Strategic Management Journal
Strat. Mgmt. J., **30**: 447–456 (2009)
Published online 24 November 2008 in Wiley InterScience (www.interscience.wiley.com) DOI: 10.1002/smj.743
Received 30 January 2008; *Final revision received 5 August 2008*

RESEARCH NOTES AND COMMENTARIES

STAKEHOLDERS, RECIPROCITY, AND FIRM PERFORMANCE

DOUGLAS A. BOSSE,* ROBERT A. PHILLIPS, and JEFFREY S. HARRISON
Robins School of Business, University of Richmond, Richmond, Virginia, U.S.A.

The assumption that economic actors behave in a boundedly self-interested manner promises fruitful new insights for strategic management. A growing literature spanning multiple disciplines indicates most actors' selfish utility maximizing behaviors are bounded by norms of fairness. Rather than being purely self-interested, people behave reciprocally by rewarding others whose actions they deem fair and willingly incurring costs to punish those they deem unfair. Economists show that employers who are perceived as distributionally fair by their employees generate comparatively more value due to the positively reciprocal behavior of those employees. The organizational justice literature distinguishes two additional types of fairness assessed by employees. Drawing from both these bodies of work, we employ stakeholder theory to propose how perceptions of fairness result in reciprocity (1) extending to all stakeholders of the firm and (2) affecting firm performance.

INTRODUCTION

> The economist's neoclassical model of the firm, still enshrined in textbooks, is a smoothly running machine in a world without secrets, without frictions or uncertainty, and without a temporal dimension. ... During the past 30 years [...] at least five conceptual monkey wrenches have been thrown into what was once a smoothly running machine. These five are: *uncertainty, information asymmetry, bounded rationality, opportunism,* and *asset specificity*. Each of these phenomena, taken alone, violates crucial axioms in the neoclassical model. In various combinations they are the essential ingredients of new subfields within economics (Rumelt, Schendel, and Teece, 1994: 26 [italics in original]).

Rumelt *et al*. (1994) explain how scholars have derived many important theories for explaining firm performance by recombining various assumptions about decision making phenomena. For example, transaction cost economics assumes bounded rationality, asset specificity, and opportunism. Agency theory is built on assumptions of opportunism and information asymmetry (Rumelt *et al*., 1994: 26). Resource-based theory assumes

Keywords: stakeholder theory; bounded self-interest; reciprocity; rent creation; fairness; justice
*Correspondence to: Douglas A. Bosse, Robins School of Business, University of Richmond, 28 Westhampton Way, Richmond, VA 23173, U.S.A. E-mail: dbosse@richmond.edu

bounded rationality and uncertainty (Leiblein, 2003). One assumption these theories share is that people are self-interested utility maximizers. Taking this behavioral assumption one step further, transaction cost economics and agency theory also assume that when conditions allow, some people will employ deception in pursuit of self-interest.

While these theories have been widely accepted in strategic management, some scholars argue this body of work lacks realism as a result of its view that human beings are exclusively self-interested (e.g., Ghoshal, 2005). Extensive research in numerous fields including philosophy (Rawls, 1999; Becker, 1986), sociology (Cropanzano and Mitchell, 2005), psychology (Rabin, 1998), social psychology (Cialdini, 1984), and economics (Fehr and Gächter, 2000) argues the self-interested maximizer of economic theory 'who grabs what he can for himself' (*Economist*, 2007: 93) is an inaccurate depiction of typical behavior. Instead, most people assess the fairness of others and reciprocate by (1) rewarding those they deem fair, and (2) incurring costs to punish those they deem unfair (Economist, 2007).

The reciprocal decision-making phenomenon has been referred to as *bounded self-interest* (Jolls, Sunstein, and Thaler, 1998) because actors' desire for utility maximization is bounded by norms of fairness. Fehr and Gächter (2000) summarize recent research that explains why the self-interest assumption fails to explain real world phenomena such as labor market interactions, public goods, and social norms. This literature shows that even when a population is split between reciprocal types and purely self-interested types, the aggregate outcome is consistent with predictions derived under the reciprocity assumption. Thus, reciprocity provides a more accurate model of human behavior in these competitive settings than exclusive self-interest.

In this research note, we extend the growing literature on reciprocity into strategic management and draw on stakeholder theory to explain how reciprocity, as an alternative to the self-interest assumption, likely affects the relationship between how a firm interacts with its stakeholders and its aggregate performance. We suggest reciprocity has potential to serve as another 'conceptual monkey wrench' (Rumelt *et al*., 1994: 26) that will add realism to the body of theory in strategic management. We begin by defining reciprocity and distinguishing it from other notions of self-interest. Discussions of distributive, procedural, and interactional fairness then provide conceptual building blocks for our propositions. The propositions we derive suggest that firms ultimately create value by distributing it (in various forms) to those stakeholders who behave fairly. We conclude the note with a discussion of the implications of the boundedly self-interested perspective.

SELF-INTEREST, OPPORTUNISM, AND BOUNDED SELF-INTEREST

Management theorists employ a wide range of assumptions about human behavior, including such concepts as self-interest and opportunism. The assumption of self-interest holds that economic actors are exclusively selfish utility maximizers. Such actors are not concerned with the psychological makeup or moral commitments of their exchange partners (Bowles, 1998). Williamson (1985), in his development of transaction cost economics, assumes that while most parties are simply self-interested, others exhibit opportunism by pursing their self-interest with guile. Opportunism is the assumption that, under certain conditions, some actors will subtly deceive their exchange partners or go so far as to lie, cheat, and steal to selfishly maximize their utility (Williamson, 1985).

The assumptions of opportunism and self-interest have provided many insightful explanations of transaction hazards and agency costs, and the theories built on them have found empirical support. This, Friedman (1966) suggests, is enough to defend the use of these assumptions. Friedman argues that, as abstractions, all assumptions are a necessarily inaccurate portrayal of reality. More important than the relative reality of the assumptions is the accuracy of the predictions such assumptions facilitate. The logic is that if the assumption of self-interest generates predictions that are more consistent with the empirical findings than more 'realistic' assumptions about human motivation, this alone is reason enough to assume self-interest.

Empirical support for particular theories that make use of a set of assumptions does not preclude reconsideration of those assumptions—especially when alternative assumptions may provide more accurate predictions. Indeed, challenging assumptions is one of the ways that new theories are

DOI: 10.1002/smj

developed. Literature reviews by Rabin (1998) and Fehr and Gächter (2000) report that a growing number of studies in the economics literature find most people deviate from the purely self-interested model. This body of work suggests a more accurate assumption about economic actors is that they behave in a 'boundedly self-interested' manner based on reciprocity (Jolls *et al*., 1998). Bounded self-interest means that in many market and bargaining settings people are concerned about the way they and others are treated and want to treat other parties fairly if they believe that those parties are also behaving fairly. This boundedness reflects a systematic departure from the assumption of self-interest, because people act as if they care about others, even strangers, in market settings. 'Reciprocity means that in response to friendly actions, people are frequently much nicer and much more cooperative than predicted by the self-interest model; conversely, in response to hostile actions they are frequently much more nasty and even brutal' (Fehr and Gächter, 2000: 159).

The reciprocity assumption does *not* suggest that people do not seek to maximize their utility; it suggests people seek to maximize their utility while conforming to the norm of reciprocity. In other words, reciprocity means that parties to an exchange willingly sacrifice self-interest for the sake of their principles. This can occur within dyadic relations as well as among actors in a network of relationships. When given the opportunity, third-party observers of an exchange will systematically reward or punish those they perceive fair or unfair, respectively. The degree to which people who exhibit reciprocity trade off their self-interest and their principles seems to vary depending on whether they are reciprocally cooperating with others who are deemed fair (positive reciprocity) or reciprocally retaliating against others who are deemed unfair (negative reciprocity). Findings from Offerman (2002) suggest people are typically willing to incur greater costs when being negatively reciprocal than when being positively reciprocal. Unfair acts are likely to be more severely punished than fair acts are to be rewarded.

Reciprocity appears to be so prevalent that Dunfee (2006) classifies it as a hypernorm—a moral norm that exists universally across time and cultures. Bowles and Gintis (1998) describe economic actors as *homo reciprocans* in an effort to distinguish this behavior from the exclusively self-interested assumption often referred to as *homo economicus* in the literature. The norm of reciprocity examined by philosophers, sociologists, psychologists, social psychologists, and economists (all cited above) even appears to be present in some form outside the human species in birds (Trivers, 1971) and primates (Brosnan and de Waal, 2003).

For our purposes, the assumption of reciprocity is that even though some people exhibit purely selfish behavior, the pervasiveness and influence of people who exhibit reciprocity results in fair behavior being rewarded and unfair behavior being punished. In settings that include both individuals who are purely self-interested as well as those who exhibit reciprocity, if the reciprocal types can punish behavior they deem unfair then they dominate the aggregate outcome (Fehr and Gächter, 2000). Selfish subjects are induced to cooperate under these conditions even when they are in the majority. In the next section, we turn to our primary purpose of examining how the assumption of reciprocity may help explain variance in firm performance.

RENT, RECIPROCITY, AND STAKEHOLDERS

While the terms 'profit,' 'rent,' 'value,' and 'firm performance' are often used to indicate dependent variables of interest in strategic management, we adopt Coff's (1999) concept of nexus rent ('rent') for the remainder of this note. Coff suggests 'a firm generates rent *when all stakeholders receive sufficient compensation to hold them in place (pay* $\geq$ *opportunity cost)* ***and*** *some stakeholders get more than would be required to hold them in place (rent)*' (Coff, 1999: 121 [italics and boldface in original]). This definition of rent is consistent with the notion that firms create value by coordinating economic exchanges among a network of stakeholders. For our purposes, a firm that creates 'more rent' has a larger surplus of compensation available for distribution among its stakeholders. A firm that creates 'less rent' has a smaller surplus—or even a deficit—of compensation for stakeholders. This definition acknowledges that firms can create supernormal material gains that are appropriated by nonshareholder stakeholders.

DOI: 10.1002/smj

Standard logic in strategic management is that rent—and therefore firm performance—is maximized by growing the wedge between prices received from the product market and costs incurred in the factor market. However, our argument is that when fair behavior is rewarded and unfair behavior is punished (i.e., reciprocity holds), the rent created by a firm is directly associated with the perceptions of fairness—which are influenced by both price and non-price considerations—among its stakeholders. We propose this association because stakeholders choose the levels of effort and resources they provide the firm based on their perceptions of justice and fairness received from the firm.

Labor market economists have established links between (1) perceptions of fairness and level of effort and (2) level of effort and firm performance. Akerlof (1982) suggests that, due to positive reciprocity, labor markets can be characterized as a 'gift exchange.' This is because when firms offer to pay workers a wage above their opportunity cost (a 'gift') the workers reciprocate by providing more than their minimal effort (also a 'gift'). Negative reciprocity is also a factor in labor markets. Firms facing hardship are reluctant to reduce wages for fear workers will decrease their productivity (Bewley, 1998). The upshot is that firms realize more profit by distributing material value (wages) in excess of workers' opportunity costs (Blanchflower, Oswald, and Sanfey, 1996). Such a distribution scheme can also be expected to result in the attraction of higher-quality labor over time (Piekkola and Kauhanen, 2003).

If firms follow the logic derived from an assumption that stakeholders are purely self-interested (no reciprocity), then profit maximization would come from paying no more than the opportunity cost for any resource, including labor. However, when reciprocal agents are present in the market, a firm that pays a wage equal to workers' opportunity cost is actually less profitable compared to a firm that pays a higher wage (Akerlof, 1982; Blanchflower *et al*., 1996). This is because such workers are less likely to provide the firm with effort that reflects their full potential.

Distributional justice

A positive relationship between behaving reciprocally and material outcomes is demonstrated in the iterated prisoner's dilemma game. This game is known for its simple representation of the tension between acting selfishly and cooperating. Axelrod (1980) shows in this game the most robust strategy over a wide range of environments is to cooperate on the first move and then mimic (i.e., reciprocate) the opponent's move on each successive turn.

Game theory has also been used to test the notion that actors' perceptions of fairness result from their assessments of the material outcomes they receive (Rabin, 1993; Nelson, 2001). In these studies, actors' composite utility comprises material-based utility and fairness-based utility. This work suggests actors establish their perceptions of fairness based on the distribution of the material gains from trade. If they receive a material outcome they perceive as fair (unfair), they are inclined to exhibit positive (negative) reciprocity toward the other party by putting forth more (less) effort. These arguments from the body of work in labor economics and game theory focus on actors' perceptions of fairness resulting from their assessments of the material outcomes they receive. Social psychologists label this distributional justice (or distributional fairness).

Distributional justice refers to the material outcomes for the various parties of a pattern of allocation. Adams's (1965) early work on equity theory argued that an actor's ratio of perceived outcomes from and inputs to a cooperative effort must match the outcomes/input ratio of relevantly similar others in order to be perceived as fair. Otherwise, subjects will adjust either inputs or outcomes until the perceived ratios are equal. Whether distributed by markets, hierarchical rules, individual fiat, or some other system, distributional justice refers to the final outcome of the system.

The economics literature showing a positive relationship between firm profit and distributional justice (e.g., Blanchflower *et al*., 1996) is complemented by empirical results published in the field of organizational behavior. Greenberg (1988) found that managers who were temporarily moved to higher-status offices than their position actually warranted boosted their performance. Managers in the same study who were temporarily moved to comparatively lower-status offices decreased their effort. Other studies of employee reactions to unjust distributions find that they cause workplace sabotage (Ambrose, Seabright, and Schminke, 2002) and employee theft (Greenberg, 1993). While the dependent variables are different in these two bodies of work, the spirit

DOI: 10.1002/smj

of both is arguably the same: when employees positively (negatively) reciprocate by putting forth more cooperative (spiteful) effort, their employer benefits (incurs cost) in real terms.

Studies of distributional justice have largely been focused on one type of stakeholder: the employee. Stakeholder theory (Freeman, 1984; Phillips, 2003) draws attention to the firm's economic relationships with other types of stakeholders, such as customers, suppliers, financiers, and communities. Here we extend the logic from economics and organizational behavior to all stakeholders. The first step in this logical extension is to acknowledge (as explained above) that an employee's effort is not fully specified in an employment contract, and that his contribution to the firm varies depending on his perceptions of fairness. The second step is to accept that, like the exchange between a firm and an employee, the exchanges between a firm and its other stakeholders may be characterized as incomplete contracts, because such exchanges are also not fully specified at the initiation of the exchange (Asher, Mahoney, and Mahoney, 2005; Blair, 1995; Blair and Stout, 1999.). The idea that norm-based social control mechanisms—like reciprocity—commonly influence the behavior of parties to an incomplete contract is well established (e.g., Granovetter, 1985; Larson, 1992). Therefore, the level of contribution nonemployee stakeholders provide to the firm can also be expected to vary according to their perceptions of reciprocity. That is, variance in stakeholders' reciprocal behavior toward a firm hinges on the same thing that influences employees' reciprocal behavior—their perceptions of fairness. This final step in the logical extension follows from the assumption of bounded self-interest that applies to all economic actors and not just employees.

Prior studies examining a range of stakeholder types provide support for this argument. Chung, Singh, and Lee (2000), for example, find reciprocity influences the partner selection decision in strategic alliances. Li and Rowley (2002), more specifically, find a pattern of positive reciprocity in prior alliances increases the probability that a firm will select a given partner for a future alliance. Larson's (1992) study examines relationships firms have with both suppliers and customers and finds reciprocity norms initiated by one of the parties greatly influence the subsequent behavior in an exchange. Using keiretsu networks as their setting, Lincoln, Gerlach, and Takahashi (1992) also find reciprocity affects the behavior among customers and their suppliers. Schoefer and Ennew (2005) report even individual consumers' judgments of how a firm handles their complaints are largely based on perceptions of fairness.

Perceptions of fairness and the behavior they stimulate are not limited to the stakeholder-firm dyad or to the current time period. As prior work suggests, stakeholders' behavior is often influenced by perceptions of a firm's behavior that are shared through a feedback process that is both determined by and diffused across multiple stakeholders (Larson, 1992). Wade-Benzoni (2002) finds evidence that under certain conditions, the extent to which actors in the present time period bequeath benefits or burdens to actors in future time periods is heavily influenced by their perceptions of how fair or unfair *other* parties were in prior time periods. This 'intergenerational reciprocity' (Wade-Benzoni, 2002) concept builds on the realization that reciprocity is not exclusively observable between two parties in a dyad. Indirect reciprocity describes the phenomenon where actors' reciprocal behaviors are not directed at the party that provided benefits or costs, but rather at a third party (e.g., Ekeh, 1974). In a related argument, Skarlicki and Kulik (2005) describe how third parties react to a firm based on the way it (mis)treats employees. Fombrum and Shanley (1990) also argue that stakeholders' interpretations of firms are influenced by the cumulative actions of those firms over long time spans. Thus, the perceptions of fairness a firm elicits from one stakeholder can broadly influence the reciprocal behavior of other stakeholders immediately and in later time periods.

As prior stakeholder theorists have established, stakeholders have varying amounts of influence on firm performance. Frooman (1999), for example, argues that when a firm is more resource dependent on a given stakeholder, that stakeholder has greater influence on firm performance. Mitchell, Agle, and Wood (1997) suggest managers give greater salience to stakeholders with greater power, legitimacy, and/or urgency. To this confluence of stakeholder factors (e.g., resource dependence, power, legitimacy, and urgency, as well as dyadic, third-party, and temporal factors) we add stakeholders' perceptions of fairness. The stream of logic we have presented leads to the prediction that, *ceteris paribus,* stakeholder perceptions of fairness are directly associated with rent creation.

DOI: 10.1002/smj

Proposition 1: Firms perceived as distributionally fair (unfair) by their stakeholders create more (less) rent, ceteris paribus.

Note that throughout this discussion we refrain from proposing that the relationship between perceptions of fairness and rent creation overcome all other rent-yielding conditions. We instead suggest that our propositions hold *all else equal*.

Procedural justice and interactional justice

In addition to their assessment of distributional justice, scholars have shown that employees also evaluate procedural justice. Leventhal, Karuza, and Fry (1980) establish that employees generally want to have input in the decision-making process. They want their employer to ask for their opinions and to seriously consider their opinions. They want decision-making processes to be consistent, based on accurate information, and free from personal biases of the decision maker. They also want decision processes that allow for the correction of bad decisions and that conform to prevailing standards of ethics or morality. In their meta-analysis of organizational justice research, Colquitt *et al*. (2001) conclude that when employers provide decision-making processes that fit these criteria, their employees perceive procedural justice—a perception that stimulates positive reciprocity toward the firm. Applying this reasoning for a strategy audience, Kim and Mauborgne (1998) propose that perceptions of procedural justice among employees on a strategy-setting team can help explain variance in firm performance.

Organizational justice scholars also distinguish interactional justice (Bies and Moag, 1986). Whereas distributional justice refers to the material outcomes of a regime of distribution and procedural justice refers to the fairness of the rules and procedures that make up that regime, interactional justice refers to the manner in which actors treat one another. That is, apart from the outcomes or procedures used to derive them, actors may be treated with courtesy, dignity, and respect, or rudely and dismissively. Interactional justice comes from appropriately sharing information and avoiding rude or cruel remarks (Cropanzano, Bowen, and Guilliland, 2007). Managers who treat employees respectfully by actively listening to their concerns and empathizing with their points of view are considered interactionally just.

Though procedural and interactional justice are typically studied in one-on-one interactions between managers and their subordinates, we contend that there are similar effects between firms and other stakeholders as the amalgamation of many such dyadic interactions. For example, customers often defect in response to rude customer service and can widely broadcast their displeasure with a firm's environmental record; suppliers' salespeople can delay or outright neglect responding to a request for proposal if they perceive the process unfair; financiers can withdraw or reduce their financial support if they disagree with executives' ethics; and community leaders can block a firm's growth if its executives treat them with disregard.

Extending the logic that explains employees' reciprocal behavior toward the firm based on their perceptions of procedural and interactional justice to other stakeholders follows the same path of reason developed above for distributional justice. Like employees, other stakeholders' efforts are not fully specified due to incomplete contracts with the firm. The effort stakeholders put forth toward the firm is influenced by their perceptions of fairness, because all stakeholders, not just employees, are boundedly self-interested. Perceptions of fairness arise from procedural and interactional considerations in addition to distributional ones.

Scholars outside organizational psychology have recently begun extending examinations of procedural and interactional fairness beyond the employee setting to other stakeholders. Barden, Steensma, and Lyles (2005) find perceptions of procedural injustice raise costs and conflicts in international joint ventures. Luo (2008) examines various conditions that influence the strength of the relationship between procedural fairness and strategic alliance outcomes. Regarding interactional justice, Chen, Choi, and Chi (2002) discover it significantly impacts productivity in cross-cultural alliances. Luo's (2007) results from a study of 127 strategic alliances suggest that procedural and interactional fairness may have an even greater influence on alliance performance than distributional fairness. This growing body of work supports our argument for extending procedural and interactional justice to all stakeholders. Therefore, we suggest stakeholders' perceptions of procedural and interactional justice influence rent creation.

DOI: 10.1002/smj

Proposition 2: Firms perceived as procedurally fair (unfair) by their stakeholders create more (less) rent, ceteris paribus.

Proposition 3: Firms perceived as interactionally fair (unfair) by their stakeholders create more (less) rent, ceteris paribus.

Tradeoffs in reciprocity

Accepting that stakeholders' reciprocal behaviors arise from their assessments of each of these dimensions of justice, logic suggests stakeholders continually reassess their perceptions of fairness in terms of tradeoffs of distributional, procedural, and interactional justice. Colquitt *et al*. (2001) report that two- and three-way interactions can be found among the dimensions of organizational justice. For example, procedural fairness that meets or exceeds expectations may temporarily compensate for a material distribution that is below the amount expected (Lind and Tyler, 1988). However, unfair acts, by their nature, are more likely to be noticed and publicized than fair acts. Labor disputes, for instance, are widely publicized while just treatment of employees is more likely to be acknowledged privately. In addition, acts perceived by stakeholders as unfair draw more severe punishment compared to the rewards provided for fair acts (Offerman, 2002).

We expect that these interactions may exist in our context as well. Thus, for a firm to realize the full rent creation impact of positive reciprocity associated with one type of justice, it must avoid negative reciprocity in the others. Stakeholders that perceive a firm is fair across all three types of justice will have an incentive to contribute more positive effort to the firm than those that perceive the firm is only fair on one of these dimensions. Hence, a deficiency in one type of justice may offset positive attributes stemming from the other types of justice. The reverse is also predictable. The negative reciprocity stimulated by perceptions of unfairness in one dimension may be mitigated by positive reciprocity arising from perceptions of fairness in another dimension. Proposing the specific trade-offs among distributional, procedural, and interactional fairness as they relate to rent creation, however, is beyond the scope of this note.

DISCUSSION

While many economic theories are based on an assumption of purely self-interested behavior, we have shown how an assumption of reciprocity can influence models of rent creation. Specifically, we have discussed how stakeholders' perceptions of a firm's distributional, procedural, and interactional justice can influence their behavior toward the firm. We have also discussed why and how more rent can be created in firms that are considered fair.

It is important to note that a firm incurs costs in order to be perceived fair. Distributional justice is costly because it is associated with the amount of actual material resources allocated to stakeholders. The material costs associated with procedural justice are also analytically important. Asking a key customer for his opinion on a new initiative or explaining to an employee why a desirable assignment was given to his colleague can generate marginal costs. Similarly, the costs of interactional justice are important to consider. The decision analysis here might compare the marginal costs incurred by being truthful rather than untruthful, polite rather than rude, and respectful rather than disrespectful in individual transactions with stakeholders.

Our central argument is that the primary payoff to the firm for incurring these costs associated with the three dimensions of justice is that it enjoys relationships with stakeholders who positively reciprocate—and that the cooperation of such stakeholders in aggregate creates rent. In other words, a firm can create value by sharing it with stakeholders. The amount of value a firm can create this way is, of course, subject to diminishing marginal returns. That is, firms can allocate too many resources to stakeholders. In an efficient market, firms create rent by seeking to maximize their utility while conforming to the norms and values of society. Competitive firms stop allocating value to a stakeholder based on their own principles of reciprocity. This often happens when a stakeholder's reciprocity behavior is not aligned with the firm's. For example, the stakeholder may reciprocate less in effort, loyalty, or information sharing than the firm considers acceptable.

This reasoning also implies firms that choose not to incur the costs associated with establishing perceptions of fairness among their stakeholders

DOI: 10.1002/smj

suffer spiteful responses from stakeholders who negatively reciprocate. The expected aggregate result when stakeholders respond negatively to a firm is value destruction.

Ultimately, the value created by the firm is the aggregate of the value created in each of its stakeholder relationships. This raises the decision-making complexity from the comparatively simple task of managing perceptions of fairness in each stakeholder relationship as a one-off phenomenon to the more difficult task of managing perceptions of fairness across the firm's portfolio of stakeholder relationships. This portfolio approach to value creation is consistent with the stakeholder philosophy that argues to achieve high performance firms should adopt a broad strategy-making perspective that incorporates the needs and demands of multiple stakeholder groups (e.g., Freeman, 1984).

The theory developed in this note extends stakeholder theory by clarifying the mechanisms through which firms that manage their stakeholders well enjoy higher firm performance (Donaldson and Preston, 1995). Building from the assumption of reciprocity (rather than self-interest), this note implies that 'managing stakeholders well' involves delivering fairness to them in distributional, procedural, and/or interactional terms. Indeed, to the extent that reciprocity is a more valid assumption than pure self-interest in many settings, some of the most popular theories that are driving strategic management research today may deserve reevaluation.

CONCLUSION

The amount of value a firm captures is typically measured as the portion of the value it creates that is not distributed to its nonshareholder stakeholders. The more value it creates, the more value it can presumably capture. Differences in how firms approach these processes would logically help explain differences in their economic performance. Under an assumption of self-interest, firms would seem to maximize performance by capturing all of the value created, thus leaving no surplus value for nonshareholder stakeholders. The theory we develop here, based on an assumption of reciprocity, outlines an alternative approach to value creation and appropriation. In this approach, the firm attempts to distribute some surplus value—in the form of material resources, procedural fairness, and/or interactional fairness—to a broad group of stakeholders. By distributing this value, the firm creates a pattern of positive reciprocity among its stakeholders that supports the creation of additional rent.

REFERENCES

Adams JS. 1965. Inequity in social exchange. In *Advances in Experimental Social Psychology*, (Vol. 2), Berkovitz L (ed). Academic Press: New York; 267–299.

Akerlof GA. 1982. Labor contracts as partial gift exchange. *Quarterly Journal of Economics* **97**: 543–569.

Ambrose ML, Seabright MA, Schminke M. 2002. Sabotage in the workplace: the role of organizational injustice. *Organizational Behavior and Human Decision Processes* **89**: 947–965.

Asher CC, Mahoney JM, Mahoney JT. 2005. Towards a property rights foundation for a stakeholder theory of the firm. *Journal of Management and Governance* **9**(1): 5–32.

Axelrod R. 1980. More effective choice in the prisoner's dilemma. *Journal of Conflict Resolution* **24**: 379–403.

Barden JQ, Steensma HK, Lyles MA. 2005. The influence of parent control structure on parent conflict in Vietnamese international joint ventures: an organizational justice-based contingency approach. *Journal of International Business Studies* **36**: 156–175.

Becker L. 1986. *Reciprocity*. University of Chicago Press: Chicago, IL.

Bewley TF. 1998. Why not cut pay? *European Economic Review* **42**: 459–490.

Bies RJ, Moag JS. 1986. Interactional justice: Communication criteria for justice. In *Justice in the Workplace*, Sheppard B (ed). Lawrence Erlbaum: Mahwah, NJ; 197–208.

Blair MM. 1995. *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century*. Brookings Institution: Washington, DC.

Blair MM, Stout LA. 1999. A team production theory of corporate law. *Virginia Law Review* **85**: 248–328.

Blanchflower DG, Oswald AJ, Sanfey P. 1996. Wages, profits, and rent-sharing. *Quarterly Journal of Economics* **111**: 227–252.

Bowles S. 1998. Endogenous preferences: the cultural consequences of markets and other economic institutions. *Journal of Economic Literature* **36**: 75–111.

Bowles S, Gintis H. 1998. The evolution of strong reciprocity. Santa Fe Institute, Research in Economics Working paper 98–08–073E.

Brosnan SF, de Waal FBM. 2003. Monkeys reject unequal pay. *Nature* **425**: 297–299.

Chen CC, Choi J, Chi S. 2002. Making justice sense of local-expatriate compensation disparity: mitigation by

local referents, ideological explanations, and interpersonal sensitivity in China-foreign joint ventures. *Academy of Management Journal* **45**: 807–817.

Chung SA, Singh H, Lee K. 2000. Complementarity, status similarity and social capital as drivers of alliance formation. *Strategic Management Journal* **21**(1): 1–22.

Cialdini RB. 1984. *Influence: The Psychology of Persuasion*. William Morrow and Company: New York.

Coff RW. 1999. When competitive advantage doesn't lead to performance: the resource-based view and stakeholder bargaining power. *Organization Science* **10**: 119–133.

Colquitt JA, Conlon DE, Wesson MJ, Porter COLH, Ng KY. 2001. Justice at the millennium: a meta-analytic review of 25 years of justice research. *Journal of Applied Psychology* **86**(3): 424–445.

Cropanzano R, Bowen DE, Guilliland SW. 2007. The management of organizational justice. *Academy of Management Perspectives* **21**: 34–48.

Cropanzano R, Mitchell MS. 2005. Social exchange theory: an interdisciplinary review. *Journal of Management* **31**: 874–900.

Donaldson T, Preston LE. 1995. The stakeholder theory of the corporation: concepts, evidence, and implications. *Academy of Management Review* **20**: 65–91.

Dunfee TW. 2006. A critical perspective of integrative social contracts theory: recurring criticisms and next generation research topics. *Journal of Business Ethics* **68**(3): 303–328.

Economist 2007. Patience, fairness and the human condition. 6 October: 94.

Ekeh PP. 1974. *Social Exchange Theory*. Harvard University Press: Cambridge, MA.

Fehr E, Gächter S. 2000. Fairness and retaliation: the economics of reciprocity. *Journal of Economic Perspectives* **14**: 159–181.

Fombrum C, Shanley M. 1990. What's in a name? Reputation building and corporate strategy. *Academy of Management Journal* **33**: 233–258.

Freeman RE. 1984. *Strategic Management: A Stakeholder Approach.* Pitman Publishing: Boston, MA.

Friedman M. 1966. The methodology of positive economics. In *Essays in Positive Economics*. University of Chicago Press: Chicago, IL; 3–43.

Frooman J. 1999. Stakeholder influence strategies. *Academy of Management Review* **24**: 191–205.

Ghoshal S. 2005. Bad management theories are destroying good management practices. *Academy of Management Learning & Education* **4**: 75–91.

Granovetter M. 1985. Economic action and social structure: the problem of embeddedness. *American Journal of Sociology* **91**: 481–510.

Greenberg J. 1988. Equity and workplace status: a field experiment. *Journal of Applied Psychology* **73**: 606–613.

Greenberg J. 1993. Stealing in the name of justice: informational and interpersonal moderators of theft reactions to underpayment inequity. *Organizational Behavior and Human Decision Processes* **54**: 81–103.

Jolls C, Sunstein CR, Thaler R. 1998. A behavioral approach to law and economics. *Stanford Law Review* **50**: 1471–1550.

Kim WC, Mauborgne R. 1998. Procedural justice, strategic decision making, and the knowledge economy. *Strategic Management Journal,* April Special Issue **19**: 323–338.

Larson A. 1992. Network dyads in entrepreneurial settings: a study of the governance of exchange relationships. *Administrative Science Quarterly* **37**: 76–104.

Leiblein MJ. 2003. The choice of organizational governance form and performance: predictions from transaction cost, resource-based, and real options theories. *Journal of Management* **29**(6): 937–961.

Leventhal GS, Karuza J, Fry WR. 1980. Beyond justice: a theory of allocation preferences. In *Justice and Social Interaction*, Mikula G (ed). Springer-Verlag: New York; 167–218.

Li SX, Rowley TJ. 2002. Inertia and evaluation mechanisms in interorganizational partner selection: syndicate formation among U.S. investment banks. *Academy of Management Journal* **45**: 1104–1118.

Lincoln JR, Gerlach ML, Takahashi P. 1992. Keiretsu networks in the Japanese economy: a dyad analysis of intercorporate ties. *American Sociological Review* **57**: 561–585.

Lind EA, Tyler T. 1988. *The Social Psychology of Procedural Justice.* Plenum: New York.

Luo Y. 2007. The independent and interactive roles of procedural, distributive, and interactional justice in strategic alliances. *Academy of Management Journal* **50**: 644–664.

Luo Y. 2008. Procedural fairness and interfirm cooperation in strategic alliances. *Strategic Management Journal* **29**(1): 27–46.

Mitchell RK, Agle BR, Wood DJ. 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.

Nelson WR Jr. 2001. Incorporating fairness into game theory and economics: comment. *American Economic Review* **91**(4): 1180–1183.

Offerman T. 2002. Hurting hurts more than helping helps. *European Economic Review* **46**(8): 1423–1437.

Phillips RA. 2003. *Stakeholder Theory and Organizational Ethics*. Berrett-Koehler: San Francisco, CA.

Piekkola H, Kauhanen A. 2003. Rent sharing as firm-level pay. *International Journal of Manpower* **24**: 426–451.

Rabin M. 1993. Incorporating fairness into game theory and economics. *American Economic Review* **83**(5): 1281–1302.

Rabin M. 1998. Psychology and economics. *Journal of Economic Literature* **36**(1): 11–46.

Rawls J. 1999. Justice as reciprocity. In *Collected Papers: John Rawls*, Freeman S (ed). Harvard University Press: Cambridge, MA; 190–224.

Rumelt RP, Schendel DE, Teece DJ. 1994. *Fundamental Issues in Strategy: A Research Agenda.* Harvard Business School Press: Boston, MA.

Schoefer K, Ennew C. 2005. The impact of perceived justice on consumers' emotional responses to service complaint experiences. *Journal of Services Marketing* **19**(5): 261–270.

Skarlicki DP, Kulik CT. 2005. Third-party reactions to employee (mis)treatment: a justice perspective. In *Research in Organizational Behavior*, Staw BM, Kramer RM (eds). **26**: 183–229.

Trivers RL. 1971. The evolution of reciprocal altruism. *Quarterly Review of Biology* **46**(1): 35–57.

Wade-Benzoni KA. 2002. A golden rule over time: reciprocity in intergenerational allocation decisions. *Academy of Management Journal* **45**: 1011–1028.

Williamson OE. 1985. *The Economic Institutions of Capitalism*. Free Press: New York.