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VALUE CREATION THROUGH STAKEHOLDER SYNERGY

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Our "stakeholder synergy" perspective identifies new value creation opportunities that are especially effective strategically because a single *strategic action (1) increases different types of value for* two or more *essential stakeholder groups simultaneously, and (2) does not reduce the value already received by any other essential stakeholder group. This result is obtainable because multiple potential sources of value creation exist for each essential stakeholder group. Actions that meet these criteria increase the size of the value "pie" available for essential stakeholder groups, and thereby serve to attract exceptional stakeholders and obtain their increasing effort and commitment. The stakeholder synergy perspective extends stakeholder theory further into the strategy realm, and offers insights for realizing broader value creation that is more likely to produce sustainable competitive advantage.*

"*The next step is to see stakeholder theory as a way to redefine how we think about value creation.*" (Freeman, 2010: 9)

INTRODUCTION

Value creation is essential for strategic success. Yet, despite increasing consensus among strategy and stakeholder scholars that more attention to value creation—and especially to "shared" value creation—is warranted (e.g., Adner and Kapoor, 2010; Freeman, 2010; Freeman, Harrison, and Wicks, 2007; Porter and Kramer, 2011; Priem, 2007), relatively little is known about *how* stakeholder theory can be used by top managers for improving their firms' value-creation strategies. Indeed, although stakeholder theorists have made progress in describing the "managing for stakeholders" process (Freeman, 2010; Freeman *et al.*, 2007; Harrison, Bosse, and Phillips, 2010), the specific actions necessary for creating shared value remain underspecified. In a clear indicator of this gap in the literature, recent reviews of stakeholder theory have identified key unanswered questions, such as "How can firms create different types of value for different stakeholders?" (Parmar *et al.*, 2010: 432), and "How [can firms] create value simultaneously for multiple stakeholders?" (Freeman *et al.*, 2007: 53). These fundamental research questions motivate our study.

This elemental "how" gap for value creation has been limiting stakeholder theory as a tool for strategic management. Any strategy-stakeholder integration also has been restrained by two widespread incommeasurability mindsets about value creation. One, originating from within the stakeholder literature, is that stakeholders have competing goals

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that require balancing by top managers, generally through a series of rotating trade-offs (see, e.g., Freeman 2010; Freeman *et al.*, 2007). A second but closely related mindset, this one from outside the stakeholder literature, is that stakeholder theory is counter to shareholder value maximization, insofar as top managers must prioritize shareholders' interests above those of other stakeholders when making decisions (e.g., Jensen, 2001; Stout, 2012).

We develop a new theoretical framework for realizing broader value creation for those stakeholder groups that are essential to a firm's survival—i.e., customers, financiers (including shareholders), suppliers, employees, and communities (Clarkson, 1995; Freeman, 2010; Freeman *et al.*, 2007; Phillips, 2003). Our framework addresses the how gap for value creation by detailing ways in which value can be created for multiple essential stakeholder groups simultaneously. This is important for scholars and managers, because it explains one approach to locating and taking advantage of opportunities for shared value creation for two or more essential stakeholder groups, including shareholders, without subtracting value from any other essential stakeholder group. Thus, we offer an alternative paradigm in this article that counters both the stakeholders competing goals' assumption and the related shareholder primacy assumption. In short, we demonstrate that, because stakeholder groups have multi-attribute utility functions, innovation-seeking top managers do have opportunities—too often ignored—to create new value for two or more essential stakeholder groups, simultaneously and without trade-offs. Specifically, managers can identify novel combinations of different utilities, each valued by different stakeholder groups, which may be increased together. This creates what we label "stakeholder synergy." Although locating such opportunities is difficult and is likely to require changes in mindsets, success can increase the total value created for all essential stakeholder groups due to the positive effects of stakeholder synergy. This allows top managers to truly create value for essential stakeholder groups, rather than resorting to trade-offs that only transfer existing value among the groups.

The integrative theoretical framework we present makes several important theoretical and practical contributions. First, for the strategy and stakeholder literatures, we show how adopting a stakeholder perspective can help scholars and managers move beyond the narrow shareholder primacy mindset (Marginson and McAulay, 2008; Stout, 2012) to consider (1) value building rather than zero-sum exchanges among essential firm stakeholders, and (2) simultaneous rather than rotating or salience-prioritized value creation for essential stakeholders. Second, our theory shows how decisions on business strategy can be integrated with knowledge of essential stakeholders' multi-attribute utility functions. That is, we move beyond generic calls to provide more value or shared value for multiple stakeholders by showing how, specifically, strategic actions can offer utility increases for two or more essential stakeholder groups simultaneously. Third, we take a step toward identifying those admittedly complex second-level links between increases in simultaneous value creation and stronger motivation, commitment to the firm, and cooperation among multiple essential stakeholder groups. Beyond increased value creation, these effects also can enhance long-term advantage relative to competing firms.

Next, we briefly review the stakeholder literature on top managers' attention to stakeholders' needs, and we highlight recent studies that form the starting point for our theory building. Then, we show how the existing rotating trade-off and salience perspectives can be represented using multi-attribute utility notation, and we develop our stakeholder synergies theory showing how top managers can entrepreneurially create new value for two or more essential stakeholder groups simultaneously, thereby increasing the size of the utility "pie" for those system members (Gulati and Wang, 2003; Porter and Kramer, 2011; Priem, 2007). Finally, we explain the implications of our theoretical framework for better establishing the foundations of sustainable advantage.

BACKGROUND

The benefits of managing for stakeholders include a stronger commitment by stakeholders to the firm, increased firm legitimacy, greater potential for value creation and competitive advantage, and more trust in firm-stakeholder relationships (Berman *et al.*, 1999; Graves and Waddock, 1994; Harrison *et al.*, 2010; Hillman and Keim, 2001; Post, Preston, and Sachs, 2002; for reviews, see Freeman *et al.*, 2010; Parmar *et al.*, 2010). Each of these benefits would increase the probability of sustainable competitive

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advantage, and perhaps not surprisingly empirical support has been found for a positive relationship between attention to treating stakeholders well and firm financial performance (Choi and Wang, 2009; Freeman *et al.*, 2010; Kacperczyk, 2009; Orlitzky, Schmidt, and Rynes, 2003; Parmar *et al.*, 2010).

One prototypical process of managing for stakeholders consists of four steps: identifying the relevant stakeholder groups for the issue being addressed, determining the stake and relevance of each group, determining how effectively the needs and expectations of each group presently are being met, and modifying corporate policies and priorities to take into consideration the differing stakeholder interests (Freeman, 1984; Freeman *et al.*, 2007). Such processes are said to be fundamental for addressing the potentially conflicting interests of diverse essential and secondary stakeholder groups (Friedman and Miles, 2006; Harrison *et al.*, 2010).

Given the strategic relevance and potential of managing for stakeholders, increasing scholarly attention is being paid to stakeholder theory. A 2008 review by Laplume, Sonpar, and Litz notes that the annual number of stakeholder-related scholarly articles peaked in 1999. Lately, however, strategy scholars have become more active in extending strategic approaches to stakeholders (e.g., Bridoux and Stoelhorst, 2014; Bundy, Shropshire, and Buchholtz, 2013; Choi and Wang, 2009; Crilly and Sloan, 2012; Crilly, Zollo, and Hansen, 2012; Freeman, 2010; Freeman *et al.*, 2010; Harrison *et al.*, 2010; Kacperczyk, 2009; Parmar *et al.*, 2010). Thus, it appears a mini-renaissance may be underway in stakeholder theory. The reviews by Freeman *et al.* (2010) and Parmar *et al.* (2010) conclude that the stakeholder approach can provide a useful strategic framework for explaining how firms can create value.

Two recent conceptual works make notable progress in advancing the stakeholder value-creation explanation. First, Harrison *et al.* (2010) clarify why building trust between firms and stakeholder groups is so important. They argue that when trust exists stakeholders will be more forthcoming about the subtleties of their multi-attribute utility functions, which in turn can provide the firm with a "better understanding of the minimum requirements of a stakeholder" (Harrison *et al.*, 2010: 61–62). This better understanding can help firms improve value creation for stakeholders and thereby increase strategic advantage. Second, Bridoux and Stoelhorst (2014) contribute by identifying a key difference among individuals *within* stakeholder groups that affects those individuals' utility perceptions. They first note that "reciprocating" individuals have a strong orientation toward fairness, while "self-regarding" individuals are oriented toward their own personal outcomes. Bridoux and Stoelhorst (2014) propose a contingency approach to identifying firm behaviors that will be effective in attracting and motivating these different individuals as stakeholders. Specifically, firms pursuing a fairness-centered approach to their stakeholders will tend to attract more reciprocators and motivate them well, while firms pursuing an arms-length approach focusing on individual value-offered exchanges will tend to attract and motivate self-regarding individuals. Therefore, either fairness-centered or value-centered approaches to stakeholders can be effective, reflecting equifinality (Katz and Kahn, 1978) in achieving firm outcomes.

Each of these studies contributes vital detail toward filling the how gap in stakeholder theory. Yet opportunities remain for more precisely specifying how a better understanding of stakeholder groups' differing multi-attribute utility functions might be used to increase value creation for stakeholders. We offer a new approach to this how issue later, through our stakeholder synergy perspective. But next, for clarity and to set our approach within the existing literature, we use the concept of multi-attribute utility functions to examine the currently dominant rotating approaches for allocating resources among stakeholder groups.

MULTI-ATTRIBUTE UTILITY FUNCTIONS AND ROTATING STAKEHOLDER RESOURCE ALLOCATIONS

In much of the stakeholder literature, success in managing stakeholders is said to depend upon top managers' abilities to balance the myriad competing needs of different stakeholder groups, while simultaneously building and maintaining good relationships with each group (Clarkson, 1995; Donaldson and Preston, 1995; Freeman, 1984; Porter and Kramer, 2011). This task creates challenges for managers (e.g., Polonsky, 1995) because it involves rotating attention (and resources) evenhandedly to each stakeholder group, in turn.

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Without knowing well beforehand that a specific issue will develop, it can be difficult to know which stakeholder groups should be involved, and when (Dougill *et al.*, 2006). Yet, most recommendations to date have been variations on the idea of balancing competing stakeholder interests through rotating attention to stakeholders' concerns, in either an unweighted or a salience-weighted fashion (Bundy *et al.*, 2013, Mitchell *et al.*, 1997, Post *et al.*, 2002).

We next describe the unweighted and salience-weighted rotating approaches to managing stakeholders, using multi-attribute utility functions. These descriptions require several definitions before we proceed. First, we define any particular firm's *business system* as comprised of current essential stakeholders—i.e., customers, employees, suppliers, shareholders, and the community (Clarkson, 1995; Freeman, 2010; Phillips, 2003), plus other groups depending on the firm's context (e.g., co-innovators in an innovation ecosystem, Adner, 2012). Our theory building is limited to these groups of stakeholders, who have ongoing and elemental relationships with the firm. We then extend Priem's (2007: 220) consumer-focused definition of value creation as "innovation that establishes or increases the consumer's valuation of the benefits of consumption" (see also Bowman and Ambrosini, 2000) to include all essential stakeholder groups as they value the benefits of participation in a particular firm's business system. Following from these definitions, a business system's total *value creation* is the sum of all the valuation estimates made by each of that system's essential stakeholder groups for the multiple utilities they receive from participation in the system.

Our theory therefore is concerned with the combined value created for a business system's essential stakeholders, rather than with value captured by a firm's shareholders (Makadok and Coff, 2002) or value added by the firm (Brandenburger and Stuart, 1996). Each of these latter approaches depends in part upon how costs and relative bargaining power are distributed among stakeholders, which, while important, is not our focus. Finally, we assume that members of each essential stakeholder group use their multi-attribute utility functions as part of an inducements-contributions calculation (Barnard, 1938) for deciding whether or not to participate in, and how enthusiastically to participate in, a particular firm's business system. The firm is therefore viewed as an *organizational decision-making system* (Cyert and March, 1963), wherein top managers make strategic decisions and participating stakeholders make individual decisions regarding their own participation in the system.

The unweighted rotating-attention approach

In the unweighted rotating-attention approach to stakeholder management, at a particular time top managers might allocate, for example, most resources to enhancing shareholder utility, relatively fewer resources to addressing suppliers' and customers' utilities, and minimal resources toward the utilities of employees and the community. This initial relative allocation would then change as time passes, with the overall intent of producing a more balanced allocation of resources across all stakeholder groups when that allocation is viewed over time. Thus, given a particular level of resources available, top managers' initial allocations among essential stakeholders could be represented as follows:

$$VC_{(total)} = U_{SH} + U_{SU} + U_{CU} + U_{EM} + U_{CM};$$

where

VC is total system value creation,
U is a standardized utility measure, and
the subscripts $_{SH}$, $_{SU}$, $_{CU}$, $_{EM}$, $_{CM}$ represent shareholders, suppliers, customers, employees, and community, respectively.

In the initial phase of the example outlined above, for $VC_{(time1)}$: $U_{SH} > U_{SU}$ or U_{CU}; and U_{SU} or $U_{CU} > U_{EM}$ or U_{CM}. Later on, however, top managers might allocate new resources to suppliers, or reallocate resources from shareholders to suppliers, until the relative utility values become, at $VC_{(time2)}$: U_{SH} or $U_{SU} > U_{CU}$; and $U_{CU} > U_{EM}$ or U_{CM}. This change would better balance the relative utilities received by shareholders and suppliers when aggregated across time 1 and time 2. This process of allocation and reallocation would continue such that utilities received by essential stakeholders would become balanced across time 1 … *n*.

Thus far, however, we have considered only the aggregate utility obtained by each essential stakeholder group. When we break down the multiple sources from which each stakeholder group could receive utility, the situation changes to one that

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incorporates the disaggregated multivariate utility functions for each group, as follows:

$$VC_{(total)} = U_{SH(total)} + U_{SU(total)} + U_{CU(total)} + U_{EM(total)} + U_{CM(total)};$$

where

$$U_{SH(total)} = a_1U_{SH1} + a_2U_{SH2} + a_3U_{SH3\ldots} + a_nU_{SHn}, \text{ and}$$

$$U_{SU(total)} = b_1U_{SU1} + b_2U_{SU2} + b_3U_{SU3\ldots} + b_nU_{SUn}, \text{ and}$$

$$U_{CU(total)} = c_1U_{CU1} + c_2U_{CU2} + c_3U_{CU3\ldots} + c_nU_{CUn}, \text{ and}$$

$$U_{EM(total)} = d_1U_{EM1} + d_2U_{EM2} + d_3U_{EM3\ldots} + d_nU_{EMn}, \text{ and}$$

$$U_{CM(total)} = e_1U_{CM1} + e_2U_{CM2} + e_3U_{CM3\ldots} + e_nU_{CMn}, \text{ and}$$

$a_1 \ldots a_n$, $b_1 \ldots b_n$, etc., are the specific importance ratings given by a stakeholder group to each of their multiple utility sources $1 \ldots n$.

Returning to the original example of balancing stakeholder utilities over time, let us assume that the various x_1U_{XX1} utilities in the above equations all relate to money value received. Assume further that b_2U_{SU2} and b_3U_{SU3} for suppliers represent utilities received from payment terms and from the likelihood of future business, respectively. Now the system's top managers have the original option of balancing utilities by providing suppliers with more money value, but they also have new options for balancing utilities by increasing payment speed or the prospect of a longer business relationship. Any of these options could achieve the time 2 outcome discussed above, where at time 2: $U_{SH(total)}$ or $U_{SU(total)} > U_{CU(total)}$; and $U_{CU(total)} > U_{EM(total)}$ or $U_{CM(total)}$. This shows how the most basic rotating approach to balancing stakeholder interests can be applied in a multivariate utility environment.

Notwithstanding the potential benefits of balancing allocations among essential stakeholders over time, this rotating method could negatively affect those stakeholders who are, in the near term, offered only minimal resources. In the example we have been using, these underserved stakeholders are employees and the local community. While waiting for their "turns" for more resources, the employees' motivation and commitment to the organization could be reduced (Locke, 1997; Meyer, Becker, and Vandenberghe, 2004), valued employees could be lost to other firms, and the remaining workforce could become de-motivated and uncommitted to the firm (Meyer *et al.*, 2004; Pinder, 1998). Costs of turnover could increase and productivity could decrease (Hinkin and Tracey, 2000; Meyer *et al.*, 2004). The firm may suffer costs from unsatisfied public actors as well. Altogether, these interim outcomes could decrease the firm's overall value creation for all stakeholders and thereby reduce its vitality and probable longevity.

The salience-weighted rotating attention approach

Rotating allocations to stakeholders is also the basis for prioritization models such as the "degree of salience" approach, described by Mitchell *et al.* (1997) as frequently used by managers (see also Bundy *et al.*, 2013). Mitchell *et al.*'s (1997) descriptive study indicated that the allocation of attention to stakeholders' needs often is based on top managers' perceptions of the degrees of salience of different stakeholder groups. Salience encompasses three components: the relative power of the specific group, the legitimacy of that stakeholder group's involvement with the firm, and the urgency of the group's claims. The higher the degree of salience, the greater the attention paid by managers to the needs of that specific stakeholder group (for more details, see Mitchell *et al.*, 1997). In order to represent the salience-weighted approach to balancing attention—and resources provided—to essential stakeholder groups, we need only add a parameter representing top manager-perceived salience to each group's multi-attribute utility function. Since salience is a relative concept, one way (of many possible) to include relative salience for the five essential stakeholder groups is to first allocate salience proportionally on a 0–1 scale across the five groups—i.e., for each salience z1–z5, the initial salience value is 0.20 for each group, meaning that salience is equal among all stakeholder groups. Then if, for example, the salience of shareholders increases to what is judged by top managers as $z1 = 0.40$, with no differences in relative salience among the other essential stakeholders, the sum of z2–z5 would be 0.60, the saliences of the other essential stakeholders z2, z3, z4, and z5 each would be 0.15, and attention and resources would be allocated accordingly. This could be represented by adding a 1/zn multiplier

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to each stakeholder group's multi-attribute utility function, such that as salience increases the salience multiplier effect diminishes and more utility is required for that particular stakeholder group, and as salience decreases the salience multiplier effect is enhanced and less utility is required for that stakeholder group. This allows the firm to achieve salience-balanced utility functions across essential stakeholders, represented as follows:

$$VC_{(total)} = U_{SH(total)} + U_{SU(total)} + U_{CU(total)} + U_{EM(total)} + U_{CM(total)};$$

where

$$U_{SH(total)} = (1/z_1) \quad (a_1U_{SH1} + a_2U_{SH2} + a_3U_{SH3} \ldots + a_nU_{SHn}), \text{ and}$$

$$U_{SU(total)} = (1/z_2) \quad (b_1U_{SU1} + b_2U_{SU2} + b_3U_{SU3} \ldots + b_nU_{SUn}), \text{ and}$$

$$U_{CU(total)} = (1/z_3) \quad (c_1U_{CU1} + c_2U_{CU2} + c_3U_{CU3} \ldots + c_nU_{CUn}), \text{ and}$$

$$U_{EM(total)} = (1/z_4) \quad (d_1U_{EM1} + d_2U_{EM2} + d_3U_{EM3} \ldots + d_nU_{EMn}), \text{ and}$$

$$U_{CM(total)} = (1/z_5) \quad (e_1U_{CM1} + e_2U_{CM2} + e_3U_{CM3} \ldots + e_nU_{CMn}), \text{ and}$$

$a_1 \ldots a_n$, $b_1 \ldots b_n$, etc., are the specific importance ratings given by a stakeholder group to each of their multiple utility sources $1 \ldots n$, and
$z_1 \ldots z_5$ are the specific salience ratings given by top managers to each of the essential stakeholder groups.

Following the salience-weighted rotating approach, when top managers rate salience as above average for a particular essential stakeholder group, they would strive to increase resources for at least one of the utility sources for that group, remove resources from groups with below-average salience, and thereby move toward a more appropriate level of total utility for each group based on its salience. As salience perceptions change, resource allocations change, in order to restore a more appropriate total utility profile across stakeholders. In this way, managers can rotate attention and resources as stakeholder groups' relative salience changes, while continuing to use the basic unweighted rotation method when some essential stakeholder groups have more or less equal salience ratings.

Continuing again with the example above, when top managers' rotation neglects employees and the community, those groups are likely to become more salient due to outcomes such as increased turnover and increasingly vocal dissatisfaction. Then, managers may shift attention and resources to their employees and community at the expense of customers and suppliers. In turn, the lack of attention to customers' needs may lead customers to search for alternative value propositions that are more able to maximize their satisfaction. This weakens customers' commitment to the firm (Morgan and Hunt, 1994) and negatively affects the firm's ability to understand customer needs and behaviors (Campbell, 2003; Harrison *et al.*, 2010; King and Burgess, 2008), deliver a better value proposition (Harrison *et al.*, 2010), and generate strategic resources that directly affect the firm's long-run success (Priem, 2007; Reichheld, 1996). Similar results could be seen for suppliers: the lower their commitment, the weaker the buyer-supplier relationship, and the less likely a common strategic orientation will continue to achieve mutual gains (Chen, Paulraj, and Lado, 2004). Then, the salience of customers and suppliers would increase and attention and resources would shift toward those groups.

As these cycles persist, there is the threat that a firm's value creation, vitality, and likely longevity may suffer. Of course, in many instances the unweighted rotating and/or salience-based approaches are useful for stakeholder management and, especially, for nonessential stakeholder groups that are not continually in contact with the firm. Essential stakeholders, however, may warrant ongoing and equivalent attention because they are necessary for firm survival. One might further expect, however, that there may be potential for simultaneous value creation, or even synergies, across essential stakeholder groups, as they create or receive shared value together (e.g., Alchian and Demsetz, 1972; Priem, 2007). We turn to this issue next.

SYNERGISTIC VALUE CREATION FOR STAKEHOLDERS

How might a firm's top managers create value, simultaneously and synergistically, for multiple essential stakeholder groups? There is a long history in the marketing literature examining how to attract potential customers based on their multi-attribute utility functions (e.g., Ratchford, 2001), and some management scholars have begun

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using similar approaches to examine questions involving strategies for value creation and appropriation (Adner and Snow, 2010; Gruber, MacMillan, and Thompson, 2008; Priem, 2007) and users' roles in entrepreneurial innovation (Faulkner and Runde, 2009; von Hippel, 1976; Shah and Tripsas, 2007). These studies have examined the potential for simultaneous shared value creation, primarily for shareholders and consumers.

Priem (2007) uses a consumer perspective to show how consumers' perceptions of the use value (Bowman and Ambrosini, 2000) they will receive from a purchase affects their willingness to pay and, therefore, a firm's "top line." His "consumer benefit experienced" (CBE) perspective "flips" the focus of the strategy discussion from "rents from resources" to "payments for benefits." He argues (2007: 222) that consumers experience value during consumption activities, and therefore a durable good purchase can result in many future value-producing experiences. Moreover, even when using the same product, different consumers experience greater or lesser value because of their differing utility needs. Thus, an essential role of firm strategy is to aid consumers in experiencing the greatest possible use value during their consumption activities. This can be accomplished by viewing the consumer's household itself as a producer of value that, under a "household production model" (Ratchford, 2001), attempts to maximize its utility across the multiple utility attributes that any particular offering or combination of offerings is expected to provide. Priem's (2007) CBE approach shows one way to link demand factors to resource value. Further, he provides specific examples of strategic-level actions that create value for consumers through mechanisms such as building consumers' human capital, reducing demands on consumers, and leveraging synergies available from within-household specialization. Finally, he shows how typical firm-level strategies, such as forward vertical integration or industry diversification, can increase consumer value received even without "superior" resources (see also Ye, Priem, and Alshwer, 2012).

We extend these ideas concerning innovative new value creation for consumers to include value creation in inducement-contribution exchanges with other essential stakeholder groups as well. Few studies we know have viewed a firm's stakeholders in this way—as an organizational decision-making system overseen by top managers (Cyert and March, 1963; Hemmati, 2002, are exceptions). In such situations, stakeholder synergy occurs whenever a single strategic action creates new value for two or more essential stakeholder groups simultaneously, without reducing the value obtained by another essential stakeholder group.

Essential stakeholders' value drivers

We have shown how essential stakeholder groups can be characterized by different multi-attribute utility functions, and how these functions explain "the stakeholders' preferences for different combinations of tangible and intangible outcomes resulting from actions taken by the firm" (Harrison *et al.*, 2010: 62). Such tangible and intangible outcomes may result from economic calculations of value from use (Priem, 2007) or from felt mutual obligations between a firm's managers and its various stakeholder groups (Bosse *et al.*, 2009; Hernandez, 2012; Phillips, 2003) that could be derived from psychological contracts (Rousseau, 1989). Therefore, stakeholders' inducements-contributions calculations for exchanges likely combine multi-attribute calculations using economic currency, socioemotional currency, and ideological currency (Thompson and Bunderson, 2003).

These multi-attribute utility functions guide each stakeholder group's decision making. For example, the overall utility of a new product for a consumer stakeholder might be a function of the use benefit the product is expected to provide, the product's money cost, and the time required to purchase the product and master using it (Priem, 2007). Similarly, the overall utility of a new job for an employee stakeholder could be a function of salary, benefits, security, challenge, location, and enjoyment. The overall utility of landing an order for a supplier could be a function of order size, frequency, the price received, payment terms, reputation of the customer, and the potential for follow-up business. Stockholders' utility functions likely include expected return, risk, and investment time horizon, among others. And local communities' utility functions likely include the number and types of jobs created, taxes to be paid, support infrastructure required, and externalities such as noise or air pollution.

Returning to the simpler set of equations we used in discussing the unweighted, rotating trade-offs approach to stakeholder management, we now discuss the stakeholder synergy approach. To be

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effective within this framework, top managers must function as innovation-seeking entrepreneurs (Kirzner, 1997; Shane and Venkataraman, 2000) by continuously searching for new opportunities to create value for multiple stakeholder groups simultaneously. The aim of this "synergy searching" is to increase the "size of the pie" (Gulati and Wang, 2003; Porter and Kramer, 2011; Priem, 2007) available for two or more stakeholder groups through a single strategic action or an integrated set of actions (i.e., firm strategy), as we describe next.

$$VC_{(total)} = U_{SH(total)} + U_{SU(total)} + U_{CU(total)} + U_{EM(total)} + U_{CM(total)};$$

where

$$U_{SH(total)} = a_1U_{SH1} + a_2U_{SH2} + a_3U_{SH3} \ldots + a_nU_{SHn}, \text{ and}$$

$$U_{SU(total)} = b_1U_{SU1} + b_2U_{SU2} + b_3U_{SU3} \ldots + b_nU_{SUn}, \text{ and}$$

$$U_{CU(total)} = c_1U_{CU1} + c_2U_{CU2} + c_3U_{CU3} \ldots + c_nU_{CUn}, \text{ and}$$

$$U_{EM(total)} = d_1U_{EM1} + d_2U_{EM2} + d_3U_{EM3} \ldots + d_nU_{EMn}, \text{ and}$$

$$U_{CM(total)} = e_1U_{CM1} + e_2U_{CM2} + e_3U_{CM3} \ldots + e_nU_{CMn}, \text{ and}$$

$a_1 \ldots a_n$, $b_1 \ldots b_n$, etc., are the specific importance ratings given by a stakeholder group to each of their multiple utility sources $1 \ldots n$.

We have argued that stakeholders' utility functions contain more than just economic utilities, and that different stakeholder groups may assign differing weights even for economic utilities. This indicates that not all essential stakeholder groups will be equally satisfied by organizational wealth maximization, and also that increasing one stakeholder group's economic utility doesn't necessarily result in a trade-off that reduces the overall utility of another stakeholder group. Quite the contrary. For example, employees' utility functions may be composed not only of economic factors such as salary and benefits, but also of noneconomic factors such as challenging work, empowerment, and work-life balance. Therefore, even if economic factors remain at the same level, overall employee utility may be increased by a flexible work week or by more autonomy. Similarly, for consumers price is not the only attribute that provides utility; instead, factors such as product features, customer service, a product's green profile, and the existence of a users' community also can increase consumers' utility. Indeed, the essence of product differentiation is adding utility that increases consumers' willingness to pay for a particular product. This means that total consumer utility can increase even when the price increases (lowering c_1U_{CU1}), as long as other consumer benefits are provided (by increasing, e.g., c_2U_{CU2} and c_3U_{CU3} in a way that outweighs the price increase). And because differentiation-based price increases can benefit shareholders (e.g., through increases in a_1U_{SH1} as a brand franchise is established), both consumers and shareholders can benefit from the same managerial action. This represents one case of stakeholder synergy, because one strategic action increased utility for two stakeholder groups—shareholders and customers—simultaneously.

This example represents one instance of what Kirzner (1997) has labeled "pure entrepreneurial judgment"—i.e., when an entrepreneur envisions a previously unseen consumer utility that can be served and that therefore will generate new value, some of which might be captured by the entrepreneur. This type of activity is not limited to entrepreneurs thinking about consumers, however; top managers of established firms also can use their entrepreneurial judgments to create new value for stakeholder groups such as employees or suppliers. Such new value creation does not require the rotating value allocation trade-offs among essential stakeholder groups seen in the earlier sections. Instead, the overall utilities of two or more stakeholder groups can be increased simultaneously by creatively addressing their different utility sources. Following this approach, for example, entrepreneurial managers could allocate financial resources to satisfy the economic attributes of the shareholders' and suppliers' utility functions, while simultaneously generating new value for employees by satisfying utility attributes linked to work-life balance and for the community and consumers by satisfying the environmental benefit attribute of their utility functions. Examples of value drivers (i.e., utility sources) for essential stakeholder groups are shown in Table 1.

Mechanisms underlying stakeholder synergy

There are three fundamental methods for achieving the stakeholder synergy just described. The first,

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Table 1. Examples of essential stakeholder groups' multiple value drivers

	Example value drivers (i.e., utility sources)					
Shareholders	Expected return (Fama and French, 1988)	Business risk (Amit and Wernerfelt, 1990)	Investment time horizon (Fama and French, 1988)	Corporate social responsibility (Aguilera *et al.*, 2007)		
Customers	Perceived value (Fornell *et al.*, 1996)	Product's price (Ackerman and Tellis, 2001)	Accessibility—time required to purchase the product (Priem, 2007)	Time required to master using the new product (Priem, 2007)	Perceived quality (Fornell *et al.*, 1996)	Environmental corporate responsibility and "ecofriendly" products (see Bansal and Roth, 2000; Shrivastava, 1995)
Employees	Salary (Abu-Bader, 2000) and benefits (Sutton, 1985)	Corporate social responsibility (Aguilera *et al.*, 2007)	Perceived fairness of the working environment (Aguilera *et al.*, 2007; Colquitt, 2001)	Job characteristics and skill variety (Glisson and Durick, 1988)	Work–life balance policies (Haley-Lock, 2008)	
Suppliers	Ordering procedure (Essig and Amann, 2009) and size	Long-term relationships (Kalwani and Narayandas, 1995)	Price received (Kalwani and Narayandas, 1995)	Client payment habits and payment terms (Wong, 2000)	Image (Essig and Amann, 2009) and reputation of the customer	Possibility for cross selling (Essig and Amann, 2009) and potential for follow-up business
Community	Number and types of jobs created (Porter and Kramer, 2011)	Taxes to be paid (Buettner, 2001)	Support infrastructure required (Porter and Kramer, 2011)	Externalities linked to the business (e.g., noise or air pollution) (Bansal and Roth, 2000; Porter and Kramer, 2011)	Local clusters (Porter and Kramer, 2011)	

Shaded area = tangible value driver; No shading = intangible value driver

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and simplest, way to create value is to increase the utility received by one essential stakeholder group without negatively affecting the value proposition received by any other essential stakeholder group. This is what we label "single stakeholder value creation." One example is offering flexible work hours where possible that allow employees to minimize their commute times or more easily organize child care, thereby increasing employees' utility. We will discuss later how even this simple form of value creation for a single essential stakeholder group can have spillover synergies for other essential stakeholder groups as well.

Second, stakeholder synergy can be achieved when managers find complementarities in needs across two or more essential stakeholder groups—which we label as "complementary utilities." Specifically, a value-creating innovation developed by managers will be especially effective strategically when it is possible—in part because each essential stakeholder group has multiple utility needs—that a *single* managerial innovation can increase one type of value for one stakeholder group while also increasing a different type of value for another group, again without negatively affecting any other essential stakeholder group. Examples can be found in Inditex's Zara clothing chain. Zara satisfies its customers' needs for quickly evolving, up-to-date fashion offerings with just-in-time (JIT) production for its fashion-forward items. The firm simultaneously satisfies local communities by using the local production that JIT requires. Zara also helps local suppliers to specialize in particular garment types, so the suppliers get utility benefits from specialization and still have relatively long production runs even in the "fast fashion" environment. Here, multiple essential stakeholder groups' utility needs are met through Zara's innovative, integrated approach to delivering fashion to consumers.

Third, several reinforcing sources of stakeholder synergy can occur as follow-ons to the single stakeholder or complementary utilities innovations just described. Specifically, when one, two, or more essential stakeholder groups receive increased value from a single strategic innovation, those groups' members are likely to be more motivated and to exhibit stronger commitment to and trust in the firm (Harrison *et al.*, 2010). This is likely to result in better communication and cooperation efforts by and among those essential stakeholder groups' members. Further, the concurrent increases in motivation for the two stakeholder groups involved are likely to have follow-on positive effects on the behaviors of the firm's other essential stakeholder groups as well. Lastly, the increased utility offered through stakeholder synergy to each essential stakeholder group is likely to draw high-quality, essential stakeholder members who wish to either join, buy from, or do business with the firm. We label this set of synergistic outcomes "follow-on efficiencies."

Together, these synergies represent opportunities for top managers to increase the overall utility for all the essential stakeholder groups simultaneously, without trade-offs. Hence, these are ways to increase the size of the stakeholder utility pie (Gulati and Wang, 2003; Priem, 2007) and, thereby, the overall value created by the business system for its essential stakeholders.

The role of top managers

Clearly, a firm's top managers must play a central role if stakeholder synergies are to be achieved. Just as some visionary innovators can identify unfilled consumer needs, like Apple's Steve Jobs did with the iPod and iPad, top managers also can act as innovation-seeking entrepreneurs by attempting to create new, previously unanticipated value for one or more of their firms' essential stakeholder groups. At a minimum, this means that a firm's top managers must continually attend to employees, suppliers, financiers (i.e., shareholders, bondholders, and other debt holders), and communities with the same value-creating mindset usually reserved for customers. Such focused attention makes value-creating innovations more likely, and means the firms' managers are more likely to move beyond the dominant stakeholder trade-off mindset and instead increase value creation for multiple essential stakeholder groups. The additional value offered to each essential stakeholder group will, in turn, allow the firm to compete more effectively for the fully engaged participation of high-quality stakeholders.

DISCUSSION

Our stakeholder synergy model raises two key questions for scholars and also helps to address them. First, how can researchers identify, *ex post*, those firms that exhibit more versus less stakeholder synergy? This identification process likely would involve (1) dissecting a firm's

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multi-attribute stakeholder value proposition for each essential stakeholder group, and then (2) uncovering those stakeholder utility areas with underserved single-stakeholder opportunities and/or with multi-stakeholder complementarities that indicate possibilities for synergistic value creation. Strategy scholars sometimes identify these stakeholder-based sources of value creation already with case studies, although in a less-formalized way than does our model.

An example of *ex post* essential stakeholder synergy identification can be seen using the iconic U.S. low-fare air carrier, Southwest Airlines. Southwest has received kudos for outperforming other airlines over many years. Southwest began in 1971 with a then-unique approach to increasing value for multiple stakeholders simultaneously. This strategy easily could have been viewed negatively by essential stakeholder groups. Passengers, for example, could reserve the "no frills" flights only through Southwest, with no seat assignments and departing from second-tier airports. Employees earned lower salaries for a broader scope of work than at full-fare airlines. Investors questioned the staying power of short-haul, no-hub service lacking key amenities. These negatives notwithstanding, Southwest's strategy created new value simultaneously for customers, employees, suppliers, investors, and the communities in which it did business. Passengers valued the low fares and frequent service—both likely highly weighted in their multi-attribute utility functions—plus they enjoyed the added "fun" features such as pilots and flight attendants telling jokes over the plane's intercom and planes painted to resemble killer whales or the Texas flag. Employees valued variety and empowerment, so the broader tasks and fun increased their overall utility. Boeing, the supplier of Southwest's single-model airplane fleet, received large-order cost savings while Southwest saved on costs such as training pilots and mechanics. Plus, Southwest's steady growth addressed utility drivers for investors (steady earnings, a consistently increasing stock price) and communities (rapid job creation, a needed travel alternative).

Southwest's innovative, low-cost strategy has since been copied by many, albeit usually without the full array of Southwest's across-stakeholder complementarities and without Southwest's consistency in positive stakeholder treatment and positive shareholder returns. Bridoux and Stoelhorst, for example, compare Southwest with Europe's low-cost Ryanair, noting that Southwest is "regularly rated American customers' favorite airline" and "has never used mass layoffs," while Ryanair is known for "misleading customers" and "poor employee relationships" (2014: 111). Still, both Southwest and Ryanair have produced positive shareholder returns. Not so for American Airlines, a large hub-and-spoke carrier with few innovative across-stakeholder complementarities, a reactive approach to stakeholder management, and a history of contentious employee relationships. Even during its recent bankruptcy, for example, American's pilots engaged in a work slowdown by delaying take-offs in order to bring their needs to the company's attention (von Hoffman, 2012).

Another example of simultaneous new value creation for multiple stakeholders is the Italian firm, Ferrero SpA. Ferrero is family-run and privately held, with worldwide revenues of €6 billion from confectionary products such as Rocher chocolates, Nutella, and Tic-Tacs. A high-quality differentiator, Ferrero subjects its suppliers to strict certification requirements and continuous monitoring. These requirements could be viewed as negatives by Ferrero's suppliers of high-quality cacao in developing countries, especially since the company does not donate financial resources directly to those poorer communities from which it sources. But Ferrero instead focuses on supporting long-term local development by creating employment, offering current and prospective suppliers in-depth training and assistance, improving local health and hygiene, and increasing respect for human rights. By partnering with its suppliers and their local communities in these ways, Ferrero gains these stakeholders' trust and ensures a supply of top-quality ingredients for its chocolates. Ferrero offsets its higher prices by attending to other aspects of consumers' utility functions, like meeting consumers' desires for the highest product quality and freshness and for the experience of "belonging" to the big Ferrero Italian family. In 2009, *Forbes* named Ferrero SpA the world's most reputable company (Kneale, 2009).

The second key question spurred by our model is "How might scholars and top managers identify, *ex ante,* opportunities for across-stakeholder complementarities?" The essential stakeholder synergy approach we have presented is particularly valuable in addressing this question, because it provides a theory-based template for uncovering value creation opportunities both

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within and across essential stakeholder groups. It shows how scholars and managers can go about looking beyond the (admittedly, crucial) customer-oriented business strategy to also integrate similar supplier-oriented, employee-oriented, investor-oriented, and community-oriented utility functions into firm strategizing. Specifically for top managers, the stakeholder synergy perspective offers a path toward seeing opportunities for value-creating actions that can synergistically increase the value received by multiple stakeholder groups or subgroups, even when a particular value opportunity may not yet have been perceived by the stakeholders or subgroups themselves (i.e., when their needs/values remain latent). Admittedly, given the well-established stakeholder trade-off and shareholder value maximization mindsets discussed earlier, a change to a broader stakeholder value creation mindset may be difficult for many. But the potential rewards for all the firm's stakeholders may be well worth the managerial effort.

Limitations

This is the first attempt we know of to integrate business strategy, stakeholder theory (Freeman, 1984; Freeman *et al.*, 2010) and essential stakeholders' multi-attribute utility functions (Harrison *et al.*, 2010; Priem, 2007) by developing a theory for creating new value simultaneously across multiple groups of essential stakeholders. As such it is not without limitations, many of which are associated with topics we did not or could not include in this article because of the nascent stage of the stakeholder synergy concept. First, we intentionally limited our model to essential stakeholders—those that are necessary for firm survival (Clarkson, 1995; Freeman, 2010; Parmar *et al.*, 2010; Phillips, 2003). In special cases or in crisis situations, however, particular stakeholder groups that are normally nonessential may become vital to firm survival and therefore may need immediate attention irrespective of long-term strategy. When and why this might occur remains an area for exploration. In normal times, though, nonessential stakeholders may be engaged most successfully through rotating or salience-based attention (Harrison *et al.*, 2010; Mitchell *et al.*, 1997; Phillips, 2003).

Second, Harrison *et al.* (2010) argue that trust is an essential ingredient that spurs the sharing of utility function information between stakeholders and the corporation. Our argument may appear contrary, because we argue a counter-causal direction—that the value proposition offered to each stakeholder group is important in obtaining that group's trust and commitment (see also Bridoux and Stoelhorst, 2014). These assertions need not be contradictory, however, because stakeholder value propositions, trust, and commitment likely reinforce one another in a virtuous (or, on the other side, damaging) cycle. We therefore see our stakeholder synergy approach as a view that complements and likely will help advance other research based on factors like trust (Harrison *et al.*, 2010), reciprocity (Bosse *et al.*, 2009; Phillips, 2003), and degree of stakeholder salience (Mitchell *et al.*, 1997).

Third, we have not delved deeply enough into top managers' new role in striving to increase the value created for all essential stakeholders. Clearly, top managers will need to act as innovation-seeking entrepreneurs (Kirzner, 1997; Low and MacMillan, 1988) in identifying new opportunities for stakeholder synergy. On the other hand, there may be many common, yet untapped, stakeholder synergies available at most firms today. The stakeholder synergy concept calls for the top managers of a firm's business system to serve as the connecting fiber between customers and suppliers, shareholders and employees, customers and employees and communities. One path forward could follow the lead offered by Dhanaraj and Parkhe (2006) in their examination of "hub" firms in innovation networks; top managers' role in dealing with their firms' essential stakeholder groups could be similar to the role of an entrepreneurial hub firm leading an innovation network.

Fourth, we have not addressed measurement. To advance the stakeholder synergy perspective empirically, it will be necessary to measure stakeholder groups' multivariate utility functions and the firms' effectiveness in increasing multi-stakeholder value creation. For the former issue, techniques such as multidimensional scaling, conjoint analysis, surveys, or focus groups may be useful for identifying the utility attributes of, for example, consumer, supplier, or community stakeholder groups or segments. For the latter issue, qualitative case studies may contribute to identifying regularities in firms' successful or unsuccessful attempts to achieve stakeholder synergies. Recent research in management (e.g., Kroeger and Weber, 2014) and economics (led by Nobel Laureate

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Joseph Stiglitz; see Thottam-Thimphu, 2012) has been developing techniques for measuring broader social value creation and well-being, as a step toward more accurate comparative analyses. These efforts show some promise for addressing the difficult problems of performance measurement in strategic management (Richard *et al.*, 2009).

Additional implications for future research and practice

The stakeholder synergy concept offers researchers a new perspective for examining real world management decisions regarding strategic stakeholder relations. As a nascent concept, however, initially it is likely to generate as many questions as it answers. For example: What additional tools or policies might help top managers identify specific entrepreneurial opportunities for creating shared value for multiple essential stakeholder groups? How might focused firms identify and use the particular multi-attribute utility functions of stakeholder subgroups (i.e., stakeholder segmentation; see Wolfe and Putler, 2002) to more effectively pursue focused differentiation or cost leadership strategies? And to what degree can insights from entrepreneurship research on opportunity discovery or creation (Alvarez and Barney, 2007) contribute to the development of stakeholder synergies?

The stakeholder synergy perspective also has implications for researchers interested in broader, related topics such as value creation–value capture relationships, business models, models for stakeholder management, and corporate social performance, among others. In earlier strategy research, for example, value creation and value capture are seldom defined and often conflated (cf. Makadok, 2001; Makadok and Coff, 2002; Priem, 2001). More recently, some strategy scholars have been asserting that value creation warrants more attention because it necessarily precedes value capture (Nickerson, Silverman and Zenger, 2007; Priem, 2007). Stakeholder synergy offers an at-once broader yet more fine-grained view of value-creation mechanisms that may aid in future clarifications of value creation–value capture relationships. Next, business model definitions almost universally incorporate a customer value proposition that often is based, explicitly or implicitly, on multi-attribute utilities. And as Zott and Amit note concerning business model value creation: "The total value created is the value created for all business model stakeholders (focal firm, customers, suppliers, and other exchange partners)" (2007: 183). This commonality with our model suggests that stakeholder synergy mechanisms might help clarify and extend business model value determinations and thereby move beyond more typical firm-level performance measures like stock market valuation (e.g., Zott and Amit, 2008). Next, the stakeholder synergy perspective also might benefit researchers interested in the efficacy of various stakeholder management models. Berman *et al.* (1999), for example, compared the strategic stakeholder management and the intrinsic stakeholder commitment approaches to stakeholder management in Fortune 100 firms, finding that the former is associated with higher return on assets but the latter is not. It may be, however, that the various intrinsic commitment, fairness (Bridoux and Stoelhorst, 2014; Phillips, 2003), and relational/moral (Aguilera *et al.*, 2007) approaches to stakeholder management may be better able to actualize stakeholder synergies, when they are actively pursued, than are the more instrumental approaches. Finally, Bansal and Roth's (2000) inductive study found that issue salience, organizational field cohesion, and individual concerns spur firms to "go green." In these cases, the stakeholder synergy approach could offer new options for dealing with nonessential as well as essential stakeholder groups. The stakeholder synergy perspective deals with stakeholder utility functions as they are, however, not as one might wish them to be, and therefore is itself agnostic to corporate social performance prescriptions.

The practical implications of stakeholder synergy for top managers are straightforward. First, a singular emphasis on near-term financial or market return is unlikely to lead to sustainable advantage (Bruce *et al.*, 2005; Friedman, 1970; Morris, Chindehutte, and Allen, 2005; Slywotzky, 1996; Stewart and Zhao, 2000; Stout, 2012). Second, top managers' roles include seeking to integrate the multi-attribute utility functions of their essential stakeholders with their firms' strategies in novel ways. And third, sustainable value creation for all essential stakeholders will likely lead to competitive advantage and to strong financial performance over the long term. These outcomes are most probable when firms are able to build synergistic economic and social value for their shareholders and for their other essential stakeholders.

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CONCLUSION

Stakeholder theory (Freeman, 1984) began as a strategic approach to improving firm effectiveness. The stakeholder synergy perspective shows how top managers can increase utilities for multiple essential stakeholder groups simultaneously, rather than simply "establishing priorities and making choice trade-offs among [their stakeholders"] competing interests (Post *et al.*, 2002: 30). We look forward to future research testing and extending this perspective.

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