Trade-offs in stakeholder theory: an ordonomic perspective

Ingo Pies and Vladislav Valentinov

Abstract

Purpose – *Stakeholder theory understands business in terms of relationships among stakeholders whose interests are mainly joint but may be occasionally conflicting. In the latter case, managers may need to make trade-offs between these interests. The purpose of this paper is to explore the nature of managerial decision-making about these trade-offs.*

Design/methodology/approach – *This paper draws on the ordonomic approach which sees business life to be rife with social dilemmas and locates the role of stakeholders in harnessing or resolving these dilemmas through engagement in rule-finding and rule-setting processes.*

Findings – *The ordonomic approach suggests that stakeholder interests trade-offs ought to be neither ignored nor avoided, but rather embraced and welcomed as an opportunity for bringing to fruition the joint interest of stakeholders in playing a better game of business. Stakeholders are shown to bear responsibility for overcoming the perceived trade-offs through the institutional management of social dilemmas.*

Originality/value – *For many stakeholder theorists, the nature of managerial decision-making about trade-offs between conflicting stakeholder interests and the nature of trade-offs themselves have been a long-standing point of contention. The paper shows that trade-offs may be useful for the value creation process and explicitly discusses managerial strategies for dealing with them.*

Keywords *Stakeholder theory, Trade-offs, Ordonomic approach*

Paper type *Conceptual paper*

Ingo Pies is based at the Chair of Economic Ethics, Martin-Luther-Universitat Halle Wittenberg Juristische und Wirtschaftswissenschaftliche Fakultat, Halle, Germany. Vladislav Valentinov is based at the Leibniz Institute of Agricultural Development in Transition Economies, Halle, Germany.

Received 5 June 2023
Revised 23 August 2023
18 October 2023
Accepted 21 November 2023

Declaration: There are no conflicts of interest.

Since submission of this article, the following author has updated their affiliation: Vladislav Valentinov is based at the Department of Law and Economics, Martin Luther University, Halle, Germany and Next Society Institute, Kazimieras Simonavičius University, Vilnius, Lithuania.

Introduction

The wide-ranging scholarship on stakeholder theory converges toward understanding business as “a set of value-creating relationships among groups that have a legitimate interest in the activities and outcomes of the firm” (Phillips *et al.*, 2019, p. 3). Stakeholder relationships create value because “stakeholder interests go together over time” (Freeman *et al.*, 2007, p. 52) and can be supposed to be joint (Freeman, 2010, p. 27). “Value creation is a joint process” making stakeholders better off (Freeman *et al.*, 2007, p. 52), evidently because “capitalism [. . .] is primarily a cooperative system of innovation, value creation, and exchange” (Freeman *et al.*, 2007, p. 6). Yet, affirming the essentially cooperative nature of business and capitalism, stakeholder theory has to struggle with the fact that managers sometimes face trade-offs between the legitimate interests of various stakeholders. For example, managers may perceive the need to choose between increasing wages to satisfy employees, making products cheaper to satisfy customers or lowering CO_2 emissions to satisfy environmental activists and local communities.

Meanwhile, trade-offs between the interests of employees, customers, shareholders and other stakeholders are seen to pose a serious challenge to stakeholder theorizing (cf. Schaltegger *et al.*, 2019; Lee *et al.*, 2023; Wut and Ng, 2023). A number of leading stakeholder theorists seem to oscillate between deemphasizing stakeholder interest trade-offs and acknowledging their centrality. Freeman *et al.* (2020) considered trade-offs to be "more apparent than real" (Freeman *et al.*, 2020, p. 213), but stated further 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" (Freeman *et al.*, 2020, p. 223). This dualism is reflected in other stakeholder theory scholarship, one part of which treats the resolution of trade-offs as a core issue (cf. Godfrey and Lewis, 2019; Crilly, 2019; Valentinov and Chia, 2022), while another part interprets them as something that can be or should be avoided (Freeman *et al.*, 2018, 2020, 2010; Hörisch *et al.*, 2014).

As a result, the extant stakeholder scholarship does not provide a clear advice to managers who carry the epistemic and moral burden of managing trade-offs when push comes to shove. Granted, managers may find much practical wisdom and inspiration in Freeman *et al.* (2020, p. 226) insights into the unique role of "having shared values and purposes, a long-term orientation, [and] consciously building trust and fostering agility in the system." But the burden of the contextual application of these insights must be shouldered by managers themselves, who may accordingly be interested in an advice which is as specific as possible. This advice seems to fall in the rubric of what is referred to "managerial stakeholder theory" (Donaldson and Preston, 1995; Phillips *et al.*, 2019). It may even be the case that out of the widely known varieties of stakeholder theory, it is the managerial one that remains least well explored, in comparison to some of the others, such as the descriptive, instrumental, normative (Donaldson and Preston, 1995) and integrative one (Hörisch *et al.*, 2014).

The present paper addresses this gap by drawing on the ordonomic approach situated at the intersection of business ethics, institutional economics and game theory (Pies, 2016; Beckmann *et al.*, 2014; Pies *et al.*, 2014; Pies *et al.*, 2009). The paradigmatic concern of this approach is the possibility of transforming conflicts and win-lose interactions into win-win relationships through the implementation of semantic and institutional adjustments (Pies, 2016; Beckmann *et al.*, 2014; Pies *et al.*, 2014; Pies *et al.*, 2009). In the context of the present paper, the ordonomic approach fully acknowledges the reality and pervasiveness of conflicting stakeholder interests and the resulting trade-offs. However, it sees these trade-offs as a welcome opportunity to identify novel win-win potentials.

This argument enriches stakeholder theory in two ways. First, it encourages stakeholder theory to embrace the reality and centrality of trade-offs; second, it explores the nature of managerial judgments and heuristics aimed at the resolution of specific trade-offs. These contributions resolve some ambiguities in stakeholder theory while partly uncovering the black box of decision-making by managers who see themselves under pressure to deal with trade-offs in a way which is both pragmatic and moral. More specifically, stakeholder theory can take to heart the ordonomic insights about the transformation of win-lose interactions into win-win ones, whereas managers can benefit from the ordonomic distinction between optimization and governance and on this basis develop new competencies for dealing with trade-offs.

The rest of the paper starts with an explanation of the conceptual research design. This is followed by a reconstruction of the essential elements of the stakeholder theory scholarship about stakeholder interest trade-offs. These elements prepare the ground for the presentation of the ordonomic approach undertaken in the subsequent section, which is structured into three parts: key ordonomic ideas, implications for understanding trade-offs and the emerging advice for managers who are stuck in the trade-off situations. The paper ends by discussing the limitations of the argument and the implications for further work.

Research design

In methodological terms, the present paper proceeds by developing a new conceptual framework which can be generally understood as "the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs [...] research" (Maxwell, 2013,

p. 49). The construction of conceptual frameworks is a widely used method of qualitative research which helps "to bridge existing theories in interesting ways, link work across disciplines, provide multi-level insights, and broaden the scope of our thinking" (Gilson and Goldberg, 2015, p. 128; cf. Maxwell, 2013, p. 50), without necessarily generating new testable hypotheses or propositions (Gilson and Goldberg, 2015, p. 129). In line with the requirements noted by Gilson and Goldberg (2015, p. 128), our conceptual framework bridges stakeholder theory and the ordonomic approach in such a way as to explain the way in which stakeholder interest trade-offs can facilitate, rather than hinder, the value creation process. It contributes to a better linkage of the disciplines of strategic management and stakeholder theory whose relationship has been marked by persisting tensions (Freeman *et al.*, 2020). It provides multilevel insights into how the resolution of stakeholder interest trade-offs mirrors the embeddedness of stakeholder interaction within the institutional foundations of a market economy; and it broadens the scope of our thinking about the meaning of stakeholder management. This way, our conceptual framework fills a serious gap in stakeholder theory, namely, the lacking *systematic* account of the role of trade-offs in the essentially cooperative system of capitalism. "Systematic" is here a crucial word intended to acknowledge a logical contradiction between the cooperative nature of capitalism and the existence of trade-offs and hence conflicts, apparent or real, between stakeholder interests. Why are such trade-offs at all possible if business as a whole is a positive-sum game? Where do they come from? By clarifying these questions, the present paper will develop a systematic basis for the resolution of many, if not most, stakeholder interest trade-offs perceived by corporate managers.

Explaining the significance of conceptual frameworks in the design of qualitative research, Maxwell (2013, p. 50) stressed that they are supposed to go beyond a mere literature review by integrating "different approaches, lines of investigation, or theories that no one had previously connected," with the principal sources for this integration being researcher's experiential knowledge, existing theory and original pilot explorations and thought experiments. In the context of the present paper, the key existing theories are stakeholder theory and the ordonomic approach, whereas the pilot explorations and thought experiments are focused on how the cross-fertilization of these theories adds new nuance to understanding the notion of stakeholder interest trade-offs.

On this basis, we outline the conceptual research design of this paper through the following sequence of working steps:

- *Identification of tension:* We commence by elucidating the existing tension within stakeholder theory literature, stemming from its imprecise treatment of stakeholder interest trade-offs.
- *Introduction of ordonomic approach:* Next, we introduce the fundamental concepts of the ordonomic approach and elucidate its pertinence in resolving the aforementioned tension within stakeholder theory.
- *Development of ordonomic reconstruction:* We proceed to construct an ordonomic framework for stakeholder interest trade-offs. This framework accentuates the systematic resolution of these trade-offs and their role as instruments in the value creation process.
- *Recognition of contributions:* Our argument's contributions to stakeholder theory are then delineated. This enrichment entails a more nuanced understanding of the institutional underpinnings of capitalistic enterprises. Furthermore, its implications for managerial practice are expounded upon, empowering practitioners to address trade-offs constructively and in ways that foster value creation.
- *Discussion of limitations and research implications:* Subsequently, we explore the boundaries of our argument and contemplate its limitations. We also delve into the potential avenues for future research, particularly with an empirical orientation.

Stakeholder theory insights into trade-offs: the state of the art

Stakeholder interest trade-offs: defining the key term

We understand stakeholder interest trade-offs as a variety of organizational "paradoxes stem[ming] from the plurality of stakeholders" (Smith and Lewis, 2011, p. 384) who have "differing, and often conflicting, demands" (Smith and Lewis, 2011; Roth *et al.*, 2023). As a form of paradox, trade-offs involve "a balancing of factors all of which are not attainable at the same time" and "a giving up of one thing in return for another" (according to the Merriam-Webster dictionary). The notion of trade-offs plays a central role in neoclassical microeconomics. In a popular textbook, Mankiw (2001, p. 4) saw the first principle of economics in the idea that "people face trade-offs." This means that "to get one thing that we like, we usually have to give up another thing that we like. Making decisions requires trading off one goal against another" (Mankiw, 2001). We go beyond the economic understanding of trade-offs by taking into account a wider variety of organizational responses to this phenomenon.

According to Putnam *et al.* (2016), the possible organizational responses include "either-or," "both-and" and "more-than" varieties. In stakeholder theory context, "either-or" responses could arguably be exemplified by privileging the interests of any one stakeholder, such as shareholders; "both-and" responses would amount to identifying compromises between distinct stakeholder interests and balancing competing demands, whereas "more-than" responses would mean "reframing and transcendence" of trade-offs through "reflexive practice," including stakeholder dialogues, deliberation and learning (Putnam *et al.*, 2016, p. 65). Arguably, in terms of Putnam *et al.* (2016) paradox-theoretic terminology, stakeholder theory has underscored the limitations of the "either-or" strategy of shareholder wealth maximization and endorsed the "both-and" strategy of value creation for all stakeholders within largely fixed and unquestioned trade-offs, but it has paid little attention to the implications of the "more-than" strategies of reframing and transcending these trade-offs. At the same time, it is precisely "more-than" strategies that reflect the positive-sum game of business within market economies. The key conceptual tension of the current stakeholder theory arises from the missing understanding of the "more-than" strategies of reframing and transcending stakeholder interest trade-offs in the positive-sum game of business.

From a conceptual tension to a managerial challenge

Logically, the point of departure of stakeholder theory is that stakeholders have distinct and different identities and interests; at a minimum, the interests of nonshareholding stakeholders are distinct from those of shareholders. If corporate managers are to build and nurture stakeholder relationships, they must be able to take the perspectives of various stakeholders to genuinely understand their interests and needs, as well as to anticipate possible moral consequences of corporate actions. Thus, it becomes understandable that: "stakeholder management requires, as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making" (Donaldson and Preston, 1995, p. 67, emphasis added), even though stakeholder theory by no means recommends that "all stakeholders must be treated equally, regardless of the specific circumstances (Phillips *et al.*, 2003). In contrast, top management is challenged to identify which stakeholders are actually involved in a certain business activity" (Hörisch *et al.*, 2014, p. 330). To do so, managers must exercise discrimination and judgment, which are all the more needed for achieving "balance, fairness, [and] harmony within the whole system of stakeholders" (Freeman *et al.*, 2020, p. 221).

The precise nature of managerial judgment has been however an elusive issue. In assessing the salience of conflicting stakeholder concerns, managers have been shown to pay attention to the power, legitimacy and urgency of stakeholders (Mitchell *et al.*, 1997). Managerial attention to specific stakeholder concerns has been likewise found to be influenced by values, emotions, identities and organizational constructions (Crilly, 2019, p. 251). The adjudication of trade-offs may likewise depend on various dimensions of stakeholder management such as "the mechanism of governance (contractual vs relational), the relational arrangement (dyadic vs. collective), and the time horizon defining the stakeholder relationship (long vs. short-term)" (Dorobantu, 2019, p. 257). While this and related research illuminates crucial cognitive, behavioral and institutional parameters of managerial decision making, the core of this process itself necessarily remains hidden in the subjective minds of individual managers.

Consequently, the issue of trade-offs among stakeholder interests acquires particular salience in the context of sustainable development which rests on the combination of the economic, social and ecological pillars. Even though sustainability has been characterized as "a win-win oriented heuristics [which] encourages transcending 'trade-off thinking'" (Beckmann *et al.*, 2014, p. 23; cf. Schaltegger *et al.*, 2019), an important strand of scholarship questions the possibility of the harmonious unification of these pillars on the win-win basis (e.g. Hahn *et al.*, 2010). In this diverse landscape of opinions, stakeholder theorists have buttressed the view that sustainability goals can be achieved, and ought to be achieved, along the lines of mutually advantageous stakeholder collaboration (Freudenreich *et al.*, 2020; Schaltegger *et al.*, 2019; Hörisch *et al.*, 2014). According to Schaltegger *et al.* (2019), the win-win understanding of sustainability is not exhausted by the idea of the business case *of* sustainability; it also includes the business case *for* sustainability. The latter business case is co-created by stakeholders searching for solutions to social and environmental problems and thus holds the potential to overcome the limitations of the former business case (Schaltegger *et al.*, 2019). The keywords such as "co-creation" and "search for solutions" again boil down to managerial judgments and bring up the issue of heuristics that could be or ought to be used by managers seeking to create such business cases. Obviously, this heuristics can be defined and analyzed at various levels of detail. It is also open to question to what extent the explicit formulation of this heuristics is possible or even desirable. Freeman *et al.* (2010, 2020) approach seems to consist in inspiring this heuristics by indirect but highly suggestive cues referring to "higher consciousness," "shared purpose," "long-term orientation," "trust" and "agility in the system." Drawing on Ryle's (1945) distinction between "knowing how" and "knowing that," Freeman *et al.* (2020, p. 217) clearly associated stakeholder theory with the former: the "theory is about "knowing how" to engage stakeholders and create value for them, rather than the technical "knowing that" such and such is the case for all firms for all times for all problems for all configurations of stakeholders."

Admittedly, preference for "knowing how" indicates Freeman *et al.*'s (2020) appeal to tacit dimensions of managerial competence which, in the nature of the case, cannot be made explicit and subject to a rational reconstruction. It might be conjectured that the founding fathers of stakeholder theory subscribe to the Barnardian aesthetic view of management as art rather than science (Mahoney, 2002), a view implying that the management of stakeholder relations is steered by "non-logical thought processes," including hunches, gut feelings and intuition (Barnard, 1938). Freeman *et al.*'s (2020, p. 221) injunction that managers ought to seek "balance, fairness, and harmony within the whole system of stakeholders" might indeed be foreshadowed by Barnard's (1938, p. 238) understanding of "the executive process" in terms of "integration of the whole, of finding the effective balance between the local and the broad considerations, between the general and specific requirements." The founding fathers of stakeholder theory and Barnard are probably right; the possibilities for the explicit rational reconstruction of managerial judgments may be severely limited. Yet, it is nevertheless possible to explore at least some options for this reconstruction, even if it cannot go very far.

In our paper, we open up some of these options based on our fundamental vision of stakeholder theory's unique role at the intersection of ethics and strategy. We see the ethical dimension of stakeholder theory to prominently originate from European scholarship, notably the French strategic scholarship, as well as the Swedish administrative research school of the 1960s (Rendtorff and Bonnafous-Boucher, 2023, p. xvi; Bonnafous-Boucher and Rendtorff, 2016a, 2016b, 2016c, 2016d, 2016e). This body of work perceives firm–stakeholder relationships as mutually dependent, where both sides rely on each other to accomplish their objectives and ensure survival. Collectively, these European perspectives construct a comprehensive understanding of the ethical facet of stakeholder theory, emphasizing the intricate connection between companies and their external environments. To secure long-term survival, organizations must engage in ongoing dialogues with stakeholders, forming the foundation for reflection, action and decision-making, thereby fostering the link between the company and its economic, political and social surroundings (Rendtorff and Bonnafous-Boucher, 2023, p. xix).

On the strategic front, Freeman (1984) notably underscored the role of stakeholder theory as an approach to strategic management. With reference to his work and the broader American scholarship he represents, Bonnafous-Boucher and Rendtorff (2016c) highlighted that strategy involves decision-making within the context of the organization's interactions with its environment and resources. These decisions may inherently lead to trade-offs. As the authors argue, "it is impossible to take into account so many different groups, and it is, therefore, impossible to define a broad area of responsibility for the company. In addition, the interests of the different stakeholder groups present a potential conflict, making it difficult to reach agreement among them due to their divergent and conflicting interests" (Rendtorff and Bonnafous-Boucher, 2023, p. xxi). Nonetheless, Rendtorff and Bonnafous-Boucher (2023) presented a compelling counterargument, suggesting that trade-offs can be effectively addressed by leveraging the ethical foundations of stakeholder theory. They propose that fairness, as an ethical criterion, can serve as a guiding principle for managers, ensuring the gradual convergence of all stakeholder interests over time (Rendtorff and Bonnafous-Boucher, 2023). As the subsequent section elucidates, this concept aligns with the ordonomic approach, which explores how fairness practically informs managerial decision-making.

The ordonomic approach to stakeholder interest trade-offs

Key ideas of the ordonomic approach

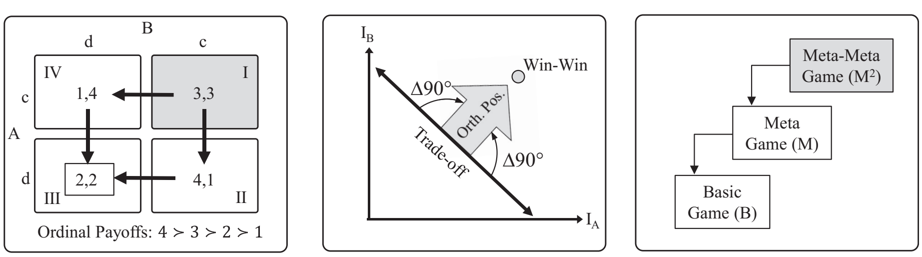
Defining the ordonomic approach. The ordonomic approach is a recent strand of business ethics scholarship that pursues "a rational choice-based analysis of institutional arrangements in order to systematically explore (interdependencies between) social structure and semantics" (Pies *et al.*, 2009, p. 378). Drawing on game theory, the ordonomic approach brings together institutional economics and business ethics in such a way as to illuminate the open-ended relationship between what Niklas Luhmann (1998) called "social structure" and "social semantics," or in a more conventional terminology, institutions and ideas. More specifically, the ordonomic approach takes to heart the Luhmannian insight that social structure and semantics may lack mutual alignment in ways that hinder societal learning and problem solving. A specific discrepancy between social structure and semantics that has been the lynchpin of the ordonomic analysis concerns the potential misfit between the moral categories of ancient and premodern societies, on the one hand, and the institutional imperatives of the modern society, on the other hand. In a broad variety of cases, this misfit takes the form of the conflict between self-interest and public interest, in such a way that the traditional ethical prescription of individual moral restraint fails to do justice to the complexity of systemic and structural problems of the modern society. In the context of the present paper, the above conflict translates into trade-offs among interests of stakeholders.

Key components of the ordonomic approach. The ordonomic interpretation of the conflict between self-interest and public interest is grounded in a specific three-tiered model of social interaction (Pies *et al.*, 2009, 2010; 2014). The tier comprising the day-to-day happenings, transactions and operational events is "the basic game of business" where companies are directly engaged in the search for profits by offering products and services to the public. According to the ordonomic approach, whatever happens within the basic game of business is in no way automatic or purely spontaneous; rather, all these happenings are fundamentally circumscribed by institutional parameters which are settled at the second tier of "the meta-game of business." This tier "involves rule-setting and establishing functional institutional arrangements" (Pies *et al.*, 2010, p. 269). The centerpiece of rule-setting, according to the ordonomic approach, is the management of social dilemmas which are characterized by the concurrence of common and conflicting interests of their participants (Pies *et al.*, 2010). Individuals and organizations stuck in a social dilemma have a common interest in resolving it and in playing a better game. Toward that end, they may use a broad variety of commitment and self-commitment strategies (Beckmann *et al.*, 2014). The ordonomic approach furthermore acknowledges that the collective action required for the resolution of social dilemmas itself presupposes active communication and shared understandings among their participants. This communication is thought to occur within the third tier of "the meta-meta game of business." At this tier, "companies cultivate and participate in a common rule-finding discourse" (Pies *et al.*, 2010, p. 270).

The three-tiered model of social interaction implies that tensions, collisions, conflicts and trade-offs experienced by corporations within "the basic game of business" can be traced back to social dilemmas which can be, in principle, resolved or harnessed within "the meta-game of business." Given that the principal feature of social dilemmas is the possibility of win-win solutions, the ordonomic approach considers trade-offs and related problems to provide stimuli for institutional reforms, some of which may be undertaken by the concerned stakeholders themselves. Notably, the attainment of win-win solutions through institutional reforms is by no means automatic. It may be hindered by dysfunctional mental models preventing stakeholders from seeing that they do not need remain stuck within "the basic game of business," and that they have the option of advantageously interacting at other two tiers of the ordonomic model.

Visualizing the ordonomic approach. A concise visual presentation of the above ideas of the ordonomic approach is offered in Figure 1 which consists of three parts. The left part illustrates a social dilemma on the example of the classic prisoners' dilemma. Two players A and B are faced with the choice of whether they prefer to cooperate (c) or defect (d). The ordinal payoffs ($4 \succ 3 \succ 2 \succ 1$) reflect the subjective calculations of individual advantages and disadvantages. The arrows indicate that each player has a dominant strategy. A Nash

Figure 1 Social dilemma, orthogonal positioning and three-tiered schema



Source: Created by authors

equilibrium emerges in Quadrant III. This dilemma illustrates the coexistence of harmony and antagonism of players' interests. Along the diagonal between Quadrants II and IV, there is a sharp conflict of interest; what constitutes the best case for one player is the worst case for the other. At the same time, players share a common interest in preferring the payoff pair (3.3) to the payoff pair (2.2). Yet, in the current situation, this sort of mutual improvement is not possible.

The middle part of Figure 1 illustrates the way Players A and B perceive their situation. The negatively sloped trade-off-line reflects the perception of the conflict of interests. This perception is framed by the logics of either-or and win-lose: the interests of Player A (I_A) can only be realized at the expense of the interests of player B (I_B) and vice versa. Crucially, the arrow pointing to the north-east signifies the transcending of this perception by accentuating the common interests of the players. This arrow illustrates the nature of the "orthogonal positioning," i.e. the change in the direction of thought around 90˚ (Pies, 2016). In terms of the prisoners' dilemma in the left part of Figure 1, orthogonal positioning diverts the attention away from the diagonal along Quadrants II and IV and directs it instead to the diagonal of Quadrants I and III. This way, orthogonal positioning drives home the point that players find themselves in a truly *social* dilemma and consequently have a *common* interest in realizing *mutual* betterment, even though it is not feasible in the current institutional framework (i.e. social structure).

The right part of Figure 1 depicts the ordonomic three-tiered model of social interaction. Social dilemmas occur within the tier of the basic game, whose rules are fixed at the tier of the meta-game, e.g. through negotiation between the players. The third tier of the meta-meta-game provides the arena for discourse about the nature of the changes in the rules of the game that could be suitable for solving the dilemma problems of the basic game. This way, the three-tiered model illustrates the possibility of addressing sociostructural dilemmas (in B) through a semantic reorientation guided by the idea of orthogonal positionings. The semantic marker of this reorientation is overcoming the trade-off thinking (in M^2) and enables negotiation (in M) to transform the social dilemma (in old B) into a win-win interaction (in new B). By affecting the semantics of stakeholder communication, orthogonal positionings nudge stakeholders to explore and act upon their common interests, even if some of their other interests may be conflicting. In the present context, orthogonal positioning can be considered to be the main thrust of those managerial judgments that follow stakeholder theory's advice of converting trade-offs into win-win opportunities.

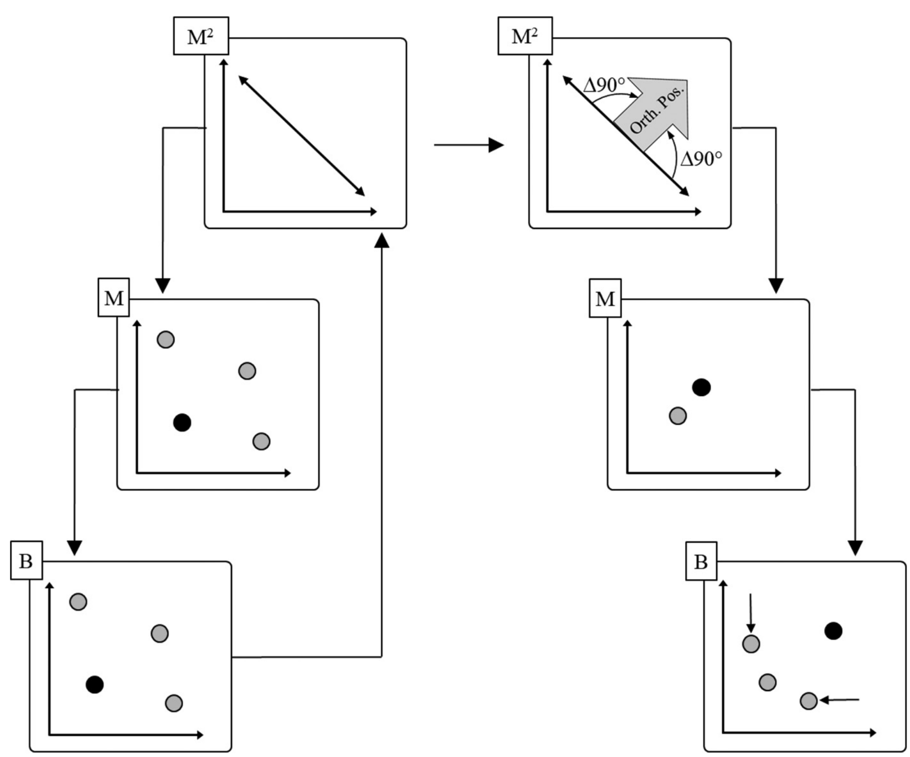
In practical terms, undertaking institutional and semantic adjustments has constituted the core activity of multistakeholder initiatives, such as the Roundtable for Sustainable Palm Oil, the Marine Stewardship Council or the Forest Stewardship Council (De Bakker *et al.*, 2019, p. 343; Pies *et al.*, 2021, p. 801). These initiatives present "forms of collective self-regulation where governments are either unwilling or incapable of providing adequate regulation at the national or global level" (Zeyen *et al.*, 2016, p. 135). De Bakker *et al.* (2019, p. 346) characterized these initiatives as "voluntary rule-systems [...] that are governed by stakeholders who jointly cross the profit/nonprofit and state/non-state boundaries." The semantic adjustment effected by these initiatives consists in the definition of rules and standards which the participating stakeholders wish to mutually impose on themselves; the institutional adjustment consists in the practical imposition and enforcement of such rules and standards. For example, reporting on stakeholder interaction within the International Programme on the Elimination of Child Labour, promoted by the International Labor Office, Voegtlin *et al.* (2022, p. 14) noted that "the evolution of the discourse on the issue of child labor [...] began with accusations by NGOs and denial by business firms and moved to agreeing on a common understanding that child labor is not to be tolerated, including the definition of different forms of child labor." Reaching this common understanding presents a semantic adjustment (in M^2), which has been followed by the institutional adjustment of the adoption of rules and standards (in M), prohibiting child labor (in B).

Revisiting stakeholder interest trade-offs

By giving pride of place to the notion of many-sided as well as one-sided social dilemmas (cf. also Kreps, 1990; Greif, 2000), the ordonomic approach is paradigmatically concerned with possibilities of transforming trade-off situations into win-win scenarios. Some of the dilemmas considered by the ordonomic approach are desirable, such as market competition (cf. Heath, 2014; Pies *et al.*, 2014, 2010; 2009). Even though competition presents a situation of collective self-damage for individual competitors, it benefits consumers, and in that sense constitutes a mutually advantageous form of cooperation at the level of society as a whole. Other dilemmas are undesirable; these can be exemplified by the problems of environmental pollution, corruption, corporate fraud and violations of human rights (Pies *et al.*, 2021). In contrast to the desirable dilemmas which are deliberately maintained by inscribing them within the institutional frameworks, the undesirable dilemmas may be subject to the similarly deliberate process of elimination, again on the basis of institutional adjustments. Figure 2 helps to illustrate the ordonomic idea of stakeholder management as a learning process. It differentiates between the problem to be solved (on the left side) and the problem solution (on the right side). For greater clarity, the ordinal payoffs are now interpreted cardinally, and equilibrium strategy combinations are represented by black dots.

As a case in point, consider the problem of environmental pollution, which typically takes the form of a social dilemma among competing corporations (game B in the left part of Figure 2). Suppose that corporate managers seek to meet the customers' interest in ensuring that the products are safely packaged and are confronted at the same time with

Figure 2 Social structure and semantics in the ordonomic three-tiered scheme



Source: Created by authors

environmental activists' demands to minimize packaging waste. This situation may be thought of as a conflict between profit orientation and environmental protection (in M^2). Managers may perceive themselves as choosing a legitimate corner solution within a given trade-off between the interests of consumers (and by implication shareholders) on the one hand and environmental concerns on the other hand. Meanwhile, environmental activists and parts of the media may prefer and publicly claim the opposite corner solution. This antagonistic mindset (in M^2) leaves no room for negotiating an improved set of rules (in M) that would solve the social dilemma among competing corporations (in B). In fact, the meta game simply *duplicates* the social dilemma in the basic game. As long as the frame of perception is dominated by trade-off or zero-sum thinking, constructive efforts at problem solution are blocked, which tragically cements the pareto-inferior result of environmental pollution.

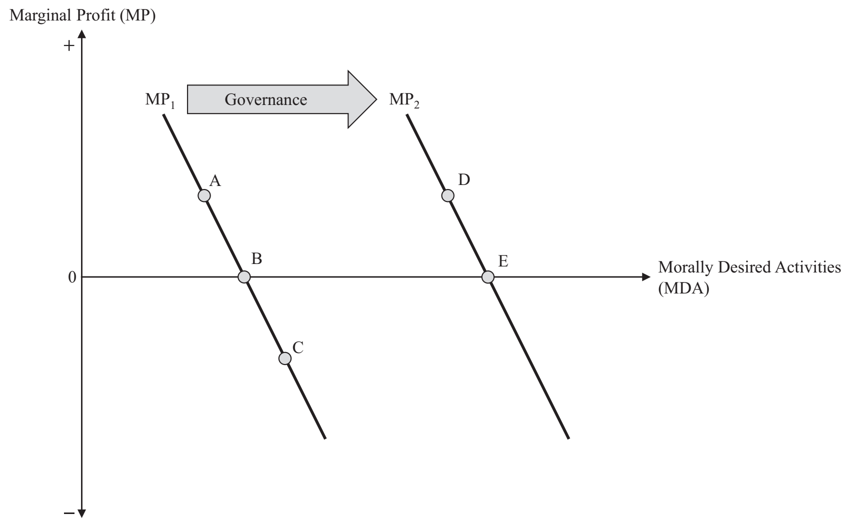
The right side of Figure 2 illustrates the ordonomic reconstruction of Freeman *et al.*'s (2010, p. 28) advice for managers to avoid and improve the trade-offs. Managers might succeed in creating an awareness among all stakeholders that they all share a common interest in the operation of their corporation. If environmental activists come from a local community in which the corporation is located, they might appreciate the diverse ways in which this community benefits from the corporation's existence. Managers themselves, in turn, may benefit from engaging environmental activists in the process of devising new ecologically friendly products and technologies which could allow improving the public image and/or competitive standing of the corporation. Thus, focusing attention on the common interests of stakeholders, managers may facilitate the emergence of new orthogonal positionings within the meta-meta-game (M^2), thus transforming the original social dilemma of the meta-game (M) into a pure coordination game, thereby facilitating a pareto-superior result in the basic game (B).

Implications for managerial guidance

Distinguishing optimization and governance. The suggested ordonomic reconstruction of stakeholder interest trade-offs generates relatively straightforward implications for the controversial debates about the nature of guidance that stakeholder theory can offer to managers stuck in difficult trade-off situations. The ordonomic approach seeks to make managers alert to the fact that they are typically facing two distinct challenges, optimization and governance. Whereas the optimization challenge involves choosing moves *in* a given game, the governance challenge is concerned with (re-)configuring the rules of the game itself. From the ordonomic perspective, trade-offs among stakeholder interests have a relatively clear logical relation to these two challenges. Namely, these trade-offs are registered, and perhaps painfully experienced, by managers seeking to cope with the optimization challenge; the governance challenge, in contrast, is about reconfiguring the rules of the game in such a way that the trade-offs are overcome and replaced by the salience of the common interests of stakeholders. The distinction between the optimization and governance challenges is visualized in Figure 3, which links them to the very point of departure of stakeholder theory, namely, the conflict between the profit maximization objective and the legitimate interests of various stakeholder groups that expect morally desired activities (MDA) from the company (cf. Pies and Hielscher, 2023)

For example, employees may expect higher wages or better working conditions, customers may prefer lower prices or better product quality, and civil society organizations may press the company for more environmental protection or for supporting local civic initiatives such as volunteer fire brigades or childcare centers. Regardless of the specific type of MDA, the ordonomic approach assumes that a certain level of these activities is consistent with the profit maximization objective, because of their positive impact on stakeholder loyalty and public image. This assumption is exemplified by Point A on company's marginal profit line MP_1, which gives expression to the possibility for managers to increase company's profits

Figure 3 Optimization versus governance



Source: Created by authors

by choosing a higher level of MDA. In making these decisions, managers move along the marginal profit line MP_1 to the right. In ordonomic parlance, this movement is referred to as a *first-order win-win activity*, which, despite its win-win nature, may potentially lead to stakeholder interest trade-offs (consistently with the above mentioned insight by Schaltegger *et al.* (2019, p. 194). This paradoxical outcome is reached in Point B, where marginal profit is zero, and from the point of view of the optimization challenge, the company is in an equilibrium state, although some stakeholders may still be dissatisfied.

Within the current optimization framework, meeting the demands of such stakeholders would push the company into the realm of negative marginal profits, which has adverse implications not only for the financial health of the company but also for career prospects of company managers. This possibility is, in fact, well examined by stakeholder theory which acknowledges that an overly generous treatment of stakeholders by managers is tantamount to "giving away the store" (e.g. Harrison and Bosse, 2013). Yet, a central message of the ordonomic approach is that managers may still increase the provision of MDA without "giving away the store" if they reorient their decision-making from optimization to governance. Instead of moving along a given marginal profit line, the switch from optimization to governance can bring about a shift from MP_1 to MP_2. Consequently, additional MDA are implemented not within the old game requiring sacrifices of profit, but within the new one that allows mutual betterment. The core idea is not to give up optimization, but to reframe the situation via governance such that optimization leads to better results, such as the movement from B to E. This improvement in MDA is what the ordonomic approach refers to as a *second-order win-win activity*.

Clarifying ethical rationality of managerial judgments. By supporting managerial guidance along the suggested lines, the ordonomic approach sheds new light on the nature of ethical rationality in managerial judgments which are needed for the evaluation of trade-offs. Ethical rationality in managerial judgments is the ability to apply moral principles and values to the decision-making process. It requires managers to consider not only the economic consequences of their actions but also the moral implications for themselves and others. Ethical rationality also involves the recognition of the complexity and uncertainty of the business environment, and the willingness to seek win-win solutions that can benefit multiple stakeholders. The ordonomic approach makes clear that the ethical rationality in managerial judgments is not only a matter of applying moral rules or codes of conduct but also a matter of creating and changing the rules and institutions that shape the business environment. On the ordonomic view, ethical rationality is not only a matter of choosing among given alternatives but also a matter of generating new alternatives that can satisfy multiple stakeholder interests. It is not only a matter of following one's own self-interest but also a matter of recognizing and respecting the interests of others. It is not only a matter of reacting to problems but also a matter of proactively solving them.

The ordonomic understanding of ethical rationality of managerial judgments does not assume that corporate managers and stakeholders necessarily use any deliberate techniques of rational choice; neither does the approach explicitly encourage them to do so. The way these stakeholders might arrive at orthogonal positionings is seen as fully open-ended and may include intuition, introspection, informal communication, debates on various stakeholder platforms, a variety of methods of systemic management (Jackson, 2019). The invention of orthogonal positionings evidently occurs through a process of stakeholder interaction that takes place on multiple sites, is affected by materialities and thus calls for a thorough understanding of social practices sustained by stakeholders. Although the diverse and open-ended methods for inventing specific orthogonal positionings go far beyond the traditional economic interpretations of rational choice, the ordonomic approach nevertheless claims that the outcomes of their practical employment can be considered to be rational insofar as they comprise orthogonal positionings which transform the situations of conflict into those of win-win interaction. In other words, the ordonomic approach considers rational choice to be a variety of the second-order observation and reconstruction of what Barnard (1938) would characterize as "non-logical thought processes," as long as the these processes help to promote mutually advantageous cooperation. This sort of (external) second-order observation remains nevertheless highly useful, as it makes explicit both the salient problems and their possible solutions, maximizing thereby the learning experience and on this basis helping managers to come to grips with difficult trade-offs by switching between different game levels within the ordonomic three-tiered scheme.

Contributions of the argument

Theoretical contributions

The ordonomic approach lends support to those stakeholder theory arguments that emphasize the variability and contingence of stakeholder constellations marked by the salience of trade-offs. For example, in advancing the notion of "the business case for sustainability," Schaltegger *et al.* (2019, p. 191) noted that "a business case is not a given phenomenon but has to be co-created in the exchange between and with contributions from various stakeholders." The ordonomic three-tiered model of social interaction shows that trade-offs and conflicts experienced within the basic game of business may be modified through stakeholder interaction at the tiers of meta and meta-meta games. This interaction may entail institutional and semantic adjustments, each of which seems to be acknowledged by Schaltegger *et al.* (2019). Thus, the ordonomic approach holds the potential to sensitize this stakeholder theory argument to the importance of the resolution of social dilemmas with the help of orthogonal positionings, which may in turn require special managerial competencies in governance, orientation, reception and communication (Pies *et al.*, 2009).

However, the core contribution of the ordonomic approach is in bringing clarity to the status of trade-offs in stakeholder theory and specifying how managers could deal with them. In the proposed argument, trade-offs are direct points of departure for creating value by discovering and tapping new win-win opportunities. Thus, trade-offs are fully real rather than apparent or illusory; but this does not mean that their existence poses an insurmountable challenge to stakeholder theory. If stakeholder theory took the ordonomic insights on board, it would call on managers to openly embrace rather than avoid trade-offs, with an eye to exercising wise and balanced judgment on how these trade-offs can be transcended and overcome. These insights are aligned with those standpoints that affirm the centrality of trade-offs in stakeholder theory (cf. Godfrey and Lewis, 2019; Crilly, 2019).

Another contribution of the ordonomic approach is in showing how stakeholder theory can effectively strike a balance between economics, ethics and strategy. It provides a roadmap for managers to navigate these intricate dimensions within their decision-making processes. This is particularly crucial, considering Rendtorff and Bonnafous-Boucher's (2023, p. xix) recognition that "every company is in a complex interaction with the outside world. In order to survive in the long term, the organization should be aware of this internal and external interaction and engage in ongoing dialogue with stakeholders. This dialogue forms the basis for reflection, action, and decision, which sees the company in close connection with the economic, political, and social environment" (Rendtorff and Bonnafous-Boucher, 2023, p. xix). Through the ordonomic lens, we have demonstrated that managers can directly leverage the ethical foundations of stakeholder theory by redefining the institutional parameters governing stakeholder interactions. They can practically implement the fairness criterion of stakeholder management by orchestrating the processes of rule-setting and rule-finding, in which the shared interests of stakeholders become explicit and actionable. By introducing the concepts of social dilemmas and orthogonal positionings, the ordonomic approach underscores the active role of stakeholders in shaping and adapting the institutional framework of value-creating business relationships. In doing so, it empowers stakeholder management to effectively "address social expectations of social responsibility, the ethical position in society, and good citizenship, and as an expression of the company's efforts to help promote the common good in society, where businesses create value for society" (Rendtorff and Bonnafous-Boucher, 2023, p. xxii). In essence, the ordonomic approach offers a pragmatic pathway for companies to align their economic goals with ethical imperatives while strategically managing their stakeholder relationships. It empowers managers to navigate the intricate web of interactions and expectations that define a company's place in the broader social and economic landscape, ultimately contributing to the common good and societal well-being.

By highlighting how stakeholder theory might navigate the balance between economics, ethics and strategy, our argument offers a valuable perspective on how to understand and operationalize stakeholder responsibility in a complex and changing world. It shows that stakeholder responsibility is not only a matter of complying with existing rules and norms but also of creating and changing them through collaborative and participatory processes. It suggests that stakeholders are not only passive recipients or active agents of responsibility but also co-creators and co-shapers of responsibility. It implies that stakeholder responsibility is not only a static or reactive concept but also a dynamic and proactive one that evolves and adapts to the changing needs and expectations of stakeholders and society. In that sense, the ordonomic approach challenges stakeholders to take responsibility for finding or even creating win-win solutions that can benefit all parties involved, rather than settling for zero-sum outcomes that favor some at the expense of others. At the same time, it supports stakeholders by drawing attention to the role of governance in enabling or hindering stakeholder responsibility. It shows that governance is not only a set of rules and structures that constrain or facilitate stakeholder behavior but also a process of rule-setting and rule-finding that involves stakeholder participation and dialogue. It encourages stakeholders to take responsibility for shaping and adapting the governance framework that governs their relationships, rather than accepting or resisting it as given or fixed. It also inspires stakeholders to take responsibility for developing and applying their competencies in governance, orientation, reception and communication, rather than relying or depending on their resources or power.

Finally, it seems fair to note that the productive dialogue between stakeholder theory and the ordonomic approach goes both ways. The ordonomic approach not only adds new insights to stakeholder theory but also itself gains new inspirations. Most importantly, the ordonomic understanding of dilemmas is usefully illuminated by the stakeholder–theoretic idea of the growing turbulence of the business environment. To Freeman (1984, p. 27; cf. Freeman *et al.*, 2010, p. 3), turbulence constitutes one crucial point of departure for the stakeholder approach to strategic management, with key dimensions of turbulence being environmental dynamism, high knowledge intensity of specific business activities and significant task and outcome interdependence (Jones *et al.*, 2018, p. 381). The stakeholder theory insight of considerable relevance to the ordonomic approach is that the growing turbulence of the business environment will likely tend to exacerbate undesirable social dilemmas while undermining the functionality of desirable ones. In that sense, the two schools of thought share important common ground illuminating the origins of numerous conflicts between legitimate stakeholder interests.

Practical contributions

Providing the ordonomic heuristic. The key practical contribution of the proposed argument is the provision of an ordonomic heuristic that equips managers with a navigational tool for decision-making in the face of conflicting stakeholder interests. This heuristic underscores the significance of embracing stakeholder interest trade-offs as opportunities for value creation through the active participation of stakeholders in the formulation and establishment of rules that govern their interactions. Accordingly, the ordonomic approach advises stakeholders to collaboratively harness these dilemmas as springboards for joint value creation. Corporate managers are thereby invited not to disregard or sidestep stakeholder interest trade-offs, but rather to greet them with enthusiasm, perceiving them as conduits to realizing the mutual aspirations of stakeholders and thereby refining the essence of business practices. Furthermore, central to the ordonomic approach is the realization that the salience of common or opposing stakeholder interests within a social dilemma is intrinsically tied to the governance framework in place. Conflicting stakeholder interests, rather than representing insurmountable obstacles, embody latent reservoirs of untapped value creation. By reconfiguring governance structures to accommodate these diverse interests, potential value can be unlocked. This is achieved by tailoring governance mechanisms to accommodate varied stakeholder concerns.

Implementing the ordonomic heuristic. In terms of practical implementation, the ordonomic heuristic for managers faced with stakeholder interest trade-offs requires the expansion of the functional range of stakeholder work as well as the specification of managerial competencies needed for carrying out this work. As explained by Mitchell and Lee (2019, p. 58), stakeholder work consists of "the purposive processes of organization aimed at being aware of, identifying, understanding, prioritizing, and engaging stakeholders." In their comprehensive literature review on stakeholder work, Mitchell and Lee (2019, p. 66) conceded that this literature is based on the economic assumption of "value creation given tradeoffs" (Mitchell and Lee, 2019, p. 66). In terms of Figure 3, Mitchell and Lee's (2019) five distinct phases of stakeholder work (pertaining to awareness, identification, understanding, prioritizing and engagement of stakeholders) present elements of MDA along a given marginal profit line, or within a fixed situational framework. What is obviously missing in this classification of stakeholder work is an account of the possibility of rightward shifts of the marginal profit line via value-creating governance activities. To fill this gap, it is necessary to dissociate the notion of stakeholder work from the assumption of fixed and given trade-offs admitted by Mitchell and Lee (2019, p. 66). This can be done by extending the third phase of stakeholder work, namely, stakeholder understanding work which rests on the completed phase of stakeholder identification, to include the diagnosis of undesirable social dilemmas plaguing the interaction of corporations and stakeholders. In the above cited example of environmental pollution, corporate managers facing the painful trade-off between the interests of consumers and environmental activists come to sense this dilemma in the process of undertaking stakeholder understanding work.

If "stakeholder understanding work" results in the identification of social dilemmas, then the ordonomic approach would advise managers to undertake quite different types of stakeholder work, namely, rule-setting and rule-finding work, corresponding to the meta- and meta-meta-game tiers in the ordonomic scheme. Rule-setting and rule-finding work are required to sustain the governance effort aimed at shifting the marginal profit line to the right. If these ordonomic types of stakeholder work indeed result in the rightward shift of the marginal profit line, they will require a reconsideration of the specific content of all five phases of stakeholder work defined by Mitchell and Lee (2019). Thus, stakeholder work will involve a sequence of five phases defined by Mitchell and Lee (2019), unless it is disrupted by the undertaking of rule-setting and rule-finding work which, in the case of their successful completion, initiate a new five-phase cycle. This disruption becomes particularly likely precisely in those cases when managers are facing painful trade-offs between legitimate but conflicting stakeholder interests.

Cultivating managerial competencies. To carry out rule-setting and rule-finding work successfully, managers will need distinct competencies which go beyond the expertise needed for the more conventional stakeholder work processes of "identifying, understanding, prioritizing, and engaging stakeholders" (Mitchell and Lee, 2019, p. 58). Following Pies *et al.* (2010), we argue that the conventional stakeholder work processes call for "optimization competence," whereas carrying out rule-setting and rule-finding work requires quite different competencies in governance, orientation, reception and communication. As Will and Pies (2018) suggested, these competencies allow managers to engage in sense-giving which may subtly frame stakeholders' sense-making processes in such a way as to accentuate the win-win potentials. Although Pies *et al.* (2010, p. 271) urged that the formation of competencies be promoted by the formal business education, one might nevertheless believe that they contain tacit and experiential dimensions which are more adequately described in terms of "knowing how" rather than "knowing that" (cf. Freeman *et al.*, 2020). If Jones *et al.* (2018) are right in believing the managing of stakeholder relationships to require "close relationship capabilities," then the ordonomic contribution may be in linking a part of these capabilities to the dimensions of governance, orientation, reception and communication, to be put to productive use within the meta and meta-meta games of business.

As Pies *et al.* (2010, p. 271) explain, governance competence enables managers to resolve social dilemmas by modifying the incentive structures of stakeholder interaction in such a way that the Nash equilibrium becomes pareto-superior. This modification presents an institutional adjustment achievable at the meta-game tier of the ordonomic scheme through corporate self-commitments or corporate participation in collective commitments (Pies *et al.*, 2010). Managers operating at the meta-meta-game tier of the ordonomic scheme need orientation competence to be able to recognize specific roles of stakeholders in the joint value creation process underpinning the company's core business (Pies *et al.*, 2010, p. 272); in other words, the orientation competence supports managers in embracing stakeholder mindsets. At the same time, the competences of reception and communication are essential for enabling managers to participate in the two-way communication process with stakeholders. To return to the example of corporate managers working together with stakeholders on reducing environmental pollution by launching eco-friendly products, the orientation competence enables managers to undertake semantic adjustments which accentuate the interdependence of stakeholders in the joint value creation process. More specifically, these adjustments consist in asking new questions about how managers and stakeholders can work together to meet their joint interests, instead of being concerned with what some stakeholders can gain at the expense of others (cf. Freeman *et al.*, 2007, p. 11). The reception and communication competences help managers to make sure that these questions actually come to be answered, so that managers may use their governance competence for undertaking the needed institutional adjustments. More specifically, these adjustments entail devising new governance structures which commit and incentivize stakeholders to start producing the new eco-friendly products.

Ensuring cross-cultural sensitivity. We acknowledge that the practical application of the ordonomic approach to stakeholder interest trade-offs must be informed by understanding national cultures and their differences. Different cultures may have different preferences and expectations for stakeholder collaboration and dialogue. Therefore, we offer some advice for managers who are active in different cultural contexts, based on the dimensions of individualism-collectivism and the role of government.

In collectivist cultures, such as those found in East Asia, where people value group harmony and loyalty over individual autonomy and achievement, managers need to prioritize building trustful relationships with stakeholders. This can be done by organizing informal gatherings and social events, where stakeholders can get to know each other and share their views and concerns. However, managers also need to be respectful of hierarchy and authority in collectivist cultures. This means that they may need to go through all the proper channels before making changes to the rules of the game. They should also be mindful of the status of different stakeholders and avoid giving preferential treatment to any one group. Finally, we encourage managers in collectivist cultures to use consensus-building processes to reach decisions with stakeholders. This will help to ensure that all stakeholders feel involved and respected. For example, managers could use a process of voting or deliberation to reach decisions, or use a facilitator to help guide the process and ensure that all stakeholders have an opportunity to participate.

In individualistic cultures, such as those found in North America and Western Europe, where people value individual autonomy and achievement over group harmony and loyalty, managers need to be clear about the benefits of collaboration for all stakeholders. Individualistic stakeholders may be more likely to participate in collaboration and dialogue if they can see the benefits for themselves and their organizations. Therefore, managers should emphasize the potential for collaboration to lead to increased profits, improved efficiency or enhanced innovation. We also believe that it is important for managers in individualistic cultures to encourage open and direct communication with stakeholders. Individualistic stakeholders may be more comfortable challenging the authority of managers and expressing their views openly. This can lead to more productive and innovative dialogue. However, it is important to create functional discourse formats for all stakeholders to participate, regardless of their status or position. Finally, we advise managers in individualistic cultures to use formal processes and structures to facilitate collaboration with stakeholders. Individualistic stakeholders may be more comfortable working within formal processes and structures that provide clarity and accountability. For example, a stakeholder committee or working group could be established to oversee the collaboration process. Developing formal agreements or contracts to document the outcomes of the collaboration could also be helpful.

In cultures with a strong role of government, such as China, where government officials have a significant influence on business activities and regulations, managers need to work with government officials to create a more favorable environment for stakeholder collaboration. This may involve lobbying for changes to regulations or providing support for government-sponsored initiatives that align with stakeholder interests. For example, managers could organize meetings with government officials to discuss their plans for stakeholder collaboration and to seek their support. Managers could also provide input on government policies and regulations that affect stakeholder collaboration. In addition, managers in such cultures need to build relationships with government officials, thus ensuring that they have a good understanding of their priorities and concerns. For example, managers could attend government-sponsored events and networking functions, or invite government officials to their own events and meetings. Finally, managers in such cultures must be transparent and accountable in their collaboration with stakeholders. Government officials may be more likely to support stakeholder collaboration whether they are confident that the process is transparent and accountable. This means that managers should be open about their goals and objectives and willing to share information with all stakeholders. Managers should also have a process in place for resolving disputes and addressing any concerns that may arise.

By following this advice, managers can adapt the ordonomic approach to different cultural contexts and enhance their stakeholder relationships. By using orthogonal positionings, managers can overcome trade-off thinking and achieve win-win outcomes with stakeholders across different cultures.

Limitations of the argument

The proposed ordonomic interpretation of stakeholder interest trade-offs is subject to several limitations pertaining to the ordonomic approach and the issue of trade-offs. First, the ordonomic approach cannot deal with those situations when societally desirable institutional changes make corporations worse off (Pies *et al.*, 2021, p. 802). For example, monopolists have nothing to gain from reducing monopolization; landmine producers will not win from the prohibition of landmines; tobacco companies will not benefit from the reduced consumption of tobacco (Pies *et al.*, 2021). In fact, some tobacco companies have been reported to engage in lobbying to prevent governments from regulating tobacco trade in a stricter way (Pies *et al.*, 2021, p. 803; e.g. Neuman *et al.*, 2002). It is therefore important not to see the ordonomic approach as a panacea, especially against the background of complexity, uncertainty and value-laden character of grand challenges, pointed out by Voegtlin *et al.* (2022). If orthogonal positionings cannot be reached, stakeholders may look for alternative means and promote learning processes or engage in public discourses which may either result in regulatory changes or change the moral climate in such a way that managers will be forced to respond out of enlightened self-interest (Pies *et al.*, 2021). Moreover, experience shows that corporate managers, despite apparent vested interests, do not necessarily seek to resist these processes. For example, Freeman *et al.* (2018, p. 53) reported that it has not been uncommon for tobacco companies to run proactive public relations campaigns, "which included opening up dialogues with critics and promising more transparency than before," and even "lobbying for new legislation that regulates the industry" (Freeman *et al.*, 2018, p. 54). The ordonomic takes full account of the possibility that companies may behave responsibly but remains no less open to other cases when the lack of responsible behavior justifies regulatory interventions.

The second limitation of the proposed argument arises out of the possibility that stakeholder interest trade-offs may not be recognized as serious. Current research on stakeholder theory suggests that this possibility is real; as Crilly (2019, p. 254) noted, it is not uncommon for corporate documentation to sideline the issue of trade-offs (cf. Hahn and Aragón-Correa, 2015). Clearly, if trade-offs are not acknowledged as such, they cannot be addressed through rule-finding discourses and rule-setting negotiations. Consequently, both stakeholder theory and the ordonomic approach can cross-fertilize each other in exploring the conditions under which managers and stakeholders become ready to admit the existence of difficult trade-offs and deal with them head on.

Implications for further research

Theoretical and conceptual research

In contemplating the future of theoretical research at the confluence of the ordonomic approach and stakeholder theory, we identify three compelling directions ripe for exploration. First, while our current focus has centered on business–stakeholder relationships, there is a noteworthy scope for extending the application of the ordonomic approach to diverse stakeholder relationships. These encompass interactions between governments and citizens or interactions within nonprofit organizations and their beneficiaries. These relationships often involve their own set of managerial trade-offs, necessitating a nuanced understanding of how orthogonal positioning can facilitate decision-making and conflict resolution within such contexts. Second, we encourage scholars to delve into the role of orthogonal positioning in the realm of multistakeholder initiatives. These platforms bring stakeholders from various sectors together to address intricate societal and environmental issues. Orthogonal positioning emerges as a potent tool in facilitating collaboration within these diverse groups. Researchers should investigate how this approach aids stakeholders in transcending their differing perspectives and interests, enabling the development of shared understandings and collaborative solutions. Multistakeholder initiatives inherently serve as fertile ground for cultivating orthogonal positionings, converting social dilemmas into win-win scenarios. Finally, the need arises for the development of effective methodologies to assess the impact of orthogonal positionings. This entails devising reliable mechanisms to measure stakeholders' perceptions before and after the implementation of orthogonal positioning interventions. Surveys and interviews could be adapted to gauge changes in stakeholder perspectives and evaluate how these alterations influence their behaviors and decisions. Furthermore, case studies offer valuable insights into the real-world application of orthogonal positioning. By scrutinizing specific instances where this approach has been used to resolve social dilemmas, researchers can pinpoint the factors contributing to either the success or failure of orthogonal positioning initiatives.

Empirical and practice-oriented research

We also see at least three major directions of prospective empirical work. One direction could involve empirical analysis of governance competencies and stakeholder relationships. This analysis could be based on conducting in-depth case studies or surveys to explore how managers with strong governance competencies engage with stakeholders, e.g. along the lines of Schultz *et al.* (2021). These findings could be supplemented by a comparison of the performance and stakeholder relationships of organizations led by managers who demonstrate high levels of governance competencies with those led by managers who do not emphasize these competencies.

Another direction of empirical research could be quantitative analysis of trade-off resolution strategies. Here, quantitative research could be conducted to analyze how companies in various industries and regions address trade-offs between conflicting stakeholder interests, based on data collection about decision-making processes, stakeholder engagement activities and the implementation of governance initiatives. Statistical methods could be applied to explore whether companies that effectively manage trade-offs using ordonomic principles outperform those that rely solely on optimization strategies. This could involve regression analysis, panel data models or machine learning techniques to identify patterns and relationships.

Finally, we see considerable potential for cross-cultural studies of stakeholder perceptions and practices. These studies would investigate how the concepts presented in the ordonomic approach resonate across different cultural and national contexts. Cross-cultural research could be conducted to explore how managers and stakeholders from diverse backgrounds perceive trade-offs, joint value creation and governance competencies. Qualitative methods such as interviews, focus groups or content analysis could be used to capture cultural nuances in stakeholder expectations, communication styles and decision-making processes. These research efforts would enable a comparison of how companies in different regions approach stakeholder relationships and manage conflicts, considering cultural factors that influence the adoption of ordonomic approach. Each of these research directions aims to bridge the gap between theoretical insights from the ordonomic approach and practical implications for stakeholder management. By conducting empirical research in these areas, scholars can contribute to a deeper understanding of how organizations navigate stakeholder trade-offs, implement governance strategies and create value while considering the diverse contexts in which businesses operate.

In addition to the empirical work, there is ample potential for the ordonomic approach to enlighten stakeholder theory in many additional respects beyond the issue of trade-offs *per se*. The potential for this enlightening deserves to be explored further. For example, the instrumental, normative and descriptive varieties of stakeholder theory all lend themselves to a fruitful reconstruction along the ordonomic lines. Instrumental stakeholder theory may benefit from an engagement with the notion of orthogonal positionings which give primacy to the linkage between business case and stakeholder mindsets. Normative stakeholder theory may broaden the scope of the extant normative justifications of managing for stakeholders by encompassing the notion of ordo-responsibility which impresses upon corporate managers the awareness that they are fundamentally, if not exclusively, in charge of the rules of the business games they are playing (Pies *et al.*, 2021). The notion of ordo-responsibility provides one source of valuable normative guidance to companies willing to address a broad array of global challenges including "child labor, corruption, environmental pollution, and sexual harassment" (Pies *et al.*, 2021, p. 805). Descriptive stakeholder theory may benefit from acknowledging that stakeholder interaction is happening differently within the distinct tiers of the basic business game of value creation, the meta game of rule-making negotiation and the meta-meta game of rule-finding discourse.

Concluding remarks

Stakeholder theory has long held that the market-driven process of value creation thrives on the heterogeneity and multiplicity of participating stakeholders while underpinning the fundamental jointness of their interests. Managing for stakeholders reflects the crucial insight that every stakeholder's support is important and needs to be secured. Surprisingly, this intuitive and practical insight has been quite difficult to grasp, especially for scholars trying to interpret business life through the disciplinary lenses of economic efficiency, strategic management and distributive justice (Freeman *et al.*, 2020; Freeman *et al.*, 2010; Freeman, 2010). Acknowledging these difficulties, stakeholder theorists have stressed the responsibility of executives for reframing the questions being asked about stakeholders to bring into the spotlight the jointness of stakeholder interests (Freeman, 2010, p. 27). Yet, the precise nature of this reframing and the heuristic procedures that can promote it at the coal face of business, have been little explored.

The present paper takes up these questions from the perspective of the ordonomic approach which envisages a three-tiered model of social interaction. Within the tier of the basic game of business, managers are engaged in optimization which likely leads them, at some point, to face trade-offs between conflicting stakeholder interests. However, within the tiers of the meta and meta-meta games, managers may overcome these trade-offs through governance initiatives directed at redefining the institutional parameters of stakeholder interaction. From this perspective, trade-offs ought to be neither ignored nor avoided but rather embraced and welcomed as an opportunity to bring to fruition the common interest of stakeholders in playing a better game, thereby creating new value. Thus, the ordonomic approach enriches stakeholder theory with a notion of governance comprising the rule-setting and rule-finding processes within which the jointness of stakeholder interests becomes most explicit and practically actionable. By advancing the notions of social dilemmas and orthogonal positionings, the ordonomic approach stresses the active role of stakeholders in, and their responsibility for, defining and adjusting the institutional parameters of value-creating business relationships.

Acknowledgments

Since submission of this article, the following author has updated their affiliations: Vladislav Valentinov is at the Department of Law and Economics, Martin Luther University, Halle, Germany and the Next Society Institute, Kazimieras Simonavičius University, Lithuania.

The authors are grateful to three anonymous reviewers for their helpful comments. The authors acknowledge the use of artificial intelligence for purposes of wording improvement.

References

Barnard, C.I. (1938), *The Functions of the Executive*, Harvard University Press, Cambridge, MA.

Beckmann, M., Hielscher, S. and Pies, I. (2014), "Commitment strategies for sustainability: how business firms can transform trade-offs into win–win outcomes", *Business Strategy and the Environment*, Vol. 23 No. 1, pp. 18-37.

Bonnafous-Boucher, M. and Rendtorff, J.D. (2016a), *Stakeholder Theory: A Model for Strategic Management*, Springer, Cham.

Bonnafous-Boucher, M. and Rendtorff, J.D. (2016b), "From 'the stakeholder' to stakeholder theory", in Bonnafous-Boucher, M. and Rendtorff, J.D. (Eds), *Stakeholder Theory: A Model for Strategic Management*, Springer, Cham, pp. 1-20.

Bonnafous-Boucher, M. and Rendtorff, J.D. (2016c), "Stakeholder theory in strategic management", in Bonnafous-Boucher, M. and Rendtorff, J.D. (Eds), *Stakeholder Theory: A Model for Strategic Management*, Springer, Cham, pp. 21-39.

Bonnafous-Boucher, M. and Rendtorff, J.D. (2016d), "Stakeholder theory as a theory of organizations", in Bonnafous-Boucher, M. and Rendtorff, J.D. (Eds), *Stakeholder Theory: A Model for Strategic Management*, Springer, Cham, pp. 41-51.

Bonnafous-Boucher, M. and Rendtorff, J.D. (2016e), "Stakeholder theory and ethics", in Bonnafous-Boucher, M. and Rendtorff, J.D. (Eds), *Stakeholder Theory: A Model for Strategic Management*, Springer, Cham, pp. 67-78.

Crilly, D. (2019), "Behavioral stakeholder theory", in Harrison, J.S., Barney, J.B., Freeman, R.E. and Phillips, R.A. (Eds), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, MA, pp. 250-255.

De Bakker, F.G., Rasche, A. and Ponte, S. (2019), "Multi-stakeholder initiatives on sustainability: a cross-disciplinary review and research agenda for business ethics", *Business Ethics Quarterly*, Vol. 29 No. 3, pp. 343-383.

Donaldson, T. and Preston, L.E. (1995), "The stakeholder theory of the corporation: concepts, evidence, and implications", *The Academy of Management Review*, Vol. 20 No. 1, pp. 65-91.

Dorobantu, S. (2019), "Sketches of new and future research on stakeholder management", in Harrison, J.S., Barney, J.B., Freeman, R.E. and Phillips, R.A. (Eds), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, MA, pp. 256-263.

Freeman, R.E. (2010), "Managing for stakeholders: trade-offs or value creation", *Journal of Business Ethics*, Vol. 96 No. 1, pp. 7-9.

Freeman, R.E. (1984), *Strategic Management: A Stakeholder Approach*, Pitman, Boston, MA.

Freeman, R.E., Harrison, J.S. and Wicks, A.S. (2007), *Managing for Stakeholders: Survival, Reputation, and Success*, Yale University Press, New Javen.

Freeman, R.E., Harrison, J.S. and Zyglidopoulos, S. (2018), *Stakeholder Theory: Concepts and Strategies*, Cambridge University Press, Cambridge, UK.

Freeman, R.E., Harrison, J.S., Wicks, A.C., Parmar, B. and de Colle, S. (2010), *Stakeholder Theory: The State of the Art*, Cambridge University Press, Cambridge, UK.

Freeman, R.E., Phillips, R. and Sisodia, R. (2020), "Tensions in stakeholder theory", *Business & Society*, Vol. 59 No. 2, pp. 213-231.

Freudenreich, B., Lüdeke-Freund, F. and Schaltegger, S. (2020), “A stakeholder theory perspective on business models: value creation for sustainability”, *Journal of Business Ethics*, Vol. 166 No. 1, pp. 3-18.

Gilson, L.L. and Goldberg, C.B. (2015), “Editors’ comment: so, what is a conceptual paper?”, *Group & Organization Management*, Vol. 40 No. 2, pp. 127-130.

Godfrey, P.C. and Lewis, B. (2019), “Pragmatism and pluralism: a moral foundation for stakeholder theory in the twenty-first century”, in Harrison, J.S., Barney, J.B., Freeman, R.E. and Phillips, R.A. (Eds), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, MA, pp. 19-34.

Greif, A. (2000), “The fundamental problem of exchange: a research agenda in historical institutional analysis”, *European Review of Economic History*, Vol. 4 No. 3, pp. 251-284.

Hahn, T. and Aragón-Correa, J.A. (2015), “Toward cognitive plurality on corporate sustainability in organizations: the role of organizational factors”, *Organization & Environment*, Vol. 28 No. 3, pp. 255-263.

Hahn, T., Figge, F., Pinkse, J. and Preuss, L. (2010), “Trade-offs in corporate sustainability: you can’t have your cake and eat it”, *Business Strategy and the Environment*, Vol. 19 No. 4, pp. 217-229.

Harrison, J.S. and Bosse, D.A. (2013), “How much is too much? The limits to generous treatment of stakeholders”, *Business Horizons*, Vol. 56 No. 3, pp. 313-322.

Heath, J. (2014), *Morality, Competition, and the Firm: The Market Failures Approach to Business Ethics*, Oxford University Press, Oxford.

Hörisch, J., Freeman, R.E. and Schaltegger, S. (2014), “Applying stakeholder theory in sustainability management: links, similarities, dissimilarities, and a conceptual framework”, *Organization & Environment*, Vol. 27 No. 4, pp. 328-346.

Jackson, M.C. (2019), *Critical Systems Thinking and the Management of Complexity: Responsible Leadership for a Complex World*, Wiley, Oxford.

Jones, T.M., Harrison, J.S. and Felps, W. (2018), “How applying instrumental stakeholder theory can provide sustainable competitive advantage”, *Academy of Management Review*, Vol. 43 No. 3, pp. 371-391.

Kreps, D.M. (1990), “Corporate culture and economic theory”, in Alt, D.M. and Shepsle, K.A. (Eds), *Perspectives on Positive Political Economy*, Cambridge University Press, Cambridge, UK, pp. 90-143.

Lee, C.K., Dmytriyev, S.D., Rutherford, M.A. and Lee, J.Y. (2023), “The impact of B corporations’ certification timing on a firm’s economic and social value creation”, *Social Responsibility Journal*, Vol. 19 No. 9, doi: 10.1108/SRJ-01-2023-0058.

Luhmann, N. (1998), *Observations on Modernity*, Stanford University Press, Stanford, CA.

Mahoney, J.T. (2002), “The relevance of chester I. Barnard’s teachings to contemporary management education: communicating the aesthetics of management”, *International Journal Organization Theory and Behavior*, Vol. 5 Nos 1/2, pp. 159-172.

Mankiw, G. (2001), *Principles of Economics*, South-Western Cengage Learning, Mason, OH.

Maxwell, J.A. (2013),), *Qualitative Research Design: An Interactive Approach*, Sage, Los Angeles, CA.

Mitchell, R.K., Agle, B.R. and Wood, D.J. (1997), “Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts”, *The Academy of Management Review*, Vol. 22 No. 4, pp. 853-886.

Mitchell, R.K. and Lee, J.H. (2019), “Stakeholder identification and its importance in the value creating system of stakeholder work”, in Harrison, J.S., Barney, J.B., Freeman, R.E. and Phillips, R. A. (Eds), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, UK, pp. 53-73.

Neuman, M., Bitton, A. and Glantz, S. (2002), “Tobacco industry strategies for influencing European community tobacco advertising legislation”, *The Lancet*, Vol. 359 No. 9314, pp. 1323-1330.

Phillips, R., Freeman, R.E. and Wicks, A.C. (2003), "What stakeholder theory is not", *Business Ethics Quarterly*, Vol. 13 No. 4, pp. 479-502.

Phillips, R.A., Barney, J.B., Freeman, R.E. and Harrison, J.S. (2019), "Stakeholder theory", in Harrison, J.S., Barney, J.B., Freeman, R.E. and Phillips, R.A. (Eds), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, MA, pp. 3-18.

Pies, I. (2016), "The ordonomic approach to order ethics", in Lütge, C. and Mukerji, N. (Eds), *Order Ethics: An Ethical Framework for the Social Market Economy*, Springer, Berlin, pp. 19-35.

Pies, I. and Hielscher, S. (2023), "The moral legitimacy of profit orientation", in Talaulicar, T. (Ed.), *Research Handbook on Corporate Governance and Ethics*, Edward Elgar, Cheltenham und Northampton, pp. 328-347.

Pies, I., Hielscher, S. and Beckmann, M. (2009), "Moral commitments and the societal role of business: an ordonomic approach to corporate citizenship", *Business Ethics Quarterly*, Vol. 19 No. 3, pp. 375-401.

Pies, I., Beckmann, M. and Hielscher, S. (2010), "Value creation, management competencies, and global corporate citizenship: an ordonomic approach to business ethics in the age of globalization", *Journal of Business Ethics*, Vol. 94 No. 2, pp. 265-278.

Pies, I., Beckmann, M. and Hielscher, S. (2014), "The political role of the business firm: an ordonomic concept of corporate citizenship developed in comparison with the aristotelian idea of individual citizenship", *Business & Society*, Vol. 53 No. 2, pp. 226-259.

Pies, I., Schreck, P. and Homann, K. (2021), "Single-objective versus multi-objective theories of the firm: using a constitutional perspective to resolve an old debate", *Review of Managerial Science*, Vol. 15 No. 3, pp. 779-811.

Putnam, L.L., Fairhurst, G.T. and Banghart, S. (2016), "Contradictions, dialectics, and paradoxes in organizations: a constitutive approach", *Academy of Management Annals*, Vol. 10 No. 1, pp. 65-171.

Rendtorff, J.D. and Bonnafous-Boucher, M. (2023), "Introduction to encyclopedia of stakeholder management", in Rendtorff, J.D. and Bonnafous-Boucher, M. (Eds), *Encyclopedia of Stakeholder Management*, Edward Elgar Publishing, Cheltenham, pp. 15-24.

Roth, S., Schneckenberg, D., Valentinov, V. and Kleve, H. (2023), "Approaching management and organization paradoxes paradoxically: the case for the tetralemma as an expansive encasement strategy", *European Management Journal*, Vol. 41 No. 2, pp. 191-198.

Ryle, G. (1945), "Knowing how and knowing that: the presidential address", *Proceedings of the Aristotelian Society*, Vol. 46 No. 1, pp. 1-16.

Schaltegger, S., Hörisch, J. and Freeman, R.E. (2019), "Business cases for sustainability: a stakeholder theory perspective", *Organization & Environment*, Vol. 32 No. 3, pp. 191-212.

Schultz, F.C., Everding, S. and Pies, I. (2021), "Circular supply chain governance: a qualitative-empirical study of the european polyurethane industry to facilitate functional circular supply chain management", *Journal of Cleaner Production*, Vol. 317, p. 128445.

Smith, W.K. and Lewis, M.W. (2011), "Toward a theory of paradox: a dynamic equilibrium model of organizing", *Academy of Management Review*, Vol. 36 No. 2, pp. 381-403.

Valentinov, V. and Chia, R. (2022), "Stakeholder theory: a process-ontological perspective", *Business Ethics, the Environment & Responsibility*, Vol. 31 No. 3, pp. 762-776.

Voegtlin, C., Scherer, A.G., Stahl, G.K. and Hawn, O. (2022), "Grand societal challenges and responsible innovation", *Journal of Management Studies*, Vol. 59 No. 1, pp. 1-28.

Will, M.G. and Pies, I. (2018), "Sensemaking and sensegiving: a concept for successful change management that brings together moral foundations theory and the ordonomic approach", *Journal of Accounting & Organizational Change*, Vol. 14 No. 3, pp. 291-313.

Wut, T.M. and Ng, P.M.L. (2023), "Perceived CSR motives, perceived CSR authenticity, and pro-environmental behavior intention: an internal stakeholder perspective", *Social Responsibility Journal*, Vol. 19 No. 5, pp. 797-811.

Zeyen, A., Beckmann, M. and Wolters, S. (2016), "Actor and institutional dynamics in the development of multi-stakeholder initiatives", *Journal of Business Ethics*, Vol. 135 No. 2, pp. 341-360.

Further reading

Godfrey, P.C. and Mahoney, J.T. (2014), "The functions of the executive at 75: an invitation to reconsider a timeless classic", *Journal of Management Inquiry*, Vol. 23 No. 4, pp. 360-372.

Harrison, J.S., Barney, J.B., Freeman, R.E., Phillips, R.A. (Eds) (2019), *The Cambridge Handbook of Stakeholder Theory*, Cambridge University Press, Cambridge, MA.

Corresponding author

Vladislav Valentinov can be contacted at: valentinov@iamo.de