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HOW MUCH IS TOO MUCH? THE LIMITS TO GENEROUS TREATMENT OF STAKEHOLDERS

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ABSTRACT

Firms must allocate some minimum amount of value to stakeholders in order to retain access to the resources they provide. Stakeholder theory suggests managers optimize firm-level performance by allocating more than this minimum amount. But how much is too much? This article addresses the misleading notion that more is always better when it comes to the treatment of stakeholders and, in doing so, provides a needed refinement of the boundary of stakeholder theory's predictions. The upside for managers is guidance in distinguishing between the types of value-allocating behaviors that will lead to greater value creation in their firms and actions that are likely to reduce value overall.

Key Words: Stakeholder theory, organizational efficiency, managerial effectiveness, value, Malden Mills, Whole Foods

MANAGING FOR STAKEHOLDERS IS NOT FREE

When Malden Mill's Massachusetts factory burnt down, CEO Aaron Feuerstein not only decided to rebuild it in its comparatively expensive location, but he also continued paying his inactive workers' salaries for three months. Malden's focus on employees is reflected by Feuerstein's own statement that the "company will be true to its mission of responsibility to the workers, as opposed to other interests (Moreno, 2003: 92)." His benevolence made him a corporate hero, and it was not unusual for his adoring employees to lavish him with praise, sometimes even kneeling and kissing his hand. Malden's generosity also extended to the surrounding community through contributions to homeless shelters and neighborhood revitalization projects.

As Malden Mills ran into financial difficulties stemming from the debts the company incurred after the fire, the Boston Globe called on the public to continue buying its signature product Polartec. Nevertheless, local public support was not enough the save the company from bankruptcy. Creditors removed Feurstein as CEO and worked out a plan with the courts to save the company. However, additional financial problems led to another bankruptcy and abandonment of the Malden Mills pension plan that covered over a thousand employees. Feuerstein, in spite of good intentions and a very popular product, had set the company up for failure.

The Malden Mills case seems counter to the logic of stakeholder theory, which suggests that firms can achieve high levels of competitiveness and create more value if they treat their stakeholders generously, a management approach that might be called "managing for stakeholders" (Freeman, Harrison, & Wicks, 2007). In fact, a substantial amount of research supports this idea (see review in Freeman, et al., 2010). In one study,

researchers used an arduous process to select 30 firms exemplary of broad stakeholder-based management (Sisodia, Wolfe, & Sheth, 2007). Examples of the firms on their list include Trader Joe's, Honda, IKEA and Harley-Davidson. These companies outperformed the S&P 500 by significant margins over both short- and long-term time frames. Another research team examined the financial effect of a firm's relations with its primary nonfinancial stakeholders, including customers, employees, communities, and the environment (Choi & Wang, 2009). Their study of 518 firms over a period of 11 years suggests not only that good stakeholder relations help firms sustain superior performance, but that they also help poorly performing firms recover more quickly from disadvantageous positions.

How can we understand what happened at Malden Mills in the face of all the research that supports the efficacy of a stakeholder-based management approach? Clearly there are benefits to munificent treatment of stakeholders, but there are also substantial costs. Malden Mills enjoyed tremendous support and loyalty from employees and its community, but the costs associated with creating that support and loyalty were so high that they could not be offset by the associated benefits. The only way managing for stakeholders works, from an economic perspective, is if the benefits exceed the additional costs.

Still, establishing boundaries with regard to how much value to allocate to stakeholders is an open question. While stakeholder theory promotes better treatment of a broad group of stakeholders, it does not set limits with regard to this behavior. One of the factors that can stand in the way of a successful stakeholder-based strategy is that firms allocate too much value to one or several stakeholders, which amounts to "giving away the

store." Clearly, firms must allocate some minimum amount of value to stakeholders in order to retain access to the resources they provide. Managing for stakeholders involves allocating more than this minimum amount. But how much is too much?

This article addresses the misleading notion that more is always better when it comes to the generous treatment of stakeholders and, therefore, will help to remedy a common criticism and misunderstanding of stakeholder theory. We begin this paper by reviewing the basic arguments associated with managing for stakeholders and how firms receive returns from being generous with the value they allocate to them. We then build on this foundation to provide guidelines for helping to determine when a firm may be allocating too much (or too little) value to stakeholders. We follow with a discussion of implications for managers and scholars.

ALLOCATIONS OF VALUE AND STAKEHOLDER RESPONSES

Managers have responsibility for both fostering the creation of and distributing value to stakeholders through the activities of the firm. Stakeholders that are most closely associated with the firm's value creation activities include employees and managers, customers, suppliers (including suppliers of capital), communities and the firm's owners/shareholders. We will call these primary stakeholders. Coff (1999) suggests that firms need to allocate at least enough value to their stakeholders so that they will continue to do business with them. But one of the core principles of stakeholder theory is that firms should go above this minimum value and furthermore, that doing so provides benefits, including economic benefits, that exceed the additional costs (Freeman, 1984; Freeman, Harrison, & Wicks, 2007).

Benefits to Firms from Allocating Additional Value to Stakeholders

One of the most widely cited reasons for the success of firms that manage for stakeholders is that they efficiently attract and retain stakeholders (Barringer & Harrison, 2000; Freeman, et al., 2007). Firms that manage for stakeholders treat their stakeholders well, are trustworthy, and tend to be more socially conscious (because it is important to some stakeholders). Because of these characteristics, resource-providing stakeholders such as customers, suppliers and financiers are drawn to them, thus providing a competitive advantage. For example, in the natural food retailing industry, Whole Foods enjoys a stellar reputation for treating its stakeholders well, and this reputation has attracted many suppliers, customers and other stakeholders to the company.

Affiliation with certain organizations can also provide stakeholders with feelings of esteem, connectedness and empowerment (Ashforth & Mael, 1989). Investing energy in or doing business with an organization that exhibits behaviors that are consistent with their own values helps stakeholders develop a sense that they own a portion of the company and its purposes (Vanderwalle, Van Dyne, & Kostova, 1995). These types of factors are non-monetary, but also critical to understanding the way stakeholders behave. In the case of Whole Foods, employees, suppliers and customers feel good about their associations with the company. They feel as though they "own" a piece of what the company does. Programs such as their 5-Step Animal Welfare Rating System and buying from local suppliers reinforce those feelings.

Reciprocity, the mutual reinforcement by two or more stakeholders of each other's actions, provides an important link in the relationship between the value a firm distributes and the amount it creates (i.e., Becker, 1986; Cropanzano & Mitchell, 2005). The link is

established on the recognition that economic actors' behaviors are triggered primarily by their perceptions of fairness (Blau, 1964). Game theory supports the notion of reciprocity. For example, in the well-known Prisoner's Dilemma game, researchers have documented that the best strategy is to cooperate during the first round of play and then imitate (reciprocate) the opponent's move for every successive round (Axelrod, 1980). Game theory has also demonstrated that actors' perceptions of fairness are influenced by the material outcomes they receive (Nelson, 2001; Rabin, 1993).

People reciprocate to the way they are treated by returning similar treatment. Trustworthiness leads to more trustworthiness. Sharing of valuable information encourages sharing of valuable information. Generosity leads to a return of generosity. If a stakeholder believes that a firm is providing more value than it is obligated to provide then they will likely reciprocate. For employees this could mean working harder or sharing valuable information with the employer, for customers this breeds loyalty and increases demand, for suppliers (including suppliers of financial capital) it could mean better terms, or for communities it could mean greater support for expansion projects.

Positive reciprocity occurs when a firm provides a stakeholder with greater total value than expected and the stakeholder responds by putting forth greater effort on behalf of the firm. All else equal, a firm that generates a cycle of positive reciprocity among its stakeholders should create more value and enjoy higher performance than a rival firm that does not (Bosse, Phillips, & Harrison, 2009). Such a firm is then in a stronger position to allocate more value back to the stakeholders that helped to create it. Whole Foods' Stakeholder Philosophy reflects this perspective: "Our 'bottom line' ultimately depends on our ability to satisfy all of our stakeholders. Our goal is to balance the needs and desires of

our customers, Team Members, shareholders, suppliers, communities and the environment while creating value for all. By growing the collective pie, we create larger slices for all of our stakeholders (Whole Foods Market, 2011: 2)."

The norm of reciprocity also works the other way, however (Larson, 1992). When stakeholders perceive they receive less value than they should they negatively reciprocate towards the firm. Negative reciprocity can destroy value as stakeholders put forth below-normal effort, and they may also behave in ways that actually increase costs for the firm such as sabotage, deception, legal suits, or boycotts.

The Costs of Stimulating Reciprocity Among Stakeholders

As mentioned previously, activities that are likely to foster positive reciprocity among a firm's stakeholders are associated with additional costs. In essence, the firm must allocate more value to obtain more value. One way value is allocated is through the material or financial benefits stakeholders receive from the firm. For example, customers receive value from the firm in terms of the quality and functionality of the products and services of the firm, as well as the services they receive after the sale. Employees receive material compensation through wages and benefits, perquisites, bonuses, profit sharing and so forth. Suppliers receive material compensation and other benefits for what they provide to the firm. Research suggests that full cooperation of stakeholders is only possible when they perceive that what they receive from the firm is fair relative to what members of their referent group receive (i.e., Adams, 1965). We will explore this idea further in the next section.

Firms also allocate value to stakeholders in other ways that are not as easily measured in dollars and cents, such as the fairness of a firm's decision-making processes

(Phillips, 2003). Processes that are perceived as fair by stakeholders add costs due to the increased time and attention managers pay to stakeholders, increased communications and information processing costs, and the additional amount of time it takes the firm to make decisions when more stakeholder input is considered. In addition, a firm that is sensitive to stakeholder interests may expend resources to support activities that have high appeal to certain stakeholders but do not directly add to their economic welfare. For example, Whole Foods supports a micro-financing program that helps poor people start businesses in developing countries. This program appeals to many of the company's stakeholders and provides non-monetary value in terms of esteem from affiliation and a feeling of ownership, but it also adds costs.

Whole Foods' successes stand in stark contrast to Malden Mills' failures, yet the driving forces appear to be similar in both organizations and there is evidence of stakeholder reciprocity in both cases. The key difference is in the amount of value allocated to stakeholders. We observe what might be considered an irresponsible amount of value allocated to stakeholders in the case of Malden Mills (at least in hindsight), whereas Whole Foods seems to have a healthy balance of value received from stakeholders to value allocated to them. So how can a firm determine how much value is too much (or too little) to allocate to stakeholders?

EFFICIENT ALLOCATION OF VALUE TO STAKEHOLDERS

Stakeholder theory has a strong moral foundation. That is, it advocates for virtuous treatment of stakeholders because it is the morally correct thing to do (Freeman, et al., 2010). While we acknowledge this reasoning, our approach is much more practical. It is efficiency based in that we are examining the allocation of value to stakeholders on the

basis of what makes sense from an economic perspective. At the same time, the practical foundation upon which we are building assumes that organizations should respect all of their stakeholders through treating them with dignity, honesty, and courtesy (Cropanzano, Bowen, & Guilliland, 2007; Phillips, 2003). This sort of treatment is a prerequisite for trust, and trust enables reciprocity. A stakeholder is unlikely to expend additional effort on behalf of, feel strong affiliation with, or exhibit a high level of loyalty to an untrustworthy organization. Since treating stakeholders with dignity, honesty and courtesy is not particularly expensive, generous applications of this type of treatment are unlikely to upset the marginal cost/benefit balance in a negative fashion.

Too Little Value Allocated to Stakeholders

It is necessary to establish a concept of what the lower bound of value allocated to a stakeholder might be so that we can discuss what exceeds it. A practical base level of value is the stakeholder's opportunity cost. As a simplified example, assume that an employee is receiving a particular level of value from working for a firm in the form of salary and benefits and a feeling that the employer is fair in its decisions and adequately considers the welfare of employees. For that employee to feel motivated to leave the employer, she or he would have to locate another employer (or form of employment) with expectations of receiving enough additional value to compensate for the value currently received (and the cost of the switch). Even if the employee stays with the employer, the opportunity cost is highly relevant. If the employee believes that she or he is receiving total value that is higher than her or his opportunity cost, then positive reciprocity can influence their behavior. In addition to feeling loyal, the employee is more likely to expend additional energy, share important information, and work to enhance the welfare of the employer.

This sort of analysis applies to all of the primary stakeholders that interact with the firm. The nature of their relationship with the firm and thus the behavior they exhibit is dependent on the extent to which the firm offers them an attractive value proposition *relative to other opportunities that are available to them*; the value proposition includes both tangible and intangible factors. For instance, two firms might offer customers essentially similar products so they choose the firm that treats them better or that exhibits socially responsive behavior in areas they consider important. When any stakeholder receives value that is above their opportunity cost they tend to reciprocate with behaviors that help the firm to create more value within its total system of value creation, and this additional value can then be dispersed among stakeholders, thus continuing a positive cycle.

Too Much Value Allocated to Stakeholders

At the opposite extreme is a philosophy of giving highest priority to stakeholders' short-term welfare by allocating excessive value to them. This can generate extraordinarily high costs for the firm that can actually damage its longer-term competitiveness, as in the case of Malden Mills. Table 1 contains examples of three other firms that hurt their own competitiveness by allocating too much value to particular stakeholders, thus leaving insufficient value for other stakeholders and for investments in future value-creating activities such as research and development or purchases of new technology.

[insert Table 1 about here]

By virtue of its apparent failure to set limits on a firm's favorable treatment of stakeholders, stakeholder theory *seems* to promote a position in which firms may "give away the store" in the sense of spending so many resources in satisfying the needs and

wants of particular stakeholders, such as employees, communities or society as a whole, that they sacrifice profitability. Shareholder advocates have taken advantage of this vulnerability in the theory and suggested that any allocations of value to stakeholders beyond what is necessary to retain their participation is wasteful and that managers who do so are acting irresponsibly with regard to protecting shareholder interests (i.e., Jensen, 2002).

A firm allocates too much material value to a stakeholder when the marginal unit of value received by the stakeholder results in less than a unit of new value created through reciprocity on the part of stakeholders. This is difficult to determine precisely on a stakeholder-by-stakeholder basis, but there are broader signals that too much value has been distributed. One signal is when there is not enough material value for other stakeholders to maintain their willful participation in the firm. For example, this may happen when a firm gives high priority to shareholder allocations such as dividends or share buyback programs at a time when employees are receiving compensation below what is found in other firms in their markets and industries. In this example the firm is allocating too much value to one stakeholder group at the expense of another stakeholder group; the expected result is ultimately value destruction as a result of negative reciprocity from the employees (Akerlof, 1982). Another signal is when the firm's resources are being depleted at a level at which it is difficult to sustain a healthy production cycle in the firm, which includes pre-production activities such as research and development, core production activities and post-production activities such as marketing, distribution and service.

In terms of a firm's decision-making processes, too much stakeholder involvement occurs when the decision process becomes too complex to manage effectively – process inefficiency threatens productivity. When a firm is providing too much voice, participation and influence to stakeholders, decision quality is not marginally improved by each successive bit of stakeholder influence or information. Perhaps this is due to a particular stakeholder being given too much input to the decision or it could be that the firm is going too far in terms of giving voice to every conceivable stakeholder or in trying to consider too many stakeholder needs or perspectives in its decision-making processes. Inefficiency may also occur because collecting information from a broad group of stakeholders can uncover previously undiscovered conflicts of interest that then have to be resolved. Table 2 contains a description of the lower and upper boundaries of value allocations to stakeholders, as well as the optimal position from an efficiency perspective.

[insert Table 2 about here]

Value Creating Allocations of Value to Stakeholders

Managers face a difficult challenge trying to stimulate positive reciprocity towards the firm without diluting the value created by the firm. The concept of a 'just noticeable difference' can help a firm determine how to allocate material value back to stakeholders. This concept was developed in the organizational psychology literature and has been applied to a variety of human resource issues (Zedeck & Smith, 1968). A simple explanation is that for an improvement in an employee's situation (i.e., a raise) to make a positive difference in the way they respond to the organization it must be enough of an improvement for the employee to notice. Otherwise the effort is wasted. The just noticeable difference has also been applied to marketing, where the question is how much a product

must be improved before customers will select it over a competing product (Britt & Nelson, 1976). We are applying the term here a little differently than it has been used previously. *A just noticeable difference means that the value a firm offers to a stakeholder is noticeably recognized and appreciated by the stakeholder as being better than value propositions offered by firms that compete for what they offer to the firm.*

Each stakeholder is a part of a factor or product market. Customers provide financial and other resources to the firm. Each non-customer stakeholder supplies an important factor of production to the firm in exchange for a combination of tangible and intangible goods. For instance, an employee offers her skills, knowledge and labor in exchange for a mix of financial (i.e., salary, benefits) and non-financial (i.e., affiliation-based esteem, influence in decision making) goods. The same sort of logic applies to other stakeholders as well.

A firm that provides a package that stakeholders perceive is better than what they could get from a different firm is in a strong position to unlock positive reciprocity and the other benefits discussed previously, including obtaining strategic intelligence, new opportunities, loyalty, efficient transactions, and others. Google seems to have mastered the ability to attract many of the most highly skilled and talented employees in an industry in which there is fierce competition for human capital. They offer all the normal benefits one would expect from a big company, such as health insurance, life insurance and retirement benefits. However, Google considers these benefits only the beginning (Google, 2012). The company has established a goal to make employees' lives better and easier, with on-site physicians and nurses, emergency travel assistance, special benefits for parents, reimbursement for education, and free legal advice. It is easy to see that many of these

benefits, in addition to making the firm more attractive to potential employees, also help make employees more productive.

To enjoy an efficient ratio of value created to value allocated to stakeholders, the firm need only exceed the package a stakeholder could get elsewhere in its factor or product market. In the case of Google, it takes a lot to surpass what direct competitors offer, but in many other situations this is not the case. Also, while industry norms provide a useful benchmark in determining what is a noticeable difference, managers more typically determine this through discourse with their stakeholders, because many stakeholders are able to jump from one industry to another. A salesperson can get firsthand information on what appeals to customers and the value propositions offered to them by competing firms. Similarly, buyers can gain this sort of information from interactions with suppliers.

In terms of decision-making processes, a firm cannot logically afford to open every decision to every stakeholder's input. Instead, managers must practically distinguish which stakeholders are most salient to include and for which decisions. Stakeholders should be given voice in the decisions and processes that most directly affect them or if, in other ways, they are powerful with respect to the firm (Mitchell, Agle, & Wood, 1997). Stakeholder power is one of two very important dimensions that can help managers determine whether their firms are in danger of under- or over-allocating value to their stakeholders.

Determining the Potential for Under- or Over-Allocations of Value

Two well-documented forces are at work in terms of how much value is allocated to particular stakeholders: power and strategic importance. Stakeholders that are part of the firm's value creation processes have economic power, which is the ability to influence the

financial success of the firm. Some of the other factors that might give stakeholders power include possessing valuable resources the firm needs (resource dependence), the ability to influence the political process in its favor or against the firm (political power), strong ties to other stakeholders that are important to the firm (network centrality), or the ability to sway public opinion for or against the firm (opinion leadership) (Porter, 1980; Rowley, 1997). Powerful stakeholders have the capacity to reduce the ability of the firm to achieve its value-creating objectives through withdrawing their resources or support. For the purpose of assessing the potential for under- or over-allocating value to a given stakeholder, we focus on their ability and propensity to hurt the firm resulting from the power they possess.

The other force, strategic importance, pertains to the ability of a stakeholder to contribute to making the firm more competitive. For instance, strong suppliers make auto manufacturers like Toyota and Honda more competitive.

The principle of reciprocity suggests that firms should be especially careful to allocate an attractive amount of value to strategically important stakeholders because doing so is likely to provide a high return. However, reality suggests that powerful stakeholders may be able to extract more than their fair share of value, as in the case of the unions in the U.S. auto industry. Combining these two dimensions can help managers identify which stakeholders might be under- or over-rewarded for what they provide to the firm, from an efficiency perspective (see Figure 1).

[insert Figure 1 about here]

The highest priority stakeholders with regard to allocations of value (material and decision processes) are high in both power and strategic importance. However, because

they are powerful they are likely to be getting attractive value packages from the firm already. Their power could actually be resulting in over-allocations of value; however, because they are strategically important these over-allocations may not hurt efficiency too much. At the other end of the spectrum, low priority stakeholders, because they lack power and strategic importance, are not likely to have too much or too little value allocated to them. Their lack of power means that they cannot extract much additional value from the firm and their lack of strategic importance means that additional allocations of value are less likely to lead to the positive reciprocity that increases value created by the firm.

This situation is in contrast to stakeholders who are powerful but are not strategically important. For these stakeholders a careful balancing act is required. The firm will not get as much in return for additional value allocated to these stakeholders because they are not important to competitiveness, but their ability to hurt the firm means that they should not be neglected. Special interest groups with a lot of political clout, such as the Sierra Club and the National Rifle Association, frequently fall into this category. So also do suppliers of scarce materials that are essential to a firm but do not help the firm differentiate its products. For example, very little high quality sand is available for use by the cement industry in many locations of the world. Although high quality sand is necessary to produce cement, all cement producers use it, so it cannot serve to differentiate the product. However, if a sand supplier feels under-rewarded and stops supplying a particular cement manufacturer with what they need, it could lead to serious problems for the manufacturer.

Stakeholders with low power and high strategic importance are the most likely to have value under-allocated to them because their lack of power means that they are not as

salient to managers. Essentially, they are not as “loud” in the planning process. Vendors in competitive markets are likely to fall into this category. Although they may not have a lot of market power or political clout, they can be central to achieving strategies that include differentiating products and services or targeting particular markets. Both vendors and buyers in competitive markets likely possess valuable intelligence that is useful for directing the strategies and activities of the firms with which they do business. It is these types of stakeholders that managers might want to pay special attention to in their planning processes because of the potential to unlock the forces from reciprocity if they are not already receiving a package of value that is perceived as better than what they might receive through transactions with other firms.

IMPLICATIONS FOR MANAGERS AND BUSINESS SCHOLARS

This article has implications for both the practice of management and for management scholars. For managers, we have addressed the issue of how to align the interests of stakeholders such that they will contribute more to value creating processes while not jeopardizing the productive efficiency of the enterprise. Specifically, we have provided guidance that may be useful in determining which stakeholders are most likely to receive under- or over-allocations of value relative to their importance to the firm and the value they help to create.

As stakeholders perceive that they are getting a better value proposition from the firm than they would get elsewhere, reciprocity can result in the creation of additional value. These stakeholders are more likely to share important information with the firm. The ability of the firm to attract stakeholders means that new opportunities are presented and sales may increase. Other results may include more efficient transactions, loyalty, and

fewer negative stakeholder actions such as legal suits or boycotts. However, some stakeholders are more important than others. Specifically, powerful stakeholders have a greater ability to extract additional value from the firm, and strategically important stakeholders hold the greatest potential for gains through reciprocity. Combining these two dimensions results in suggestions with regard to determining which stakeholders are more or less likely to receive over- or under-allocations of value from the firm, in terms of efficiency.

For scholars, the contribution this paper makes is to clarify a practical boundary of stakeholder theory. Stakeholder theory is not about "giving away the store"… it is about optimizing the performance of a group, where performance can be defined in terms of total value created. This paper provides a needed refinement of the boundary of stakeholder theory's predictions. It is not strictly true that firms that provide more value to stakeholders outperform other firms. A firm can provide too much value to one or more of its stakeholders, as demonstrated in the cases of Malden Mills, Fannie Mae, General Motors and Total SA. Also, the concept of a just noticeable difference provides an interesting empirical question for researchers. In particular, are firms that treat each of their stakeholders just a little better than they are treated by other firms in an optimal position to create value, or should firms focus on one or two stakeholder groups?

To some extent, our paper is oversimplified in that there are ongoing assumptions that stakeholders can be managed and that they do not have hostile ulterior motives. Future research might address what happens to the value allocated to stakeholders that are hard to manage or are hostile and expect an unfair allocation of value from the firm. Another potentially profitable research area that is linked to the ideas contained in this

article is performance measurement. Value can be created across an entire resource coordination system. Consequently, existing measures of firm performance, which are largely financial, are not adequate to capture the total value created in such a system.

Future research could include case studies as well as survey and archival studies. Case studies could include companies that are managing for stakeholders while not giving away the store, companies that seem to be allocating too much value to particular stakeholders, and firms that are not allocating enough value, in its multiple forms, to stakeholders. The theory presented herein also lends itself to a large-sample test to determine if firms that fall into these categories have differential financial performance. Research of this type offers the potential to advance stakeholder theory and better explain longer-term firm performance.

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TABLE 1
Possible Examples of Over-allocating Value to Stakeholders

Company	Too much value distributed to:	Diminished value available to:	Performance problems
General Motors	Employees—due to a very strong union the company had wages and benefits packages that made its automobiles a poor value proposition (price relative to quality) in comparison with rivals, and most notably foreign rivals such as Toyota and Honda.	Customers and Financial Capital Providers—both were big losers, as demand dropped off and the company was no longer able to provide a fair return to its shareholders and eventually was unable to cover its financial obligations to creditors.	Financial performance was poor for so long that eventually the U.S. government had to step in to bail out the company.
Fannie Mae	Shareholders and Mortgage Companies—the company continuously lowered its underwriting standards for mortgages in an effort to keep its mortgage pipeline growing to please private shareholders.	Mortgage Holders—many home buyers, especially those with adjustable rate mortgages, ended up buying homes they could not afford, ending in a record number of foreclosures. Foreclosures were both caused by and an indirect cause of the weakening economy.	Concern that the company would become insolvent led the Federal Housing Finance Agency (FHFA) to place the company into conservatorship. The CEO and board of directors were dismissed, and dividends on outstanding stock were suspended.
Total SA	Local Communities – the company has shown a pattern of bending to controversial local community practices to both secure and sell oil such as bribery in Iraq and Italy and defying economic sanctions in transactions with Iran and Myanmar.	Employees and Suppliers—stakeholders at home in France and in 130 other countries who feel misled by the company's promise to "forge fair, sustainable, trust-based relationships with [stakeholders]."	The company incurs greater costs due to extra scrutiny by legal authorities in France and the EU. It also incurs the marginal costs of attracting new stakeholders who have alternative opportunities with firms that enjoy better values-based reputations.

TABLE 2
Boundaries on Value Allocations to Stakeholders

	Material or Financial Value	Decision-Making Processes
Description	Stakeholders perceive that their distribution of material or pecuniary compensation is fair relative to other stakeholders	Fairness of firm's decision making processes; transparency, solicitation of ideas, excellent communications, and use of input to decisions, flexibility
Lower Bound	Material value stakeholders would receive in their next best alternative relationship with a firm (opportunity cost)	Level of input and consideration that would be received by the stakeholder in similar situations with other firms (opportunity cost)
Upper Bound	Not enough material value to adequately compensate other stakeholders or insufficient resources to sustain healthy operations over the long term; marginal unit of value given to stakeholder is less than the unit of value reciprocated back to firm over several cycles	Decision process too complex to manage; inefficiency threatens productivity; possibly too many stakeholders involved in processes
Optimal Level	A just noticeable difference; stakeholders perceive that the value they receive is better than what they would receive elsewhere by just enough to make a difference to them	Constructive input to processes and decisions solicited from primary stakeholders without giving too much priority to any particular stakeholders; stakeholders consider process fair

Figure 1: Too Much or Too Little Value Allocated to Stakeholders?

Importance of Stakeholder to Firm Competitiveness (Strategic Importance) (columns) / **Ability/Propensity of Stakeholder to Hurt Firm (Power)** (rows)

	High	**Low**
High	Highest Priority Stakeholders *Likely to Allocate Too Little?* No. These stakeholders are well positioned to extract value from the firm so managers probably won't under-allocate resources to them. *Likely to Allocate Too Much?* Possibly; however, the strategic importance of these stakeholders means that value created from over-allocations mitigates potential losses to some extent.	Moderate Priority Stakeholders *Likely to Allocate Too Little?* Possibly. A careful balancing act required. Allocate resources based on what is required to limit damage to firm. *Likely to Allocate Too Much?* Yes. The power of these stakeholders means they are likely to extract more value than they might otherwise be worth in the value-creating process.
Low	High Priority Stakeholders *Likely to Allocate Too Little?* Yes. Managers may under-allocate resources from a value optimization perspective unless these stakeholders are deliberately given priority. *Likely to Allocate Too Much?* Unlikely.	Low Priority Stakeholders *Likely to Allocate Too Little?* No. Not from a value optimization perspective. *Likely to Allocate Too Much?* No.