodstein, J. 1999. Stakeholders and corporate boards: Institutional influences on board composition and structure. *Academy of Management Journal*, 42: 553-563.
- Mackey, A., Mackey, T.B., & Barney, J.B. 2007. Corporate Social Responsibility and Firm Performance: Investor Preferences and Corporate Strategies *Academy of Management Review*, 32: 817-835.
- MacLeod, W. B. 2003. Optimal contracting with subjective evaluation. *American Economic Review*, 93: 216-240.
- Mahoney, J. T., & Pandian, J. R. 1992. The resource-based view within the conversation of strategic management. *Strategic Management Journal*, 13: 363-380.
- March, J. G. 1979. Ambiguity and the engineering of choice. *International Studies of Management and Organization*, 9(3): 9-39.
- Margolis, J. D., & Walsh, J. P. 2003. Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly*, 48: 268-305.
- McEvily, S. K., Das, S., & McCabe, K. 2000. Avoiding competence substitution through knowledge sharing. *Academy of Management Review*, 25: 294-311.
- Milgrom, P., & Roberts, J. 1992. *Economics, organization and management*. Englewood Cliffs, NJ: Prentice Hall.
- Mitchell, R. K., Agle, B. R., & Wood, D. J. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22: 853-886.
- Mosakowski, E. 1997. Strategy making under causal ambiguity: Conceptual issues and empirical evidence. *Organization Science*, 8: 414-442.
- Narayanan, V. K., & Fahey, L. 1982. The micro-politics of strategy formulation. *Academy of Management Review*, 7: 25-34.
- Nelson, R. R., & Winter, S. G. 1982. *An evolutionary theory of economic change*. Cambridge, MA: Harvard University Press.
- Neubaum, D. O., & Zahra, S. A. 2006. Institutional ownership and corporate social performance: The moderating effects of investment horizon, activism, and coordination. *Journal of Management*, 32(1): 108-131.
- Ogden, S., & Watson, R. 1999. Corporate performance and stakeholder management: Balancing shareholder and customer interests in the UK privatized water industry. *Academy of Management Journal*, 42: 526-538.
- Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18: 697-713.
- Ouchi, W. G. 1977. The relationship between organizational structure and organizational control. *Administrative Science Quarterly*, 22: 95-113.
- Ouchi, W. G. 1978. The transmission of control through organizational hierarchy. *Academy of Management Journal*, 21: 173-192.
- Ouchi, W. G. 1979. A conceptual framework for the design of organizational control

- mechanisms. *Management Science*, 25: 833-848.
- Ouchi, W. G. 1980. Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25: 129-141.
- Penrose, E. 1959. *The theory of the growth of the firm*. New York: Wiley.
- Peteraf, M. A. 1993. The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14: 179-191.
- Peteraf, M. A., & Barney, J. B. 2003. Unraveling the resource-based tangle. *Managerial and Decision Economics*, 24: 309-323.
- Pfeffer, J., & Salancik, G. R. 1978. *The external control of organizations*. New York: Harper & Row.
- Pfeffer, J. 1972. Size and composition of corporate boards of directors: The organization and its environment. *Administrative Science Quarterly*, 17: 218-228.
- Pfeffer, J. 1992. *Managing with power: Politics and influence in organizations*. Cambridge, MA: Harvard University Press.
- Powell, T., Lovallo, D., & Caringal, C. 2006. Causal ambiguity, management perception, and firm performance. *Academy of Management Review*, 31: 175-196.
- Rajan, R. G., & Zingales, L. 1998. Power in a theory of the firm. *Quarterly Journal of Economics*, 108: 387-432.
- Rajan, R. G., & Zingales, L. 2001. The firm as a dedicated hierarchy: A theory of the origins and growth of firms. *Quarterly Journal of Economics*, 116: 805- 851.
- Reed, R., & DeFillippi, R. J. 1990. Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of Management Review*, 15: 88-102.
- Rivkin, J. W. 2000. Imitation of complex strategies. *Management Science*, 46: 824-844.
- Roberts, P. W., & Dowling, G. R. 2003. Corporate reputation and sustained superior financial performance. *Strategic Management Journal*, 23: 1077-1093.
- Ryan, L., & Schneider, M. 2002. The antecedents to institutional investor activism. *Academy of Management Review*, 27: 556-573.
- Schulze, W. S., Lubatkin, M. H., Dino, R. N., & Buchholtz, A. K. 2001. Agency relationships in family firms. *Organization Science*, 12: 99-116.
- Sharma, S. V. H. 1998. Proactive corporate environmental strategy and the development of competitively valuable organizational capabilities. *Strategic Management Journal*, 19: 729-753.
- Simon, H. 1997 (1945). *Administrative behavior* (4th ed.). New York: Free Press.
- Simonin, B. L. 1999. Ambiguity and the process of knowledge transfer in strategic alliances. *Strategic Management Journal*, 20: 595-623.
- Sundaram, A. K., & Inkpen, A. C. 2004. The corporate objective revisited. *Organization Science*, 15: 350-363.
- Szulanski, G. 1996. Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17: 27-43.
- Teece, D. J., Pisano, G., & Shuen, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal*, 18: 509-533.
- Thompson, J. 1967. *Organizations in action*. New York: McGraw-Hill.
- Tirole, J. 1996. A theory of collective reputations (with applications to the persistence of corruption and to firm quality). *Review of Economic Studies*, 63(1): 1-22.
- Tirole, J. 2001. Corporate governance. *Econometrica*, 69(1): 1-35.
- Tosi, H. L., Gomez-Mejia, L. R., Loughry, M. L., Werner, S., Banning, K., Katz, J.,

- Harris, R., & Silva, P. 1999. Managerial discretion, compensation strategy, and firm performance: The case for the ownership structure. In G. R. Ferris (Ed.), *Research in Personnel and Human Resources Management*, Vol. 17: 163-208. Stamford, CT: JAI Press.
- Waddock, S., & Graves, S. 1997. The corporate social performance-financial performance link. *Strategic Management Journal*, 18: 303-319.
- Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal*, 5: 171-180.
- Williamson, O. E., & Winter, S. G. 1991. *The nature of the firm: Origins, evolution, and development*. New York: Oxford University Press.
- Williamson, O. 1981. The economics of organizations: The transaction cost approach. *American Journal of Sociology*, 87: 548-577.
- Williamson, O. E. 1985. *The economic institutions of capitalism*. New York: Free Press.
- Wiseman, R., & Gomez-Mejia, L. R. 1998. A behavioral agency model of managerial risk taking. *Academy of Management Review*, 25: 133-152.
- Zingales, L. 1997. Corporate governance. *New Palgrave Dictionary of Economics and the Law*: 497-502. London: Macmillan.
- Zingales, L. 2000. In search of new foundations. *Journal of Finance* 4: 1623-1654.

NOTAS

---

---

NOTAS

---

---

## NOTAS

---

---