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PERSPECTIVE

Relationality in transaction cost economics and stakeholder theory: A new conceptual framework

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Abstract

Stakeholder scholars have long explored how stakeholder relationships differ from economic transactions. We contribute to this ongoing inquiry by developing a conceptual framework of relationality in stakeholder theory that encompasses a stakeholder-theoretic extension of Williamson's contracting schema and a new typology of stakeholder relationships. Premised on understanding relationality as the need for informal human relationships beyond formal governance, our framework locates the key difference between transaction cost economics and stakeholder theory in their treatment of informal relationships. While transaction cost economics perceives informal relationships to be shaped by formal governance structures and enforced by contractual safeguards, stakeholder theory is open to the possibility that some informal relationships between stakeholders may be genuinely moral and thus irreducible to formal governance and contractual safeguards. These stakeholder relationships may lead to unique economic effects described by instrumental stakeholder theory. The difference that we identified between the two literatures shows how stakeholder theory's embrace of relationality surpasses that of transaction cost economics.

KEYWORDS

stakeholder relationships, stakeholder theory, transaction cost economics, transactions

1 | INTRODUCTION

Stakeholder theory is widely known for promoting a relational view of business. According to this understanding, "[b]usiness is a set of value-creating relationships" among stakeholders (Phillips et al., 2019, p. 3). Stakeholder relationships are seen to be different from economic transactions (Barney, 2020; Jones et al., 2018; Bridoux & Stoelhorst, 2016). Freeman et al. (2020, p. 225) consider stakeholder relationships to be a more useful unit of analysis for stakeholder theory than economic transactions.

But what precisely distinguishes stakeholder relationships from economic transactions? While this question has intrigued numerous scholars (Bridoux & Stoelhorst, 2016; Buchholz & Rosenthal, 2005; Jones et al., 2018; Kujala et al., 2022; Valentinov & Chia, 2022), we want to address it by exploring the intersection of stakeholder theory and transaction cost economics (Freeman & Evan, 1990; Freeman et al., 2010; Ketokivi & Mahoney, 2016; Ketokivi & Mahoney, 2017; Stoelhorst & Vishwanathan, 2022). This exploration is vital because transaction cost economics has never negated the importance of human relationships in real-world economic transactions. In fact, transaction cost scholars have long been discussing the concepts of relational contracting (e.g., Williamson, 1979, 1985) and relational governance (e.g., Cuypers et al., 2021; Zaheer & Venkatraman, 1995), blurring the lines between "relational" and "transactional."

In the present paper, we delve into the nature of relationality as a common theme in both transaction cost economics and stakeholder theory and develop a novel conceptual framework for relationality within stakeholder theory. Interpreting relationality as the irreducibility of the organization of business activities to formal governance alone, our framework inquires into why the informal human relationships required for relational contracting may not be adequately facilitated solely through the formal governance structures proposed by transaction cost economics. This inquiry leads us to present two interconnected conceptual contributions: a stakeholder-theoretic extension of Williamson's (1996, 2002) contracting schema and a fresh typology of stakeholder relationships. These contributions enable us to pinpoint how stakeholder theory's embrace of relationality surpasses that of transaction cost economics.

We take this opportunity to remind our readers that Williamson (1985) aptly regarded transaction cost economics as a uniquely systematic approach to explaining the vast array of "economic institutions of capitalism." If transaction cost economics indeed presents a comprehensive, systematic, and powerful framework for understanding the relationships between firms and their stakeholders, then it becomes imperative for stakeholder theorists to delineate the boundary between the two theories (Bridoux & Stoelhorst, 2022a). Our conceptual framework meets this call by elucidating how stakeholder theory's embrace of relationality transcends that of transaction cost economics. In addition, our conceptual framework refines existing scholarship on instrumental stakeholder theory by highlighting how the unique economic effects of moral stakeholder relationships require informal human relationships that are too rich and subtle to be adequately sustained solely by formal governance structures advocated by transaction cost economics.

Toward this end, the next section will discuss the meaning of relationality in transaction cost economics and stakeholder theory. On this basis, the subsequent section will present a conceptual framework of relationality within stakeholder theory, including a stakeholder-theoretic extension of Williamson's contracting schema and a new classification of stakeholder relationships. The paper ends by discussing the contributions and limitations of the argument, as well as the implications for future research.

2 | RELATIONALITY AS A COMMON FOCUS IN TRANSACTION COST ECONOMICS AND STAKEHOLDER THEORY

In this section, we elucidate our interpretation of the term "relationality" and explore its manifestations in the transaction cost economics and stakeholder theory literatures. We argue that relationality, in the transaction cost economics context, captures the intuition behind Williamson's (1985, 1996, 2002) reliance on Llewellyn's (1931) understanding of "contract as a framework". In stakeholder theory, this understanding of relationality builds on the exploration of the contrast between stakeholder relationships and economic transactions (Bridoux & Stoelhorst, 2016; Jones et al., 2018). Our literature review extends and sharpens these important explorations by highlighting how the distinctive economic effects of moral stakeholder relationships necessitate informal human relationships that possess a richness and subtlety exceeding what formal governance structures, as advocated by transaction cost economics, can provide.

2.1 | Defining relationality

The term "relationality," as used in various strands of organization studies literature, is usually traced back to pragmatist philosophy, process philosophy, systems thinking, and even physics (Bradbury & Lichtenstein, 2000). While many discussions of the term remain at a high level of abstraction that complicates its precise definition (e.g., Cooper, 2005), we see great merit in Lejano and Kan's (2022) recent definition of this term in the public policy context: "Relationality is the condition in which policy, in its meanings and practice, emerges not just from formal, prescribed rule-making and institution-building but also from the working and reworking of relationships among a network of policy actors."

In our paper, we use Lejano and Kan's (2022) definition, which we consider to be usefully complemented by Bradbury and Lichtenstein's (2000, p. 555) identification of relationality attributes such as the lack of tangibility, visibility, and measurability combined with a high degree of vividness of interactions. We argue that, in the context of stakeholder theory, each of the relationality attributes pointed out by Bradbury and Lichtenstein's (2000, p. 555) poses a challenge to regulating stakeholder interactions through formal governance alone, thus creating a functional niche for a balance of formal and informal relationships among stakeholders. More specifically, we maintain that those stakeholder interactions that exhibit a particularly strong lack of tangibility, visibility, and measurability are more likely to remain viable if their organization encompasses informal relationships that are irreducible to formal governance alone. Thus, our understanding of relationality does not diminish the role of formal governance but underscores the importance of this governance being complemented by informal relationships in cases where stakeholder interactions lack tangibility, visibility, and measurability.

What types of stakeholder interactions are likely to exhibit a significant lack of tangibility, visibility, and measurability in practical terms? One possible illustration of such interactions involves dealing with intangible or abstract outcomes, such as social impact, environmental sustainability, or ethical values. Consider the collaboration between a non-governmental organization and a multinational corporation aimed at reducing their carbon footprint or enhancing their human rights practices. In such cases, quantifying and measuring progress can be challenging due to the abstract nature of the goals. Another scenario arises in stakeholder interactions related to dynamic or emergent processes like innovation, learning, or adaptation. Imagine a research team collaborating with a funding agency to conduct a novel or risky project or address unexpected challenges that may arise during the research process. These interactions often involve elements that are difficult to predict or measure. Stakeholder interactions between customers and service providers that revolve around customizing services are another case in point. Here, challenges stem from the lack of observable and programmable information regarding customer preferences, motivations, or expectations. Additionally, the complexity and diversity of customer needs and potential solutions, as well as concerns about opportunism or dissatisfaction, can further obscure measurability. In all these scenarios, informal relationships play a pivotal role that cannot be reduced to formal governance alone. These informal relationships contribute to building trust and commitment among stakeholders, thereby reducing the necessity for formal contracts or monitoring systems, which may be costly, incomplete, or ineffective. Furthermore, these relationships facilitate learning and innovation among stakeholders, enabling them to adapt to changing circumstances and overcome unforeseen challenges. Finally, they foster cooperation and alignment on shared objectives, ultimately enhancing stakeholder satisfaction and loyalty.

These examples of stakeholder interactions connect to the familiar sort of variables that organizational economics has already identified as important for the governance of transactions, such as observability and programmability (e.g. Ouchi, 1980), or complementarity (Alchian & Demsetz, 1972), or asset-specificity (Williamson, 1985). However, we argue that these variables are not sufficient to capture the full scope and complexity of relationality in business activities, especially when it comes to moral stakeholder relationships that cannot be sufficiently enforced by formal governance structures. These variables are mainly concerned with the design and implementation of formal contracts and safeguards that minimize transaction costs and mitigate contractual hazards. They do not account for the role of informal relationships that are sustained by moral motivation, trust, loyalty, identity, and community. They also do not provide full account for the economic effects that may be derived from these informal relationships, such as learning, reputation, risk-sharing, information leveraging, motivation enhancement, reciprocal coordination, knowledge sharing, and attracting high-quality stakeholders (Bridoux & Stoelhorst, 2016; Jones et al., 2018; Jones & Harrison, 2019). Therefore, we argue that our understanding of relationality goes beyond these traditional variables and thus provides a useful point of departure for contrasting the understanding of business life on the part of transaction cost economics and stakeholder theory.

2.2 | Transactional relationships in transaction cost economics

As explained by Williamson (1996, p. 46), the central idea of transaction cost economics is that "the economic institutions of capitalism have the main purpose and effect of economizing on transaction costs." Tracing transaction costs back to the attributes of human nature, such as bounded rationality and opportunism, Williamson argues that these costs make contractual relationships inherently hazardous. Transaction cost economics seeks to "identify, explicate, and mitigate" contractual hazards and predicts that transactions align with governance mechanisms, such as markets, hybrids, and hierarchies, in a way that minimizes transaction costs (Williamson, 1996, p. 101). Transaction cost economics has been widely discussed in stakeholder literature (Stoelhorst & Vishwanathan, 2022; Ketokivi & Mahoney, 2016, 2017; Freeman et al., 2010; Freeman & Evan, 1990). Ketokivi and Mahoney (2016, 2017) characterize transaction cost economics as "constructive stakeholder theory" which highlights the importance of safeguarding stakeholder relationships in order to prevent them from being adversely affected by contractual hazards.

We argue that the chief implication of relationality in transaction cost economics resides in its fundamental awareness that "all complex contracts are unavoidably incomplete" (Williamson, 2002, p. 174). As Williamson (2002) explains, in view of contractual incompleteness, "parties will be confronted with the need to adapt to unanticipated disturbances that arise by reason of gaps, errors and omissions in the original contract… If human actors are not only confronted with needs to adapt to the unforeseen (by reason of bounded rationality), but are also given to strategic behavior (by reason of opportunism), then costly contractual breakdowns (refusals of cooperation, maladaptations, demands for renegotiation) may be posed. In that event, private ordering efforts to devise supportive governance structures, thereby to mitigate prospective contractual impasses and breakdowns, have merit". As suggested by Gibbons (2005), contractual incompleteness highlights the limitations of primarily formal contracts, i.e. those contracts "that attach objective weights to objective measures" (Gibbons & Henderson, 2012, p. 1351). It is precisely these weights and measures that are difficult to define for those contractual relationships that lack tangibility, visibility, and measurability (Bradbury & Lichtenstein, 2000).

The use of private ordering, which Williamson (e.g., Williamson, 1996, p. 57) sees as an alternative to legal centralism (i.e., court ordering), opens the space for contractual parties to rely on their informal interactions and relationships in adapting to the unforeseen disturbances in the process of contract execution (cf. Gibbons & Henderson, 2012). The reliance on private ordering mirrors the fact that the governance structures that may be devised by contractual parties may be supported by different forms of contract law (Williamson, 1996, p. 95). One form of contract law is classical contract law which "applies to the ideal transaction … in which the identity of the parties is irrelevant". Epitomized by arm's-length spot market contracting, classical contract law affords minimum space for the effects of informal relationships between contractual parties. Two other forms of contract law, according to Williamson (1996, p. 95), are neoclassical contract law and the law of forbearance. Being respectively exemplified by the use of hybrid governance structures and hierarchy, these forms of contract law are more elastic and, in cases of unanticipated contractual disturbances, enable contractual participants "to work out their differences themselves" without going to court. In that sense, hybrid governance structures and hierarchy embody Llewellyn's (1931) understanding of contract as an elastic framework that "supports a (cooperative) exchange relation over a wide range of contractual distrubances" (Williamson, 2002, p. 177).

A key example of hybrid governance structures is relational governance, which is defined by Zaheer and Venkatraman (1995, p. 374) as "exchange which includes significant relationship-specific assets, combined with a high level of … trust." A related notion, introduced by Williamson (1979), is relational contracts, which foreground "the ongoing nature of transactions and [recognize] that these ongoing transactions are embedded in relationships" (Cuypers et al., 2021, p. 125). Gibbons and Henderson (2012, p. 1350) define relational contracts as "an economist's term for collaboration sustained by the shadow of the future as opposed to formal contracts enforced by courts". They explain that if contractual relationships "involve actions that cannot be specified in advance, it is typically impossible to motivate their performance via formal contracts… Instead, if it is necessary to provide motivation for parties to take these actions, it will have to be done through informal agreements that involve subjective weights and subjective measures" (Gibbons & Henderson, 2012, p. 1351). The authors see relational contracts as precisely this type of informal agreement (Gibbons & Henderson, 2012).

The notions of relational governance and relational contracts (Cuypers et al., 2021; Gibbons & Henderson, 2012; Williamson, 1979), as well as the more general notion of contract as framework (Llewellyn, 1931; Williamson, 1996, 2002), highlight the limits of arm's-length formal contracts, and thus of classical contract law, in governing business activities exhibiting strong relationality attributes, such as the lack of tangibility, visibility, and measurability (Bradbury & Lichtenstein, 2000). The use of relational contracts, other forms of hybrid governance, or hierarchy indicates the recourse to "the conscious, deliberate, and purposeful efforts to craft adaptive internal coordinating mechanisms" (Williamson, 1996, p. 103) to carry out "gapfilling" required by contractual incompleteness (Williamson, 1996, p. 102). At the same time, the precise nature of these "conscious, deliberate, and purposeful efforts", a phrase that Williamson (1996, p. 103) borrowed from Barnard (1938), remains debated in the transaction cost economics literature (Cuypers et al., 2021). On the one hand, these efforts may reflect the workings of informal relationships supported by trust and social embeddedness (Zaheer & Venkatraman, 1995); on the other hand, it remains true that transaction cost economics gives primacy to formal rather than informal governance (Cuypers et al., 2021, p. 136). While Williamson has never denied the real economic impacts of informal relationships, he saw these relationships as crucially shaped by formal governance. This means that informal relationships are seen to be ultimately sustained by contractual safeguards, such as "credible hostages" (Williamson, 1996, p. 120), rather than by the shadow of the future (cf. Gibbons & Henderson, 2012, p. 1350). Williamson (1996, p. 275) did not deny that "credible hostages" create trust, but he considered this trust to be calculative and eventually pleaded for abandoning this category.

2.3 | Stakeholder relationships in stakeholder theory

The preceding subsection's portrayal of transaction cost economics reveals that it recognizes the significance of relationality in the realm of business by acknowledging the limitations of formal contracts and the need for informal relationships to address their incompleteness. If this portrayal is accurate, there is room to argue that stakeholder theory goes even further in acknowledging the importance of relationality. It not only recognizes the role of informal stakeholder relationships but also does not consider these relationships to be sustained and enforced by formal governance structures alone.

According to Bridoux and Stoelhorst (2022b, pp. 799–800), the central proposition of instrumental stakeholder theory is that "an approach to managing stakeholders that aims for fair relationships that balance stakeholders' interests will positively affect a firm's performance". Jones and Harrison (2019, p. 77) summarize the extensive stakeholder literature by suggesting that these relationships should not only adhere to societal norms but also embody values such as "fairness, trustworthiness, respect, loyalty, care, and cooperation". We maintain that these values cannot be effectively enforced through formal governance structures alone. While formal governance mechanisms can facilitate the cultivation of these characteristics, the realization of "fairness, trustworthiness, respect, loyalty, care, and cooperation" as intrinsic attributes of stakeholder relationships requires stakeholders to act in good faith. Even though formal governance structures, such as contracts and legal frameworks, establish the necessary groundwork for defining rights, obligations, and mechanisms for dispute resolution, acting in good faith logically goes beyond mere compliance. It entails a personal and genuine commitment to upholding principles of fairness, transparency, and cooperation that extend beyond the confines of formal law and contract.

It is important to stress that formal governance structures advocated by transaction cost economics and moral stakeholder relationships advocated by instrumental stakeholder theory may both result in the reduction of transaction costs and are complementary in this respect. This complementarity was pointed out by Jones (1995) in his seminal conceptualization of instrumental stakeholder theory in terms of efficient contracting. Transaction cost economics and the related new institutional economics literature embrace opportunism as "a behavioral assumption, [and focus] on such devices as interest-aligning mechanisms, incentive structures, monitoring mechanisms, and governing structures that will reduce opportunism to an 'efficient' level for which the costs of further reductions outweigh the benefits" (Jones, 1995, p. 412). At the same time, continues Jones (1995), "[t]here is another way to reduce opportunistic behavior … - the voluntary adoption of standards of behavior that limit or eliminate it". As he further (Jones, 1995, p. 414) shows, this reduction of opportunistic behavior contributes to the reduction of transaction costs. We point out that the ways of economizing on transaction costs, as suggested by transaction cost economics and stakeholder theory, are enforced by different mechanisms. While the fear of sanctions is the enforcement mechanism of transaction cost economics, moral stakeholder relationships are arguably sustained by moral motivations, i.e., by 'internal moral constraints, rather than third-party enforcement' (Jones et al., 2018, p. 375). We contend that these internal moral constraints go beyond Williamson's (1996) calculative trust, even if this trust results in the emergence of 'the shadow of the future' (Gibbons & Henderson, 2012, p. 1350) over the course of repeated interactions.

By extending beyond the realm of formal governance, moral stakeholder relationships offer a broader set of economic effects beyond transaction cost reduction alone. Bridoux and Stoelhorst (2016) propose that stakeholder relationships based on communal sharing, which involves a genuine sense of self-identification with the community, tend to foster a high willingness among stakeholders to cooperate, exchange information, and align on shared goals. Jones and Harrison (2019, p. 78) argue that such stakeholder relationships "increase efficiency by reducing contracting costs, leveraging available information throughout the production system, minimizing or eliminating enforcement costs, and enhancing stakeholder motivation and loyalty". These diverse effects stemming from moral stakeholder relationships, achieved through firms treating their stakeholders in a morally responsible manner, can culminate in unique capabilities that may become a source of competitive advantage (Gibbons & Henderson, 2012; Jones et al., 2018). Even beyond the scope of instrumental stakeholder theory proper, the economic effects of moral stakeholder relationships are illustrated by a broad range of business ethics scholarship that inquires into conditions under which moral attitudes promote business success. For example, Gonzalez-Moreno et al.'s (2019) examine how CEOs' corporate social responsibility orientation improves firms' cooperation in international scenarios. Using a sample of internationalized Spanish firms, they show that acting in good faith and inter-organizational trust become particularly relevant for business success and competitive advantage when firms act in hostile international markets.

Yet, if competitive advantage is to be sustainable, it must not be easily imitable by other competing firms (cf. Barney, 1991). Describing moral stakeholder relationships in terms of communal sharing relational ethics strategies pursued by corporate managers, Jones et al. (2018) see such relationships as an outcome of close relationship capabilities that are rare, difficult to imitate, and valuable, particularly insofar as they enable relational contracting and high levels of mutual trust and cooperation. Gibbons and Henderson (2012, p. 1350) agree that relational contracting may constitute a unique organizational capability that may be difficult to copy because it "must solve the twins problems of credibility and clarity". What is important in our context is that, while the reasons for imperfect imitability of moral stakeholder relationships may vary, all of them highlight the practical challenges of the moral treatment of stakeholders. Because of these challenges, we do not expect moral stakeholder relationships to emerge automatically in all cases when they are economically beneficial. Instead, following the transaction cost economics logic of comparative institutional analysis, we ask to what extent the informal human relationships required for relational contracts may be sufficiently achieved through primary recourse to formal governance structures suggested by transaction cost economics. This question is explored in the following section.

3 | A CONCEPTUAL FRAMEWORK OF RELATIONALITY IN STAKEHOLDER THEORY

In this section, we propose a novel approach to conceptualizing the nature of relationality in stakeholder theory. Our approach consists of two steps. First, we extend the contracting schema of transaction cost economics to the context of stakeholder theory and show how informal relationships can overcome the limits of formal governance that relies on exogenous and endogenous contractual safeguards. Second, we develop a novel typology of stakeholder relationships, rooted in our interpretation of relationality. Our typology underscores the significance of genuinely moral stakeholder relationships, which cannot be adequately enforced by either exogenous or endogenous safeguards.

3.1 | A stakeholder-theoretic extension of Williamson's contracting schema

Williamson's transaction cost economics encompasses a systematic conceptual core that is articulated within the "simple contracting schema" (e.g., Williamson, 1991, 1996, 2002). The schema demonstrates how the condition of asset specificity leads to the use of formal governance structures based on contractual safeguards (e.g., Williamson, 1991, 1996, 2002). As readers familiar with transaction cost economics will recall, asset specificity "is a measure of asset redeployability" (Williamson, 1996, p. 13) which reflects complementarities among resources. Agents making investments in relationship-specific assets generate appropriable quasi-rents resulting from these complementarities (cf. Cuypers et al., 2021). In essence, these appropriable quasi-rents are up for pure bargaining. If agents make such investments unilaterally, they will be vulnerable to hold-ups (Stoelhorst, 2023). What is important in the present context is the idea that, if the condition of asset specificity exists, agents investing in relationship-specific assets are assumed to be clearly identifiable and capable of being protected by contractual safeguards. As Williamson explained, contractual safeguards "include penalties, information disclosure and verification procedures, specialized dispute resolution (such as arbitration)", all the way down to the integration of contractual parties within the same hierarchical firm (Williamson, 2002, p. 183). These contractual safeguards are key parts of formal governance structures that provide credibility for informal human relationships that may resolve "unanticipated disturbances" (Williamson, 1991, p. 272) within the ongoing contractual relationships. It is through their capacity to enable such human relationships that formal governance structures are considered by Williamson (1991, p. 273) to be "elastic and adaptive."

Stakeholder theorists enriched this argument with the valuable insight that "safeguards have costs" which can be borne by contractual parties themselves or externalized to third parties (Freeman et al., 2010, p. 17; Freeman & Evan, 1990). Contractual safeguards are defined as endogenous in the former case and exogenous in the latter (Freeman & Evan, 1990). In contrast to Williamson, who believed that transactions unaffected by significant risks of opportunistic behavior do not require contractual safeguards, Freeman and Evan (1990) argued that all transactions are supported by safeguards. To Freeman and Evan (1990), those transactions that do not require contractual safeguards from Williamson's (1996, 2002) point of view are in fact protected by exogenous standards that are automatically provided by the legal system, being part of what Williamson called the classical contract law. As Freeman and Evan (1990, p. 347) explained, exogenous safeguards are enacted by "legislative and judicial acts" which spread their costs "over the entire society," while endogenous safeguards are crafted by contractual parties themselves, who accordingly carry their costs.

The concepts of exogenous and endogenous safeguards provide a useful perspective on interpreting the meaning of relationality in business life and suggest an extension of Williamson's contracting schema (see Figure 1 at the end of the text). Williamson's contracting schema draws on the core idea that significant risks of opportunistic behavior need to be managed by employing contractual safeguards. Using Freeman and Evan's (1990) distinction between exogenous and endogenous safeguards, we modify the schema by considering how these safeguards enable informal relationships needed to manage the risks of opportunistic behavior. If these risks are minimal, informal relationships may be largely unneeded, thus making exogenous safeguards a sufficient solution. If these risks are more serious, they may require informal relationships that may be sufficiently facilitated by formal governance structures. These relationships are sustained by what Freeman and Evan (1990) referred to as endogenous contractual safeguards that may effectively induce the fear of sanctions as an enforcement mechanism.

But even these safeguards will not be sufficient to enforce those stakeholder relationships that are strongly marked by Bradbury and Lichtenstein's (2000, p. 555) relationality attributes such as the lack of tangibility, visibility, and measurability. In the nature of the case, these attributes undermine the enforcement potential of endogenous contractual safeguards and the sanctions that these safeguards encompass. Therefore, we argue that stakeholder relationships exhibiting a strong lack of tangibility, visibility, and measurability can only function well if they are based on genuine moral motivation, which presupposes acting in good faith guided by values such as "fairness, trustworthiness, respect, loyalty, care, and cooperation" (Jones & Harrison, 2019, p. 77). Obviously, this genuine moral motivation is not reducible to the "calculative trust" described by Williamson (1996). Thus, the stakeholder-theoretic extension of Williamson's contracting schema, illustrated in Figure 1, enriches this schema with an appreciation of how informal relationships go beyond the boundaries of formal governance. Drawing inspiration from the idea of relationality, this enrichment creates a conceptual niche for genuinely moral stakeholder relationships that cannot be sufficiently enforced by exogenous and endogenous safeguards.

3.2 | A new classification of stakeholder relationships

The extension of Williamson's contracting schema suggested in the preceding subsection directly translates into a classification of three types of stakeholder relationships, corresponding to the three nodes of Figure 1 (see Table 1). The first type of stakeholder relationship is characterized by minimal risks of opportunistic behavior, making arm's-length contracting a sufficient governance structure. In the terminology of Freeman and Evan (1990), these stakeholder relationships are adequately protected by exogenous safeguards. They align with Bridoux and Stoelhorst's (2016, p. 234) market pricing model of stakeholder relationships, which gives priority to self-interest as the primary moral motivation of stakeholders. According to Jones et al. (2018, p. 375), these relationships may rely on an arm's-length relational ethics strategy that is suitable for "time-bound formal contracts, with little consideration for future interactions, in the context of fair market competition."

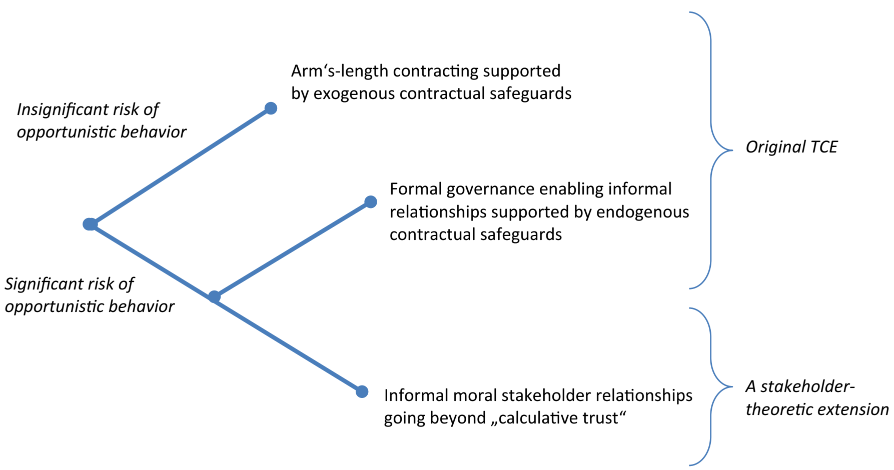

FIGURE 1 Modifying Williamson's contracting schema. [Colour figure can be viewed at wileyonlinelibrary.com]

TABLE 1 A classification of stakeholder relationships.

Risks of opportunistic behavior	Feasibility of contractual safeguards	Illustrative examples from the literature
Significant and not well-definable	Stakeholder relationships require genuine moral motivation, which cannot be secured by formal governance alone	Key idea of instrumental stakeholder theory: moral treatment of stakeholders enables moral stakeholder relationships that generate a range of positive economic outcomes The moral nature of these stakeholder relationships may be characterized in terms of Jones et al.'s (2018) communal sharing relational ethics and Bridoux and Stoelhorst's (2016) model of communal sharing.
Significant but well-defined	Stakeholders need to devise endogenous safeguards because exogenous safeguards are not sufficient	Firm and its stakeholders seek to minimize the risks of opportunistic behavior by resorting to hybrid and hierarchical governance structures (Williamson, 1991, 1996). Stoelhorst and Vishwanathan's (2022) model of the stakeholder corporation enfranchises all stakeholders subject to the risks of opportunistic behavior by introducing endogenous safeguards such as control rights and residual claim rights for vulnerable stakeholders
Insignificant	Stakeholder relationships are sufficiently supported by exogenous standards	Firm and its stakeholders see no significant risks of opportunistic behavior and rely on arms-length market contracting (Williamson, 1991, 1996). Stakeholder relationships are framed by the relational model of market pricing (Bridoux & Stoelhorst, 2016) and rely on arm's-length relational ethics strategies (Jones et al., 2018)

The second type of stakeholder relationship is characterized by significant risks of opportunistic behavior, but these risks can be effectively managed within formal hybrid or hierarchical governance structures as described by transaction cost economics. For such risks to be manageable for formal governance, they must be assumed to be sufficiently well definable and localizable. This assumption is realistic unless stakeholder relationships are strongly marked by Bradbury and Lichtenstein's (2000) relationality attributes, such as the lack of tangibility, visibility, and measurability. In the terminology of Freeman and Evan (1990), these stakeholder relationships are not adequately protected by exogenous safeguards and necessitate the use of endogenous safeguards. A notable example of the use of endogenous contractual safeguards in the recent stakeholder literature is Stoelhorst and Vishwanathan's (2022) model of the stakeholder corporation. This model envisions the empowerment of "all stakeholders who are vulnerable to opportunism" (Stoelhorst & Vishwanathan, 2022). A key aspect of this model is its broad understanding of opportunism, which encompasses not only the contracting problems of shirking and hold-up traditionally addressed by firms but also market failures that have traditionally been addressed through government regulation.

Stoelhorst and Vishwanathan's (2022) theory of corporate governance is a highly apposite illustration of how stakeholder management can be enhanced by the use of endogenous contractual safeguards. The authors propose a path-breaking generalization of the transaction cost economics concept of contractual safeguards to the stakeholder theory context (Stoelhorst & Vishwanathan, 2022). But what their model does have in common with transaction cost economics is the assumption of sufficient clarity about the specific risks of opportunistic behavior and whom they affect. Stoelhorst and Vishwanathan (2022) propose corporate governance design principles according to which "stakeholders who are vulnerable to shirking or externalities should be given fixed and/or residual control rights"; while "stakeholders who are vulnerable to market power or hold-up should be given residual claim rights." Just as Williamson (rightly) supposes that the risks of opportunistic behavior are unambiguously identifiable, so do Stoelhorst and Vishwanathan (2022) likewise seem to assume that these risks must be unambiguously identifiable and capable of being protected by formal governance instruments embodied in the corporate governance design principles formulated by the authors.

The limitations of formal governance and endogenous safeguards become evident when considering the genuine moral treatment of stakeholders advocated by instrumental stakeholder theory. This moral treatment of stakeholders gives rise to moral stakeholder relationships, which are the third type of stakeholder relationships in the classification we propose. In the terminology of Freeman and Evan (1990), these stakeholder relationships are not adequately protected by either exogenous safeguards or endogenous safeguards. The insufficiency of contractual safeguards, even those that are endogenous, arises from the fact that genuinely moral behavior necessitates acting in good faith, which cannot be reliably induced through formal governance alone. To illustrate this point, we utilize Jones et al.'s (2018) concept of the communal sharing relational ethics strategy. As Jones et al.'s (2018, p. 375) put it, "[r]ather than being specific, explicit, and temporally bounded contracts, the promises involved in relational contracting are general, implicit, and open-ended commitments to cooperate voluntarily and generously with partners in joint wealth creation efforts". Jones et al. (2018, p. 375) further explain that communal sharing relational ethics strategies prioritize the maintenance of ongoing relationships, relying heavily on mutual trust and trustworthiness to cultivate reciprocal loyalty. These strategies involve contracts with terms that are often unclear and nearly impossible to enforce. Instead of relying on third-party enforcement, they are sustained by moral motivations, namely, internal moral constraints (Jones et al., 2018).

Based on Jones et al.'s (2018) explanation of the communal sharing relational ethics strategy, we see several ways in which the relational nature of moral stakeholder relationships surpasses the relational nature of formal governance considered in transaction cost economics. Firstly, the implicit and open-ended nature of relational contracts mentioned by Jones et al. (2018, p. 375) aligns with Bradbury and Lichtenstein's (2000) characterization of relationality, which emphasizes attributes such as the lack of tangibility, visibility, and measurability. Secondly, Jones et al. (2018) highlight the enforcement challenges associated with such relational contracts, revealing the limitations of endogenous safeguards within formal governance structures as described by transaction cost economics. The moral stakeholder relationships, as the third type of stakeholder relationships we discuss here, can also be understood through Bridoux and Stoelhorst's (2016) argument regarding the communal sharing model of stakeholder interaction. This model involves a genuine sense of self-identification with the community, fostering a high willingness among stakeholders to cooperate and align on shared goals. We contend that this genuine sense of self-identification relies on acting out of authentic moral motivation, which cannot be fully ensured by formal governance structures alone. We add here the qualification that Bridoux and Stoelhorst's (2016) four types of relational models of stakeholder interaction, drawing on the work of Fiske (e.g., Fiske, 1991), are all morally motivated in different ways. However, out of these models, it is only the communal sharing model that involves a genuine sense of self-identification with the community and corresponds to moral stakeholder relationships in our understanding.

We want to argue that these moral stakeholder relationships, as the third type of stakeholder relationships we propose, have distinct economic effects that would be unattainable without the requisite level of morality within stakeholder relationships. As described by instrumental stakeholder theory, these effects include not only efficiency-enhancing reductions in transaction costs but also the leveraging of information throughout the production system, increased stakeholder motivation and loyalty, enhanced reciprocal coordination, knowledge sharing, and a greater likelihood of attracting high-quality stakeholders (Bridoux & Stoelhorst, 2016; Jones et al., 2018; Jones & Harrison, 2019). Thus, we take the instrumental stakeholder theory literature to suggest that these economic effects, which would remain unattainable otherwise, constitute a practical economic outcome of high levels of morality within stakeholder relationships. We see these effects to be practically enabled by genuine moral motivation, which goes beyond the reliance on contractual safeguards and formal governance structures that focus on suppressing opportunism by inducing the fear of sanctions.

To recap, we argue that suppressing opportunism is an achievable goal for those stakeholder relationships that do not exhibit a strong lack of tangibility, visibility, and measurability (Bradbury & Lichtenstein, 2000). For those stakeholder relationships that do exhibit these attributes of relationality, it makes more economic sense to prevent opportunism by promoting a genuine sense of self-identification with the community, as suggested by Bridoux and Stoelhorst (2016). We contend that this economic sense captures the spirit of instrumental stakeholder theory, which highlights how the moral nature of stakeholder relationships enables economic outcomes that would remain unattainable otherwise.

4 | CONTRIBUTIONS TO STAKEHOLDER THEORY

The conceptual framework of relationality, proposed in the present paper, informs stakeholder theory with a refined understanding of the common ground it shares with, and its difference from, the terrain of transaction cost economics. Stakeholder scholars have drawn much inspiration from transaction cost economics ideas about how contractual hazards necessitate contractual safeguards and how these safeguards can be provided, particularly in the framework of relational contracting. Our conceptual framework of relationality shows, however that the conversation between stakeholder theory and transaction cost economics has dimensions that have not been sufficiently explored. Namely, transaction cost economics is not only a source of valuable insights for stakeholder theory but also its direct competitor. Williamson (1985) regarded transaction cost economics as a uniquely systematic approach to explaining the indefinitely broad range of the "economic institutions of capitalism." He recognized the applicability of his contracting schema to explaining the firm's relationships with diverse stakeholders, such as customers, suppliers, workers, and financial investors (Williamson, 2002). Moreover, in discussing the governance of these relationships, Williamson and Bercovitz (1996) explicitly contrasted the "stakeholder logic" with the transaction cost-economizing "contractual logic," advocating for the superior accuracy of the latter. Obviously, their argument poses a challenge to stakeholder theory. To address this challenge, stakeholder theory needs an explicit and systematic contrast with transaction cost economics in such a way as to develop a clear understanding of the difference between transactional and relational views of business. Our conceptual framework of relationality delivers precisely this understanding.

One reason why we believe that stakeholder scholars will find our conceptual framework stimulating is that Freeman et al. (2010, pp. 18–19) characterized transaction cost economics as upholding the traditional view of economics, which is acknowledged to have tensions with stakeholder theory (Freeman et al., 2020; cf. Bridoux & Stoelhorst, 2022a, p. 798). We contend that our conceptual framework of relationality, including the stakeholder-theoretic extension of Williamson's contracting schema and a novel typology of stakeholder relationships, helps to map and navigate these tensions. Our framework fulfills this task by acknowledging that stakeholder theory's embrace of relationality surpasses that of transaction cost economics. We argue that it is by fully acknowledging the relational nature of business activities that stakeholder theory overcomes the limited view of human nature in transaction cost economics and enables a deeper appreciation for the moral richness of human behavior that may constitute informal relationships (Bridoux & Stoelhorst, 2016; Dyer & Chu, 2003; Heide & John, 1992; Mitchell & Cohen, 2006; Wicks & Harrison, 2017; Zakhem & Palmer, 2017).

While stakeholder literature has been contrasting transactional and relational views of business (Bridoux & Stoelhorst, 2016; Jones et al., 2018), we acknowledge that transaction cost economics, even if seen as a part of mainstream economics (Freeman et al., 2010), does recognize the relational nature of business activities to some extent. It acknowledges the role of informal human relationships operating within the framework of formal governance structures. For example, Williamson's contracting schema suggests that when contractual incompleteness leads to high risks of opportunism, governance structures should enable the parties to find informal solutions to disputes and disturbances. However, we argue that the logic inherent in this contracting schema can be further radicalized to encompass informal stakeholder relationships exhibiting a strong lack of tangibility, visibility, and measurability (Bradbury & Lichtenstein, 2000). Such informal stakeholder relationships cannot be efficiently governed by formal governance structures that are merely compliance-oriented, and can therefore only work well if they are driven by values such as "fairness, trustworthiness, respect, loyalty, care, and cooperation" (Jones & Harrison, 2019, p. 77). In essence, just as Williamson (1996; 1985) conceptualized formal governance based on transactional attributes of frequency, uncertainty, and asset-specificity, we conceptualize governance of stakeholder relationships based on Bradbury and Lichtenstein's (2000) relationality attributes. This conceptualization allows us to see instrumental stakeholder theory as a logical continuation and radicalization of the contracting schema of transaction cost economics, beyond the scope of transaction cost economics itself. On this basis, we suggest that these two literatures, while commonly using the term "relational contracting," understand it differently. While Williamson sees relational contracting as providing space for those informal relationships that can be sufficiently secured by formal governance structures, stakeholder theory tends to adopt this term in a more radical understanding, which is irreducible to "calculative trust" (Williamson, 1996) created by formal governance.

The key contribution of our argument for managerial guidance is sensitizing managers to the varying manifestations of relationality which they are faced with and recommending that they make governance decisions depending on this relationality. For example, managers should recognize when arm's-length contracting is sufficient, when hybrid or hierarchical governance structures are needed, and when moral stakeholder relationships are desirable. They should also understand the benefits of fostering moral stakeholder relationships, such as reducing transaction costs, enhancing stakeholder motivation and loyalty, improving reciprocal coordination, facilitating knowledge sharing, and attracting high-quality stakeholders, as documented in the instrumental stakeholder literature (Bridoux & Stoelhorst, 2016; Jones et al., 2018; Jones & Harrison, 2019). They should also be aware of the challenges of maintaining moral stakeholder relationships, such as acting in good faith, respecting moral values, and coping with complexity and uncertainty. Evidently, this advice for managers goes beyond the transaction cost economics assumptions that human nature is self-interested and opportunistic and that formal governance structures are the best way to minimize transaction costs and mitigate contractual hazards. The key policy implication of our argument is the need for an enabling legal environment that would recognize the role of both formal and informal governance mechanisms in stakeholder relationships. There is room to argue that the proper functioning of exogenous contractual safeguards, embedded in the legal framework, is important for the formation of endogenous safeguards, which in turn constitute the basis for moral long-term stakeholder relationships, which per se may remain irreducible to these safeguards.

5 | IMPLICATIONS FOR FURTHER WORK

In the previous section, we argued that stakeholder theory has a deeper and more radical understanding of relationality than transaction cost economics, which mainly focuses on the economic efficiency of governance structures. However, we also acknowledged that transaction cost economics has a systematic and comprehensive approach to explaining the diverse institutional arrangements of firm-stakeholder relationships. We propose that future work on stakeholder theory could combine these two strengths: the richer appreciation of relationality and the systematic approach of transaction cost economics. This would open up a new and extensive research program that would apply the enhanced appreciation of relationality to the key components of Williamson's (1996, pp. 46–47) "discriminating alignment hypothesis." This hypothesis states that "transactions (which differ in their attributes) (are aligned) with governance structures (which differ in their costs and competencies) in a discriminating (mainly transaction cost economizing) way" (Williamson, 1996).

This hypothesis includes transaction cost economizing as an efficiency-based criterion for choosing the best governance structure. We suggest adding more criteria that reflect the diverse and positive economic effects of moral stakeholder relationships. These effects include increasing willingness to cooperate (Bridoux & Stoelhorst, 2016), "leveraging available information throughout the production system, minimizing or eliminating enforcement costs, and enhancing stakeholder motivation and loyalty" (Jones & Harrison, 2019, p. 78), improving reciprocal coordination, knowledge sharing, attracting high-quality stakeholders, and developing unique novel capabilities (Jones et al., 2018). These economic effects are not exhaustive, and they could also be complemented by the social and moral dimensions of value that moral stakeholder relationships can create (Bridoux & Stoelhorst, 2022b, p. 798).

The discriminating alignment hypothesis also considers the costs and competencies of different governance structures.

We encourage future stakeholder research to go beyond formal governance structures and additionally explore the diverse nature of informal stakeholder relationships. This exploration could use existing concepts, such as communal sharing relational models (Bridoux & Stoelhorst, 2016) and ethics strategies (Jones et al., 2018), commitment and identification stakeholder relationship bonds (Bosse & Coughlan, 2016), other-regarding stakeholder cultures (Jones et al., 2007), and collectivistic or relational organizational identity orientations (Brickson, 2007). This list is not exhaustive, and it could be expanded further.

The discriminating alignment hypothesis also looks at the attributes of different transactions. We propose to change "transactions" to "relationships" and to recognize that a key challenge in this change is to define the attributes of relationships. Of course, Williamson's attributes of transactions, and other traditional variables of organizational economics, such as observability and programmability (e.g. Ouchi, 1980) and complementarity (Alchian & Demsetz, 1972), are still relevant, but there may be other attributes of stakeholder relationships that have not been explored in the mainstream organizational economics literature. Bradbury and Lichtenstein's (2000), attributes of relationality, such as the lack of tangibility, visibility, and measurability (Bradbury & Lichtenstein, 2000) are cases in point. Future stakeholder research should investigate these additional attributes. We can only suggest that these investigations could be inspired by the concept of turbulence in the business environment, which Freeman introduced in his original 1984 book. The idea of turbulence has been familiar to management scholars and organization theorists for a long time (Burrell & Morgan, 1979; Emery & Trist, 1965). Today, stakeholder theorists add new meaning to this idea by highlighting the characteristics of the business environment, such as environmental dynamism, knowledge intensity, task and outcome interdependence (Bridoux & Stoelhorst, 2016; Jones et al., 2018), and the global nature of externalities that corporations may cause (Stoelhorst & Vishwanathan, 2022). We hypothesize that the characteristics of the business environment will shape the attributes of stakeholder relationships in such a way that they may require informal governance solutions more than formal governance structures.

We propose that stakeholder scholars could build on the success story of transaction cost economics by systematically updating the components of the discriminating alignment hypothesis along the suggested lines and then by examining the updated hypothesis in its entirety. This would create a new and extensive research program that would include both conceptual analysis and empirical research using qualitative and quantitative methods. This research program would apply a richer appreciation of relationality and moral motivation to the diverse stakeholder relationships that firms have with their stakeholders. It would also explore the antecedents and consequences of different types of stakeholder relationships. It would also examine how stakeholder relationships are influenced by and respond to the characteristics and changes of the business environment, such as turbulence, dynamism, knowledge intensity, interdependence, and externalities.

6 | CONCLUSION

In the paper, we compare stakeholder theory and transaction cost economics to develop a conceptual framework of relationality in stakeholder theory. Our framework is premised on understanding relationality as the need for informal human relationships beyond formal governance. While the framework acknowledges the common ground shared by stakeholder theory and transaction cost economics, it highlights their differences, thus illuminating how stakeholder relationships differ from economic transactions. We argue that while transaction cost economics perceives informal relationships as facilitated by formal governance structures supported by contractual safeguards, stakeholder theory is open to the possibility that some informal relationships between stakeholders may be genuinely moral. These relationships go beyond the realm of formal governance alone and are sustained by moral motivations rather than contractual safeguards, whether exogenous or endogenous (Jones et al., 2018, p. 375; Gibbons & Henderson, 2012, p. 1350).

Our conceptual framework of relationality consists of a stakeholder-theoretic extension of Williamson's contracting schema and a new typology of stakeholder relationships, which differ in terms of the nature of the risk of opportunistic behavior. We contend that transaction cost economics focuses on those stakeholder relationships where the risks of opportunistic behavior are well-definable enough to be mitigated through formal governance structures. In contrast, for moral stakeholder relationships considered by (instrumental) stakeholder theory, the risks of opportunism defy a precise definition and thus cannot be adequately addressed by formal governance alone. We argue that this opportunism can be effectively mitigated when stakeholders are guided by moral values and act in good faith. We conclude that even though relationality does not encompass the entire moral dimension of stakeholder theory, it offers a lens through which to compare and contrast stakeholder theory with transaction cost economics. This juxtaposition highlights that stakeholder theory adopts a more radical approach to mitigating opportunism and goes beyond transaction cost economics in considering the relational nature of business activities.

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