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HOW APPLYING INSTRUMENTAL STAKEHOLDER THEORY CAN PROVIDE SUSTAINABLE COMPETITIVE ADVANTAGE

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Instrumental stakeholder theory considers the performance consequences for firms of highly ethical relationships with stakeholders, characterized by high levels of trust, cooperation, and information sharing. While research suggests performance benefits, an obvious question remains: If instrumental stakeholder theory–based stakeholder treatment is so valuable, why isn't it the dominant mode of relating to stakeholders? We argue that the existing instrumental stakeholder theory literature has three shortcomings that limit its ability to explain variance in performance. (1) Little theory exists around how instrumental stakeholder theory–based stakeholder management could provide *sustainable* competitive advantage. (2) The literature has largely neglected the potential downsides (i.e., costs) associated with pursuing these sorts of stakeholder relationships. (3) There is a paucity of theory on the contexts in which the incremental benefits of instrumental stakeholder theory–based stakeholder relationships are most likely to exceed the costs. As our primary contribution, we develop a theoretical path from a communal sharing relational ethics strategy—characterized by an intention to rely on relational contracts, joint wealth creation, high levels of mutual trust and cooperation, and communal sharing of property—to a close relationship capability, which we argue is valuable, rare, and difficult to imitate and, thus, a potential source of sustainable competitive advantage. We also consider the potential costs of achieving this capability and identify contexts in which the resulting relationships are likely to have the greatest net value.

Stakeholder theory is an umbrella term for a genre of theories that help scholars and managers understand relationships between firms and their stakeholders, as well as some of the performance outcomes of these relationships. The theory is often characterized as being divided into three interrelated streams: descriptive, normative, and instrumental (Donaldson & Preston, 1995). The focus of this article is instrumental stakeholder theory (IST), although we recognize that there are both descriptive and normative elements in our narrative (cf. Harris & Freeman, 2008). Specifically, the core hypothesis of IST is that developing stakeholder relationships governed by the norms of traditional ethics—for example, fairness, trustworthiness, loyalty, care, and respect (Hendry, 2001, 2004)—will lead to improved financial performance. As summarized by Jones, IST holds that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over those that do not" (1995: 422).

Although IST is a powerful theory with strong prescriptive and normative conclusions, the IST literature has failed to answer a vital question: If the performance effects of ethical relationships with stakeholders are positive, according to both theory and empirical studies (Choi & Wang, 2009; Harrison, Bosse, & Phillips, 2010; Henisz, Dorobantu, & Nartey, 2014; Jones, 1995; Jones & Wicks, 1999; Sisodia, Wolfe, & Sheth, 2007), why do so many firms treat stakeholders selfishly at best (Mintzberg, Simons, & Basu, 2002) and unethically at worst (Clement, 2006; Greve, Palmer, & Pozner, 2010)? We provide some answers to this question by addressing three shortcomings that limit the ability of scholars to fully understand the

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performance effects of IST-based measures and to provide guidance to practicing managers.

First, although much of the IST literature explains why highly ethical treatment of stakeholders should be valuable, thus far there has not been a thorough evaluation of such an approach against the other resource-based criteria that help identify potential sources of *sustainable* competitive advantage (Barney, 1991; Barney & Wright, 1998). Specifically, are the resources/capabilities that result from IST-based stakeholder treatment also rare and difficult to imitate? As noted by Freeman, Harrison, Wicks, Parmar, and de Colle, "The theoretical links between stakeholder theory and the resource-based view have not been adequately established in the minds of many strategic management scholars" (2010: 95).

Second, prior IST scholarship has noted that close relationships with stakeholders, developed through ethical treatment, can have a number of benefits (e.g., Bosse & Coughlan, 2016; Cooper & Gardner, 1993; Larson, 1992; Uzzi, 1997). However, most of the field has displayed a "sunny-side" bias, and only a few scholars have begun to consider the costs of close relationships with stakeholders (e.g., Garcia-Castro & Francoeur, 2016; Harrison & Bosse, 2013).

Third, in traditional IST there is the general assumption that ethically grounded stakeholder management strategies will be associated with higher financial performance, regardless of context.[1] But it is probable that the link is stronger, nonexistent, or even negative in various contexts. Like Bridoux and Stoelhorst (2014, 2016), we believe that identification of moderating influences is critical to the stakeholder discussion. Moderators are particularly important given that the business environment seems to be changing in important ways—that is, it is becoming more dynamic, knowledge intensive, and interdependent. As such, this article raises the question: Is an IST-based stakeholder management approach becoming a more or less viable means of achieving sustainable competitive advantage, given changes to the business environment?

In this article, rather than examining IST solely from the perspective of various programs and policies firms implement unilaterally that have either helpful or harmful effects on stakeholders (as much of the extant IST literature has done), we use relational theory to examine the nature of the two-way interactions that develop between managers and stakeholders. In so doing we draw on relational models (Bridoux & Stoelhorst, 2016; Fiske, 1992) and arm's-length versus embedded relationships (Uzzi, 1997). This approach answers a call from Jones: "Instead of examining company policies and specific actions, researchers should be examining the content and nature of the relationships themselves" (2011: 60).

A relational approach provides greater specification to the claim that the prescriptions of IST can lead to sustainable competitive advantage. At the core of these arguments is the idea that a firm's ethics (ground rules) for managing relations with stakeholders can lead to the development of a capability that can be a source of sustainable competitive advantage. Sustainable competitive advantage, in turn, can be defined as a firm's ability to persistently create more economic value than the marginal (breakeven) competitor in its product market (Peteraf & Barney, 2003). Specifically, we argue that a communal sharing relational ethics (CSRE) strategy, characterized by an intention to rely on relational contracts, joint wealth creation, high levels of mutual trust and cooperation, and communal sharing of property, can lead to what we call a "close relationship capability." A close relationship capability helps a firm cocreate more economic value with stakeholders. We also examine a close relationship capability's potential to be rare and difficult to imitate, thus explaining why such an approach can be a source of *sustainable* competitive advantage.

We provide a balanced perspective of a close relationship capability by examining incremental costs associated with developing and maintaining it. We explain further that the costs of developing this capability will vary, depending on the existing stakeholder culture of the firm (Jones, Felps, & Bigley, 2007). Thus, stakeholder culture serves as a firm-specific moderator that ultimately influences the value proposition (i.e., benefits less costs) associated with developing and maintaining a close relationship capability. In addition, we extend the limited research on moderators of the relationship between an IST-based stakeholder management approach and firm performance by

[1] Exceptions can be found in the theoretical work of Bridoux and Stoelhorst (2014, 2016) and in the empirical work of Garcia-Castro and Francouer (2016). We extend the former work by including more moderators, specifically moderators that are closely associated with pervasive environmental forces. The latter work does not directly speak to firm/stakeholder relationships.

explaining why dynamic, knowledge-intensive, and interdependent environments increase the potential benefits associated with a close relationship capability.

To preview the structure of the article, we first introduce the concept of relational ethics strategies, explain the CSRE strategy, and contrast it with the arm's-length relational ethics (ALRE) strategy. We argue that the desired outcome of a CSRE strategy is a close relationship capability. We then provide a succinct review of the IST literature as it relates to how a close relationship capability can provide incremental value, the first of the standard resource-based criteria. We also discuss the incremental costs of developing a close relationship capability through a CSRE strategy, noting that a capability is only valuable if the benefits associated with creating and maintaining it outweigh the costs. We argue also that these costs are less for firms that have an existing culture that is other-regarding. Having established the potential of a close relationship capability to provide incremental value, we examine three plausible contextual moderators. We then screen the close relationship capability using the other resource-based criteria of rarity and imitability. In the final section we discuss the implications of this more refined IST perspective for research and practice. Figure 1 contains a model of the proposed relationships among our primary constructs.[2]

To our knowledge, we are the first to rigorously apply the resource-based criteria to an evaluation of how the strategy of interacting ethically with stakeholders relates to the *sustainability* of competitive advantage. Doing so provides a stronger rationale for managers to adopt such a strategy in their own firms. It also helps us understand why the associated capability is rare, in spite of its apparent economic attractiveness. By identifying the factors that make such a strategy hard to imitate, we help clarify what firm managers must focus on if they are going to be successful in implementing it. Our ultimate ambition in this article, as with most IST, is to identify situations where managers could change their behaviors in ways that improve both firm profits and stakeholder welfare.

[2] The lines in Figure 1 associated with the resource-based criteria are dotted (and do not have arrows) because they are definitional features rather than causal variables.

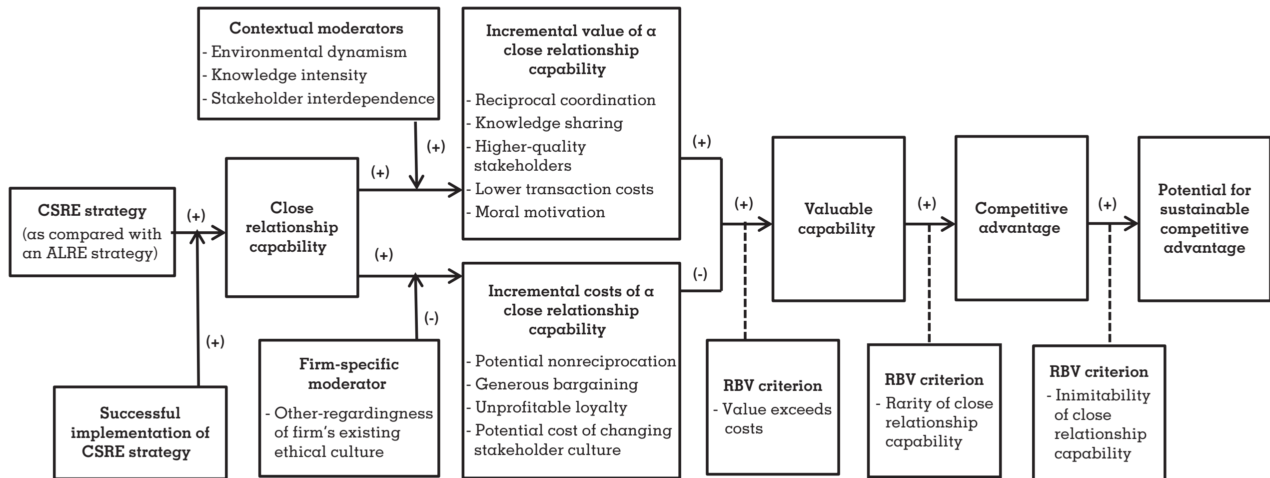
RELATIONAL ETHICS STRATEGIES

We frame our analysis in terms of a firm's *relational ethics strategy*.[3] Each word in this concept label deserves specification. First, as with any term used by the population at large, "relational" and "relationship" are used in many different ways (Reis, Collins, & Berscheid, 2000). Here we are using "relational" to refer to consensually held role expectations that emerge *during interactions between members* of a dyad (Hinde, 1997; Sluss, van Dick, & Thompson, 2011). The dyad we consider is the focal firm and a stakeholder group.[4] Second, the element of the relationship we focus on has to do with *ethics*. How we treat others is a core concept in ethics. Relational expectations can involve many very specific schema that have little to do with ethics (Baldwin, 1992)—for example, the place where interactions will occur. We are interested in the ethical elements of relationships. Third, *strategy* refers to the shared plans and initiatives of general managers, involving utilization of resources to achieve a firm's aims (Nag, Hambrick, & Chen, 2007). Specifically, the element of strategy in question is what kind of relational ethics to form with a stakeholder group. Importantly, the intended strategy may not be realized and may change over time. Indeed, relationships take time to mature, and how they develop depends on the actions of both dyad members (Bosse & Coughlan, 2016). As such, we use "strategy" to refer to the *preferred/intended* relational ethics that

[3] We use the term *ethics strategy* fully aware that some ethicists will regard this usage as self-contradictory. In this view, ethics employed instrumentally is not ethics at all. That is, authenticity and moral motives are essential to ethics. Here we regard a strategy as intended behavior, regardless of the motivation it is based on.

[4] Stakeholder relationships can be conceived of at different levels of abstraction (Bosse & Coughlan, 2016; Sluss & Ashforth, 2008): between individuals, between the firm and a specific stakeholder group, or between the firm and all stakeholders simultaneously. Low levels of abstraction—for example, relationships between specific individuals—are going to be more accurate predictors of individual behavior but are much more complex. High levels of abstraction—for example, relationships between the firm and all stakeholders simultaneously—seem analytically simpler but raise difficult methodological questions of how to empirically combine relationships across stakeholders and are likely to be less empirically predictive. We believe that, in trying to understand drivers of firm performance, the level of abstraction that is the most empirically and practically useful is that of the relationship between the firm and a stakeholder group. As such, that is the level of abstraction at which our theory is pitched.

FIGURE 1
Linking a CSRE Strategy to Sustainable Competitive Advantage



a firm seeks vis-à-vis a stakeholder, rather than the *realized* relational ethics.

Note that these three dimensions assume that members of a firm will be consistent in the way they treat a particular stakeholder group—that is, they will follow the relational ethics strategy. This position is consistent with Brickson (2007), who argued that firms interact with their stakeholders in consistent patterns. Specifically, our claim is that norms regarding relationships with stakeholder groups are communicated and reinforced by firm managers through words and actions and that they become ground rules for action. These norms are not merely the result of aggregating the values of employees within a firm. Firms are not democracies. Rather, particular managers, typically those highest in the governance hierarchy, have the greatest influence on the norms that are established (de Luque, Washburn, Waldman, & House, 2008; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). Relational ethics strategies are unlikely to be consistently applied unless general managers lead the effort. They can do so through the role modeling of appropriate stakeholder treatment; the decisions they make; the management structure they establish; the information they give priority; their communication in speeches, meetings, personal interactions, and written communications of many types; and the people they hire, reward, promote, and dismiss.

As in some other models of relational orientations (e.g., Cooper & Gardner, 1993), we focus on two very different types of relational ethics strategies: self-interested, market-oriented strategies based on ALRE and highly joint interest–oriented strategies based on CSRE.[5] We explain these two strategies as ideal types to facilitate a more focused comparison of their essential characteristics. However, it is important to recognize that these types are really points on a continuum, with some relational ethics strategies falling somewhere between the two and some falling outside of this range. The distribution of relationships along the arm's-length to communal sharing range of the continuum is an open empirical question. However, based on arguments presented below, we expect that a far greater number fall near the arm's-length point on the continuum.

ALRE

ALRE strategies can be defined as a shared intention among a firm's general managers to relate

[5] Semantic conventions among these models are varied, but the fundamental differences between the archetypes remain profound. Examples include relational versus transactional exchanges (MacNeil, 1974), relational versus explicit contracts (Baker, Gibbons, & Murphy, 2002), embedded versus arm's-length relationships (Uzzi, 1997), and communal versus exchange relationships (Mills & Clark, 1984). Also, while we focus on the arm's-length versus communal dimension of relationships, there are surely other dimensions—for example, whether the relationships are egalitarian versus hierarchical. These other dimensions represent attractive topics for future research.

to a stakeholder group based on the norms of arm's-length relationships. Arm's-length relationships form a sort of "baseline" economic theory examining economic exchanges in competitive markets (Powell, 1990; Uzzi, 1997). Firms and stakeholders that establish arm's-length relationships regularly switch exchange partners. Price data are the key determinants of exchange, and firms rely on switching cost barriers for repeated transactions.

There are a number of specific behavioral manifestations of an ALRE strategy. To begin with, the dominant exchange modes of ALRE strategies are discrete transactions or detailed, temporally bounded formal contracts, with little concern for future interactions, in the context of fair market competition. ALRE strategies involve bargaining with stakeholders at arm's length with the intent of maximizing the firm's interests. Power differentials and information asymmetries are exploited where present. While moral considerations do not enter into ALRE-based transactions or negotiations, participants are expected to comply with generally understood rules/norms of market interactions—what Hendry (2001) calls "market morality." This means that ALRE strategies are consistent with obeying the law and adhering to relevant regulations. Those in arm's-length relationships bargain in good faith and expect to honor the explicit terms of the resulting contracts, which are mostly written and formal. But disputes involving significant sums are typically resolved through legal mechanisms. While information asymmetries may be exploited, blatant deceit is generally avoided. An ALRE strategy would be consistent with Milton Friedman's argument that "the social responsibility of business is to increase its profits . . . without deception or fraud" (1970: 124).[6]

CSRE

CSRE strategies can be defined as a shared intention among a firm's general managers to develop a relationship with a stakeholder group based on the norms of communal sharing as they apply to economic relationships. These relational strategies include an assumed shared future, and they are associated with a number of specific behavioral manifestations.

To begin with, firms pursuing CSRE rely on relational contracting. Rather than being specific, explicit, and temporally bounded contracts, the promises involved in relational contracting are general, implicit, and open-ended commitments to cooperate voluntarily and generously with partners in joint wealth creation efforts. CSRE strategies keep the prospect of a continuing relationship firmly in mind, relying on mutual trust and trustworthiness to maintain reciprocal loyalty. Because the terms of these contracts are invariably unclear and nearly impossible to enforce, they are "sustained by the shadow of the future" and/or internal moral constraints, rather than third-party enforcement (Gibbons & Henderson, 2012: 1350). Formal contracts, when they are necessary, are often left purposefully indefinite to allow "wiggle room" to make things fair (Scott, 2003). If problems emerge—for instance, because of changes in economic conditions or regulatory environments—they are settled in a cooperative manner (e.g., by seeking equitable solutions rather than establishing blame). Under these circumstances, two objectives are paramount: resolving the problem at hand and maintaining the integrity of the relationship. As such, litigation is seen as a last resort and is employed only under dire circumstances because it would signal the end of the CSRE strategy. Trusting behaviors reflect a desire to cooperate extensively for mutual gain.

CSRE strategies involve willingness to share property (especially intellectual property) without regard for either its proprietary value or its potential appropriation by relationship partners. Information asymmetries will not be exploited and, since information relevant to the success of the joint effort is voluntarily shared, may cease to exist. Negotiations between the firm and its stakeholders seek to satisfy both side's needs.

In sum, a CSRE strategy manifests in the behaviors of keeping promises, relying on relational contracts, refraining from taking advantage of power imbalances or information asymmetries, willingly sharing relevant information, treating property as a communal resource, making voluntary contributions to joint efforts, and addressing

[6] We must acknowledge that not all firms engaging in arm's-length relationships adhere to these standards. Some firms may embrace a strategy of regularly acting unethically toward stakeholders and use deceit, fraud, threats of violence, and corruption to accomplish strategic aims (Greve et al., 2010). However, such strategies appear to be relatively rare and unsustainable in the long run (Sullivan, Haunschild, & Page, 2007), even in transitional economies where the rule of law is weak (Zheng, Luo, & Wang, 2014). As such, patently unethical strategies are outside the scope of our analysis.

emerging problems and settling disputes in a cooperative manner. A CSRE strategy is consistent with, *but a substantial extension of*, some existing formulations of IST, which tend to focus on mutual trust, cooperation, and justice (Harrison et al., 2010; Jones, 1995). Importantly, while we submit that firms with CSRE strategies are rare, behaviors consistent with a CSRE strategy do exist, as is made clear in a number of case studies (e.g., Browning, Beyer, & Shetler, 1995; Doz, 1996; Larson, 1992; Uzzi, 1997). More specifically, Browning et al. described the development of a "moral community in which individuals and firms made contributions to the industry without regard for immediate and specific payback" in the semiconductor industry's manufacturing technology consortium SEMATECH (1995: 113). Similarly, Doz (1996) noted that GE and Snecma's (successful) joint jet engine program featured substantial trust and cooperation. In another well-known example, the Japanese auto industry is characterized by strategies compatible with close relationships, as opposed to manifestations of arm's-length relationships, such as explicit contracts (Nishiguchi, 1994; Ouchi & Jaeger, 1978).

CSRE TO CLOSE RELATIONSHIP CAPABILITY TO SUSTAINABLE COMPETITIVE ADVANTAGE

Firms that successfully implement a CSRE strategy are assumed to have the ability to create a communal sharing relationship with a stakeholder. This close relationship capability is the ability to convince members of the stakeholder group to treat the firm as a close relation. Treating the firm as a close relation (Reis et al., 2000) is synonymous with having a commitment bond—that is, "a volitional psychological bond reflecting dedication to and responsibility for a particular target" (Bosse & Coughlan, 2016: 1207)—or adopting a communal sharing relational model vis-à-vis the firm (Bridoux & Stoelhorst, 2016; Fiske, 1992).

Of course, successfully implementing a CSRE strategy can be quite demanding, requiring both skill and effort on the part of managers. Therefore, close relationship capabilities are both rare and difficult to imitate, as well as valuable (as described in detail below). Nonetheless, managers have several "tools" at their disposal to pursue successful implementation. As described above, these tools include role-modeling behavior, the substance of decisions and the priorities revealed in those decisions, the establishment of compatible management structures, informational priorities, written and verbal communications in various venues and forms, and personal interactions, as well as hiring, firing, rewarding, and promoting decisions. Therefore, according to the resource-based view (RBV) of the firm, if a close relationship capability can be shown to be valuable, rare, and difficult to imitate, it becomes a potential source of sustainable competitive advantage. We devote much of the remainder of this section to demonstrating that these criteria are met.

The Value of a Close Relationship Capability

Here we review arguments found in the IST and related bodies of literature that are most closely linked to the idea that a close relationship capability can provide benefits not available to firms that do not possess such a capability. Building on prior work, we argue that additional economic value is created in a firm with a close relationship capability as stakeholders are motivated to contribute more to joint value creation and, importantly, as value creation processes become more effective. Our definition of value as economic value is consistent with the RBV literature (Peteraf & Barney, 2003), but we do not claim that the value we describe will be directly correlated with financial profits or shareholder returns. As Coff (1999) made clear, the profits of a business will not reflect the true value it creates if too much of that value is siphoned off by stakeholders with strong bargaining power. Or, in the case of a firm pursuing a CSRE strategy, much of the incremental value could be distributed back to stakeholders during the course of business such that bottom-line profitability may not reflect all of the additional value created. We do claim, however, that additional value will be available to participants in the joint value creation efforts of firms that enjoy the benefits of a close relationship capability (cf. Tantalo & Priem, 2016) and that, according to the norms of communal sharing, the additional value should be distributed fairly.[7] This value comes from improved reciprocal

[7] Given that the partners are expected to distribute the costs and benefits of the joint effort fairly, the probability that the focal firm will end up with an unfairly small share is low, and the probability that it will end up with none of the incremental value seems miniscule.

coordination, knowledge sharing, attracting high-quality stakeholders, lower transaction costs, and greater moral motivation.

We should state from the outset that each of these sources of value requires particular behaviors on the part of the firm that are similar to what it expects from stakeholders. For example, reciprocal coordination is a cooperative two-way process, so a firm that expects its stakeholders to share valuable knowledge should share valuable knowledge with its stakeholders. In a sense, then, the incremental sources of value we are about to explain also contain an implied set of behaviors for firms that pursue a CSRE strategy. We should note also that these behaviors are entirely consistent with a reliance on relational contracts and property sharing.

Improved reciprocal coordination. Management scholars dating back to Barnard (1938) and Thompson (1967) have regarded coordination as essential to organizational success. Thompson (1967) described three modes of coordination. Reciprocal coordination, where needed contributions depend on the nature and extent of previous contributions and mutual adjustment is required, is most relevant to communal sharing relationships. Communal sharing relationships function without elaborate plans, rules, or contracts (Bridoux & Stoelhorst, 2016). Indeed, plans, rules, and contracts are poor substitutes for mutual adjustment when tasks involve reciprocal interdependence (Barki & Pinsonneault, 2005). In such highly interdependent tasks, reciprocal coordination enables the creation of higher-quality products/services at quicker speeds (Larson, 1992; Uzzi, 1997). In short, a close relationship capability is potentially valuable because it allows firms to engage in reciprocal coordination more efficiently, resulting in better products and services and more rapid adaptation to changing conditions.

Knowledge sharing. A number of scholars have emphasized the importance of ethical norms and "relationship quality" on the effective utilization and dissemination of knowledge between parties (Hosmer, 1994; Larson, 1992; Su, 2014; Uzzi, 1997). The importance of knowledge as a source of competitive advantage has long been appreciated (Cohen & Levinthal, 1990). Firms engaged in joint efforts often share knowledge and benefit from knowledge received from stakeholders. Although much knowledge is generated and stored by employees (Argote, 1999), learning from other stakeholders is also important for competitive success (Harrison et al., 2010; von Hippel, 1988).

Knowledge has at least three attributes that distinguish it from other forms of property (e.g., manufacturing equipment, real estate), and each is relevant to the close relationship capability employed to make use of it (Dosi, Malerba, Ramello, & Silva, 2006). First, knowledge is appropriable; once disclosed, others can use it free of charge.[8] Second, knowledge may be useful only when combined with other capabilities, such as knowledge from other stakeholders, and the value of both the combination and the contributions of individual partners are unknown a priori. Third, much knowledge is tacit and cannot easily be transferred formally from one partner to another (Nelson & Winter, 1982). In some situations the value of formally transferred knowledge is reduced substantially without the concomitant transfer of tacit knowledge. Full-value knowledge transfers often involve ongoing and close interactions between the transferor and the transferee. A close relationship capability involves shared perspectives and shared vocabularies that are necessary for the transmission of subtle forms of tacit knowledge (Larson, 1992; von Hippel, 1988). In a mixed-methods empirical study, Uzzi (1997) found that "embedded" relationships were characterized by high-quality (i.e., detailed, tacit, and holistic) information exchanges. In sharp contrast, a firm having an arm's-length relationship with a stakeholder is likely to be unaware of useful tacit knowledge because there is more psychological distance and less trust in the relationship. In sum, a close relationship capability has the benefit of facilitating high-quality knowledge sharing between a firm and a stakeholder group.

Attracting high-quality stakeholders. Because the joint value creation processes that are the focus of this article may only be as strong as the weakest partner involved, attracting "high-quality" stakeholders is of considerable importance. There are a couple of reasons that a close relationship capability is likely to be attractive to high-quality stakeholders. First, stakeholders may be attracted to these firms because they feel as though they are participating in something

[8] Of course, patent law provides some protection against this sort of appropriation. However, many ideas are not patentable, and many others are not worth the time and trouble. In any case, litigation is expensive.

"larger than themselves"—an opportunity not readily available if firms rely exclusively on market-based, arm's-length transactions to manage relations with stakeholders (Turban & Greening, 1997; Valentine, Godkin, Fleischman, Kidwell, & Page, 2011).

Second, because communal sharing relationships tend to create more value than other relational forms (Bridoux & Stoelhorst, 2016), and because that value is expected to be distributed fairly among participants, firms with a close relationship capability may be able to attract stakeholders with more valuable portfolios of attributes (Tantalo & Priem, 2016). One of the most important of these attributes is the ability to adhere to the relational norms that lead to greater wealth creation. That is, for firms pursuing a CSRE strategy, the "quality" of a stakeholder depends, in part, on whether the stakeholder is willing and able to adhere to the norms of close relationships. Such stakeholders can be expected to openly and voluntarily contribute to the joint wealth creation effort of the focal firm in conjunction with other relevant stakeholders. This attribute is a necessary (but not sufficient) condition for stakeholder superiority, because without it the stakeholder becomes an inappropriate partner for a communal sharing relationship. Of course, the resources and skills the stakeholder brings to the joint value creation process are also important.

Lower transaction costs. Jones (1995) described the transaction cost advantages associated with a relationship capability based on mutual trust and cooperation—advantages that would certainly apply to a firm with a close relationship capability. The basic idea is that an atmosphere of trust and an absence of opportunistic behavior make frequently renegotiated, detailed, formal contracts with elaborate safeguards unnecessary (see also Barney & Hansen, 1994). Furthermore, since incidents of breach of implicit contracts will be infrequent and will tend to be settled amicably among the parties, expensive legal costs can be avoided (Kessler & Leider, 2011; Scott, 2003).

Greater moral motivation. Another benefit of a close relationship capability is that it can motivate loyalty to or additional effort expended on behalf of the firm (Hosmer, 1994). Many stakeholders will exert effort to help the firm as a going concern if they have a commitment bond with the firm (Bosse & Coughlan, 2016). Conversely, many stakeholders will go out of their way, and sometimes go against their own self-interest, to punish firms that have treated them unfairly (Fehr & Schmidt, 2006; Hayibor, 2017). This may involve lawsuits, boycotts, strikes, spreading negative sentiment, or simple refusal to transact with a company with which one has a poor relationship.

Another manifestation of moral motivation is lower team production problems. Team production problems can emerge when the contributions of individual members to a joint effort are difficult to isolate. Such situations give individual members an incentive to "shirk" or "free ride" on the contributions of others and could arise in firm/stakeholder relationships such as alliances and joint ventures. While Jones (1995) argued that mutual trust and cooperation are ways to reduce team production costs, the norms associated with communal sharing relationships could eliminate them entirely (Wagner, 1995).

In sum, a close relationship capability has the potential to lead to higher levels of joint value creation because of more efficient reciprocal coordination, knowledge sharing advantages, the ability to attract higher-quality stakeholders, reduced transaction costs, and greater moral motivation. We now consider incremental costs associated with developing and maintaining a close relationship capability through a CSRE strategy.

Incremental Costs of Developing and Maintaining a Close Relationship Capability

Similar to most of the IST literature, the foregoing discussion largely extolled the unique benefits of a close relationship capability. However, the CSRE strategy used to develop and maintain a close relationship capability may entail costs that a firm relying on arm's-length relations can avoid. Of course, the relevant value of a close relationship capability is its net value—benefits less incremental costs. We now describe three types of incremental costs particular to the development and maintenance of a close relationship capability, with a fourth type of cost described in the next section.

Potential nonreciprocation. Among the most important of these costs is the possibility that a stakeholder will not abide by the norms of communal sharing despite the firm's generous sharing of resources—for example, time, effort, and (proprietary) knowledge—that may have

great value (Bridoux & Stoelhorst, 2014). This could occur as a failure of the intended relationship to emerge at all with a particular stakeholder, or it could occur as a breakdown of an existing close relationship with a stakeholder. A related cost is the risk that a stakeholder may exploit the firm because of the limited use of formal protective contracts. An associated cost is the additional resources devoted to searching for suitable stakeholders to engage with, or developing a stakeholder relationship to the point where they are willing to reciprocate. Just as few firms actually follow a CSRE strategy to the point that they fully develop a close relationship capability, stakeholders willing to abide by the norms of CSRE may also be rare.

Overly generous bargaining. Another incremental cost of the CSRE strategy could be an overly generous allocation of jointly created value back to one or more of the stakeholders who helped create it (Harrison & Bosse, 2013; Harrison et al., 2010). Arm's-length relationships require only the contractually agreed upon allocation of value based on self-interested bargaining, providing an opportunity for a firm to extract large amounts of value from a relationship based on aggressive bargaining tactics, power imbalances, or favorable information asymmetries (Coff, 1999). In contrast, substantially unfair distributions of created value are unlikely in a communal sharing relationship; neither of the parties will engage in aggressive value appropriation based on advantageous circumstances. In sum, firms pursuing a CSRE strategy could get a smaller slice of a larger pie.

Unprofitable loyalty. Finally, a firm that adopts CSRE will tend to be loyal to a stakeholder it has developed a communal sharing relationship with, even if that stakeholder ceases to provide adequate value to the joint value creation process (Uzzi, 1997). A firm might continue the relationship because of the values it has adopted in consequence of its CSRE strategy but also because ending a relationship could send a negative signal to other stakeholders about the firm's commitment to communal sharing values, thus weakening its close relationship capability. Irrespective of reason, such unprofitable loyalty could prevent the firm from engaging new stakeholders with more valuable capabilities.

This description of potential costs raises the question: Under what circumstances will the benefits of a close relationship capability outweigh the costs of pursuing it through a CSRE strategy—that is, when will a close relationship capability lead to sustainable competitive advantage? Our approach to understanding these benefit/cost balances is to identify the contexts in which a close relationship capability is likely to have the greatest net value (i.e., benefits minus costs). We begin by explaining the probable influence of a firm's existing ethical culture on the costs associated with implementing a CSRE strategy in managing relations with a stakeholder group.

Other-Regardingness of a Firm's Ethical Culture

In this section we contend that firms differ in how costly it is for them to develop a close relationship capability with a stakeholder group through a CSRE strategy. In addition to the costs mentioned in the previous section, we introduce a fourth category—the costs associated with adjusting a firm's culture such that it is supportive of a CSRE strategy. Without this support, the CSRE strategy would likely fail to produce a close relationship capability. In particular, we predict that it will be less costly for a firm to develop a close relationship capability with a stakeholder group if the firm already has an ethical culture consistent with such a relational model.

There are several different ways of describing a firm's ethical culture (for a good review see Mayer, 2014), but the version that seems most relevant here is stakeholder cultures, developed by Jones and colleagues (2007). These authors posit a continuum of ethical orientations toward stakeholders, ranging from completely self-regarding to completely other-regarding. They identify "ideal types" along this continuum—consisting of (1) agency cultures, (2) corporate egoist cultures, (3) instrumentalist cultures, and (4) moralist cultures[9]—in order of an increasingly other-regarding (as opposed to self-regarding) focus. We propose that the further a firm's stakeholder culture is from the moralist/other-regarding end of the continuum, the more expensive it will be to effectively develop a close relationship

[9] Jones and colleagues also mention the logical possibility of an altruist stakeholder culture, which tries "to maximize the other party's outcome with less concern for their own" (2007: 140). The authors acknowledge that "*altruist* cultures are included for the sake of completeness" (2007: 149) and that "as a practical matter, conditions of economic competition make significant growth or proliferation of [altruist] companies improbable" (2007: 150). Given that such cultures are likely to be exceedingly rare in a market economy, we do not consider them further here.

capability with a stakeholder group through a CSRE strategy. This is because it would take a large amount of management time and other resources to (a) develop a close relationship capability with a stakeholder group that is in contradiction to the firm's overall ethical culture or (b) change the firm's overall ethical culture to be consistent with a close relationship capability.

To elaborate, let us briefly consider each of the ideal types along the continuum. First, the costs of a developing and maintaining a close relationship capability through a CSRE strategy will be lowest for *moralist cultures*, which attempt to adhere to moral principles in their relationships with all of their stakeholders. Developing a close relationship capability based around relational contracts, joint wealth creation, cooperation, and communal sharing of property should be comparatively easy for a firm with a moralist culture.

Second, the costs of pursuing a close relationship capability through a CSRE strategy will be somewhat higher for *instrumentalist cultures*, which ultimately care only about profit (or shareholder wealth) maximization but recognize that is it often important to appear moral when interacting with stakeholders. In other words, they are inauthentic moralist firms. However, a good deal of scholarship suggests that stakeholders can detect ethical authenticity and that this awareness can translate into value-adding (or -destroying) behavior (Cording, Harrison, Hoskisson, & Jonsen, 2014; Jones, 1995; Schultz, Hatch, & Larsen, 2000). As such, instrumentally ethical firms will have a harder time than moralist firms convincing a stakeholder that they will conform to the norms of a close relationship. They will have to allocate more resources to ensuring that members of their own firm both understand and conform to these norms to a sufficient degree that the stakeholder is convinced and to making sure that the norms are not violated so that the benefits of a close relationship are fully realized. In terms of the specific costs described previously, they will be higher because there is a higher probability that the stakeholder will not abide by the norms of communal sharing, in spite of the firm's efforts to establish such a relationship. If the stakeholder does not conform, then additional value will not be created.

Third, the costs of developing a close relationship capability through a CSRE strategy will be higher still for *corporate egoist cultures*, which focus on short-term maximization of profits (or shareholder wealth), aggressively contracting (at arm's length) with their stakeholders to keep costs down in order to compete successfully in their product or service markets. The stance of a corporate egoist culture is clearly in contradiction to the norms of close relationships. Successfully enacting a close relationship with a particular stakeholder group while having a larger ethical culture opposed to such a strategy will be expensive and likely to fail.

Fourth, we contend that the costs of developing a close relationship capability through a CSRE strategy are highest for *agency cultures*, characterized by self-interest at the individual level such that the interests of the firm itself are advanced only to the extent that internal incentives link personal and corporate goals. The gap between agency cultures and a close relationship capability can only be described as enormous, as will be the costs and the amount of time it will take to bridge the gap. Therefore, the net value (and the resulting sustainable competitive advantage) of pursuing a close relationship capability with a stakeholder group will be smallest for firms starting out with agency cultures.

MODERATORS OF THE VALUE OF A CLOSE RELATIONSHIP CAPABILITY

It is possible that while a CSRE strategy (and the resulting close relationship capability) will add value in some contexts, it could be less effective than an ALRE strategy in other contexts. We have already explained why the degree of other-regardingness found in a firm's existing ethical culture is a firm-specific moderator influencing the incremental costs of developing a close relationship capability through the CSRE strategy. Here we evaluate environmental dynamism, knowledge intensity, and task and outcome interdependence as key elements in determining the extent to which a close relationship capability is more valuable. We focus on these three moderators because they collectively represent increasingly important elements of the twenty-first-century economy (Dicken, 2011; Powell & Snellman, 2004). Indeed, these three moderators are interrelated.

Many firms have changed dramatically as they have attempted to cope with *environmental dynamism* (Dess & Beard, 1984), the term used to describe rapid and pervasive environmental change. One of the most influential forms of dynamism has resulted from the rapid advancement of information technology, which has put a premium on the creation and dissemination of

knowledge (Powell & Snellman, 2004). To cope with—and as a result of—dynamism and the "knowledge economy," firms have become much more *interdependent* (Dicken, 2011). Because the strength of these general forces is likely to vary from industry to industry, we will now evaluate their potential as moderators of the relationship between a firm's close relationship capability and sustainable competitive advantage.

Environmental Dynamism

Dynamic, "high-velocity" industries (e.g., software development, innovative electronics, health care, some segments of the fashion industry) require constant adaptation to new competitive, technological, and regulatory conditions (Dess & Beard, 1984). A firm with a close relationship capability is in a stronger position to create value in a dynamic context (Joshi & Campbell, 2003). A close relationship capability should facilitate the required rapid transfer of information. The skills associated with reciprocal coordination will also be helpful in organizing activities in dynamic environments. In addition, in an environment that is changing rapidly, written contracts associated with arm's-length relationships will quickly become outdated, requiring frequent adjustments and increasing the possibility of opportunistic behavior. This can be expected to lead to time delays. In addition, partners continually involved in rewriting contracts will experience increased transaction costs. In this situation transaction costs associated with a CSRE strategy are likely to be lower than those associated with an ALRE strategy (Joshi & Campbell, 2003).

Knowledge Intensity

The kind of adaptation needed to thrive in knowledge-intensive industries (e.g., high-tech industries, pharmaceuticals, health care) requires the transfer of information among stakeholders (Harrison & Thompson, 2015). Not all firm/stakeholder relationships are dependent on extensive knowledge sharing. Knowledge intensity can be defined "as the extent to which a firm depends on the knowledge inherent in its activities and outputs as a source of competitive advantage" (Autio, Sapienza, & Almeida, 2000: 913). On the one hand, knowledge-intensive businesses rely on knowledge creation and transfer as a primary means of generating value. Firms that depend on knowledge intensity are more likely to rely on the knowledge sharing skills associated with a close relationship capability. Also, because knowledge is such an appropriable resource (Dosi et al., 2006), firms must be able to trust that a stakeholder will not act opportunistically when provided with proprietary or especially valuable knowledge. Thus, a close relationship capability is expected to be particularly valuable in knowledge-intensive environments. On the other hand, if knowledge is not particularly critical to a firm's strategy and competitiveness, as in low-tech businesses, an arm's-length relationship may be more efficient.

Task and Outcome Interdependence

Bridoux and Stoelhorst (2016) have suggested that communal sharing relationships are particularly efficient in environments with high task and outcome *inter*dependence. Comparing these sorts of conditions with conditions in which there is high task and outcome *in*dependence can help to substantiate their claim. Task and outcome independence is found in industries where firms produce products in-house, through simple production processes, or with simple inputs from relatively few stakeholders (e.g., commodities, fast foods, standardized components such as nuts and bolts). In these environments the additional costs associated with a CSRE strategy are less likely to be offset by the incremental value created from possession of a close relationship capability. In fact, there are likely to be economic advantages to aggressive bargaining in order to obtain the lowest market prices available for required inputs.

The situation is reversed in industries with long and complicated value chains where the norm is for multiple stakeholders to participate in supplying pieces of the final product (e.g., aerospace, automobiles, health care). Because complex products or production processes require inputs from multiple stakeholders, some of them deeply involved in the design and production of the product involved, complex coordination will be required. These processes will benefit greatly from the advantages in reciprocal coordination possessed by firms with a close relationship capability. In an empirical study of the fashion industry, Uzzi (1997) documented the value of reciprocal coordination in

highly interdependent tasks (see also Larson, 1992).

In addition, because transaction costs are likely to be higher where tasks and outcomes are *inter*dependent, reducing them through the trust-based governing mechanisms of a close relationship capability can be quite valuable, thus increasing the potential for sustainable competitive advantage. Firms with a close relationship capability are able to engage in efficient relational contracting (rather than expensive formal written contracting) and dispute resolution through cooperatives means (rather than expensive litigation). Furthermore, because relevant information and partner effort are contributed voluntarily, negotiations over who contributes what are dramatically reduced. In short, the efficiencies associated with transaction costs, along with those related to reciprocal coordination, make a close relationship capability particularly valuable in contexts of task and outcome interdependence. Finally, task and outcome interdependence, accompanied by greater coordination requirements and transaction costs, is likely to increase with the number of stakeholders involved in the joint wealth creation effort.

The RBV's Standards for Sustainable Competitive Advantage

We have now reviewed the circumstances in which the benefits of a close relationship capability are likely to be highest relative to the incremental costs of the CSRE strategy used to develop and maintain it. In so doing we have addressed the "valuable" criterion of the RBV of the firm (Barney, 2011; Barney & Wright, 1998). In this section we develop the argument that a close relationship capability also holds the potential to achieve a *sustainable* competitive advantage. As pointed out by the RBV, a capability is only likely to lead to superior firm performance in the long run if (a) few other firms have the capability—that is, it is *rare*—and (b) it would be very difficult and expensive to copy—that is, it is *inimitable* (Barney & Clark, 2007; Barney & Wright, 1998).[10] Otherwise, other firms will just develop the capability and compete away any superior returns. We now consider why it is plausible that a close relationship capability may be rare despite being valuable.

A close relationship capability is rare. A close relationship capability is likely to be rare for a variety of reasons, and these reasons tend to fall into the three categories described by Chen (1996): (1) not being aware of the benefits, (2) not having the proper motivation to pursue the requisite strategy, or (3) being unable to implement the requisite strategy successfully. We consider each in turn.

First, for the most part, business education and the existing norms of the economic system have stressed the pursuit of organizational self-interest as the best means of achieving corporate goals (Ferraro, Pfeffer, & Sutton, 2005; Ghoshal, 2005; Mintzberg et al., 2002; Podolny, 2009). As a result, arm's-length transactions tend to be the default position with regard to how firms manage relationships with their stakeholders (Bridoux & Stoelhorst, 2016). If managers are to move away from this default position, deliberate efforts must be made to establish and reinforce the idea that the values and behaviors associated with a CSRE strategy are valid and desirable. However, managers may not be *aware* of the potential gains available to their firms if they are able to develop a close relationship capability. Managers may push back at the notion of communal sharing in favor of what is sometimes called "market morality" (Hendry, 2004), thinking that pursuing joint interests leads to inferior economic outcomes for the firm. A related point is that managers may believe that focusing on maximizing shareholder wealth is *morally* required (Jones et al., 2007), particularly since some influential thinkers have advanced this position (for a review see Stout, 2012).

Second, several factors can reduce the *motivation* of managers to adopt CSRE norms in pursuit of a close relationship capability. For instance, many managers are subject to incentives—for example, performance bonuses based on profit targets—that direct their attention to short-term goals. Indeed, the nature of incentives is that they typically need to provide timely rewards for behavior that is tied to concrete outcomes (Aguinis, Joo, & Gottfredson, 2013). Given the causal ambiguity and social complexity surrounding the relationship between morality and financial outcomes, it is difficult to design incentives that effectively and precisely reward ethical behavior.

[10] In early versions of the RBV, there was another criterion for a resource to be a plausible source of sustained competitive advantage: *nonsubstitutability* (Barney, 1991). However, nonsubstitutability can be folded into the *valuable* criterion—that is, if there are no good substitutes for a resource, it is more valuable. As such, more recent incarnations of the RBV do not break out nonsubstitutability as a separate criterion (Barney & Clark, 2007; Barney & Wright, 1998).

Since developing communal sharing relationships is likely to be a long-term endeavor with indeterminate outcomes, many unincentivized managers may be reluctant to make the attempt. In addition, revealing valuable proprietary information to a stakeholder partner without substantial safeguards can be seen as naive by peers and can be quite costly if the partner proves untrustworthy. Psychologically and economically "safe" strategies may be much more appealing to many managers. Even managers willing to look beyond their short-term self-interest may be discouraged by a realistic view of the difficulty of successful adoption.

Third, relatively few firms will be *able* to implement a CSRE strategy successfully, thus finding it difficult or impossible to develop a close relationship capability. The ambitious behavioral standards of CSRE are difficult to achieve and sustain, particularly since approximately half of all individuals begin with social dispositions that are either self-regarding and individualistic—38 percent—or competitive—12 percent (Au & Kwong, 2004; Bridoux & Stoelhorst, 2016). Existing relational ethics norms within the firm may be far removed from those of the CSRE strategy (as we discussed in our section on costs of CSRE strategies) or may be unclear or inconsistent. In addition, communal norms are often more fragile than arm's-length norms (Chatman & Barsade, 1995) and are vulnerable to perceived self-interested behavior or breaches of trust (Bridoux & Stoelhorst, 2016; Lewicki & Bunker, 1995). The unsuccessful clearing of these hurdles, and the high costs of doing so, can lead to a reversion to market pricing relationships (Bridoux & Stoelhorst, 2016) and arm's-length strategies.

Furthermore, suitable stakeholder partners may be difficult to find. Such stakeholders must (1) have the requisite capabilities to complement the focal firm in their joint value creation effort, (2) clear the formidable CSRE hurdles outlined above, and (3) want to engage in such a relationship. Indeed, many potential stakeholders may be conditioned to expect self-interested behavior in any economic context (Ferraro et al., 2005) and may be unwilling to trust that the focal firm is actually benevolent. These fixed beliefs in self-interest can be self-fulfilling such that it becomes possible to interact only with such parties on a transactional basis (Ferraro et al., 2005; Miller, 1999). For these reasons, we conclude that a close relationship capability will be rare and, thus, may be a source of competitive advantage.

A close relationship capability is difficult to imitate. The primary benefit of a close relationship capability—improved joint value creation through more valuable information exchanges and better coordinated activities—may be attractive to firms that are currently pursuing an ALRE strategy. The question, then, is how difficult it would be to imitate the CSRE strategy and successfully develop the associated close relationship capability. Imitability is related to path dependence (the manner in which firm's resources develop over time), causal ambiguity (difficulties in determining the sources of a firm's competitive strengths), and social complexity (difficulties in replicating complex social phenomena; Barney, 1991, 2011). A firm's close relationship capability is likely to be difficult to imitate because it is highly dependent on the manner in which the firm's relationships with stakeholders have evolved over time (path dependence)—in some cases, considerable time. In addition, since relationship quality is opaque to outsiders, other firms are unlikely to understand the extent to which the firm's sustainable competitive advantage is related to its close relationship capability (causal ambiguity). Moreover, communal sharing relationships are more socially complex than arm's-length relationships. Thus, according to the three well-accepted criteria for inimitability, a close relationship capability will be difficult to imitate. Because it is rare and difficult to imitate, we conclude that a close relationship capability, in contexts where the benefits exceed the costs, has the potential to lead to a sustainable competitive advantage.

DISCUSSION

In this article we set out to provide some answers to a question that should be quite important to IST researchers but, to date, has drawn scant attention. Simply put, if the ethical prescriptions of IST research are valuable, as theory and empirical studies indicate they are, why are these measures not the dominant mode of firm/stakeholder relationships? This article addresses this question by arguing that extant IST research has three significant shortcomings that limit its usefulness to scholars and corporate managers. First, virtually all IST-based studies

make and defend claims that certain ethical practices are valuable, but very few show them to be rare or difficult to imitate—the other two criteria for sustainable competitive advantage according to the RBV. How can a practice yield sustainable competitive advantage if many firms are employing it or if firms can easily adopt it? Second, while the benefits of certain ethical practices have been well documented, the costs of adopting them have been given scant attention. How can a practice be deemed valuable if the costs of adopting it exceed the benefits it yields? Third, few theoretical or empirical efforts have considered the competitive context in which a firm operates as relevant to IST-predicted performance outcomes. Are the benefits of ethical practices the same for firms that produce simple commodities—for example, nuts and bolts or copier paper—as for firms producing cell phones or complicated medical equipment?

In this article we examined how and under what circumstances a stakeholder management strategy, based on a refined set of ethical norms associated with IST, is likely to lead to *sustainable* competitive advantage. In so doing the article fills a void in the extant IST literature. Specifically, to summarize the argument: (1) Successfully adopting a relational ethics strategy consistent with communal sharing relationships (a CSRE strategy) results in a close relationship capability. (2) A close relationship capability has a number of benefits, including improved reciprocal coordination, better knowledge sharing, attraction of higher-quality stakeholders, lower transaction costs, and greater moral motivation, and therefore is potentially valuable. (3) A CSRE strategy—and, by extension, a close relationship capability—also has some costs, including the risks of generous resource sharing being exploited (nonreciprocation), unnecessarily generous allocation of jointly created value, and unprofitable loyalty. (4) The costs of enacting a CSRE strategy are especially high when the firm's overall ethical culture is more self-regarding than other-regarding. (5) The benefits—and, by extension, the net value—of a close relationship capability will be greater under certain circumstances, specifically under conditions of environmental dynamism, knowledge intensity, and reciprocal interdependence with stakeholders. (6) Even under conditions where the benefits outweigh the costs, a close relationship capability will be rare. And (7) it will be difficult to imitate, so (8) there are conditions under which a close relationship capability is likely to be a source of sustainable competitive advantage.

Extending the Theory

While the establishment of a close relationship capability as a *potential* source of sustainable competitive advantage fulfills the requirements of the RBV, this capability is only an interim goal for firms in a competitive market economy. Superior profitability is the ultimate goal. Therefore, as a minor extension of our theory, we suggest some potential directions for development of a theoretical link between a close relationship capability and actual sustainable competitive advantage. We assume that stakeholders, existing and potential, will be attracted to a communal sharing relationship within which they can co-create value with the focal firm. This is certainly not a heroic assumption because such relationships have real incremental value, as argued by Bridoux and Stoelhorst (2016) and substantially expanded on in this article. The details of how this assumption can be developed into credible theory will likely involve such questions as the following. How can the firm convey a willingness and capability to engage in communal sharing relationships? What sorts of stakeholders will be attracted to a potential communal sharing relationship? How will firms select stakeholders with appropriate attributes? (An analysis of the role of reputations will likely be useful here.) Can firms convert existing arm's-length relationships into communal sharing relationships? If so, how? Are such conversions likely to be more or less difficult than establishing new relationships? Scholars wishing to extend the theory will have to deal with these questions, among others.

Understanding the Influence of Costs and Context

We believe our model is the first to identify a range of costs specific to close relationships. Of particular interest for future research, we suggest that close relationships may lead to unprofitable loyalty (e.g., not laying off workers when there are other laborers, perhaps in other countries, who could do the same quality job for less money; sticking with a supplier even when another supplier offers a similar product at a lower price). Future research identifying these costs' frequency, scope, and conditions of occurrence

would help us to understand whether and when a close relationship capability will be valuable.

Another interesting research question emerges from our evaluation of the costs of pursuing a CSRE strategy vis-à-vis a particular stakeholder group when the firm's overall ethical culture promotes contradictory norms. One of the key empirical questions that emerges is whether it is possible for a firm with a firmly entrenched relational ethics strategy based on an agency or corporate egoist culture to successfully adopt a CSRE strategy and, thus, develop a close relationship capability with a stakeholder. We would predict that a moral crisis of some magnitude would be required, and possibly a change in leadership. Perhaps one strategy that could help with such a transition would be to adopt a CSRE strategy on a small scale first, with one or a few stakeholders or in only one division of a larger company. If the effort is successful, it could create an impetus for changes with other stakeholders or other parts of the firm.

Almost all of the IST research is based on the (often unstated) assumption that an IST-based strategy is good for all firms in all situations. Very recently, scholars have begun to explore potential moderating influences (Bridoux & Stoelhorst, 2014, 2016; Garcia-Castro & Francoeur, 2016). We extend this work here, thus offering a theoretical foundation that other researchers can build on. Each of the three contextual moderators represents a potential research proposition that can be tested in future research. The environmental moderators of dynamism, knowledge intensity, and interdependence with stakeholders are especially important because they are increasing in pervasiveness. Freeman argued in the early pages of his classic book (*Strategic Management: A Stakeholder Approach,* 1984) that a stakeholder approach to management is an effective way to deal with a tumultuous and complex environment. That was over three decades ago, and the business environment has become even more turbulent and complex. It is possible, then, that a stakeholder approach to management is actually increasing in its importance and effectiveness owing to ongoing forces.

For practitioners, then, this article offers a plausible argument for why their firms should seriously consider adopting a CSRE strategy in spite of its incremental costs, particularly if they find themselves in a highly dynamic business or one in which knowledge intensity is high, or when they have a large, complicated, and interdependent production system. It helps to explain that if managers develop a close relationship capability, it is going to be rare and hard to imitate and may therefore serve as a source of sustainable competitive advantage.

The flip side of this conclusion is that it tells managers the circumstances under which the ethical treatment of stakeholders is very unlikely to improve (and may harm) the firm's financial performance. This observation leads to a potential ethical dilemma. Our theory explains why an arm's-length relationship may lead to higher financial performance in certain situations, as in environments characterized by low dynamism, low knowledge intensity, or low stakeholder interdependence. As scholars have convincingly argued, it is not good for society if firms are oriented only toward profits (Harrison & Wicks, 2013; Jones & Felps, 2013a; Stout, 2012). As Jones and colleagues (2016) have explained, achieving social welfare gains, in the context of firms attempting to maximize the wealth of their shareholders, is quite difficult. Consequently, in certain circumstances there seems to be an underlying tension between what might be good for a firm and what is most beneficial for society as a whole. How individual managers react to this dilemma depends on their conscience and amount of discretion (Phillips, Berman, Elms, & Johnson-Cramer, 2010).

In the introduction to the recent *AMR* Special Topic Forum on Management Theory and Social Welfare, Jones and colleagues (2016) also urged management scholars to include an assessment of the social welfare implications of their research in their publications. They were particularly concerned about prescriptions that promise greater profitability for firms without an assessment of the welfare effects on stakeholders. They concluded that the only certain formula for improving social welfare is through Pareto improvements—that is, policies/decisions in which one (or more) parties is made better off without making any other party worse off. Our theory demonstrating how a CSRE strategy can lead to sustainable competitive advantage through development of a close relationship capability may have the potential to meet this standard in many cases because the benefits of the firm/stakeholder joint wealth creation effort are intended to be distributed fairly and the strategy does not require that any other party be negatively affected. Indeed, a firm-level ethical culture that would be most supportive of a CSRE strategy would also

discourage managers from making other parties worse off.

Connecting with the RBV Literature

As outlined in the previous sections, our study addresses a number of problems with currently available versions of IST theory. However, since it makes use of the resource-based perspective, it also makes a contribution to the strategic competitiveness literature. In spite of the obvious link between organizational ethics and a firm's relationships with its stakeholders, and the importance of stakeholder relationships to a firm's competitiveness, the critical link between the nature of a firm's ethics and competitive advantage has rarely been addressed (Litz, 1996). One noteworthy exception is Manroop, Singh, and Ezzedeen (2014), who used the RBV to examine how human resource systems influence the ability of a firm's ethical climate to create strategic value.

Of the three main research streams within RBV—the classic RBV perspective, the knowledge-based view, and the relational view (Acedo, Barroso, & Galan, 2006; Dyer, 1997; Dyer & Singh, 1998)—our study is most consistent with the relational view, and while we did not employ the knowledge-based view per se, knowledge intensity is also an important construct in our analysis. Our theory builds on the increasingly popular idea in the RBV literature that intangible resources (capabilities) such as stakeholder relations, culture, and competencies, when utilized effectively, can be more effective sources of sustainable competitive advantage than can tangible resources such as products (Barney, 2011; Newbert, 2007).

Building on the Relational View of Stakeholder Theory

Most of the IST literature focuses on the existence (or absence) of stakeholder-friendly (or stakeholder-hostile) policies or programs established by firms regarding treatment of stakeholders.[11] We depart from this pattern by contributing to a small but increasingly important stream in this literature on bilateral interactions between firms and stakeholders, an approach advocated by Jones (2011). Our theory acknowledges that firm/stakeholder relationships are bidirectional, develop over time, and depend on the relational orientations of the stakeholders themselves. For example, it accounts for the fact that a stakeholder may not always behave in ways predicted by extant IST theory (Bridoux & Stoelhorst, 2014).

In addition to differences in their willingness to reciprocate, stakeholders may be unwilling to divulge the kind of information needed to achieve sustainable competitive advantage (Harrison et al., 2010), thus reducing benefits from knowledge transfer. Likewise, many stakeholders may not be willing to adopt the other ethical norms, such as a reliance on informal contracting or high levels of voluntary cooperation. Consequently, essential to the nature of a firm's relationship with stakeholders is its ability to attract high-quality stakeholders that are willing to conform to the norms of CSRE. In terms of future research, this suggests that assessing stakeholder relationships requires measuring the behaviors and attitudes of both the firm and particular stakeholders, as well as measuring how those relationships change over time. We would expect such scholarship to explain much more variance in economic performance (Larson, 1992).

Furthermore, adopting a relational perspective opens up a number of interesting questions about relationships with stakeholders. For example, what types of norm violations cause a close relationship capability to disappear (or are some stakeholders comparatively forgiving), and how can close relationships be repaired? How long does it take to develop a close relationship capability leading to sustainable competitive advantage? How do CSRE strategies evolve over time and in response to different kinds of feedback? Also, to what extent are CSRE strategies more likely, or more advantageous, in collectivist versus individualist societies? And to what extent do Western ideals regarding ethics influence perceptions of the attractiveness, content, and efficacy of a CSRE strategy and the resulting close relationship capability?

[11] The majority of empirical tests of IST to date contain variables similar to those found in the Kinder, Lydenberg & Domini (KLD) database. Examples include whether the firm has a profit sharing program, whether it has policies regarding the way it treats particular groups, whether it has a strong product safety program, or whether the firm is generous in donating to charities. For a complete list, see MSCI ESG Research (2011). A review of this literature can be found in Freeman et al. (2010).

Limitations

Our analysis also comes with limitations. First, and perhaps most important, for analysis purposes we divided our relational ethics strategies into two very different models of stakeholder management. Although there are firms that have norms that are reflected by these idealized states, we recognize that some firms will fall somewhere in between on the close relationship/arm's-length transactions scale. But this raises the question of at what point the benefits associated with a close relationship capability manifest. Is the relationship linear or are there threshold effects? This actually represents an opportunity for researchers to explore what other relational ethics strategies look like and how they might perform under particular circumstances.

Another issue worth mentioning is our focus in this article on dyadic relationships between firms and stakeholder groups. Two observations are warranted here. First, there is no reason that our conclusions could not be extended to multiparty relationships. For example, a firm, a key customer, and a supplier might team up to develop a new or improved product. Second, we fully recognize that perceptions of a CSRE strategy, and the intentions behind it, will be affected by the kinds of strategies a firm pursues with regard to other stakeholders. For instance, if a stakeholder group knows a firm treats another group differently, it may see the firm as inauthentic, which could undermine the ability of the firm to develop a close relationship capability. Along these lines, we suspect that a firm is more likely to be successful in developing a close relationship capability if firm members are consistent in their CSRE strategy across stakeholders. Moreover, even though a particular relationship may be dyadic, it is influenced by norms and behaviors that are typical in the broader firm community. We leave it to future researchers to more carefully evaluate these sorts of influences.

In addition, our analysis and theory may not apply as well to cultures other than those found in North America and particularly in the United States. Many of these cultures—for example, much of Asia—are much more collectivist. As such, strategies resembling CSRE are less likely to be rare and may be easier to imitate, making any competitive advantage accruing to them less valuable and sustainable. We leave questions related to cultural differences to future research.

We should add that it will take substantial effort to measure the constructs discussed in this article. Going forward, empirical research to test the relationships we have described would have to be different from most of what currently exists in the literature. Just as the theory contained herein provides a more fine-grained perspective on IST, the measures used in its testing will have to be more precise.

Globally, databases containing a lot of information around the topics of corporate responsibility and sustainability are growing in number. However, as mentioned earlier in the article, the data in these databases are policy and outcome oriented and do not contain much information of use in describing the actual nature of firm/stakeholder relationships. To measure CSRE strategies, we would suggest surveying firm leaders on whether their intention vis-à-vis a particular stakeholder (group) is to develop a communal sharing versus market pricing relationship. To measure whether firms actually have a close relationship capability, we would suggest asking stakeholders (e.g., customers, employees, suppliers) whether their interactions with the firm are governed by the norms of communal sharing and whether they feel a bond of commitment to the firm (Bosse & Coughlan, 2016). To accomplish this, we would suggest adapting items from existing relational models scales (Haslam & Fiske, 1999; Haslam, Reichert, & Fiske, 2002). For example, researchers might pose the following sorts of items to stakeholders: "If a disagreement arose with [the firm], we would resolve it by consensus"; "I share similar values to those expressed by [the firm]"; and "In interacting with [the firm], the focus is on mutually beneficial outcomes." Examination of relational data based on extraction of news stories is another possibility (Henisz et al., 2014). Finally, the sort of relational theory of competitive advantage that we advance could be meaningfully specified and elaborated on by careful ethnographic work (e.g., Larson, 1992; Uzzi, 1997). Such work, while often fascinating, is also quite time intensive and raises questions of generalizability.

With regard to dependent variables, the ultimate dependent variable in IST research tends to be firm financial performance—as operationalized by measures such as shareholder returns, returns on assets, and returns to debt holders. However, to fully capture the elements of the theory, it would be necessary also to somehow

reflect the total value created from a close relationship capability. Total value will not be entirely captured by financial measures, especially because firms that pursue such a strategy may voluntarily distribute comparatively more value back to the stakeholders that helped to create it. To capture total value creation, it would seem necessary to use broader constructs such as stakeholder utility or happiness enhancement (Harrison & Wicks, 2013; Jones & Felps, 2013b), as well as analytic methods such as data envelopment analysis (DEA) that can combine disparate kinds of goods (Bendheim, Waddock, & Graves, 1998). Of course, case study methodologies can also provide opportunities to refine both the theory contained in this article and techniques to measure both the nature of firm/stakeholder relationships and value-based performance measures.

CONCLUSION

This article integrates prior work on relational models (Bridoux & Stoelhorst, 2016; Fiske, 1992), stakeholder culture (Jones et al., 2007), and arm's-length versus embedded relationships (Uzzi, 1997) with work on IST (Harrison et al., 2010; Jones, 1995; Tantalo & Priem, 2016) and the RBV (Barney, 1991). While a substantial body of prior scholarship suggests that close relationships have value (e.g., Bosse & Coughlan, 2016; Cooper & Gardner, 1993; Larson, 1992; Uzzi, 1997), we are not aware of any other scholarship that provides a detailed examination of why the capability to create a close relationship with a stakeholder could represent a source of *sustainable* competitive advantage. We have provided a model that illustrates that, given particular contextual and firm-specific conditions, the incremental benefits of a close relationship capability can exceed the costs of a strategy used to develop and maintain it. Furthermore, firms that are successful in developing a close relationship capability may enjoy a sustainable competitive advantage because such capabilities are likely to be rare and are very difficult to imitate, even in contexts in which they are the most advantageous.

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