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Stakeholder Theory: Toward a Classical Institutional Economics Perspective

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Abstract
Stakeholder theorists have traditionally objected to the neoclassical conception of the firm as a vehicle for maximizing profit or shareholder wealth, thus opening up space for controversial engagement with neoclassical economics. The present paper fills some of this space by elaborating the parallels between stakeholder theory and classical institutional economics, a heterodox school of economic thought that has long been critical of a broad range of neoclassical ideas. Rooted in the writings of Veblen and Commons, classical institutional economics explores how the social provisioning process is coordinated or hindered by real-world business institutions. From this standpoint, stakeholder theory highlights the possibility of overcoming the institutionally ingrained conflicts and trade-offs for the sake of realizing common human interests in organizing the social provisioning process in an orderly and reasonable way. This argument not only illuminates the relationship of stakeholder theory to the wider societal context of modern capitalist economies but also elaborates novel aspects of the moral nature of stakeholder management.

Keywords Stakeholder theory · Classical institutional economics · Social provisioning process

The relationship between stakeholder theory and the academic discipline of economics has tended to be strained. Bridoux and Stoelhorst (2022) note that, "since its inception, stakeholder theory has positioned itself as an alternative to economic theorizing," particularly in the interpretation of competition, managerial functions, and human motivation. Bridoux and Stoelhorst (ibid) note that these substantive differences have hindered the acceptance of stakeholder theory in the community of strategic management scholars and weakened the theory's impact on the practice of strategic management. Concurring with this assessment, Freeman et al., (2020a, p. 216) admit that the field of strategic management in the recent decades has been shaped by "a narrow form of economic theorizing" which did not ask larger questions about the meaning of value creation and trade, about the ethics of capitalism, and about the long-term societal implications of the prevalent managerial mindsets. It seems clear that, in the stakeholder theory context, the discipline of economics plays a crucial role in illuminating how stakeholder management practically fits within the broader system of capitalistic institutions. Against this background, it needs to be asked whether the relationship between economics and stakeholder theory can be improved in such a way that the pragmatist foundations of this theory are not only not sacrificed, but even strengthened.

The present paper calls attention of stakeholder theorists to classical institutional economics, a school of economic thought that is explicitly and self-consciously rooted in pragmatist philosophy (cf. Bush, 1993; Gruchy, 1987; Nelson, 2003; Tool, 2001). As Bush (1993, p. 59) explained, "a fundamental tenet of pragmatism is that all propositions are subject to revision as theoretical and empirical inquiry moves forward" and generates consequences that are continually tested and evaluated in the ongoing process of social problem-solving. The major type of the social problem-solving process which is of paradigmatic concern to classical institutional economics is social provisioning, defined by Gruchy (1987, p. 21) as "the ongoing process that

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provides the flow of goods and services required by society to meet the needs of those who participate in its activities." The goal of the paper is to explore the conceptual relationship between stakeholder theory and classical institutional economics, and specifically the contribution of stakeholder management toward organizing the social provisioning process in an orderly and reasonable way. The reason why this contribution may be non-trivial is that various types of capitalistic institutions may both promote or hinder the social provisioning process, and stakeholder management may present a practical means for giving greater force to the former effect. The proposed economic anchoring of stakeholder theory will no doubt seem heterodox to many economists, but it will share the pragmatist orientation of classical institutional economics and thus offer a possible basis for overcoming the tensions that, so far, beset the relationship between this theory and "traditional economic theorizing" (Bridoux & Stoelhorst, 2022; cf. Freeman et al., 2020a).

Stakeholder theory is committed to the integration thesis which means that "most business decisions or statements about business have some ethical content or an implicit ethical view" (Freeman et al., 2010, p. 7). The notion of social self-provisioning presents one opportunity for stakeholder theory to make good on this commitment. As "an amalgamation of social processes within a broader culture-nature life process" (Todorova, 2015, p. 390), social provisioning is irreducible to the neoclassical mechanistic understanding of the economy; instead it invokes Nelson's (2006, p. 59) image of the economy as "a beating heart," which presents "simultaneously a symbol of bodily provisioning and a symbol of care, respect, and moral and spiritual life" (ibid, p. 59). These definitions make clear that the notion of self-provisioning promotes a decidedly ethical view of business life. Classical institutional economists employ two broad approaches to conceptualizing the moral nature of social provisioning, which are rooted in the work of Veblen and Commons, respectively (cf. Rutherford, 1999). The present paper will argue that these approaches, which are highly critical of utilitarian foundations of traditional neoclassical economics, provide a distinct and probably unconventional lens for understanding the moral nature of the modern business life in general and stakeholder management in particular.

The following section will present reflections on why stakeholder theorists may become interested in heterodox economics in general and classical institutional economics in particular. This will be followed by a section charting the terrain of the foundational ideas of classical institutional economics, and paying special attention to its normative foundations which present a particularly striking contrast with the neoclassical welfare maximization framework. On this basis, the subsequent sections will develop a classical institutional economics interpretation of the meaning of stakeholder management, discuss the emerging contributions to stakeholder theory, and outline the potential for further stakeholder theory research that could be inspired by classical institutional economics ideas.

Stakeholder Theory and Classical Institutional Economics: Setting the Stage

A study of Freeman et al.'s (2010) authoritative statement of the state of the art of stakeholder theory reveals that key thinkers in this field are aware of their paradigmatic differences with traditional neoclassical economics but remain interested in the dialogue with their economist colleagues. Thus, Freeman et al., (2010, p. xv) unambiguously describe stakeholder theory as "an abrupt departure from the usual understanding of business as a vehicle to maximize returns to the owners of capital." This understanding is clearly based on neoclassical economic thinking (Sachs & Rühli, 2011; Wood, 2008). In a recent book, Freeman et al. (2020b) reinforce this impression by tracing the origins of this conventional understanding of business to the work of mainstream economists such as Friedman (1970) and Jensen and Meckling (1976). Characteristically, Jensen (2001, p. 9) predicted that "without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure."

In their seminal text, Freeman et al., (2010, p. 29) discuss the differences between stakeholder theory and the mainstream economic ideas underpinning "the market-based approach of Milton Friedman, the agency approach of Michael Jensen, the strategic management approach of Michael Porter, and the transactions cost theory of Oliver Williamson." Freeman et al. (ibid) show these approaches to share a generic concern with value creation which is of direct interest to stakeholder theory as well. But obviously, stakeholder theory understands value creation not in terms of short-term financial returns but rather in terms of a long-term flourishing of the firm. This flourishing has important non-economic and indeed moral dimensions (Bridoux & Stoelhorst, 2022). In exploring the meaning of value creation, stakeholder theory seeks "to return to the very roots of capitalism" (Freeman et al., 2010, p. 3) and to provide a realistic account "about how business actually does and can work" (ibid). As Freeman et al. (ibid, pp. 4–5) explain, achieving these purposes requires rethinking the nature of "business in a world where there is a great deal of change in business relationships," a task that is hardly feasible without addressing "the problem of the ethics of capitalism" and "the problem of managerial mindsets." These are fundamental problems, but their very nature suggests that they can be usefully illuminated by a close engagement of stakeholder

theory with heterodox, i.e., non-neoclassical, varieties of economic thought.

A number of authors have acknowledged that the neoclassical utility-maximizing framework is hardly able to accommodate the core ideas of stakeholder theory such as the integration thesis, the responsibility principle (Post et al., 2002; Sachs & Rühli, 2011; Valentinov & Chia, 2022; Wood, 2008), and the social and moral dimensions of stakeholder relationships (Bridoux & Stoelhorst, 2022). Buchholz and Rosenthal (2005, p. 146) aptly note that a neoclassical notion which is particularly deserving of criticism from the point of view of stakeholder theory, is atomistic "individualism that pervades traditional economic theory." The authors explain that stakeholder theory rejects atomistic individualism, and accordingly "house[s] in its very nature not only a relational view of the corporation but also an understanding of the situational nature of ethical decision making as operative in specific contexts" (ibid, p. 145).

At the same time, an insight that stakeholder theorists do not seem to have explicitly and systematically discussed so far is that the contemporary economic science indeed includes heterodox schools of thought which largely share these theorists' reservations about neoclassical economics (cf. Kuehnlenz et al., 2022). To a number of heterodox economists (e.g., Nelson, 2006; Sen, 1987), the notions of atomistic individualism, rational choice, and Homo Economicus are no less unacceptable than they are to stakeholder theorists. In this line, the institutional economist Hodgson (2013, p. 150) sees the institution of the firm as "a forum of close, ongoing, and intensive interpersonal interaction that would sustain a relatively powerful moral environment conducive to greater productivity. By contrast, the mainstream economic theory of the firm adopts a one-sided conception of the individual who is prone to greed, shirking, and opportunism." (cf. Thompson and Valentinov, 2017). Obviously, the ideas of these and other heterodox economists potentially offer powerful intellectual resources that could be used by stakeholder theory not only to debunk the separation fallacy and affirm the integration thesis (cf. Freeman et al., 2010, p. 7), but even to further refine its own conceptual foundations.

A heterodox school of economic thought that stakeholder theorists are likely to find particularly congenial is classical institutional economics, also known as heterodox institutionalism, or original American institutional economics (cf. Hodgson, 2004; Rutherford, 1999, 2011; Tool, 2001). Today, this school of thought is represented by the US-based *Association for Evolutionary Economics* and the affiliated *Journal of Economic Issues*. It is certainly a heterodox school of economic thought, but it may be interesting to note that in the interwar period of the twentieth century, it was mainstream in the US (Hodgson, 2004; Rutherford, 2011). Even today, again in the US context, this school of thought is probably "the leading heterodox alternative to dominant neoclassicism in economics other than Marxism" (Samuels, 1995, p. 569). Perhaps the major complementarity between classical institutional economics and stakeholder theory is their common commitment to the philosophy of pragmatism, exemplified especially by the work of John Dewey (cf. Rutherford, 2011, p. 347; Godfrey & Lewis, 2019). While references to classical institutional economics are largely non-existent in today's stakeholder theory literature, business ethics scholars may recollect that this school of thought influenced Bowen's (1953) classic book on *Social Responsibilities of Businessmen* (as noted by Acquier et al., 2011, p. 611). More recently, in laying out a pragmatist approach to business ethics, Rosenthal and Buchholz (2000, p. 102 et seq.) provided a useful assessment of some ideas by Thorstein Veblen, one of this school's founding fathers; whereas the work of John Commons was found useful in illustrating why "business ethics makes economic sense" (Black, 1994, p. 359).

What current debates in stakeholder theory can be usefully illuminated by insights from classical institutional economics? A key theme promoted by this school of economic thought is thick societal embeddedness of business life. This theme is highly relevant for clarifying the role of macro-societal embeddedness of stakeholder management, as problematized by the ongoing debate around "the stakeholder-system divide" (cf. Johnson-Cramer et al., 2022, p. 1112; Freeman et al., 2020b). The need for this clarification exists in view of the predominant vision of stakeholder theory as being pro-business, pro-capitalistic, and focused on core business activities rather than on broad societal considerations and moral standpoints (Freeman et al., 2007, p. iii). In advocating this vision, a number of stakeholder theorists raise concerns about the notion of corporate social responsibility because of its emphasis on the "social" (Freeman et al., 2010, p. 262; Barney & Harrison, 2020, p. 209). Dmytriyev et al. (2021) see corporate social responsibility (CSR) and stakeholder theory as alternative frameworks for theorizing social issues in management, while stressing that CSR, in contrast to stakeholder theory, is focused on how firms deal with societal issues which may not be linked to the firms' core business activities. Yet, other seminal statements of stakeholder theory seem to deemphasize the contrast between the business focus and societal focus. For example, Freeman et al. (2020b) stress that "business is situated in society" and "is reliant on societal norms, infrastructure and laws." Stakeholder theory is therefore called upon to clarify the relationship between its business focus and macro-societal embeddedness. If classical institutional economics helps to bring this clarification one step further, it may further refine and even radicalize stakeholder theory's standpoint on a number of issues, such as the meaning of the integration thesis (Freeman et al., 2010, p. 7), the role of stakeholder interest trade-offs (Freeman et al., 2020a),

and the nature of managerial agency (Johnson-Cramer et al., 2022).

Classical Institutional Economics: A Brief Characterization

In contrast to mainstream neoclassical economics (as well as to new institutional economics), classical institutional economics takes the main economic problem of society to reside not in the efficient allocation of scarce resources, but rather in the organization of the social provisioning process (Adkisson, 2009; Gruchy, 1987; Tool, 2001). The latter understanding of the economic problem of society is substantive rather than formal, and draws attention to real-world institutional textures and their evolutionary patterns, while deemphasizing any kind of formal, static, and ahistorical analytical foundations grounded in rational choice (Samuels, 1995). Gruchy (1987, p. 21) considers the social provisioning process to constitute the subject-matter of classical institutional economics. The following subsections provide details about this concept and discuss its ethical interpretations rooted in work of Thorstein Veblen (1857–1929) and John Commons (1862–1945), two founding fathers of this school of economic thought.

The Subject-Matter: The Social Provisioning Process

To Power (2004, p. 6), social provisioning "is a phrase that draws attention away from images of pecuniary pursuits and individual competition, and toward notions of sustenance, cooperation, and support." Jo and Todorova (2017, p. 29) trace the idea of social provisioning back to classical political economy which embraced a "socially embedded view of the economy with a theoretical emphasis on production and distribution." Following Polanyi (1968, p. 145), social provisioning can be defined as "an instituted process of interaction between the man and his environment, which results in a continuous supply of want-satisfying material means." According to Klein (1993), if economic science shifts its chief object of interest from optimal allocation to social provisioning, it becomes a science of value rather than of price; as a science of value, it would judge the performance of the social provisioning process not in terms of allocative efficiency, but rather in terms of the complex criteria of "efficiency, security, equity, freedom, and compassion" (ibid, p. 26). These arguments give grounds for thinking that the notion of social provisioning may be the classical institutional economics answer to what Freeman et al., (2010, p. 4) call "the problem of value creation and trade." Social provisioning is fueled by the accumulation of community knowledge taking the form of tools, technologies, and techniques, and coordinated by institutions, or usages which have "become axiomatic and indispensable by habituation and general acceptance" (Veblen, 1923, p. 101).

Giving primacy to institutions implies a rejection of the implicit neoclassical view that the current nature of business life is rooted in any mechanistic or natural order of things. Instead, economy is seen to be created "by human individual and collective activity" (Samuels, 1995). As a result, it is "subject to human control rather than under the sway of automatic mechanisms" (ibid). A crucial postulate that individual preferences, and human nature more generally, are not considered to be fixed and exogenous, but rather seen as malleable by prevailing institutions (Hodgson, 1993). Thus, classical institutional economics rejects the normative primacy of Pareto-efficiency (Hodgson, 1993) as well as the neoclassical complacency about the efficiency characteristics of markets and corporations (Rutherford, 1999, p. 4). Adopting a "pragmatic and humanistic approach to social value" (Rutherford, 2011, p. 347), this school of thought rejects neoclassical welfare criteria (Rutherford, 1999, p. 4) and is prepared to raise skeptical concerns about markets and corporations (Samuels, 1995).

These skeptical concerns constitute much of the common ground potentially shared by classical institutional economics and contemporary business ethics as well as stakeholder theory. Classical institutional economics believes many institutions to be relatively rigid, inertial, and liable to capture by various types of vested interests. For these reasons, many institutions may come to hinder the societal self-provisioning process, preventing the full utilization of available resources for the resolution of pressing problems. Thus advocates of classical institutional economics come to "criticize the performance of markets for the inequities they create in the distribution of income, wealth, and economic opportunity; the exercise of monopoly and other types of economic power; financial manipulation and productive inefficiencies; macroeconomic instabilities and unemployment; the blocking of technological and instrumental advance; and various forms of waste such competitive salesmanship" (Rutherford, 1999, p. 130). Importantly, all these critiques of business are not framed as market failures, because classical institutional economics does not share the neoclassical assumption about welfare-maximizing nature of perfect competitive equilibrium (Rutherford, 1995). Rather, these critiques give expression to the inadequacy of the pecuniary nature of business life to the technological state of the art of the societal self-provisioning process (ibid). Given their frequently critical assessment of the functioning of real-world markets and corporations, classical institutional economists made the case for "social control of business" (Clark, 1939), primarily in the form of democratic public planning (Hodgson, 2004; Tool, 2001). It was the contribution of Bowen (1953) to systematically elaborate on the possibility of the social control of business beyond the regulatory function of

the public sector through activating the "social responsibilities of businessmen."

Veblen and the Instrumental Value Paradigm

Veblen understood social provisioning as "a process of cultural growth as determined by the economic interest, …a cumulative sequence of economic institutions stated in terms of the process itself" (Veblen, 1898, p. 398). References to "process" in this quote signify Veblen's interest in reorienting economics along evolutionary lines, and away from the static neoclassical framework (cf. Veblen, 1898). A key fault line in the processual understanding of the economy is the precarious relationship of the prevailing economic institutions to the task of social provisioning. As he put it, "not that the institutions of today are wholly wrong for the purposes of life today, but they are, always and in the nature of things, wrong to some extent. They are the result of a more or less inadequate adjustment of the methods of living to a situation which prevailed at some point in the past development" (Veblen, 1899, p. 207).

The institutions that Veblen criticized particularly sharply were the prevailing economic institutions of his time, markets and corporations. He took them to be "outmoded and inadequate to the task of the social control of modern large-scale industry" (Rutherford, 2001, p. 174). The main object of Veblen's critique was "the predominantly 'pecuniary' character of the existing set of American institutions (that is, expressing the 'business' values of pecuniary success and individual gain by money-making, to the virtual exclusion of all other values)" (Rutherford, 2001, p. 174). In his 1953 classic, Bowen drew business ethics implications of Veblen's critique by imagining "businessmen … [to be] so fully imbued with a spirit of profit-making and with pecuniary standard of value that they are unable to see the social implications of their tasks—much less to follow policies directed toward the social interest" (Bowen, 1953, p. 115). In today's classic institutional economics scholarship, these Veblenian themes acquire renewed urgency in view of the unfolding financialization process (e.g., Atkinson et al., 2019) and the rise of multifarious sustainability concerns (e.g., Lin, 2021; Valentinov, 2021).

Classical institutional economists broadly agree that the Veblenian contrast between the problem-solving potential of technological knowledge and the potentially constraining influence of institutions has come to constitute one normative paradigm of this school of economic thought, the so-called instrumental value paradigm, which draws much inspiration from Dewey's theory of instrumental valuation. A central concept of the instrumental value paradigm is "the institutionalist dichotomy" (cf. Munkirs, 1988) which, in the current institutionalist literature, underscores the distinction between the instrumental and invidious functions of institutions (Tool, 2001). In its modern interpretation, the institutionalist dichotomy drives home the point that economic institutions may fulfill both the instrumental function of enabling and coordinating the social provisioning process, and the invidious function of giving primacy to vested interests seeking to control this process. According to Tool (2001, p. 165), the instrumental function activates human "capacity to think reflectively and critically, to perceive means-ends connections, and to formulate theories incorporating such reflections" (ibid, p. 165), while the invidious function induces humans "to retain habits of mind and habits of behavior which confer status, permit retention of power, provide self-identity and the like" (ibid, p. 165 et seq.; cf. Valentinov, 2021). Tool (2001, p. 293) explains that insofar as institutions succeed in fulfilling their instrumental function, they will provide "for the continuity of human life and the non-invidious re-creation of community through the instrumental use of knowledge."

Commons and the Reasonable Value Paradigm

Whereas Veblen is known for his detached, pessimistic, and skeptical assessment of capitalistic institutions, the work of John Commons embodies a much more positive view of capitalism and of its potential for reform. Similar to neoclassical economists, Commons acknowledged the fundamental condition of resource scarcity; but in contrast to his neoclassical colleagues, he did not believe that scarcity per se engenders the idea of optimal allocation in the competitive market setting (Ramstad, 1990). Instead, he believed that scarcity causes conflicts which require resolution through collective action which takes the form of working rules (ibid). In the current stakeholder scholarship, the term "collective action" has been emphasized by Stoelhorst et al. (cf. Stoelhorst, 2021; Stoelhorst & Vishwanathan, 2022; Bridoux & Stoelhorst, 2016). Whereas these authors use this term to refer to the collective action problems of team production and team innovation, Commons took collective action to be the basic stuff of institutional life; he famously defined the term "institution" as "collective action in control, liberation, and expansion of individual action" (Commons, 1970, p. 21). He accordingly considered economic institutions, such as markets and corporations, to present particular condensations of working rules whose ultimate task is conflict resolution. He thus made clear that "the working rule is not a foreordained harmony of interest, as assumed in the hypotheses of divine or natural rights, or mechanical equilibrium of the classical or hedonic schools, but it actually creates, out of conflict of interests, a workable mutuality and orderly expectation of property and liberty" (Commons, 2005, p. 92). Rejecting mechanistic and rational choice conceptions of business life, he stressed human purposefulness and the critical dependence of business life on the mobilization of human will.

The importance of human will manifests itself in the fact that people will not agree to enter those transactions which do not bring "workable mutuality" (ibid) as well as the requisite security of expectations. In the perception of many classical institutional economists, Commons' emphasis on the importance of mobilization of human will underpins a distinct normative paradigm of this school of thought, that of reasonable value (ibid; Rutherford, 1999). This paradigm drives home the point that business life will only flourish if its individual participants find the terms of their mutual transactions reasonable, based on any criteria that they subjectively consider important. Commons (1970, p. 25) explained that "reasonableness is best ascertained in practice when representatives of conflicting organized economic interests, instead of politicians and lawyers, agree voluntarily on the working rules of their collective action in control of individual action." In doing so, these representatives reflect on whether any one of them "is giving up a larger share, and the other is therefore receiving a larger share of the social output than is 'reasonable'" (Commons, 2005, p. 333). Practically speaking, transactional participants will find the terms of their interaction reasonable insofar as these correspond to the prevalent conceptions of "what constitutes an exchange free from duress and coercion" (Ramstad, 1990, p. 266).

The reasonable value paradigm differs from the instrumental value paradigm by deemphasizing the moral significance of the opinion of experts on whether specific transactions and business practices may be considered to correspond to the public interest in the social provisioning process (cf. Tool, 1986, p. 131). Crucial for determining the reasonableness are opinions of the concerned stakeholders rather than of experts, even though experts may have privileged access to technological knowledge and scientific expertise which are implicated in instrumental value (Ramstad, 1989). While the debate between the representatives of these paradigms is far from the state of final resolution (cf. Valentinov, 2021), it is clear that each of them has stimulated considerable institutionalist scholarship (Bromley, 2019; Tool, 2001). What is important from the perspective of stakeholder theory is that each of them goes far beyond the neoclassical utilitarian framework in capturing the moral richness of business life. Both paradigms are not reducible to the notion of market failures and potentially resonate with numerous moral concerns raised about present-day capitalism in the contemporary business ethics literature (e.g., Crane et al., 2019). But most importantly, as shown in the next section, they offer fresh insights into the moral nature of stakeholder management within the institutional nexus of the real-world market economies.

Rethinking the Nature of Stakeholder Management

Distinct as they are, the broad theoretical visions of Veblen and Commons both help to make sense of the role of stakeholder management within the context of the social provisioning process. The key contribution of Commons' vision is in the argument that the participants of this process share common interests in the security of expectations, conflict resolution, and the maintenance of order and workable reciprocity through ensuring reasonable terms of transactional relationships. In contrast, Veblen's contribution is in acknowledging the potentially conflictual and dysfunctional nature of capitalistic institutions and their endemic tendency to sabotage the smooth functioning of the social provisioning process. If both thinkers may be believed to have raised valid points, then the quality and effectiveness of stakeholder management practices will have decisive influence on the extent to which the actual operation of capitalistic institutions will facilitate or hinder the social provisioning process. More specifically, stakeholder management may help advance the common interests of the participants of the social provisioning process while avoiding or solving emerging conflicts. This understanding of stakeholder management is radically different from believing it to contribute to the neoclassical goal of shareholder wealth maximization, or more generally, social welfare maximization, thus potentially explaining why stakeholder theorists have either questioned the normative value of the latter goal (e.g., Jones & Felps, 2013a) or subordinated it to the goal of "wealth creation for all stakeholders" (Jones & Harrison, 2019, p. 81).

The Veblenian Perspective

A notable Veblenian contribution is the acknowledgment of the crucial discrepancy between the technological nature of the social provisioning process, which required, even at Veblen's time, large-scale organization and coordination, and the prevailing scheme of institutions, which gives primacy to atomistic conceptions of competition and private ownership, ultimately rooted in the Lockean philosophy of natural rights. In the context of stakeholder theory, this discrepancy translates into the inadequacy of what Donaldson and Preston (1995, p. 81) call "the model of management control in the interests of shareowners." In support of their seminal normative justification of stakeholder theory, Donaldson and Preston (ibid, p. 84) note that the modern understanding of "private property clearly does not ascribe unlimited rights to owners and hence does not support the popular claim that the responsibility of

managers is to act solely as agents for the shareholders." Post et al., (2002, p. 12) likewise criticize that, "at least in the Anglo-American tradition, the legal framework of the corporation and the great bulk of legal and managerial rhetoric are cast in terms of an ownership model in which the corporation as an extension of a basic human right to own property."

In Veblen's work, the notions of property rights and ownership signify the firm grip of business institutions over the technological side of social provisioning. The institutions of property rights and ownership prioritize the "pecuniary … advantage to the capitalist-manager" over "economic advantage to the community; or rather, the differential advantage of ownership is alone regarded in the conduct of industry under this system" (Veblen, 1919, p. 355). Veblen argued that the business control of industry results in the underutilization of the productive potential of the industrial system and thus qualifies as "industrial sabotage" which he defined as the "conscientious withdrawal of efficiency" (Veblen, 1921, p. 1). Drawing on this argument, Chassagnon and Dubrion (2020, p. 24) explicitly associate sabotage with "modern business practices based on the shareholder value paradigm." Stressing the interdependence and coherence of the contemporaneous industrial processes, Veblen (1904, p. 27) argued that "the economic welfare of the community at large is best served by a facile and uninterrupted of the various processes which make up the industrial system at large; but the pecuniary interests of the business men in whose hands lies discretion in the matter are not necessarily served by an unbroken maintenance of the industrial balance." In other words, the ownership relations and property rights sustained by these business men tend to disrupt the social provisioning process, and evidently in doing so introduce the condition of turbulence referred to by Freeman et al., (2010, p. 3). This institutionalist interpretation of turbulence draws support from Bridoux and Stoelhorst's (2022) emphasis on stakeholders' interdependence which evidently reflects the interdependence of the industrial system as seen by Veblen (1904, p. 27).

The Commonsian Perspective

Whereas the Veblenian ideas about the dysfunctional effects of the business control of industry set the context for the institutionalist understanding of the role of stakeholder management, this role itself is more directly illuminated by the Commonsian institutional economics. To Commons, the actual organization of business life by no means presents a natural or mechanical or automatic process, as might be inferred from the neoclassical supply-and-demand framework. Commons saw institutions of capitalism as embodiments of collective action that may potentially accommodate variable proportions of cooperative and conflictual elements. While Commons did not deny that business institutions, such as ownership and property rights, could disrupt the social provisioning process, he pointed out the possibility of "the self-recovery of capitalism" (Commons, 2009, p. 123), and more specifically, the "stabilization of capitalism through custom" (ibid, p. 130). He explained that this stabilization is an outcome of the "conscious activity of the collective wills of business men, of workingmen, of farmers, of the judiciary, of legislatures, and of public boards and commissions, endeavoring to adapt their customs, their rules and regulations, to the new industrial conditions by eliminating such practices as secrecy, extortion, discrimination, instability, and substituting such practices as publicity, security, and what in general may be known as the common-law concepts of reasonable value and reasonable practice" (ibid, p. 133).

In light of the Commonsian ideas about the role of customs in the stabilization of capitalism, the moral effects of stakeholder management may be supposed to reside in ensuring the security of stakeholder expectations and in maintaining order and workable reciprocity, which are all needed for making the terms of stakeholder interaction reasonable. If stakeholders perceive their terms of interaction as reasonable, they activate the goodwill needed to carry out the joint value creation process. Commons devoted a 1919 book to "industrial goodwill" which he understood as a managerial strategy for securing the loyalty of employees (Chasse, 2018). In the context of stakeholder theory, the notion of goodwill can be applied to any stakeholder who must choose between delivering and withholding her unique contributions to the joint value creation process. To Commons, this is an essentially moral choice that reflects the stakeholder's perception of the reasonableness of the relevant stakeholder relationships in light of the prevailing customs. Furthermore, in full accord with the integration thesis, Commons put this moral decision making at the core of his approach to institutional economics. In his own words, if "economic man should go along the street picking up groceries, clothing, and shoes according to their marginal utility to him, he would go to jail. He must first negotiate with an owner to whom the policemen, courts, and constitution have given the right to withhold from him what he wants but does not own, until that owner willingly consents to sell his ownership. This is his exposure to the liberty of owners, and this keeping out of jail is a part of what I mean by institutional economics" (Commons, 1936, p. 242 et seq.).

The Commonsian notions of goodwill and reasonable value add important nuance to Freeman et al.'s (2007, p. 6) characterization of capitalism as a "cooperative system of innovation, value creation, and exchange." To Commons, the cooperative nature of capitalism is real but contingent and historical rather than intrinsic; it is a provisional and precarious achievement of the collective action of a broad range of stakeholders from business, politics, legal system, and

civil society. In fact, he shared the Marxian belief about the existence of class conflict in the contemporaneous American society, but did not consider class to be the primary fault line of the economic struggles that actually occur. As he explained, "conflict of classes is with us continuously, but … this conflict is as many-sided as there are classifications of the people according to their economic interests. It is not really a struggle between classes, as understood by Marx. It is a struggle between classifications" (Commons, 2009, p. 135). It does not seem far off the mark to associate "classifications" with specific stakeholder identities of economic actors. Moreover, as Commons (1908, p. 765) argued in his analysis of class conflict in America, "class antagonism will not disappear as long as there is wealth to distribute, but it can be transferred to the jury of the people," with the "jury" being guided by the prevailing customs and understandings of reasonable value. Thus, Freeman et al., and and's (2007, p. 6) view of capitalism as a cooperative system of value creation may be usefully supplemented with the Commonsian argument that "there has not been and never will be an automatic harmony of interests… If harmony of interests is actually attained, it can be accomplished only as we go along, from day to day, dealing with each conflict as it arises, and settling it the best we know how" (Commons, 2009, p. 134).

Contributions to Stakeholder Theory

The rethinking of the nature of stakeholder management along the lines of classical institutional economics, as proposed in the previous section, suggests that stakeholder theory may be conceptually grounded in the institutionalist dichotomy, which presents "a basic analytical tool" of this school of economic thought (Munkirs, 1988, p. 1035). Given that the dichotomy accentuates the distinction between the common human interests in the well-functioning social provisioning process and pecuniary interests hardwired into the institutional texture of capitalism, stakeholder management may have a practical impact on how far the realization of the common interests may neutralize the differential advantage orientation of pecuniary interests. There is room to argue that it is this differential advantage orientation that creates the potential for conflicts and trade-offs obstructing the realization of the common human interests in the social provisioning process. Thus, from the standpoint of classical institutional economics, the chief object of stakeholder theory is the possibility of overcoming pecuniary conflicts and trade-offs for the sake of realizing the common human interests in the social provisioning process. The Veblenian perspective enriches stakeholder theory with an appreciation of the institutionally ingrained pecuniary conflicts and trade-offs, while the Commonsian perspective invites scholars to see the social provisioning process as the ultimate locus of the joint interests of stakeholders. Both perspectives provide a new lens for interpreting extensive empirical research on stakeholder management (cf. Freeman et al., 2020a, p. 225), particularly by drawing attention to how stakeholders reach reasonable agreements, and in the process of doing so, succeed in activating and mobilizing each other's goodwill. Stakeholder theory may thus be seen to concur with classical institutional economics in believing that the realization of any type of common interests in a capitalistic economy is by no means automatic; instead, it requires purposeful stakeholder efforts aimed at the attainment of reasonable terms of transactional relationships. The following subsections show that adopting these insights could help stakeholder theory to refine its understanding of a number of its crucial concepts.

Managerial Agency and the Role of Trade-Offs

If the proposed understanding of stakeholder theory is correct, it may offer a possible response to Johnson-Cramer et al., and and's (2022, p. 1107) call "to explore the extent and boundaries of the managerial agency," by locating this agency in attaining reasonable parameters of stakeholder interaction. As noted by the authors, this task indeed requires a good deal of managerial discretion, but a classical institutional economics perspective would locate a crucial part of this discretion in restoring the congruence between the formats of specific stakeholder relations and the broader conventional ideas about "what constitutes an exchange free from duress and coercion" (Ramstad, 1990, p. 266). In the idiosyncratic Commonsian terminology, the exercise of this type of managerial agency may be described in terms of the operation of "the institutionalized mind" (Commons, 2005, p. 73), i.e., the willingness of individual managers to give expression and enforce the habitual ideas of what constitutes a moral and reasonable stakeholder relationship.

The role of managerial agency in attaining reasonable value is particularly important for clarifying how managers could be able to deal with trade-offs among legitimate stakeholder interests (Freeman, 2010; Schaltegger et al., 2019). Freeman et al. (2020a) acknowledge that the possibility of these trade-offs tends to be seen as a tension of stakeholder theory, and add that "the factors demanding trade-offs, the consequences of such trade-offs, and whether there is even a need for trade-offs… are questions at the forefront of current stakeholder thinking" (ibid, p. 223). According to the leading stakeholder theorists, the task of overcoming such trade-offs may be successfully fulfilled by those corporate managers who successfully develop stakeholder mindsets (Freeman et al., 2018) and thus achieve "a higher consciousness …, through which they are able to see the interconnectedness and interdependence that those operating with lower levels of consciousness simply cannot see" (ibid, p.

221). From the classical institutional economics perspective, stakeholder interest trade-offs tend to be perceived by those managers whose ways of thinking are strongly shaped by the pecuniary aspect of capitalistic institutions. In view of their institutional origins, as clarified by classical institutional economics, these perceptions may be indeed pervasive and entrenched; yet the task of stakeholder theory is in shifting managerial ways of thinking, and thus managerial agency, away from differential advantage and vested interests toward the common stakeholder interests in the organization of the provisioning process. This means that perceptions of such trade-offs do not present a "tension" of stakeholder theory, but rather a key reason for this theory's very existence, as long as the capitalistic economy is affected by the institutionalist dichotomy.

Radicalizing the Integration Thesis

FREEMAN et al. (2020a) argue that tensions in stakeholder theory, such as the one related to stakeholder interest trade-offs, arise from the attempt to approach stakeholder theory problems based on the "narrow scientific" worldview characteristic of the mainstream strategic management scholarship. One of the reasons why this worldview may be unhelpful for grasping stakeholder theory is its incongruence with the integration thesis, i.e., the straightforward proposition "that it really doesn't make any sense to talk about business without talking about ethics and that it doesn't make much sense to talk about ethics without talking about business" (Freeman, 2008, p. 163). As Freeman (1999, p. 234) explains, stakeholder theory builds on the integration thesis in a radical way, namely by upholding the moral nature of the very stakeholder concept: "By choosing to call groups 'stakeholders,' rather than "interest groups,' 'constituencies,' or 'publics,' we have already mixed-up fact and value. *Stakeholder* is an obvious literary device meant to call into question the emphasis on 'stockholders'." Classical institutional economics, particularly of the Commonsian variety, reinforces and further radicalizes the integration thesis by suggesting that business life is generally based on the mobilization of human will which is guided by the moral idea of reasonable value. In the stakeholder context, this would mean that stakeholders will not normally agree to collaborate if they consider the terms of interaction unreasonable; thus the very existence of transactional relationships among stakeholders has moral value, which may of course differ depending on the nature of relational models of stakeholder relationships (Bridoux & Stoelhorst, 2016), or on stakeholder cultures (Jones et al., 2007), or on organizational identity orientations (Brickson, 2007). If stakeholder theorists face the task to explain the radical influence of the integration thesis on the understanding of business life, they may thus draw on the Commonsian idea that any activity on the part of any stakeholder reflects this stakeholder's moral decision not to withhold her productive contributions in light of the perceived reasonableness of the relevant stakeholder relationships.

Bridging the "Stakeholder-System Divide"

Yet another potential contribution of classical institutional economics to stakeholder theory might consist in helping to overcome what Johnson-Cramer et al., (2022, p. 1112) call "the stakeholder-system divide," i.e., the disconnect between the level of stakeholder theorizing and that of societal challenges and trends. The authors document a widespread "view that stakeholder theory itself is not designed to offer insight into system-level outcomes" (ibid). For example, Dmytriyev et al. (2021) argue that a societal perspective on business is characteristic of CSR rather than of stakeholder theory. As a result, whereas stakeholder theory limits its understanding of firm responsibility "to the reach of the firms' operations," CSR "focuses on how a firm deals with societal aspects," with the concomitant understanding of responsibility being limited to "social responsibility which can be extended throughout the globe" (ibid, p. 17). Freeman et al. (2020b), however, argue differently, and draw attention to the critical dependence of corporations on a broad range of societal institutions which evidently set the necessary societal context for stakeholder management. In a similar vein, Sachs and Rühli (2011) have long argued that successful stakeholder management involves the securing of societal licenses, such as license to operate, to innovate, and to compete. For example, the license to operate "focuses on the role of the firm in society and its acceptance. It includes the social and political stakeholders as indispensable constituencies in a firm's value creation" (ibid, p. 77).

Classical institutional economics can contribute to the debate about the "stakeholder-system divide" (Johnson-Cramer et al., 2022, p. 1112) by grounding the understanding of stakeholder relationships in a notion of reasonable value which organically combines business-focused and societal dimensions. Reasonable value is by definition concrete and tied to a specific nexus of time and space; it is intrinsically linked to specific transactions, relationships, and people; at the same time, it is always guided by habitual or conventional assumptions about "what constitutes an exchange free from duress and coercion" (Ramstad, 1990, p. 266). These assumptions reflect precisely system-wide institutional practices. Taking these system-wide practices into account enables stakeholder theory to connect to the notion of the cross-level feedback loops discussed in the broad range of social science and natural science literatures (cf. Kuttner, 2005; Richardson, 1999). In the institutional economics context, feedback loops are important for understanding how broader institutions are shaping individual behaviors through the mechanisms of "reconstitutive downward causation" while

being themselves modified through the exercise of human agency (Hodgson, 2004).

It is noteworthy that Oliver Williamson, the prominent contributor to transaction cost economics, proposed the comprehensive scheme of economic institutions encompassing four levels, including (1) informal institutions, customs, traditions, norms, and religion; (2) formal rules of the game, especially property rights; (3) play of the game, including contractual governance of transactional relationships; and (4) resource allocation and employment (Williamson, 1998). Acknowledging the existence of feedback loops between these levels, he admitted that the subject domain of transaction cost economics is limited to the third level only. Evidently, the Commonsian institutional economics encompasses all four levels. As Ramstad (1990) explains, Commons sees the allocative outcomes of transactional activity to be shaped by working rules whose reasonableness is subject to the ongoing reevaluation in light of the evolving customs, with customs themselves being the result of "the gradual evolution of approved practices through artificial selection by the courts, employed as standards in order to decide disputes in a world of limited opportunities" (Commons, 2009, p. 129). If stakeholder theory takes the Commonsian institutional economics on board, it would thus become firmly anchored in the thick institutional structure of the contemporary society, including all the four levels of the scheme proposed by Williamson (1998).

Limitations and Implications for Further Research

At the current stage of the development of stakeholder theory, it seems safe to say that the theory's contact with classical institutional economics has been largely non-existent. A possible reason for this lack of cross-fertilization could be that the founding fathers of classical institutional economics, perhaps with good reason, have not been associated with the discipline of business ethics, in spite of the acknowledged relevance of their work for modern organization theory (cf. Hamilton & Petrovic, 2009a, 2009b; Van de Ven & Lifschitz, 2009). The association of classical institutional economics with stakeholder theory might have been even more difficult for the reason that this theory is decidedly pro-business and pro-capitalistic (Freeman et al., 2007, p. iii; Freeman et al., 2020b), whereas much of classical institutional economics has tended to be critical of capitalistic institutions, such as markets and corporations. A number of institutionalist thinkers raised radical concerns about the societal role of capitalistic business (Kapp, 2011; Veblen, 1904) and criticized the pervasiveness of corporate power in the American society (e.g., Brady, 1943; Veblen, 1904; Galbraith, 1967; Dugger, 1989; Atkinson et al., 2019; see Valentinov & Roth, 2022, for an exception). This critical stance may limit the usefulness of classical institutional economics for stakeholder theory. Arguably, the Veblenian strand of this school of thought is more helpful for diagnosing the problems of capitalism rather than for determining how stakeholder management may try to redress them; but the Commonsian strand exhibits much better prospects for inquiring into how stakeholder management may contribute to what Commons (2009) called the self-recovery and stabilization of capitalism. While the critical stance of classical institutional economics is difficult to reconcile with the nexus-of-contracts view of the firm underpinning stakeholder theory (Bridoux & Stoelhorst, 2022), Commons saw contracts as customary practices that may be evaluated according to their reasonableness.

The limitation arising from the essential substantive (and perhaps ideological) differences classical institutional economics and stakeholder theory is magnified by the fact that neither of these schools of thought is monolithic. Freeman et al., (2010, p. 64) characterize stakeholder theory as "a genre of management theory." As a genre, this literature is supposed to exhibit, and indeed exhibits, substantial heterogeneity (Bridoux & Stoelhorst, 2022) which inevitably complicates the conceptual relationship with classical institutional economics. Disentangling these complications could, however, present a stimulating task for further research at the intersection of these schools of thought. For example, one may suppose that the pragmatist (Wicks & Freeman, 1998) and feminist (Wicks et al., 1994) approaches to stakeholder theory may be more amenable to interpretation in terms of the institutionalist notion of social provisioning than the libertarian approach (Freeman & Phillips, 2002). Other stakeholder theorists seek to ground their field of scholarship in the utilitarian philosophy which is rejected by classical institutional economists (Jones & Felps, 2013a); there could be much interest in clarifying how the improvement of the social provisioning process would be reflected by the utilitarian objective of "stakeholder happiness enhancement" (Jones & Felps, 2013b).

Likewise, the implications of classical institutional economics for stakeholder theory could be seen to be ambiguated by the coexistence of two distinct institutionalist normative paradigms, those of instrumental and reasonable value. Stakeholder theorists looking for guidance from these paradigms may, in principle, see them to be in conflict, as outlined by Tool (1986) and Ramstad (1989). But this conflict may itself be a fertile ground for productive research at the intersection of the two schools of thought. This research may turn attention to the ability of stakeholder management to intermediate between the two paradigms, in line with Atkinson and Reed's (1990, p. 1106) suggestion that "an instrumental adjustment to a problematic situation must be reasonable" to its participants. More specifically,

future scholarship may explore how far stakeholder management could be expected to restore institutional disruptions in the social provisioning process in such a way as to meet stakeholders' expectations about the reasonableness of their transactional relationships. If this research succeeds, then the instrumental and reasonable value paradigms could become candidates for distinct normative approaches to stakeholder theory. These approaches would uniquely combine normative cores with a strong grounding in (heterodox) economic thought.

At the same time, stakeholder theorists must be aware that due to its heterodox nature, classical institutional economics does not enjoy the political and power privileges of mainstream neoclassical economics. Practically, this means that in the landscape of today's economic thought, classical institutional economics is a minority school which is neglected or opposed by the powerful majority of neoclassical economists (cf. Hodgson, 1998). If stakeholder theory associates itself with classical institutional economics, it risks inviting similar opposition or neglect, especially in view of the fact that the economic discipline may be thought of as the "cultural echo" of society (Bromley, 2019, p. 49). A number of scholars indeed suggested that the predominance of neoclassical economics in the Western world may be grounded "in the Western culture of … competitive individualism" (Casson, 2006, p. 362; cf. Jo & Todorova, 2017, p. 32), as well as in its tendency to legitimate what Boyer (2005) called the market-oriented capitalism of Anglo-Saxon countries (cf. Kapp, 2011). But here, stakeholder theory has an impetus of its own. Johnson-Cramer et al., (2022, p. 1109) observe "a pragmatist turn in stakeholder theorizing," and identify a growing interest in strengthening the pragmatist foundations of stakeholder theory (cf. Pouryousefi & Freeman, 2021). Being rooted in pragmatist philosophy, classical institutional economics, including both the Veblenian and the Commonsian strands with their respective normative implications, seems well positioned to meet this interest.

The Veblenian strand of this school of economic thought may stimulate further work on the evolutionary foundations of stakeholder theory. Veblen's own famous ambition has been to transform economics into an evolutionary science based on Darwinian insights (cf. Veblen, 1898), with a key evolutionary idea being the shaping of human nature by prevailing institutions and habits which themselves unfold within the framework of the ongoing social provisioning process. Further work on stakeholder theory may draw on these Veblenian inspirations by exploring how various types of stakeholder relationships, e.g., in terms of stakeholder cultures (Jones et al., 2007), relational models (Bridoux & Stoelhorst, 2016), and governance mechanisms (Dorobantu, 2019), are shaping individual preferences and cultural dispositions. A related question for further work may be in clarifying the impact of the larger prevailing institutions and habits on the willingness and ability of corporate managers to accept the duties and obligations of the moral treatment of stakeholders. Just as Veblen emphasized the reciprocal influence of human agency and prevailing institutions, further work on stakeholder theory may explore the coevolution of the cultural attributes of human nature and human engagement in various types of stakeholder collaborations.

The Commonsian strand may inform the further development of stakeholder theory by inviting it to appreciate the multidimensional nature of the transaction concept. Up to now, stakeholder theorists have been stressing that their main object is relationship rather than transaction (e.g., Barney & Harrison, 2020, p. 206). In contrast, Commons saw transactions to be inherently relational; he considered them to be the smallest units of collective action which comprise "three constituents of conflict, dependence, and order" (Commons, 2005, p. 4). On this basis, he developed a seminal typology of bargaining, managerial, and rationing transactions, which differ in terms of "negotiational psychology," commitments for future action, and the execution of these commitments (see Van de Ven & Lifschitz, 2009, p. 515). Future work on stakeholder theory may draw on these Commonsian ideas to explore how stakeholder relationships are constituted by the flows of transactional activities which involve different configurations of collective action, and how different types of transactional relationships give expression to different values and moral commitments of business actors. Perhaps even more fundamentally, future work on stakeholder theory may assimilate the insight that any type of transactional relationship between stakeholders includes the elements of conflict and interdependence which are subsumed within its orderly organization. If this insight is fully taken on board, it will potentially revolutionize the understanding of trade-offs among stakeholder interests. Instead of being considered as a tension of, or challenge to, stakeholder theory, trade-offs could be seen as an invitation for novel transactional relationships which resolve conflict and achieve order in a way that must be reasonable to all concerned stakeholders.

Concluding Remarks

There is room to argue that the rise of stakeholder management has been fueled by the growing awareness of practical riskiness of orienting business strategy too closely in line with the neoclassical injunctions of the maximization of profit or shareholder wealth (cf. Freeman et al., 2010, p. xv). If this argument is correct, then stakeholder theory has economic implications that go some way toward questioning the real-world significance of neoclassical ideas (cf. Sachs & Rühli, 2011; Wood, 2008), or even toward a critical reconsideration of central institutional economics concepts such as ownership (cf. Post et al., 2002) and property rights (Donaldson & Preston, 1995). The

present paper gives prominence to these economic implications by elaborating their parallels with classical institutional economics, a heterodox school of economic thought which has long emphasized the inadequacy of neoclassical conceptions of atomistic individualism and welfare maximization for understanding the functioning of business institutions, such as markets and corporations, in the real world.

Classical institutional economics explores how the social provisioning process is coordinated or hindered by business institutions. Whereas the Veblenian strand of classical institutional economics accentuates the pecuniary nature of these institutions which makes them conflictual and likely to disrupt the provisioning process, the Commonsian strand explores how these institutions may contribute to realizing the common interests of stakeholders in ensuring the security of expectations, conflict resolution, and the maintenance of order. The two strands of classical institutional economics are, respectively, associated with the normative paradigms of instrumental and reasonable value each of which is rooted in the pragmatist philosophy from which stakeholder theory draws primary inspiration. These normative paradigms illuminate the unique contribution of stakeholder management toward overcoming pecuniary conflicts and trade-offs for the sake of realizing the common human interests in organizing the social provisioning process. Stakeholder management is thus shown to promote the orderly and reasonable organization of the social provisioning process while maximizing the practical problem-solving capacity of societal technological resources. On this view, stakeholder management harnesses managerial agency to resolve conflicts, such as trade-offs among conflicting stakeholder interests, by making stakeholder interaction reasonable and thus capable of mobilizing human goodwill. This view of stakeholder management underscores its relationship to the wider societal context of the modern capitalist economies while going far beyond the static and mechanistic neoclassical idea of social welfare maximization.

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