



**THE REPUBLIC OF TÜRKİYE
SOCIAL SCIENCES UNIVERSITY OF ANKARA
THE GRADUATE SCHOOL OF SOCIAL SCIENCES**

**STAKEHOLDER RELATIONSHIP MANAGEMENT AS A FIRM
CAPABILITY FOR SUSTAINABLE PERFORMANCE: AN
INTEGRATION OF INSIGHTS FROM STAKEHOLDER THEORY AND
RESOURCE-BASED THEORY**

PhD. Dissertation

Mudasiru Iliyas

Department of Business Administration

PhD. Management and organization

July, 2025



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ÖZET

Stratejik yönetim alanındaki bazı önde gelen akademisyenlerin son dönemdeki çağrıları, paydaş teorisi ile kaynak temelli teorinin içgörülerinin daha fazla araştırılarak bütünleştirilmesi gerektiğini ortaya koymaktadır. Bu çağrılar, her iki teorinin de birbirini tamamlayabilecek ve genişletebilecek potansiyele sahip olduğunu önermektedir. Bu bütünleşmenin bir yolu, paydaş ilişkileri yönetiminin sürdürülebilir üstün performansa katkı sağlayabilecek bir firma yetkinliği olarak incelenmesidir. Her ne kadar daha önceki bazı çalışmalar bu fikirleri kabul etmiş olsa da, bunlar henüz ampirik olarak test edilmemiştir. Bu tez, söz konusu akademik çağrılardan ilham alarak, iki teorinin içgörülerini birleştirmekte ve kaynak temelli teoriyi kullanarak paydaş ilişkileri yönetimini bir firma yetkinliği olarak değerlendirmekte, ayrıca bu yetkinliğin değerini açıklayan ve test eden bir model önermektedir.

Bu tez, paydaş ilişkileri yönetiminin firma öğrenmesini, yenilikçiliğini, verimliliğini, dayanıklılığını ve performansını olumlu yönde etkileyerek değerli bir yetkinlik oluşturduğunu ileri sürmektedir. Bu önerme, Ankara ve İstanbul'daki sanayi firmalarından toplanan verilerle test edilmiştir. Verilerin analizi, Stata 18 BE programı kullanılarak yapısal eşitlik modellemesi yöntemiyle gerçekleştirilmiştir. Bulgular, çalışmanın hipotezlerinin büyük kısmını destekleyerek, paydaş ilişkileri yönetiminin firma yetkinliği olarak değerini doğrulamıştır. Çalışma ayrıca, her firmanın kendine özgü bir paydaş ağı içinde yer aldığı ve güven gibi bazı paydaş ilişki unsurlarının kolay taklit edilemez olduğu dikkate alındığında, paydaş ilişkileri yönetiminden değer elde edecek şekilde kendini iyi organize eden firmaların bu faydaları sürdürebileceğini savunmaktadır.

Bu tez, stratejik yönetim alanına ve her iki teoriye çeşitli açılardan katkı sunmaktadır. İlk olarak, paydaş teorisinin araçsal (instrumental) yönünü ilerleterek teorinin ana akım stratejik yönetim teorileriyle daha güçlü bir uyum göstermesini sağlamaktadır. Ayrıca, paydaş ilişkileri yönetiminin dinamik yönünü geliştirerek, bu yetkinliğin firma öğrenmesini, yenilikçiliğini ve dayanıklılığını nasıl artırdığını ortaya koymaktadır. Paydaş ilişkileri yönetimi ile firma performansı arasındaki daha az çalışılmış olan bağlayıcı mekanizmaları da açıklamaktadır. Kaynak temelli teori açısından ise, iç kaynaklara odaklanmasının ötesine geçerek, hem iç hem de dış ilişki kaynaklarının yönetiminin sürdürülebilir performansa nasıl katkı sağladığını göstermekte ve teorinin önermelerini ampirik olarak doğrulamaktadır. Son olarak, paydaş teorisi ile kaynak temelli teori arasındaki gerilimleri azaltarak, bu iki teorinin birbirini nasıl tamamladığını göstermektedir.

Anahtar Kelimeler: Paydaşlar, Paydaş Teorisi, Kaynak Temelli Teori, Paydaş İlişkileri Yönetimi, Bilgi Değişimi, Dayanıklılık, Verimlilik, Yenilikçilik ve Firma Performansı.

ABSTRACT

Recent calls by some leading scholars in the field of strategic management indicate the need for more research done to integrate insights of stakeholder theory and resource-based theory. These calls suggest the potentiality of each theory to extend and complete the other. One way this integration could be done is the examination of stakeholder relationship management as a firm capability that could contribute to sustainable superior performance. Although a few previous studies have acknowledged related ideas, they have remained untested. This dissertation, motivated by these recent scholarly suggestions, integrates insights of the two theories by using the resource-based theory to assess stakeholder relationship management as a firm capability, as well as proposing and empirically testing a model of its value.

It proposed that stakeholder relationships management positively affect firm learning, innovativeness, efficiency, resilience, and performance, making it a valuable capability. It tested these propositions with a data gathered from manufacturing firms in Ankara and Istanbul, Türkiye; and analyzed using structural equation modelling in Stata 18 BE. The findings supported most of the study's hypothesis, confirming the value of stakeholder relationships management. The study further argues that since each firm is embedded in a unique stakeholder network and aspects of stakeholder relationships like trust are not easily imitable, firms that organize to attain the value from the capability could sustain such benefits.

The dissertation contributes to strategic management and the two theories severally. First, it advances the instrumental stream of stakeholder theory, further enhancing its broader alignment with the mainstream strategic management theories. It also advances the dynamic view of stakeholder relationships management, by demonstrating its enhancement of firm learning, innovativeness and resilience. It further demonstrates the mechanisms linking stakeholder relationships management to firm performance, which are understudied. For RBT it broadens its focus on internal resources to also consider how managing both internal and external relationship resources leads to sustainable performance. It also provide empirical validation of RBT propositions. Finally, it contributes to resolving tensions between stakeholder theory and resource-based theory, by demonstrating their complementarity.

Key words: *Stakeholders, stakeholder theory, resource-based theory, stakeholder relationship Management, knowledge exchange, resilience, efficiency, innovativeness and firm performance.*

LIST OF SYMBOLS

β	Effect size of regression; It shows the direction and strength of the relationship
SE	standard error of the coefficient; It indicates estimate precision
z-value	β divided by its standard error; It measures how far β is from zero
p-value	Probability that the result is due to chance; It tests statistical significance
95% CI	Range where the true β is likely to fall with 95% confidence
χ^2	Chi-square statistic
Df	Degrees of freedom
χ^2/df	Chi-square divided by degrees of freedom
Δ	Change
+	Increase/ positive
-	Decrease/ Negative
new_	Reverse coded item

ABBREVIATIONS

SRMC	Stakeholder Relationships Management Capability
KnowEX	Knowledge Exchange
Innovat	Innovativeness
Eff	Efficiency
Resilie	Resilience
Perf	Performance
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
AVE	Average Variance Extracted
CR	Composite Reliability
RBT	Resource Based Theory
Cooksd	Cook's Distance
VIF	Variance Inflation Factor
RMSEA	Root mean square error of approximation
Df	Degrees of Freedom
CFI	Comparative Fit Index
TLI	Tucker-Lewis Index

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Recently, calls have been made by a number of leading scholars of strategic management for more research done to integrate stakeholder theory with strategic management theories (especially the resource-based theory) (eg. McGahan, 2021; Freeman et al, 2021; Barney, et al, 2021a; Amis et al, 2020; Barney, 2018). This dissertation integrates insights of both theories by employing resource-based theory as a framework to assess whether stakeholder relationship management (SRM) can be considered as a valuable, rare, and inimitable capability that can lead to sustainable superior firm performance.

Stakeholder theory and Resource-based theory were both introduced as strategic management theories around the same time (Freeman, 1984; Wernerfelt, 1984). The resource-based theory; which argues that firms achieve sustainable competitive advantage by possessing resources that are valuable, rare and inimitable and by being organized to exploit such resources; quickly gained prominence in the field previously dominated by environmental perspectives of firm performance (Barney 1991; 1995). However, the stakeholder theory which explains that the success of firms depends on how they manage stakeholder relationships has over the years struggled to gain the needed attention in the field (Freeman et al., 2021; Valentinov & Chia, 2022; Harrison, 2011). This is partly because early stakeholder theorists focused much of their attention on giving prescriptions about the relational and ethical obligations of firms rather than explaining the causes of performance differences of firms like other theories of the field (Valentinov & Chia, 2022; Harrison, 2011).

The recent calls for research to integrate insights of the two theories, however, have been motivated by both theoretical and practical considerations (e.g., McGahan, 2021; Freeman et al., 2021; Barney et al., 2021a; Amis et al., 2020; Barney, 2018). Theoretically, at recent meetings held in conjunction with annual conferences of the Strategic Management Society, scholars identified some tensions that they believed exist between stakeholder theory and strategic management field which they believed needed to be resolved (Barney & Harrison, 2018; Freeman et al, 2018). These tensions include whether ‘Stakeholder theory and the resource-based view (RBV) contradict each other versus these two theories are complementary

in some important ways'; implying the need for research to find out whether there exist any significant connections between the two theories.

Also, scholars have acknowledged that each theory holds a great potential to extend and complete the other's focus (Freeman, et al, 2021; McGahan, 2021). Some scholars claim that the current conceptualization of the resource-based theory is incomplete without an inclusion of the significance of stakeholder impacts in its explanations of firm performance (e.g. Freeman et al, 2021). The resource-based theory, as Freeman et al, (2021), argues appears to have ignored the impact of stakeholders on firm performance. The resource-based theory's focus on internal resources of firms as the reason behind their performance appears incomplete without a broader theorization of how the firm ensures the continued possession of these resources. Since stakeholders bind resources to firms, an extension of resource-based theory to include how firm manages stakeholder relationships to ensure the continued possession of valuable firm resources is therefore necessary.

Other scholars have also claimed that the current state of new stakeholder theory could in fact be improved by ideas of resource-based theory, as it is the current dominant explanation of firm performance differences in the field of strategic management (eg. McGahan, 2021). McGahan argues that the resource-based theory can advance answers to important questions related to the following areas of new stakeholder theory; organizational formation, resource development, claims on value, governance, and performance. She then concluded that neither stakeholder theory nor resource-based theory is complete without the other, further calling for future studies to explore their integration. An integration of the two theories, therefore, could strengthen their explanations of strategic phenomena like firm performance.

Practical developments in the business world also seem to indicate the need for such integration. For instance, the recent declaration by CEOs of about 181 major corporations to redefine the purpose of managing their companies for the benefit of their various stakeholders and not solely for shareholders (Harrison, et al, 2020; Freeman et. al 2021), incites management theorization to also incorporate stakeholder issues. Additionally, the growing recognition of the negative economic and social impacts of corporations have also drawn academic and public attention to the need to consider stakeholder issues in management theorization and practice. Problems such as managerial corruption, corporate abuses, corporate impacts on economic crises and climate change etc. have increasingly drawn attention to stakeholder issues in management (Sachs & Ruhli, 2011).

Some scholars of strategic management, therefore, have even called for alternative methods of measuring firm performance based on value created for entire stakeholders of the firm and not only shareholders (Barney, 2018; Barney, 2020; Barney et. al. 2021b).

Resource-based theory and stakeholder theory share a couple of similarities but also have some potential contradictions challenging their integration (Freeman, et al, 2021). A major contradiction is that the resource-based theory has its foundations rooted in economic theory (Barca, 2017) and it appears to argue in favor of maximizing shareholder profits; while stakeholder theory on the other hand proposes incorporation of morality and ethics in the running of firms arguing that such efforts would lead to higher firm value creation for all stakeholders (Freeman, 1984).

Despite their seemingly disparate theoretical backgrounds, a number of previous studies have tried to bridge the two theories. For instance, some studies have discussed how to account for stakeholders in Resource based theory's model of rent appropriation (example is Barney, 2018). Others have explained how managing a firm for stakeholders could lead to competitive advantage (example is Harrison, et al 2010). Others also have given suggestions of how stakeholder theory can be used to advance resource-based theory research (example is Freeman et al 2021) and finally others have also proposed how ideas from resource-based theory can be used to advance research in stakeholder theory (example is McGahan, 2021).

However, despite all these previous attempts at bringing these two theoretical approaches, scholars still maintain that more opportunities exist for theory development at the intersection of the two theories (McGahan, 2021; Freeman et al, 2021; Barney, et al, 2021a; Amis et al, 2020; Barney, 2018). Freeman et al (2021), for instance, categorically stated that their paper did not intend to integrate the two theories together but future research is needed to do so: According to them future research could improve the resource-based theory's explanations by incorporating stakeholder theory's elements of normativity, cooperation, sustainability and treatment of people as partners (not as productive resources) into the Resource-Based Theory. Amis et al, (2020) and McGahan (2021) also pointed that their integration could provide answers to corporate governance and performance issues.

This dissertation, motivated by these recent suggestions, argue that despite stakeholder theory and resource-based theory's seeming contradictions, they are in fact very related. Instrumental stakeholder theory's explanation that stakeholder relationship management could lead to sustainable firm value creation actually concurs with the resource-based theory's propositions when stakeholder relationship management is considered as a firm capability. The

objective of this study therefore is to explain the relationship between stakeholder theory and resource-based theory and use the resource-based theory's proposition to assess whether stakeholder relationships management satisfies as a valuable, rare and inimitable capability potentially giving firms sustainable superior performance. It empirically tests a model to assess the value of stakeholder relationships management and further advances arguments about its rareness and inimitability.

Our review of the literature reveals that very scanty studies, if any, exist that have empirically tested these ideas. For instance, Harrison et al (2010) theorized that managing a firm for stakeholders could be considered a resource for achieving sustainable competitive advantage without empirical validation. Jones et al (2018), extended this idea by arguing that Communal Sharing Relational ethics as against arm's length relational ethics in managing stakeholder relationships could be considered a resource that leads to sustainable competitive advantage without any empirical validation. This dissertation extends these ideas by proposing stakeholder relationships management as a valuable, rare, inimitable and organizationally embedded capability leading to sustainable superior performance as well as empirically verifying the existence of its value. It hypothesizes that stakeholder relationships management positively affects firm learning, innovativeness, efficiency and performance, making it a valuable firm capability. It also hypothesized that the effect of stakeholder relationships management on these outcomes however is moderated by stakeholder culture of the firm, whereby moralists experience the highest impact and egoists the lowest.

These propositions were tested with data collected from manufacturing firms located in Ankara and Istanbul provinces of Türkiye. Direct e-mailing method and the platform of an experienced data collection institution was used to collect the data for the study. After eliminating missing data, and duplications, a total of 306 usable questionnaires were subjected to analysis. The analysis was done using structural equations modelling bootstrapped with 1000 replications. The result supported most of the hypothesis of the study confirming that stakeholder relationships management is a valuable firm capability. It, however, provided partial support for the moderation of stakeholder culture. Stakeholder culture significantly moderated the effects of stakeholder relationships management, but moralists were not found to consistently have higher impacts than other cultures.

The study further argues that the uniqueness of the stakeholder network within which each firm is embedded, and the firm-specific nature of stakeholder relationships management makes the capability a rare one. Also, stakeholder relationships management is a path dependent and socially complex capability whose benefits are not easily traceable to their sources, making

them causally ambiguous. Aspects of stakeholder relationships management such as trust also exhibit these features making the capability even more difficult to imitate. The study concludes that given stakeholder relationships management's value, rareness, and inimitability, if supported by appropriate organizational context, it leads to sustainable superior firm performance.

The study contributes to strategic management, resource-based theory and stakeholder theory in a number of ways. First, it advances the instrumental stream of stakeholder theory, further enhancing the theory's broader alignment with the mainstream strategic management theories, as it empirically demonstrates the effect of stakeholder relationships management on performance. It also advances the dynamic view of stakeholder relationships management as it demonstrates that stakeholder relationships management enhances firm learning, innovativeness and resilience. It further demonstrates the mechanisms linking stakeholder relationships management to firm performance, which is an area that remains underexplored in the literature (Barney & Harrison, 2018; Freeman et al, 2018). For RBT it broadens its focus on internal resources to also consider how managing both internal and external relationship resources leads to sustainable performance. It also add empirical validation to RBT propositions. Besides, it empirically demonstrates that stakeholder relationships management could be included in RBT's discussions of resources that are sources of firms' sustainable competitive advantages; this is said to be missing in the RBT literature (Freeman et al, 2021; Harrison, et al, 2010). Finally, it resolves some of the tensions scholars identified as existing between stakeholder theory and the field of strategic management (Barney & Harrison, 2018; Freeman et al, 2018). One, it resolves the tension as to whether stakeholder theory and resource-based theory are contradictory or complimentary by demonstrating their complementarity. Another tension is whether stakeholder-based management always lead to superior performance or there are some moderators to the relationship. This study found that the culture of a firm is an example of such moderators.

The study is organized into seven chapters. The next chapter will present a general literature review about research in the field of strategic management, the resource-based theory and the stakeholder theory. The third chapter of the study will be dedicated to presenting the relationship between resource-based theory and stakeholder theory. This includes a summary of their propositions, their similarities, contradictions, the need for an integration of their ideas and how that could be done.

The chapter following after that contains an assessment of stakeholder relationship management as a capability that can generate sustained superior performance drawing on the propositions of resource-based theory. It includes a conceptual model of the value of stakeholder relationships management as well as an assessment of its rareness and inimitability. The fifth chapter presents the methodology of the study. It contains research design, sampling and measurements used for the study. The sixth chapter of the study contains the data analysis method used and a presentation of the results of analysis of the data gathered. Finally, the seventh chapter presents a general discussion of the study's findings together with limitations of the study and suggestions for future research. It ends with the conclusion of the study.

1.2 Research Objectives

The dissertation attempts to accomplish these objectives:

1. To demonstrate how stakeholder theory and resource-based theory are related.
2. To draw on resource-based theory's propositions to assess whether stakeholder relationship management could lead to superior firm performance

1.3 Research Questions

In line with the above research objectives, the dissertation attempts to address the following questions;

1. Is the stakeholder theory and the resource-based theory related?
2. Can stakeholder relationship management be considered as a firm capability that can generate sustainable superior performance?

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In line with the overall structure of the dissertation presented in the previous chapter, this chapter presents a review of relevant literature. It begins by reviewing research in the strategic management field, then situating RBT research within the broader field of strategy and finally reviewing research on stakeholder theory as well as stakeholder relationships management.

2.2 STRATEGY RESEARCH AND FIRM PERFORMANCE

The strategic management field of study since its inception has primarily been interested in explaining the causes and the persistence of firm performance differences (Barca, 2017; Herrmann, 2005; Mahoney and McGahan; 2007). Almost all major strategic management theories attempt to address this question, including the resource-based theory.

While the resource-based theory is currently the dominant approach to addressing this question, there were other approaches in the field before its proposition. In this section, we present a review of these earlier approaches to strategy research, that paved the way for resource-based theory's proposition. In doing so, we make special reference to major literature that have earlier explained the structure and evolution of the strategic management field including Schendel & Hatten, 1972, Bracker, 1980, Rumelt et. al, (1994), Hoskisson, et al (1999), Mahoney and McGahan (2007), Furrer et. al, (2008).

2.2.1 Early Management Studies and Business Policy

Strategic management is a recent scientific field which traces its roots to earlier works on economic organization and bureaucracy (Rumelt et al, 1994; Furrer et al, 2008). These include Taylor (1911) on the science of work, Barnard (1938) on management roles, Simon (1947) on administrative analysis, Selznick (1957) on distinctive competence, and Penrose (1959) on firm growth through resources and managerial capabilities.

The field evolved out of the business policy course, which integrated knowledge from various business disciplines to address broad managerial issues (Schendel & Hatten, 1972). The Business policy, initially introduced at Harvard Business School and regarded as a course rather than a field of study, had a limited scope and concentrated on explaining long-term

organizational decisions, top management's roles and general firm performance (Mahoney & McGahan, 2007).

By the 1960s, the demand for a more scientific approach to managerial decision-making and firm performance drove the development of strategic management as a distinct field (Schendel & Hatten, 1972; Hoskisson et al., 1999). The birth of strategic management is attributed to late business policy works such as Alfred Chandler's *Strategy and Structure* (1962), Igor Ansoff's *Corporate Strategy* (1965), and the Harvard textbook titled *Business Policy: Text and Cases* (1965) attributed to Kenneth Andrews. These were among the first to conceptualize the definition of strategy and laid the foundation of the field (Rumelt et al. 1994; Herrmann, 2005).

Chandler, for instance, was interested in explaining how large firms develop new administrative structures for growth. And assessed the influence of changes in strategy on structure. Strategy according to Chandler refers to "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals". Whereas structure to him referred to the design of the enterprise by which the enterprise is administered. Chandler demonstrated that strategies of an enterprise are mainly changed to respond to environmental opportunities; and when they are changed, structures of the enterprise are also changed accordingly (Hoskisson, et. al, 1999).

Ansoff (1965) also defined strategy as a rule for making decisions which consist of four components namely, product/market scope, growth vector, competitive advantage, and synergy. Finally, Andrews and his colleagues defined strategy as "the pattern of objectives, purposes, or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be" (Learned, et al, 1969, p 15). To them, strategy comprises two related activities- formulation and implementation (Hoskisson et. al, 1999). They additionally developed SWOT analysis, a famous strategic management tool which emphasizes the importance of managing environmental opportunities and threats using internal strengths and weaknesses to a firm's performance (Herrmann, 2005).

Besides these three foundational works that defined the 'strategy' concept and expanded its domain beyond business policy, Thompson (1967) also significantly contributed to the field at this stage. He described how firm performance depends on aligning structure with task interdependencies, which he categorized as pooled, sequential, and reciprocal. Thompson's framework helped shape research on corporate level strategies.

Publication of these foundational works on strategy coincided with the development of contingency theory in Organization Theory (Burns and Stalker, 1961; Woodward, 1965; Thompson 1967; Lawrence and Lorsch 1967) which asserts that firm's performance depends on a fitting its structure to its environmental contingencies. Hence, early works on strategy favored contingency theory perspectives in their arguments (Herrmann, 2005). Chandler's (1962) argument that environmental opportunities influence firms' strategy which ultimately affects firm's performance and growth, for instance, has contingency elements in it. Likewise, Andrew and his colleagues' SWOT analysis framework also has contingency elements in it. Contingency theory also influenced early strategy concepts such as strategy adaptation, strategic fit or strategic alignment (Venkatraman, & Camillus, 1984).

In the 1970s, the strategic management field experienced further development with key works including Newman and Logan's *Strategy, Policy, and Central Management* (1971), Schendel and Hatten's *Business Policy or Strategic Management* (1972), Uytterhoeven et al.'s *Strategy and Organization: Text and Cases in General Management* (1973), Mintzberg's *The Structuring of Organizations* (1979), and Schendel and Hofer's *Strategic Management: A New View of Business Policy and Planning* (1979) (Bracker, 1980).

Schendel and Hofer (1979) for instance, was a book published after a conference that proposed naming 'Strategic Management' as a new division of Academy of Management (AoM). This event marked a paradigm shift from the hitherto business policy name. The new academic field aimed to be more scientific that would attempt prediction and control, unlike the business policy which was just a course (Freeman et. al, 2018).

2.2.2 The External Approach and Porter's Framework

The 1980s marked a conceptual shift in strategy research, when the field began to be grounded in Economics, particularly industrial organization economics. This enhanced the field's position as a scientific endeavor. Because industrial organization economics, specifically, focused on how firms behave and interact with each other in markets, and how market (or industry) structures affect economic outcomes, the strategic management field also adopted this external approach to explaining firm performance differences. The focus of the field, therefore, shifted from considering the internal aspects of the firm as the unit of analysis, done in business policy course, to the external aspects of the firm - specifically the industry. The publication of Porter's (1980) *Competitive Strategy: Techniques for Analyzing Industries*

and Competitors, which is perhaps one of the most dominant works in the field, is attributed to this shift in focus.

In this book Porter explained that the performance of a firm is dependent on the attractiveness of its industry, determined by five forces-namely, 1. rivalry among firms 2. bargaining power of buyers 3. bargaining power of Suppliers 4. threats of substitutes and 5. threats of new entrants.

The ultimate profit potential in an industry is determined by the collective strength of these forces. Industries that have lower collective strength of the above forces are very attractive, and hence firms within such industries can earn higher returns. Whereas industries where the collective strength of the above forces is stronger are less attractive, causing firms within such industries to earn lower profits. (p.3). A firm's knowledge of these competitive pressures represents a critical strength that can be used by the firm to position itself in the industry to be able to earn superior profits or outcompete its competitors (p, 4).

Porter further proposed three generic strategies that firms can adopt in order to cope with these five forces and to outperform other firms within their industries. These are 1) overall cost leadership strategy, 2) differentiation strategy and 3) Focus strategy (p. 35).

The overall cost leadership strategy exists when a firm conducts itself in an efficient manner to be able to lower its costs relative to its competitors. This enables it to be able to offer products and services at cheaper prices, thereby attracting customers, gaining larger market shares and higher profits relative to competitors (p. 35).

Differentiation strategy, on the other hand, involves creating something perceived as unique within a firm's industry such as enhanced brand image, better technology, unique product features or quality customer service. It insulates the firm against competitive rivalry because of customer brand loyalty and helps it to outcompete other firms as well as earn above normal profit as it induces customers' willingness to pay (P, 38).

Finally, the focus strategy is where a firm concentrates its operations on serving a particular group of buyers, product line or geographical area within an industry. While cost leadership and differentiation strategies are generic strategies for pursuing industry-wide products, services or customers; focus strategy involves directing attention and resources towards serving a particular segment of the industry. Focus strategy helps the firm to cope with the five competitive forces and outperform its competition as it can be combined with either differentiation or low-cost position strategy too (p, 39).

Porter's framework became very dominant in the field of strategy that many subsequent studies within the field adopted it. It also influenced the grounding of subsequent strategy

studies in economics and the development of other frameworks and approaches such as the competitive dynamics model and strategy groups' research.

2.2.3 Resource Based Theory and Previous Strategy Research

The resources-based theory was proposed, at a time when external analysis of firm's competitive advantage, especially Porter's (1980) framework was the dominant logic in the field of strategy research. Thus, it began when the dominant logic for understanding firm strategy and performance involved looking at the industry-structure of the firm.

However, unlike Porter (1980) and subsequent externally focused strategy studies, the resource-based theory redirected scholars' attention to the internal aspects of the firm. It questioned some of the loosely held assumptions of the dominant industry-structure frameworks and proposed that the determinants of the strategy and competitive advantage of firms are within the firms themselves and not outside of the firms (Barney, 1991; 1995). The RBT questioned two main assumptions of Porter's framework; that Porter's Framework assumed the resource possessions of firms to be homogenous; and that these resources are perfectly mobile among firms (Barney, 1991; 1995). According to Barney (1991), if the resources possessed by firms were homogenous and perfectly mobile, then no firm would achieve sustainable competitive advantage. This is because if any of them enjoys superior performance, it would attract new entrants or cause rivalry among the existing firms in the industry and the profit would be competed away.

So, based on the assumptions that resources of firms are heterogeneous and imperfectly mobile (Barney, 1991; 1995), it advanced that the most successful firms are those that have valuable resources to pursue their strategies which cannot be imitated by their rivals. This makes their competitive advantages truly sustainable.

Just like business policy, and unlike Porter's industry-structure approach, the resource-based theory focuses on the internal aspects of firms to provide explanations about their performance differences. From the SWOT analysis framework introduced by Andrews and his colleagues (1965), Porter's framework represented an analysis based on the external opportunities and threats aspect (Barney, 1991; 1995). However, a theory addressing internal strengths and weaknesses of firms was needed, which the Resource-Based Theory (RBT) was proposed to represent (Wernerfelt, 1984; Barney, 1995).

2.3 THE RESOURCE BASED THEORY

2.3.1 The Theory's Introduction - The Period Up till 1991

The Resource based theory as a relatively new theoretical approach within the strategic management began in the 1980s (Lippman & Rumelt, 1982, Wernerfelt, 1984). However, the significance of firm resources to its competitive position has long been acknowledged by scholars like Edith Penrose (1959) and Rubin (1973).

In 1959, Edith Penrose in a book titled "The theory of the growth of firms" argued that firm's growth, both internally and then externally, results from the manner in which resources are employed. Resources, to her, are the physical things a firm purchase, rents or produces for its own use and the people that it hired on terms that make them a part of the firm, and the potential contribution of these resources to the firm's productive operations are their services (Penrose, 1959: 67). Penrose claimed that productive resources could only contribute to a firm's growth or competitive position to the extent that they are exploited in a way that their potentially valuable services are realized by the firm.

Penrose's aim was to direct the attention of the neoclassical microeconomics from its over-concentration on the 'price' and 'demand' towards the internal aspects of the firm. However, her work didn't have that much impact in that field as it would have decades later in the yet to be born strategic management field (Nair, et al. 2008). Her work began to gain much attention within the field of strategic management, together with the proposition of the resource-based theory. Scholars like David Teece (1982) and Birger Wernerfelt (1984) were among the first scholars in the strategic management field to have cited the work of Penrose (Nair, et al. 2008).

Apart from Penrose, Rubin (1973) also conceptualized the firm as a collection of resources before the formal beginnings of the RBT (Wernerfelt, 1984; Newbert, 2007). Rubin, like Penrose, argued that resources themselves cannot lead to firm growth unless they are combined in activities. Moreover, not all resources could be bought in the market, and as a result, there are differences in firms' resource possessions.

Another earlier work that had significant impact on the development of the resource-based theory is Lippman and Rumelt's (1982) article in which the authors explained that the causes of sustained differences in firm performance is uncertain imitability, which results from causal ambiguity or factor immobility. These concepts- uncertain imitability, causal ambiguity and factor immobility- are strongly part of the foundational concepts of the Resource-based theory

Wernerfelt, (1984), is generally acknowledged as the first to formalize RBT as a new perspective in Strategic Management. In a paper titled 'A Resource-Based View of the Firm,' Wernerfelt explained the significance of analyzing firm's performance not from product perspective but from resources perspective. He defined resources as tangible and intangible assets that are tied semi-permanently to the firm. According to Wernerfelt, a firm's performance is influenced directly by its products but indirectly by its resources, making identifying and acquiring resources that are critical to the development of products that are in demand, the main source of firms' superior performance.

Following Wernerfelt, (1984), Barney explained how firms acquire valuable resources from the strategic factor markets to pursue their strategy. According to him, firms are able to earn above-normal profits not because of success in their product markets but rather because of the imperfection of their strategic factor market. Firms have different understandings about the future value of resources, so those who acquire valuable resources because of their special foresight or out of luck achieve superior performance. If the factor market were perfect, no firm would attain superior performance since all of them would have full knowledge about the future value of strategic resources and attempt to acquire them, causing their potential profits to be competed away (Barney, 1986a).

Dierickx and Cool, (1989) criticized this view of Barney, arguing that valuable resources are not acquired in the factor market but accumulated within the firm, making them firm-specific and sources of superior performance. Diericks and Cool further differentiated between two kinds of resources- asset flows and asset stocks. Asset flows can be bought and sold in the market and are not sources of superior performance by themselves. Asset stock on the other hand are accumulated within the firm by acquiring and combining asset flows overtime. So, asset stocks are firm-specific, and not easily obtained by competitors, making them sources of superior performance. They further contributed to the RBT, by identifying some causes of the inimitability of firms' strategic resources including 'time compression diseconomies, asset mass efficiencies, interconnectedness of asset stocks, asset erosion, and causal ambiguity'.

Barney (1989) quickly followed this article with a clarification that even when strategic resources are accumulated within the firm, the primary sources of these accumulated resources are tradable. To Barney, Diericks and Cool's (1989) article advances his arguments rather than contradict them, as a firm is able to accumulate strategic asset stocks because of the foresight it had of the future value of the asset flows it exchanged from the markets or perhaps because it is lucky. If competitors were aware of the future value of asset flows at the time the focal firm

was exchanging for them in the markets they could have also bought and accumulated them into valuable asset stocks.

Reed and Defillippi's (1990) article captioned "Causal ambiguity, barriers to imitation and sustainable competitive advantage" also contributed to the development of RBT. According to the paper, among the reasons why a firm achieve a sustainable competitive advantage is the causal ambiguities associated with its resources or lower competition, which raise barriers for imitation. The higher the causal ambiguity or the lower the competition, the higher the barriers to imitation and the longer the sustainability of competitive advantage and vice versa. Also, causal ambiguities to them result from three factors - resource tacitness, specificity and complexities. For a firm to sustain its competitive advantage it has to invest in these factors so as to increase its resources' causal ambiguities. These concepts- causal ambiguity, complexity and specificity of resources- are very fundamental components of the resource-based theory.

In all, the Resource based theory enjoyed gradual developments and attention until the early 1990s. The publication by Prahalad and Hamel (1990) titled 'the Core Competence of the corporation' and Barney (1991) titled 'Firm resources and sustained competitive advantage' gave the RBT a strong grounding and attention to grow into a major theoretical perspective within the field of strategic management

Prahalad and Hamel (1990) published their paper in Harvard Business Review, perhaps with the intention of communicating to practitioners. However, the content of their article is so conceptually strong that it attracted the attention of scholars too. The article has had about 39,410 citations on google scholar at the time of writing this dissertation. To them. Firms possess different kinds of resources which enable them to pursue different strategies. A firm can achieve superior performance if it can effectively exploit its distinctive resources without competitors' ability to imitate those resources. Prahalad and Hamel termed these distinctive resources as the core competences of the firm. According to them, firms should focus on identifying their core competences and concentrate on exploiting those competences in order to achieve and sustain competitive advantage. A resource is a core competence, when it contributes to customer perceived value, is inimitable and can be leveraged to participate in a number of businesses.

Barney's (1991) paper is widely referred to as the seminal paper on the resource-based theory together with Wernerfelt (1984). Barney (1991) combined the rather disparate resource-based theory ideas to provide a comprehensive presentation of what the theory is about. He explained the assumptions, concepts, relationships, the boundary conditions and the

mechanisms of the resource-based theory as a theoretical perspective. The theory according to him is based on two main assumptions; (1) resources are heterogeneously distributed among firms and (2) they are imperfectly mobile. Based on these assumptions, the theory proposes that firms who possess resources that are valuable and rare, achieve a competitive advantage. When these valuable and rare resources are also inimitable and non-substitutable, then the firm can sustain the advantage.

Barney (1991) has been so influential in drawing scholarly attention to the nascent Resource-based view. As at the time of writing this dissertation, the paper has had over 115,235 citations on google scholar.

The year 1991 also saw the first special issue on Resource based theory published by the Journal of Management which attracted a number of good contributions. Together with Jay Barney (1991), other contributors to this special issue included Kathlene Conner; Richard Castanias & Constance Helfat; Jeff Harrison, Mike Hitt, Robert Hoskinsson & Duane Ireland; and Marlene Fiol. This special issue on Resource based theory became a decade ritual in Journal of Management for at least the next three decades, with similar special issues published in 2001, 2011 and 2021.

2.3.2 Growth of the Theory- 1991-2000

The 1990s marked a paradigm shift in strategic management thinking, from focusing on the external environment to considering the internal aspects of the firm as the source of sustainable competitive advantage. During this period, the RBT experienced further developments, including further theoretical advancement, empirical testing of the theory's propositions and emergence of fragments of the theory. Below we explain the key aspects of the theory's development.

2.3.2.1 Clarification of the concepts in the Theory

(a) From VRIN to VRIO

Initially Barney (1991), proposed that

- a. When a firm possesses resources that are valuable(V) and rare (R), then it can achieve a competitive advantage
- b. When those resources are also inimitable (I) and non-substitutable (N) then the firm can sustain such a competitive advantage.

This framework, popularly known as the VRIN framework, named with the initials of the resource attributes in the framework, effectively explained the causes of sustained firm performance differences. However, the framework was soon found to struggle in explaining how competitive advantage evolves (Foss, 1998, Priem & Butler, 2001). Such limitations prompted theoretical refinements to enhance the theory's applicability. The need to include more dynamic elements in the framework, led to its revision from VRIN to the VRIO framework. For instance, concerns- such as, when a firm possess resources that are valuable, rare, inimitable and non-substitutable does it automatically achieve a competitive advantage- partly motivated this change. The VRIO framework was formally presented by Barney (1995), combining the concepts of inimitability and non-substitutability into a single aspect- inimitability (I) and including a new attribute, called '*organization*' (O). The *Organization* attribute in the framework explains that in order for a firm to fully realize the potential of its valuable, rare and inimitable resources, it must be organized to exploit them. Thus, while a firm's competitive advantage depends on its valuable, rare and inimitable resources, it needs to be well organized, in order to realize the full potential of the resources. This include having the structure, processes, and culture that fully support the exploitation of its valuable resources. Examples of such process and structures include formal reporting structure, management control system and compensation policies that support resource and capability exploitation.

(b) Distinction between Resources and Capabilities

The distinction between resources and capabilities even though can be traced back as far as to Penrose (1959). Barney (1991) and other foundational RBT papers did not explicitly distinguish between resources and capabilities. Barney's 1991 paper assumed capabilities to be forms of resources. Amit and Schoemaker (1993) could be considered as among the first to have clearly distinguished between resources and capabilities in RBT. They defined resources as

stocks of available factors that either are owned or controlled by the firm. They "are converted into final products or services by using a wide range of other firm assets and bonding mechanisms such as technology, management information system ... and labour". They include know-how that can be traded, financial or physical assets, human capital, etc':

and capabilities, as the

"firm's capacity to deploy resources, usually in combination using organizational processes" to achieve a desired end. "They are information-based, tangible or intangible processes that are firm specific and are developed over time through complex interactions among the firm's resources."

Thus, capabilities are based on information development, transfer and exchange by employees of the firm. They can be tangible or intangible, are firm specific and are developed over time through complex interaction among resources of the firm.

Teece et. al, (1997) further classified capabilities into two forms: operating capabilities and dynamic capabilities. Operating capabilities are the firm's ordinary routines and capacities for the normal day-to-day running of the firm. Dynamic capabilities on the other hand are the firm's superior capacities or routines that enable it to build, change and reconfigure its operating routines (capabilities) and resources, helping the firm to remain fit and continue operating as its environment changes.

2.3.2.2 Different Versions of RBT

According to Barney (2001b), his 1991 paper positioned the RBT in relation to the Structure-Conduct-Performance framework that previously dominated the strategic management field. However, it could have also been positioned in relation to neo-classical microeconomics or evolutionary economics. After Barney (1991), further theoretical development, positioned the RBT in relations to neo-classical microeconomics and also evolutionary school of economics.

RBT borrows most of the assumptions of neo-classical microeconomics apart from the fact that resources and capabilities in neo-classical microeconomics referred as factors of production are elastic in supply (Barney, 2001b), meaning their supply can be readily increased in response to higher demand without significant increases in costs. Thus, factors of production in neo-classical microeconomics are abundant, easily producible, or replaceable in the market. The resource-based theory also agrees that the supply of most resources are elastic in supply. However, resources that lead to superior performance, mostly emphasized under the RBT, are limited in supply. So, only firms that possess those rare resources enjoy superior performance known as Ricardian rents. David Ricardo, who is also a neo-classical micro-economist, made mention of these kinds of resources (land in his example) which are inelastic in supply and which by virtue of their supply inelasticity produce some rents (Barney, 2001b).

Peteraf (1993) took this approach of positioning RBT in relations to neo-classical microeconomics. She explained that firms are able to achieve and sustain superior performance because they enjoy Ricardian rents from possessing scarce resources. According to her four conditions must be met for a firm to enjoy sustained competitive advantage. First, the firm must possess superior resources not available to others in the industry. Second, ex-post limits to competition must exist which means that it should be difficult for competitors to imitate or also

possess the resource after the firm enjoy its rents. Third is that the resources should be imperfectly mobile. Finally, there should be ex-ante limits to competition, which means the firm shouldn't have engaged in competition to acquire the resource which would have increased their cost to the firm.

Also in the 1990s, the RBT was positioned in relation to evolutionary school of economics, drawing insights from Schumpeter (1934) and Nelson and Winter (1982). These works explain why some firms maintain fitness while others falter when environmental shocks necessitate changes to their operational routines. Nelson and Winter's framework, for example, is based on the Darwinian Evolutionary principles of variation, selection and retention. These principles explain that, occasionally, the environment of organisms goes through changes causing variation in the organisms, disappearance of some organisms (selection) and retention of others. Organisms who are able to adapt their internal structures to the changes in environment are retained and those who are not selected out. Applying this evolutionary thinking to firms, Nelson and Winter and subsequent RBT scholars like Teece who draw on their work argue that firms vary in their routines (capabilities), so only those firms who have the additional capabilities to be able to adapt their operational routines to the changing environmental conditions sustain their existence and enjoy sustained performance. Notable works that developed this thinking of resource-based theory, in this period, included Teece et, al. (1994) and Teece et. al (1997). This will be further elaborated in the next section as dynamic capabilities view.

2.3.2.3 Theoretical Fragments from RBT

In the 1990s, a number of theoretical fragments developed out of the Resource Based theory such as the Dynamic Capabilities view, the Natural Resource based view, and the Knowledge Based View.

The dynamic capabilities is based on the evolutionary thinking of RBT. Teece, Pisano and Shuen (1997) are attributed with the development of this view. They argued that firms are made of routines that differentiate them from one another. Firms, having super-ordinary routines that enable them to make changes to their operating routines to adapt to environmental changes, achieve sustainable competitiveness. These super-ordinary routines is what they referred to as dynamic capabilities. Dynamic capabilities, to them, is "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments". These dynamic capabilities are embedded within the firm's processes and are shaped by the firm's asset positions and its evolutionary paths. Eisenhardt and Martin, (2000),

further contributed to this view, arguing that dynamic capabilities are not vague or tautological as often understood, but consist of many well-known processes such as product development. They are like traditional conception of routines in moderately changing environments, but are more simple, highly experiential and fragile processes with unpredictable outcomes in rapidly changing environments. Unlike Teece et al (1997) that conceived them as idiosyncratic, Eisenhardt and Martin, (2000), claimed that dynamic capabilities share commonalities across firms, and hence not by themselves sources of sustainable competitive advantage. Sustainable competitive advantage, according to them, results from the operating resources and capabilities built or modified using dynamic capabilities.

Another major theoretical fragment that developed out of the RBT during this period is the Knowledge based view. Major contributors to the Knowledge-based view of the firm in this period include Kogut and Zander (1992), Grant (1996a; 1996b), Nonaka (1994). The view posits that firms' most important strategic resource is knowledge. And the main purpose for the existence of the firm is to integrate specialized knowledge resident in individuals to produce goods and services (Grant 1996a; 1996b). That is, firms exist because of market failure to integrate the specialized knowledge of people to efficiently produce goods and services. Knowledge is created by people and exist within people, so the task of the firm is to integrate or co-ordinate specialized knowledge of individuals to produce goods and services. Since individuals are the carriers of firm knowledge, firms learn either through the acquisition of new knowledge by individuals within the firm or the employment of new individuals with knowledge it does not have (Simon, 1991). There are two types of knowledge: namely, explicit knowledge and tacit knowledge. Explicit knowledge is easily transferrable and codifiable. Tacit knowledge on the other hand resides in people and is hard to transfer or codify, making it the knowledge with the greatest potential to lead to sustainable superior firm performance.

According to the knowledge Based view, firm capabilities are formed through to integrate specialized knowledge of individuals. A firm achieves competitive advantage by possessing a unique integration of specialized individual knowledge that competitors cannot imitate and since individuals can move between firms, the sustainability of this advantage depends on the firm-specific mechanisms for integrating their knowledge. (Grant 1996a; 1996b).

This proposition of knowledge-based view while complementing other economic theories of firms also competes them in other ways. For instance, while the transaction cost economics explains that the firm exist because of market failure to lower transaction cost of exchanging goods and services, knowledge-based view explains that the firm exists to co-

ordinate or integrate specialized knowledge of individuals to produce goods and services (Kogut & Zander, 1992; Grant, 1996 a, Grant, 1996b). Thus, transaction cost economics sees firms as mechanisms for lowering transaction costs to improve transactional efficiency while knowledge-based view sees firms as mechanisms for the integration of specialized knowledge of individuals to enhance production efficiency.

Also, another theoretical fragment that emerged out of the resource-based view of the firm during the 1990s is the Natural resource-based theory of the firm (Hart, 1995).

The natural environment of firms has the capacity to constrain a firm's ability to generate and sustain competitive advantage. However, theories and models of strategy have generally ignored the implications of the natural environment on firms' competitive advantage. The natural resource-based view was proposed as an alternative model to address this neglect of the constraints of the natural environment on firm's ability to generate a competitive advantage (Hart, 1995).

Hart, (1995) argued that 'a limited view of what constitutes a firm's "environment" renders the resource-based view inadequate as basis for identifying important future sources of competitive advantage'. As a result, the natural-resource-based view of the firm was proposed, based on the firm's relationship to the natural environment. According to Hart, firms can build three interconnected natural environment related strategic capabilities that can help it achieve sustainable competitive advantage. They include pollution prevention, product stewardship, and sustainable development.

Pollution usually results from inefficient use of production materials, resources and by products. Therefore, pollution prevention can influence firm competitive advantage through cost savings, increased productivity and efficiency. Product stewardship addresses environmental concerns of stakeholders in product design and development. So, it can affect firm sustainable competitive advantage by enabling it to redesign, innovate and recreate existing products as well as to develop products with lower life cycle costs. Sustainable development takes into consideration global concerns of business impacts on the environment. Commitment to sustainable development have the potential to enhance firm's future performance.

Russo & Fouts, (1997) empirically applied the RBT to the study of firm and natural environment relationship; and found a positive relationship between firm environmental performance and economic performance.

2.3.2.4 Empirical testing of RBT's propositions

Like Russo & Fouts, (1997), the 1990s also witnessed several empirical research on Resource Based theory, despite methodological challenges. One such challenges is the fact that resources are supposed to be rare and inimitable to generate sustainable competitive advantages (Barney, 1991), making them outliers and not common across firms. Hence, using quantitative methods such as regression analysis becomes a challenge since these methods are designed around averages. Also, social complexity and causal ambiguity concepts inherent in RBT theory makes measurements and testing the theory difficult. This is because, if strategic resources are supposed to be socially complex that competitors cannot comprehend their nature, then how can researchers study them? Also, causal ambiguity, which exists when there is difficulty in understanding the sources of firm's competitive advantage, also make it difficult for researchers to study them? (Godfrey and Hill, 1995).

Thus, the factors causing resource inimitability also make them unobservable by researchers. This pose a significant challenge, as science generally relies on phenomena observable either directly through human senses or with the aid of instruments. Godfrey and Hill (1995), in exploring the theory's philosophical underpinnings, raised these concerns. Despite these methodological problems, the 1990s witnessed a significant number of empirical studies on the RBT that used both quantitative and qualitative methods. Some used regression analysis to test the relationship between resources and firm competitive advantage by operationalizing strategic resources either with perceptual measures, objective measures or archival proxies. Others have also used case study methods to test the theory's propositions. Furthermore, some of the empirical studies on RBT tested the propositions of RBT while others extended the theory by making new propositions and testing them.

A notable empirical work on the theory in the 1990's is Miller & Shamsie (1996), the first empirical paper on RBT to win the Academy of Management best article award, which tested RBT propositions by studying data on major U.S. film studios from 1936 to 1965 and using archival proxies to operationalize their constructs, they found that property-based resources assisted financial performance in stable, predictable environment situations, while knowledge-based resources boosted financial performance in more uncertain environments.

2.3.2.5 Integrating RBT with Other Theoretical perspectives

Another key development of Resource-Based Theory in the 1990s was its integration with other theories. For example, Miller and Shamsie (1996), integrated Resource-Based Theory with Contingency Theory, to argue that the impact of resources on a firm's competitive

advantage depends on its environment with property-based resources being most effective driver of performance in stable environments, while knowledge-based resources also more effective in uncertain conditions.

Oliver (1997) also integrated RBT with Institutional theory. Oliver argued that the firm is faced with at least two institutional environments; its internal culture and broader external influences from the society, state or inter-firm relations. These institutional contexts define what socially acceptable economic behavior is for the firm. The firm's superior performance therefore is dependent on its ability to manage the institutional context of its resource decisions. The sustainable competitive advantage of firms as a result is dependent on heterogeneity of resources (insight from RBT) as well as normative rationality, institutional isolating mechanisms and institutional sources of firm homogeneity (institutional theory explanation).

2.3.2.6 Application of the Theory outside the field of Strategy

As the theory gained popularity within the field of strategy its utility transcended the borders of the field. Among the fields that drew much on the theory are Entrepreneurship (eg. Chandler & Hanks, 1994), Human resources and human capital research (eg. Lepak & Snell, 1999), marketing research (eg. Capron & Hulland, 1999) and management information system research (eg. Mata, et al, 1995). A number of research within these fields used the RBT during this period to conduct their own studies.

For instance, Wright, et. al, (1994), applied the RBT as a theoretical basis to explain how human resources can contribute to firm sustainable competitive advantage. Chandler & Hanks, (1994), also applied the RBT to explain the performance of new ventures. They proposed that resource-based capabilities together with market attractiveness are positively related to venture performance. Similarly, Capron & Hulland (1999) applied the theory to examine the degree to which firms redeploy important marketing resources such as brands, sales forces, and general marketing expertise after horizontal acquisitions.

2.3.2.7 Transition from Resource based view to Resource Based Theory

A theory provides an explanation of the relationships between concepts, grounded in specific assumptions, including the mechanisms connecting the concepts and the boundary conditions under which they apply. It serves to clarify thinking, deepen discussions, and enrich analyses of a particular aspect of the (social) world (Neuman, 2014, p. 86).

In the early stages of its development, RBT was initially referred to as a "view," as coined by Wernerfelt (1984). Consequently, it became widely known as the Resource-Based

View. But during this period, as the theory became more developed, its assumptions, concepts, relationships among its concepts and its scope becomes better clarified, scholars began to call it '*resource-based theory*' instead of '*resource-based view*' (e.g. Conner, 1991; Grant, 1991; Mahoney & Pandian, 1992; Maijoor & van Witteloostuijn, 1996; Barney, 1996).

However, till date some scholars still refer to it as a view (Priem & Butler, 2001) while others as a theory (eg. Barney, 1996) and some others use the names interchangeably (eg. Mahoney & Pandian, 1992).

2.3.2.8 Critical Assessment of the Theory

By the late 1990s towards the year 2000, the RBT has begun becoming a dominant perspective within the field of strategy. This attracted a number of scholars to critically assess the theory, its assumptions and contents (Foss 1998; Barney, et al, 2011).

One of the early critical assessments of the theory was from Godfrey and Hill, (1995), who assessed the philosophical underpinnings of the theory and raised the problem of unobservable constructs embedded in the theory making it difficult to be empirically tested. They concluded with a suggestion for RBT scholars to proceed by empirically testing the observable aspects of the unobservable concepts in the theory.

Another was Foss (1998), who criticized the theory as being an incomplete approach to strategy. According to Foss, the theory does not include any approach for environmental analysis. Foss also criticized it for having challenges in accounting for the processes of resource creation. He further criticized it for focusing too much on content issues and less on processes. Also, he criticized the theory for its unclear terminologies. Foss ended his paper with suggestions to improve the theory, especially how the theory can provide explanations about the processes of resource creation. Anyway, by the time Foss (1998) was published, RBT had been in existence for barely a decade. The theory saw much further refinement later on, with some addressing some of the critiques raised.

2.3.3 Maturity of the Theory. The Period After 2001

By 2001, Resource-Based Theory had arguably become the dominant theoretical perspective in the field of strategy (Barney et al., 2011). After this point, the issues discussed during the growth stage—such as theoretical fragments, empirical research, integration with other perspectives, applications outside strategy, and critical assessments—continued to inspire extensive research. Consequently, the theory saw increased scholarly attention, with more

researchers drawing on it for their own studies and its applications expanding across various fields. As a result of its sustained dominance in strategy and beyond, the Resource-Based Theory also attracted increasingly rigorous evaluations from scholars. Notable among these is Priem and Butler (2001) and Powell (2001).

Priem and Butler's (2001) article, titled *"Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research?"* is said to be one of the major critical assessments of the theory (Barney et. al. 2011). They critically examined Resource Based Theory's conceptual adequacy as a theory, its implied assumptions, and its usefulness for strategy research and gave suggestions for its improvements. According to them, the Resource-Based Theory needed more additional conceptual work before it could meet the requirements of a theory. Some of its theoretical statements (made in Barney, 1991) according to them are tautological as they appear to be true by definition and are not subject to empirical testing. Also, they criticized that, while the Resource-Based Theory was proposed against the weaknesses of the implicit assumptions of environment-based models, it also makes implicit assumptions that are questionable. RBT potentially questions environment-based models' implicit assumptions of homogeneity and mobility of resources among firms. However, according to Priem and Butler (2001), the Resource-Based Theory also makes similar implicit assumptions about the existence of product markets of firms. Their suggestion is that, probably a complete strategy theory of competitive advantage could combine both the internal firm elements (as proposed by the Resource-Based Theory) and the external elements (as proposed by environment-based models). Furthermore, they criticized the Resource-Based Theory for making an overly inclusive definition of resources. This, they explained, could make it more difficult to establish contextual and prescriptive boundaries. Also, they criticized the theory for being static and failing to explain processes embedded in it.

Priem and Butler's critiques were immediately followed by a response from Barney (2001a). In this paper Barney addressed the criticisms of Priem and Butler. While Barney saw their criticisms to be unfounded, he also called on Resource-Based Theory researchers to be mindful of the requirements of research on the theory.

Another major critical analysis of the theory around this same time came from Powell (2001). Powell criticized the theory for relying on analytic assumptions of firm heterogeneity and propositions, rather than adopting a synthetic approach. Analytic in the sense that they are true in their wording and are not subject to empirical testing or are not falsifiable. The theory's heterogeneity assumption states that no two firms are identical. To Powell, this statement is tautological as two firms here means that two different firms. If they were the same firm, then

they wouldn't be two firms but one. So, saying that no two different firms are identical is tautological or even absurd. Powell also criticized the unobservable elements inherent in the theory. The author critiqued that science is built on the foundation of ability to observe and verify proposed theories. RBT proposes that resources that are the sources of competitive advantage are inimitable; and for a resource to be inimitable, it may be socially complex resource, or its causes are not known exactly. So, the nature of such resources cannot be easily observed and understood. Powell criticizes that the unobservable elements embedded in the theory makes its argument theological or ideological and not the character of science. According to Powell, a theory that makes analytical propositions supported by unobservable construct has a religious or metaphysical character and cannot support empirical certainty. And thus, such a theory may better be referred to as a belief or opinion and not a scientific theory.

In all, according to Barney et. al, (2011), the emergence and expansions of spin-offs of the theory, continued integration of the theory's insights with those of other theoretical perspectives, the publications of assessments of the theory and the theory's transition from being 'resource-based view' to 'resource-based theory' are all strong indications that the theory has become a mature one (Barney et. al, 2011).

2.4 THE STAKEHOLDER THEORY

This section of the literature review presents a review of stakeholder theory, and stakeholder relationship management and strategies. We begin with the meaning of the stakeholder concept and theory

2.4.1 The stakeholder concept and Stakeholder theory

The term 'stakeholder' as it is used today was first mentioned in the internal memorandum of Stanford Research Institute (SRI), in 1963. It was employed by SRI to provide an explanation about a firm's responsibility to a number of interest groups including shareholders, employees, customers, suppliers, lenders and society. According to SRI, a firm's long-term success depends on the support of its various stakeholders to its objectives; hence it has to explore and maintain a good relationship with them (Freeman & McVea, 2005: Parmar, et al, 2010).

Edward Freeman, known as the father of stakeholder theory, defined the term stakeholders in his seminal book, *Strategic management; a stakeholder approach* (1984), as

any individual or group who is either affected or has the capacity to affect the firm's achievement of its objectives (Freeman, 1984: 46). This definition includes customers, suppliers, financiers, employees, shareholders, community, as well as any individual or group having the potential to affect or be affected by the firm's achievement of its objectives.

Freeman's definition, however, was criticized for being overly broad, lacking boundaries on who qualifies as a stakeholder (Mitchell et al., 1997). A more focused definition was needed to help researchers and managers prioritize stakeholders who are most critical to the firm's core economic interests. Also, given managerial resource constraints, this would make stakeholder consideration more practical. Therefore, scholars later offered more focused definitions of stakeholder concept and introduced the concept of stakeholder salience to distinguish stakeholders based on their relevance and influence.

Clarkson (1995) redefined stakeholders as individuals or groups with claimancy rights in a firm or its activities. These claimed rights may be legal or moral; and may have resulted from the firm's actions or transactions with those persons or groups. Clarkson (1995) further classified the firm's stakeholders into two, namely primary stakeholders and secondary stakeholders.

Primary stakeholders are those individuals or groups whose participation is very necessary for the firm to continue to survive and operate as a going concern (Clarkson, 1995). The firm and its primary stakeholders are highly interdependent; and the firm may not continue to survive as a going concern in the absence of the participation of its primary stakeholders. Meaning, in case any group of primary stakeholders of the firm become dissatisfied in the firm and chooses to withdraw from the firm, it could seriously damage the firm's operations or bring its operations to a halt. For instance, if customers or suppliers of a firm choose not to continue participating in the firm, the operations of the firm would be highly damaged or cease. The firm can be seen as a collection of primary stakeholders including financiers, customers, suppliers, employees, government and local community. Phillips et. al, (2003) referred to these group of stakeholders as the normative stakeholders of the firm. This is because the firm has a direct moral obligation to attend to their interests or welfare. They answer the traditional stakeholder question "For whose benefit should the firm be managed?" (Philip et al, 2003).

Secondary stakeholders according to Clarkson (1995) are those individuals and groups who can affect or are affected by the firm but do not engage in direct transactions with the firm and are not critical to its survival or operations. Phillips et. al, (2003) refers to these kinds of stakeholders as derivative stakeholders because the firm do not have direct moral obligation to these individuals or groups. They include the media, terrorist groups, trade associations, unions,

competitors and civil society groups. Even though the firm is not dependent on these groups for its survival and operations, they can oppose the firm's policies and programs adopted to carry out its functions and serve its primary stakeholders (Clarkson, 1995).

Mitchell et. al, (1997) further presented a classification of stakeholders based on their salience. They argued that a firm can determine who its salient stakeholders are based on three relationship attributes- the *legitimacy*, *power* and *urgency* of the individual or group. Individuals or groups with none of the above three attributes are not stakeholders of the firm and the more of these attributes possessed by a group, the more important or salient that group is as stakeholders of the firm (Mitchell et. al, 1997). Having explained who the stakeholders of a firm are, we will now explain what stakeholder theory means.

Stakeholder theory is a theory of organizational management and ethics (Philips et. al, 2003; Parmar et. al, 2010) which explains that the firm is responsible to multiple stakeholders that can affect or are affected by the firm, and not just its shareholders. It is a theory that prescribes corporate management with morality. It addresses three related problems: (1) the problem of how value is created and traded by firms (2) the problem of ethics of capitalism and (3) the problem of managerial mindset (Freeman, 1984; Parmar, et al, 2010).

The Problem of Value creation and trade: The stakeholder theory tries to explain how a firm creates value and engages in trade. It perceives a firm or a business as a set of relationships among groups each contributing to and having stakes in the activities that make up the firm or business. A business according to stakeholder thinking is about how various stakeholders such as employees, customers, financiers, suppliers, managers jointly interact to create value or trade it (Freeman, 1984; Parmar et al, 2010). The theory explains that a firm's success is dependent on how the firm is able to satisfy the interests of its multiple stakeholders who are all parties to its value creation (Freeman, 1984). The problem of value creation and trade addressed by stakeholder theory is typically a strategy research problem as it explains how firms perform.

The Problem of Ethics of Capitalism: Another problem that the stakeholder theory attempts to address is the ethics of capitalism. The modern firm before the beginning of stakeholder arguments was organized to maximize profits for only one group of stakeholders- the shareholders or investors. However, this maximization of shareholder wealth is sometimes done at the expense of the rights, welfare or interest of other individuals. This has drawn the attention of ethicists activating for control of firm's operations to limit damage to other non-shareholder stakeholders (Freeman, 1984; Freeman, 1994; Parmar et al, 2010). This made it

appear as if business issues and ethical issues have opposite goals. Thus, while business or economics sought to maximize shareholder wealth, ethicists attempt to limit this wealth generation that are at the expense of the interest of other individuals or groups.

The stakeholder theory therefore attempts to resolve this apparent divide between business and ethics by proposing models that combine business wealth creation goals with ethics, values and morality (Freeman, 1984; Freeman, 1994; Parmar et al, 2010). It asserts that maximum value creation can be created by the firm if the firm is organized to serve and balance the interests of all its stakeholders (Parmar et al., 2010, Donaldson & Preston, 1995). According to the theory, a firm would achieve higher value creation if it served the interest of all the stakeholders whose participation is necessary for the firm's survival and operations without discriminating in favor of any of them. If the firm discriminates for any stakeholder group (eg. only shareholders) at the expense of others it wouldn't achieve its full potential in value creation. Thus, the stakeholder theory potentially marries the seemingly separate arguments of business and ethics (Friedman, 1970).

The Problem of Managerial Mindset: The third problem the theory attempts to address is how management should perceive the act of management so that the above two problems- value creation and ethics of capitalism- would be addressed. Thus, how managers of firms should perceive the act of management in order to create enough value for their stakeholders and avoid harm to any of them. It attempts to explain how the conception of management practice must integrate business with ethics (Parmar et al, 2010). While pre-stakeholder theory managerial mindset seems to pursue the interest of only shareholders, the theory seeks to change this mindset of management and replace it with one that seeks to address the interests of all stakeholders. Pursuing only shareholder interests without morality leads to societal problems like corporate corruption, manipulation, harmful behaviors or even economic crises (Sachs & Ruhli, 2011). The stakeholder theory seeks therefore to advance a change in managerial approach that mingle morality with business which would minimize the incidence of these social problems. In all, the stakeholder theory addresses morality and values explicitly as a central part of managing organizations for maximum value creation and trade (Philips et. al, 2003).

The stakeholder theory has been presented and used for different purposes. These include descriptive, instrumental, normative and managerial uses of the theory (Donaldson and Preston (1995).

The descriptive aspect of the theory involves the use of the theory to describe or explain firm characteristics and behaviors such as the nature of firm, its various constituents and how

it is managed. It is the most scientific use of the theory that is oriented towards understanding ‘*is*’ of firm-stakeholder relationships.

The instrumental aspect of the theory on the other hand involves the use of the theory to provide explanations of firm outcomes. It is the use of the theory to explain that firms’ moral behaviors towards stakeholders have consequences on their economic outcomes such as profits, competitive advantage or growth (Jones, 1995).

Normative aspect of the theory on the other hand involves application of the theory for interpreting the functions and practices of firms. This includes the identification of moral or philosophical guidelines for the management and operations of firms. It involves the use of the theory to explain what firms *ought to* do.

Finally *managerial aspects* of the theory involve the use of the theory to solve practical corporate problems (Donaldson and Preston, 1995; Parmar et. al 2010).

These aspects of the stakeholder theory, according to Donaldson and Preston (1995), even though they are related they represent distinct aspects or approaches of the theory. They further argued that at the core of the theory is the normative aspect, meaning stakeholder theory is fundamentally used to prescribe morals and values for corporate operations and any use of the theory must be rooted in normativity.

On these different aspects, Jones and Wicks (1999) argued that they can be converged or brought together as one- what they termed as “*convergent stakeholder theory*”. Meaning that all instrumental or descriptive use of the theory must incorporate elements of normativity to be acceptable as stakeholder theory. Likewise, all normative use of the theory must be descriptive or explain some consequences in order to be scientific.

In contrast, Freeman (1999) rejects the presence of separate aspects of the theory and explains that the aspects explained by Donaldson and Preston (1995) are all elements of one non-separable stakeholder theory. He claims that we make use of normative elements when we are talking about instrumental issues. Likewise, we talk about outcomes or consequences whenever we discuss normative issues. For instance, an instrumental stakeholder theory statement like – if a firm treats all its primary stakeholders well then it will achieve a higher value creation- contains normative elements. So, all the explained aspects are actually parts of one non-separable theory. Freeman, (1999), further warned that the separation of the theory into varied aspects could further enhance the problems it originally intended to address- i.e. the ethics of capitalism.

2.4.2 Stakeholder Relationship Management

Stakeholder relationship management refers to the application of stakeholder theory in practice. It refers to firms' understanding of and interaction with their stakeholders as well as their attention to and balancing stakeholders' economic and non-economic interests (Breternitz, 2020, p 15). Two main types of managing (relationship with) stakeholders have been discussed in the literature.

The first is *the stakeholder management* approach and the second is *managing for stakeholder approach* (Breternitz, 2020, p 15). Stakeholder management involves directing, controlling or even manipulating stakeholders to achieve the purpose of the firm. Based purely on instrumental reasons, stakeholder management involves a firm's approach towards stakeholders that only serves the economic interest or profitability of the firm (Berman et. al, 1999). It is aimed at reducing the negative impact that stakeholders can have on the achievement of firm's objectives or profitability (Harrison and St. John, 1996). Harrison and St. John refer to this kind of stakeholder approach as the traditional or buffering stakeholder management approach. This is because the approach is aimed primarily at reducing the adverse impacts that stakeholders could have on the achievement of firms' objectives. Berman et al, (1999), found this stakeholder management approach to be positively related to the achievement of firm profitability.

Managing for stakeholders' approach on the other hand involves the engagement of stakeholders as partners in the achievement of firm's objectives. This approach is based on both normative and instrumental reasons. The objective of firm using this approach is to create more value for the entire stakeholders of the firm and not only a single stakeholder (i.e. shareholders) (Breternitz, 2020, p 15). Harrison and St. John referred to this approach as bridging stakeholder approach, arguing that this approach is especially more appropriate when the firm operates in a highly uncertain environment and stakeholders are essential to the existence or absence of uncertainties. Berman et al, (1999) also referred to this approach as the intrinsic stakeholder commitment model because it is based on a firm's genuine commitment to engage in stakeholder relationships whether doing that contributes to the firm's shareholder profitability or not. Other terms used in the literature for this kind of stakeholder approach is collaborative stakeholder relationship or stakeholder integration (Plaza-Úbeda et al., 2010). Our use of stakeholder relationship management in this dissertation refers to this second approach to firm-stakeholder relationships management.

2.4.3 Stakeholder Relationships Management Strategies

There are different strategies firms adopt to manage their relationships with stakeholders. These strategies depend on a number of factors such as the stakeholder characteristics, complexity of stakeholder network, nature of stakeholder pressures/ strategies and firm characteristics.

Stakeholder characteristics influence the kind of strategy a firm needs to employ in managing its relationships. Freeman, (1984) and Savage et. al (1991) explained four different kinds of strategies adopted by firms to manage relationships with stakeholders based on their characteristics. They explained that stakeholders can be characterized by their potential to threaten the firm or to co-operate with the firm. They proposed a typology formed between stakeholders' potential to threat and stakeholders' potential to cooperate dimensions, producing four different kinds of stakeholders: namely *supportive*, *mixed blessing*, *non-supportive*, and *marginal stakeholders*. A firm's strategy towards each stakeholder kind is different. This is illustrated on the table below.

Table 2.01: Stakeholder management strategies based on their potential to threat or Cooperate

		STAKEHOLDER'S POTENTIAL FOR THREAT	
		High	Low
STAKEHOLDER'S POTENTIAL FOR CO-OPERATION	High	Stakeholder Type 4 MIXED BLESSING SRM Strategy COLLABORATE	Stakeholder Type 1 SUPPORTIVE SRM Strategy INVOLVE
	Low	Stakeholder Type 3 NON- SUPPORTIVE SRM Strategy DEFEND	Stakeholder Type 2 MARGINAL SRM Strategy MONITOR

Source: Freeman, (1984) and Savage et. al (1991)

As shown in the table above, supportive stakeholders are those with a high potential to co-operate with the firm and a low potential to be a threat. These kinds of stakeholders are more

likely to support the firm's goals and actions. Examples of stakeholders likely to be supportive include employees, suppliers, board of directors and managers of the firm. The kind of strategy that a firm can adopt to manage a relationship with these kinds of supportive stakeholders is to involve them in relevant issues of the firm.

Marginal stakeholders on the other hand both have a low potential to threat and cooperate with the firm. These kinds of stakeholders may include professional associations or stockholders of a medium to large firms (Savage et. al. 1991). The firm need to therefore monitor them, in order to be able to detect when they become salient in order to be able to increase their support or deflect their opposition.

Non-supportive stakeholders (1991), have high potential to threat and low potential to cooperate with the firm. They may include the trade unions, competitors, the government and the media. Savage et al (1991) argue that the firm must adopt a defensive strategy in managing its relationship with these kinds of stakeholders, defending its actions and the achievements of its goals.

Lastly, there are other stakeholders who are *Mixed Blessings*, having high potential to both threat and co-operate with the firm. Examples may include customers and important employees who are short in supply. The firm could adopt collaboration as its strategy in dealing with them, which could help increase their willingness to co-operate with the firm and also help reduce their potential threat to the firm. The above typology of stakeholder relationship management strategies first proposed by Freeman (1984) and revised by Savage et al (1991), have been widely used by a number of subsequent research to study firm stakeholder relationship strategy (eg. Karlsen, 2002).

Newcombe (2003) proposed a different typology of stakeholder management strategies based on stakeholder power and interests as illustrated below.

Table 2.02: stakeholder management strategies based on their interest levels and Power

		LEVEL OF INTEREST	
		Low	High
POWER	Low	A. Minimal Effort	B. Keep informed
	High	C. Keep Satisfied	D. Key Players

Source: Newcombe (2003)

Stakeholders who have less interest in the activities of the firm and are also less powerful (zone A) in their relationship with the firm are actually not controversial; hence, the firm could exert *minimal effort* in attending to their needs.

Stakeholders who have very high interests in the firm's activities but have less powerful influence on the firm and its activities (zone B) must be *kept informed* about the major decisions of the firm. Communication is essential in maintaining relationships with these kinds of stakeholders. Stakeholders who have high interests in the firm and also have a powerful influence on the firm and its activities are *key players* (zone D) and must be given important consideration when formulating strategies of the firm. Finally, stakeholders who have low interests but a high influence on the firm and its activities must be *kept satisfied*. This is because when they feel dissatisfied, they can use their power to increase their interest in the firm and as a result become key players in the firm (Newcombe, 2003).

Complexity of stakeholder networks is another factor that could determine the kind of strategy that firms adopt to manage their relationships with stakeholders. Rowley, (1997) argues that a firm's relationships are not only dyadic with only one stakeholder at a time, but more of a network. It is embedded in a network of stakeholders, who are also interconnected. This makes it important to conduct network analysis in order to determine which strategy to adopt in its relationships with them. Rowley (1997) argues that two major factors, adopted from social network theory, are significant in determining firm's relationships with stakeholders. They are the density of a firm's stakeholder relationships network and the centrality of the firm within such stakeholder networks. Density refers to the relative number of ties within a network. It is the interconnectedness of various actors within a network. On the other hand, Centrality of an actor in a network refers to the actor's position within the network relative to others. One aspect of centrality is closeness centrality which refers to an actor's (a focal firm) ability to reach all other members of a network. Rowley (1997) proposed that an increase in the density of a firm's stakeholder network increases stakeholders' ability to constrain a firm's action. On the other hand, an increase in the centrality of the firm increases the firm's ability to resist the pressures of stakeholders. Rowley also propose a typology of strategies firms can use to manage stakeholder relationships based on these two dimensions of stakeholder relationship networks. This is illustrated on the table below.

Table 2.03: Stakeholder management strategies based on the density of stakeholder network and centrality of firm in the network

		CENTRALITY OF THE FOCAL FIRM	
		High	Low
DENSITY OF THE STAKEHOLDER NETWORK	High	Q1 Compromiser	Q3 Subordinate
	Low	Q2 Commander	Q4 Solitarian

Source: Rowley (1997)

Compromiser strategy: firms who are within a highly dense stakeholder network could face a high level of constraint from their stakeholders. When such firms also occupy a highly central position within the network, they could be able to resist stakeholder pressures. Thus, in such circumstances both stakeholders and the focal firm are able to influence one another. Stakeholders can coordinate their efforts to monitor the firm's actions and pressure it while the firm can also influence the formation of perceptions among the stakeholders. In such a situation, the firm adopts a *compromiser* role as a strategy whereby the firm makes attempts to balance and negotiate with its influential stakeholders (Rowley, 1997).

Commander strategy: Low network density means there is less information flow and the formation of shared norms within the network. This makes stakeholders passive and not able to exert unified pressure on the firm (Mintzberg, 1983; Rowley, 1997). On the other hand, high centrality within the network means that the firm is able to influence the formation of perceptions within the network. So, in such a low network density and high firm centrality, the firm adopts a *commander* strategy and attempts to control the flow of information as well as influences expectations of stakeholders (Oliver, 1991; Rowley, 1997).

Subordinate: In a situation of a high network density there is an efficient flow of information among stakeholders. As a result, the stakeholders are able to form collective perceptions and also put pressure on the firm. If the firm on the other hand occupies a less central position within the network, then it could appear vulnerable towards stakeholder influences. In such a situation, the firm becomes a *subordinate* to its well-connected and organized stakeholders, submitting to their expectations (Oliver, 1991; Rowley, 1997). Thus, the firm is less able to resist stakeholder pressures in such a situation.

Solitarian: When the firm occupies a less central position within a stakeholder network, it is unable to change established norms. However, if the network is also less dense, the firm faces less pressure from its stakeholders. In a network with low density, information flow among the actors is low and the actors form very fewer collective perceptions and take fewer

collective actions. In such a less dense network situation where the firm also occupies a less central position, the firm adopts a *solitarian* role and can obscure its activities from stakeholder scrutiny and pressures

Environmental Conditions could also influence the stakeholder strategy adopted. Harrison and St John (1996) discussed two major approaches to stakeholder relationship management the firm can adopt based on the environmental uncertainty the firm faces; they are buffering approach and bridging approach. A buffering approach is whereby the firm attempts to control, manipulate and manage stakeholders to prevent them from negatively affecting the firm's objectives. It does not involve stakeholders in the primary decisions and management of the firm. Bridging approach is the opposite, whereby the firm partners with stakeholders to engage in collaborative activities for the benefits of both.

Harrison and St John argue that when the firm is faced with environmental uncertainties that are contributed by the stakeholder or when the stakeholder can contribute to providing solution to the environmental uncertainty, then such stakeholders have high strategic importance and as a result must be engaged using bridging approach. On the other hand, when the stakeholder is neither a contributor to the firm's environmental uncertainties nor its solutions then such a stakeholder have low strategic importance and as a result could be managed using the buffering approach.

Stakeholder strategies: stakeholders also use different strategies to influence firm behavior. A firm, therefore, need to determine the appropriate strategy to respond to the different strategies of stakeholders. For instance, Frooman (1999) explains the different kinds of strategies stakeholders may use against a firm depending on their relative power.

These strategies include resource control strategies such as either suspend supplying resources (withholding strategy) to a firm or condition the usage of resources supplied to the firm on the performance of some behavior by the firm (usage strategy). Other strategies discussed by Frooman are what he termed *pathways of influence* which include either directly pressuring or indirectly pressuring the firm through a mediating powerful stakeholder of the firm.

Frooman argues that the kind of strategy that the stakeholder will adopt against the firm depends on the relative power-dependence relationship between the stakeholder and the firm. When the firm is more dependent on the stakeholder than the stakeholder is on the firm, the stakeholder adopts a direct influence strategy by directly pressuring the firm to perform some

behaviors. Also in such a situation, the stakeholder is more likely to adopt a withholding strategy, since it has more power over the firm.

On the other hand, when the firm is less dependent on the stakeholder, the stakeholder becomes less powerful towards the firm (Pfeffer & Salancik, 1978). In such a situation, the stakeholder is more likely to adopt an indirect influence strategy by influencing another more powerful stakeholder to pressure the firm to perform a certain behavior. Also in such circumstances, because the stakeholder is less powerful towards the firm, the stakeholder is more likely to adopt a usage strategy by conditioning the use of its resources on the performance of some behaviors by the firm.

The above review on stakeholder theory, stakeholder relationship management and stakeholder relationship management strategies are all important to understand the theoretical bases of our independent variable stakeholder relationship management capability. Aspects of the above topics may be referred to while discussing the capability below.

3.4.4 Stakeholder Relationship Management as a firm Capability

Stakeholder relationship Management as a firm capability is the ability of a firm to establish and maintain quality relationships with its broader stakeholders (Sharma & Vrendenburg, 1998). It is the ability of the firm to understand and implement stakeholder relationships and balance the interests of stakeholders to achieve the purpose of the firm (Pavão & Rossetto, 2015).

The construct was first developed by Freeman (1984), in his seminal work on stakeholder theory. According to Freeman, the stakeholder relationship management capability is made of three sub-components which also represents three different levels of analysis of the capability. They are rational level, process level and transactional level.

3.4.4.1 *Rational level of analysis (Stakeholder knowledge)*

Rational level of stakeholder relationship management capability involves the firm's ability to identify who the relevant stakeholders of the firm are and understand what their powers, stakes or interests are. It involves understanding who the relevant stakeholders are and their stakes in the firm. This may require constructing the stakeholder map of the firm, which is a visual layout of all stakeholders of a firm, including their degree of influence on the firm.

Thus, from a stakeholder map, it is easier to identify who are the key players having a significant influence on the firm or significantly affected by the firm.

Plaza-Úbeda et al., (2010), referred to this sub-capability of stakeholder relationship management capability as *knowledge of stakeholders*, which involves identifying stakeholders as well as understanding their demands and their relationship with the firm. It also involves knowing the importance of these demands as well as their characteristics in order to be able to prioritize them and integrate them in the management of the firm. Knowledge of stakeholders is the first step in managing stakeholder relationships, as a thorough understanding of a firm's stakeholders enables it to adopt the right strategies to address their needs and manage any potential threats while creating value.

Almost all the strategies of stakeholder relationship management discussed above begin with having proper understanding of --stakeholder characteristics and classifying them based on their characteristics such as their potential to corporate or threat the firm (Freeman, 1984; Savage et. al,1991), their legitimacy, power and urgency (Mitchell et. al, 1997), relative importance to firm's economic performance/survival (Clarkson, 1995), relative power (Frooman, 1999; Newcombe, 2003) and interest towards the firm's activities (Newcombe, 2003).

According to Freeman (1984), a number of implications can be considered out of knowing stakeholder characteristics. They include stakeholder role set and stakeholder interconnectedness. Stakeholder role set refers to the number of roles an individual or group play as a stakeholder of the firm. Sometimes the same individual can fall into different categories of the firm's stakeholders. For instance, an employee may also be a customer, a supplier and an investor of the firm. This different role set of the individual could generate different expectations of firm actions.

Stakeholders may also be interconnected and may influence the firm as well as one another. For instance, labour unions can influence the government to make laws that could affect the firm. Thus, Stakeholders of the firm may be interconnected in networks or collisions and the firm would have to also be aware of these interconnections to be able understand how to properly address stakeholder issues (Freeman, 1984, p58).

In short, the first aspect of the stakeholder relationship management as a capability which Freeman (1984) referred to as the 'rational level' and Plaza-Úbeda et al., (2010) referred to as 'knowledge of stakeholders' is about identifying and understanding who the firm's stakeholders and their relative stakes, interests and power on the firm. This helps the firm to understand how to prioritize stakeholders in the management of the firm.

3.4.4.2 *Process level of analysis (interaction Capability)*

Once stakeholders are identified, firms must move beyond passive awareness to structured engagement. Freeman's (1984) process level involves establishing formal processes to manage stakeholder relationships systematically. This level of analysis involves enriching the firm's processes with concern for stakeholders and also establishing processes for stakeholder engagement. Firms are usually made up of a number of processes that enable them to accomplish routine tasks. These processes must reflect concern for stakeholders and enhance interaction with them. They must reflect the complexity of a firm's stakeholder environment (Freeman, 1984, p 60). For instance, environmental scanning processes of the firm could be enriched with the firm's concern for stakeholders to enhance firm-stakeholder engagement, which is economically beneficial to the firm, and its stakeholder.

The process level of analysis relates to Plaza Ubedea et. al, (2010) 's interaction capability. According to Plaza Ubedea et. al, (2010), interaction capability involves establishing formal process for engaging with stakeholders. Communication is a very important element in firm-stakeholder relationships management, so establishing channels of communication with stakeholders is very critical. This is because communication increases opportunities for trust between the firm and its stakeholders (Plaza Ubedea et. al, 2010).

In the previous section, we presented the various forms of interactions between the firm and with the different kinds of stakeholders. For instance, a firm that is occupying a central position in a very dense stakeholder network may play a compromiser role in its interactions with the stakeholders. When this dominant firm is located in a less dense stakeholder network then it can play a commander role in its interactions with stakeholders. It rather becomes a subordinate in its interactions with stakeholders when it is occupying a less central position in a highly dense stakeholder network (Rowley, 1997).

3.4.4.3 *Transactional level of analysis (Adaptation Capability)*

The highest level of stakeholder relationships management capability involves active collaboration and organizational adaptation. Freeman's (1984) transactional level focuses on direct exchanges such as partnerships, joint ventures, or contractual agreements with stakeholders. It involves establishing and executing win-win transactional exchanges between the firm and its stakeholders (Zakhem, 2008). It involves the implementation of policies and programs as well as monitoring and controlling activities to ensure that they address both stakeholder concerns and firm objectives.

This relates to Plaza-Úbeda et al.'s (2009)'s adaptation capability. Plaza-Úbeda et al.'s (2009) adaptation dimension takes Freeman's transactional perspective further by requiring firms to modify strategies, structures, or business models based on stakeholder input. This dimension, therefore, reflects dynamic responsiveness where stakeholder engagement leads to tangible changes in corporate behavior. Examples include revising sustainability policies due to NGO advocacy, adjusting supply chain practices in response to community concerns and innovating products based on customer co-design processes. It may also involve allocating some amount in the firm's periodic budget to address stakeholder issues, engaging stakeholders in firm decision making and adapting firm's policies and programs to meet stakeholder demands (Freeman, 1984; Plaza Ubeda et. al, 2010). Firms that master adaptation do not just manage stakeholders; they learn from them and evolve accordingly, turning stakeholder relationships into a source of innovation and resilience.

The three levels of analysis presented above must fit together in order for a firm to possess a strong stakeholder relationship management capability. Stakeholder knowledge, interactional capability and adaptation capability must fit together very well in order to possess a strong stakeholder relationship management capability (Freeman, 1984). When there is a misfit between the three levels of analysis, then a potential discomfort is created between the firm and its stakeholders. An example of this discomfort is customer complaints which is not addressed because they are against the processes of the firm. Other examples of discomfort created by a mismatch between the above components of the capability is a difficult encounter with government officials, union actions or investor withdrawal.

Also, if an important stakeholder is ignored at the rational level and process level then hardly will the stakeholder be considered at the transactional level. This may also be a source of stakeholder discomfort or crisis (Freeman, 1984).

Therefore, a firm's stakeholder relationship management capability is stronger when it possesses a good knowledge of stakeholders, have processes for stakeholder interactions and adapts to stakeholder demands.

3.4.4.4 Significance of SRM as a Capability and current research

Stakeholder relationship management is a very significant firm capability because of the criticality of stakeholders to the achievement of firm objective. Stakeholders as defined by Freeman (1984) are individuals who can affect or are affected by the achievement of the firm's purpose. Because of the criticality of stakeholders to the success of the firm, a firm needs a capability to engage with stakeholders in order to enhance their positive influences while minimizing any negative influences.

Clarkson (1995), for instance, defined the firm as a collection of primary stakeholders who interact in pursuit of their individual interests. They are those stakeholders without whose participation the firm may cease to survive or operate effectively. Imagine a scenario where customers of a firm choose not to continue with the firm. The firm will cease immediately to exist. The same applies to investors, government, suppliers or employees. If any of these groups choose to discontinue with the firm, the firm will cease to exist immediately or operate effectively.

Because of the criticality of stakeholders, more especially primary stakeholders, to the survival and operation of a firm, it needs to possess a capability to be able to effectively manage its relationship with its stakeholders.

Freeman (1984) emphasized the significance of this capability in his seminal book. However, the capability has not received the needed attention, since its first development by Freeman (1984). Until today, only a few studies (eg. Zakhem, 2008, Plaza-Úbeda et al., 2010) have actually mentioned, modified or conducted research on the capability. The capability since Freeman (1984), has also received almost no empirical validation (Breternitz, 2020)

One potential reason for its neglect is because it happens to present issues about the strategic importance of stakeholder management. A critical concern is that over-emphasis on strategic benefits in stakeholder discussions may play into the hands of managers who could use it as a tool to manipulate stakeholders for strategic benefits. Freeman, et al (2021), asserts that research on stakeholder theory has generally deemphasized competition and rather emphasized cooperation. So, the strategic benefits (i.e. competitive advantage) of stakeholder relationship management have actually received rare attention in stakeholder theory research.

Developments in resource-based theory therefore offers the opportunity to revisit the stakeholder relationship management capability and assess its strategic benefits. This study draws on resource-based theory to examine whether stakeholder relationships management can

be considered a valuable, rare and inimitable capability which can generate sustainable superior performance or not.

The next chapter considers the relationship between stakeholder theory and the resource-based theory, the need for their integration and how such integration could be done.



CHAPTER 3: THE RELATIONSHIP BETWEEN STAKEHOLDER THEORY AND RESOURCE-BASED THEORY

3.1 Introduction

The previous chapter gave a detailed review of research within the field of strategic management, resource-based theory and stakeholder theory. In this chapter we present the relationship between the two theories. This will include a brief summary of the two theories, their similarities, contradictions and how the two can be integrated.

3.2 Summary Of the Resource Based Theory

In microeconomics, firms can earn any of three profits; above normal, normal or below normal profits (Barca, 2017; Barney, 1986b). Firms that are able to earn above normal profits compared to their colleagues have a competitive advantage and if they sustain such above normal profits over time, then they are said to have a sustainable competitive advantage.

Almost all major strategic management theories explain the causes of this difference in the profit earnings of firms as well as the causes of the persistence of these differences (Barca, 2017; Barney, 1986b).

The resource-based theory is one of the major theories of strategic management that provides this explanation. According to the theory, the differences are caused by the heterogeneity in the resources and capabilities that firms possess. The theory bases its propositions on two main assumptions: First, that resources/capabilities are heterogeneously distributed among firms and second, that resources/capabilities are not perfectly mobile across firms (Barney, 1991; 1995).

Based on these assumptions, the theory proposed that;

1. When a firm possesses resources/capabilities that are valuable and rare, then it can attain a competitive advantage (i.e., achieve above-normal performance)
2. When the firm's resources/capabilities are inimitable and the firm is organized to exploit them, then the firm can sustain such a competitive advantage (i.e., sustain above normal performance) (Barney, 1991).

Superior firm performance and its persistence depends on having superior resource/capability.

3.3 Summary of the Stakeholder Theory

Stakeholder theory primarily argues that a firm is made up of groups of constituents including shareholders, employees, customers, suppliers, community, government etc who cooperate to create value together. Each of these constituents contribute something to the firm's value creation and also have some interests which they want to achieve from the firm (Freeman, 1984; Parmar et. al 2010). For instance, employees contribute their labor and time to produce the goods and services of the firm in exchange for salaries and growth opportunities; without them the firm will cease to exist. Also, suppliers contribute inputs to the production of the firm in exchange for payment; without them also the firm will cease to exist. Same applies to customers, government, and shareholders (Clarkson, 1995). So, because all the constituents are important contributors to the firm's value creation, the firm needs to manage its relationships with them well and satisfy their interests to ensure their continued participation and contributions. The theory was proposed against the dominant logic of managing firms to ultimately serve the interest of only shareholders of a firm (Freeman, 1984; Friedman, 1970).

The theory, therefore, proposes that the better a firm is in managing its relationships with all its relevant stakeholders, the greater the contribution of these various stakeholders will be in the firm's value creation. Therefore, the success of a firm is dependent on how well the firm manages its relationships with its relevant stakeholders.

3.4 Similarities Between Stakeholder Theory and Resource Based Theory

Stakeholder theory and Resource Based theory share several commonalities. First, they both started as theories within strategic management around the same time. The first seminal book on Stakeholder theory was published by Edward Freeman in 1984 titled '*Strategic Management: A Stakeholder approach*'. Also, the first seminal paper on resource-based theory was published by Birger Wernerfelt, in 1984 titled '*A resource-based view of the firm*'. The title of Freeman's seminal book indicates that the stakeholder theory was originally proposed as a strategic management theory. However, in subsequent years, more attention was given to the resource-based theory and less to the stakeholder theory within the field. This is because the resource-based theory fits perfectly well within the problem area of strategy research- i.e. explaining the causes of differences in firm performance. Thus, the two theories were originally intended to be theories of the field of strategic management (Freeman et al, 2021).

Another similarity is that the resource-based theory and instrumental stakeholder theory have similar firm outcomes. Both resource-based theory and instrumental stakeholder theory

explain the causes of sustainable greater firm performance. Even though how firm performance should be measured or what should constitute firm performance or who should share in a greater performance is still being debated (Amis et al, 2020; Barney, 2018, Barney, 2020, Barney et. al. 2021b), the ultimate aim of the two theories is to explain how firms could achieve a sustainable greater performance.

Another similarity between the two theories is the seeming lack of conceptual boundary of the central concept in the two theories. For instance, in the resource-based theory, the boundary of what could be considered a '*resource*' is not very clear. Similar applies to the boundary of who could be considered a '*stakeholder*' under stakeholder theory. Thus, there is the danger of calling everything a resource or everyone a stakeholder of a firm (Freeman et al, 2021).

3.5 Contradictions Between Stakeholder Theory and Resource Based Theory

Despite having similarities, stakeholder theory and resource-based theory also appear to have some contradictions too. First is the dependent variable in the two theories. As mentioned earlier, both theories aim at explaining how firms could create sustainable value or performance. However, both theories seemingly make different references as to what performance or value creation mean. In stakeholder theory, a firm is said to be performing well when it is able to create more value for all its stakeholders including its shareholders. Thus, the firm could be seen as performing well, even when shareholder-profit appear low, provided it is creating value for the majority of its stakeholders including better product features for customers, training and development opportunities to employees or high taxes to the government (Amis et al, 2020; Barney, 2018, Barney, 2020, Barney et. al. 2021b).

On the other hand, what resource-based theory has usually referred to as firm performance, until recently, is the residue that is left after all stakeholders have been paid to be taken by shareholders mostly referred to as accounting net profit (Amis et al, 2020; Barney, 2018, 2020; Barney, et al, 2021b). Thus, in resource-based theory, greater performance, until recently, meant greater shareholder profit. But this could have happened at the expense of the interest of other stakeholders, a problem which stakeholder theory intend to resolve (Freeman, 1984). Recently, however, publications by leading resource-based theory scholars seems to be deliberating on how the measure of firm performance could be changed to include value created for all stakeholders. These attempts have been motivated partly by the recognition that stakeholders bind resources to firms so sustainable possession of valuable resources requires sustainable cooperation among stakeholders that make those resources available: and this can

only be achieved if all contributing stakeholders are compensated well (Amis et al, 2020; Barney, 2018, Barney, 2020, Barney et. al. 2021b).

The second contradiction is the concept of competitive advantage which means a firm having an upper hand in competition relative to competitors; being a primary dependent variable of resource-based theory. Stakeholder theory from its backgrounds has mostly de-emphasized competition and rather emphasized cooperation. According to the theory more value can be created by a firm if it co-operates well with its stakeholders including its competitors. In short, while resource-based theory emphasizes competition among firms, stakeholder theory emphasizes co-operation among firms (Freeman et al, 2021). This is partly the reason why the resource-based theory has become a dominant paradigm in strategy research- which has always attempted to explain the causes of firm competitive advantage and not cooperation.

Yet another contradiction is the fact that moral and normative elements are incorporated in the stakeholder theory. Stakeholder theory seems to argue that firms can achieve sustainable performance when they act more morally and ethically towards all stakeholders. This contradicts the instrumental rationality of Resource-based theory's foundations. The resource-based theory's foundations are rooted in microeconomic theory, which is indifferent towards moral or ethical sentiments (Barca, 2017; Freeman et al, 2021).

3.6 Integration of stakeholder theory and resource-based theory

Despite the above contradictions, a number of scholars have mentioned that there exist great opportunities for integrating insights of the two theoretical approaches to explain a number of strategic phenomena (eg. McGahan, 2021; Freeman et al, 2021; Barney, et al, 2021a). There are both theoretical and practical reasons behind these suggestions for integration.

3.6.1 Theoretical Reasons

First, both theories are well established theoretical frameworks for understanding what firms could do to achieve success. The resource-based theory is arguably the most dominant theoretical paradigm in the field of strategic management presently (Baney et al, 2011; Barney et al, 2021b). It has become one of the widely used frameworks in the field of strategic management for explaining the causes of performance differences among firms. It started as a view about four decades ago and has quickly risen to become one of the most dominant theories

today in the field of strategic management (Barney, 1991; 1995). Its success transcends the domain of the strategic management field as it has been applied for studies in other fields such as Entrepreneurship (e.g. Chandler & Hanks, 1994), Human resources and human capital research (e.g. Lepak & Snell, 1999), marketing research (e.g. Capron & Hulland, 1999) and management information system research (e.g. Mata, et al, 1995). Having become considered as a mature theory by some scholars, it is suggested that for its further development, the theory needs to build synergies with other relevant theories, especially the stakeholder theory (e.g. Barney et al, 2011; Barney et al 2021a; Freeman et al, 2021 McGahan, 2021).

Stakeholder theory just like RBT, has also seen a lot of success over the years as a theoretical approach for explaining how firms can achieve sustainable value creation. Its explanation that firms can achieve greater value creation by cooperating well with individuals that could affect or are affected by the firm's activities (Freeman, 1984) has been empirically validated by a number of previous studies (e.g. Berman et al, 1999). It has also been applied in different fields such as business ethics, corporate social responsibility and environmental sustainability studies (e.g. Clarkson, 1995; Aguilera et al, 2021). However, it has also faced challenges of full recognition in the field of strategic management over the years because of its normative elements; integrating with RBT, therefore, could enhance its acceptance in the field.

Another reason that implies the need for integration of stakeholder theory and resource-based theory ideas for strategy research has to do with the tensions that scholars recently identified as existing between stakeholder theory and the field of strategic management especially the resource-based theory. One such tension is whether *'Stakeholder theory and the resource-based view (RBV) contradict each other versus these two theories are complementary in some important ways* (Barney & Harrison, 2018; Freeman et al, 2018). This implies the need for research to explain the existence of any significant connections between the two theories. Our study would demonstrate how the two theories, despite their seeming contradictions, are in fact related, by explaining how the primary proposition of stakeholder theory concurs with the resource-based theory propositions.

Another tension scholars identified about the stakeholder theory in relations to the strategic management field is whether the stakeholder-based management always result in superior value creation or there are some moderators to this relationship. An integration of insights from resource-based theory with that of stakeholder theory perhaps could help address this tension (Barney & Harrison, 2018; Freeman et al, 2018). It could perhaps help provide

explanation as to how stakeholder relationship management results in superior performance as well as which moderators impact such a relationship.

Another potential reason for the need to integrate the two theories is the challenge of stakeholder theory in determining which stakeholders to prioritize in the firm's management (Freeman, 1984). A firm could have several stakeholders and may not be able to address the interests of all of them. Stakeholder theory does not offer a specific number of individuals whose interests the firm needs to focus on in its management (Sternberg, 1996). It however suggests the need for stakeholder mapping to determine the key stakeholders whose interests to prioritize in a firm's management. A number of stakeholder theory scholars have proposed some criteria for doing this. These include the evaluation of the legitimacy, relevance, urgency, power/influence etc. of stakeholders and their claims (Freeman, 1984; Savage, et al, 1991; Clarkson, 1995; Mitchell et. al, 1997). Perhaps the resource-based theory could help determine which stakeholders are more salient. It could do this by helping determine stakeholders whose resource contributions are key to the achievement of sustainable competitive advantage. Thus, stakeholders could be mapped based on their resource contributions to a firm's performance.

Finally, Freeman, et al (2021) mentions that the resource-based theory needs integration with stakeholder theory because the theory appears to ignore the significance of stakeholders and their impacts on firm performance in its explanation. Despite being very significant to the success of firms, stakeholders and their potential impacts on firm performance, according to them, appears to be missing in RBT's explanation of the causes of performance differences among firms and the sustainability of such differences. Similar arguments can be extended to the stakeholder theory too. The significance of internal firm capability differences on firm performance differences doesn't appear as a significant part of stakeholder theory's explanation of differences in performance. An integration of these two significant theories therefore could help to compensate each other's seeming disregard.

Besides theoretical reasons, there are also practical reasons that make their unification quite necessary, which is explained below.

3.6.2 Practical Reasons

Integration of ideas of stakeholder theory and resource-based theory is not only necessitated by theoretical reasons, but also by practical developments in the business world. For instance, in 2019, a number of major international companies made declarations to manage their firms for the benefits of their entire stakeholders and not only for shareholders (Harrison, et al, 2020; Freeman et. al 2021). By mimesis, they are likely to be followed by other firms in case they achieve success managing their firms that way (DiMaggio & Powel, 1983). This makes it quite necessary for scholars to also deliberate on how to integrate stakeholder issues in management theories.

Another practical reason is the growing recognition of the social and economic troubles caused by corporations, directing academic and policy attention on the need to reorient management theorization and practices to solve some of these contemporary problems. Problems like managerial corruption, corporate abuses, corporate impacts on climate change and economic crisis necessitate this shift in management theorization and practice (Sachs & Ruhli, 2011). Since stakeholder theory already attempts to encourage more responsible corporate behaviours integrating its ideas with those of management theories help to better address these problems.

Recently, therefore, a number of scholars have called for such integration of stakeholder ideas into strategic management theories (e.g. McGahan, 2021; Freeman et al, 2021; Barney, et al 2021a). Resource-based theory being the current dominant paradigm in strategy research is also the theory whose integration with stakeholder theory has been highly mentioned in this regard (Freeman et al, 2021; McGahan, 2021; Barney, et al 2021a).

3.6.3 How integration of the theories have been done

Previous studies have presented different arguments about how to integrate the two theories. We mapped these under three main categories, including arguments that merge them into one theory, those that use stakeholder theory as a framework for resource-based theory research and those that use resource-based theory as a framework for stakeholder theory research. We explain each approach below.

A. A Combined Theory

Some scholars tend to intersect instrumental ST and RBT into novel theories referred sometimes as stakeholder-resource based theory (Barney, 2018). Thus, they maintain their primary foundations, assumptions and propositions but connect them based on their commonality forming novel theories.

The resource-based theory and instrumental stakeholder theory share a lot in common in terms of their philosophical foundations and their outcomes. They are both functionalist theories with similar ontological and epistemological assumptions. They also both have sustainable value creation as their outcomes. Therefore, integrating them into one theory is possible (Gioia, 1999).

From a RBT perspective, sustainable value creation is achieved when a firm has a valuable, rare and inimitable resource bundle and the firm is organized to exploit that resource bundle (Barney, 1991); while from instrumental ST's perspective, sustainable value creation is achieved when a firm is managed for stakeholders (Donaldson & Preston, 1995; Jones, 1995). A combined stakeholder-resource based theory argue that in addition to possessing a valuable, rare and inimitable resource bundle, managing firm for stakeholders who bind resources to the firm is needed to achieve a more sustainable value creation.

Barney (2018) advanced these arguments when he asserted that the superior firm performance explained by the RBT is not even possible when all stakeholders of the firm are fixed claimants and only one of them (i.e. shareholders) is the residual claimant, while also maintaining that a firm also needs VRIO resource bundle to achieve sustainable value creation.

A problem with this approach is that it advances a compromise between the two theories. For instance, normative stakeholder theory can hardly be integrated with the resource-based theory in this way because of differences in ontological and epistemological assumptions. It is the instrumental or descriptive aspect of stakeholder theory that can be combined more easily with the resource-based theory (Burrell & Morgan, 1979; Gioia, 1999). The resource-based theory, on the other hand, will have to do away with its shareholder primacy assumption for this kind of integration to become possible. Barney (2018) did that by arguing that shareholder primacy assumption is not even logically consistent with the resource-based theory's model of rent generation.

B. Employing ST as a Framework for RBT Research

Some other scholars argue for the development of resource-based theory within the framework of stakeholder theory. This means a total re-orientation of the RBT towards the stakeholder foundations (Sachs & Ruhli, 2011; Freeman, et al, 2021).

For instance, Sachs and Ruhli (2011) argued in favor of basing resource-based theory on stakeholder foundations. In their book they considered basing strategic management theories (like RBT) on economic foundations as one paradigm and then proposed the stakeholder paradigm of value creation. They then concluded that there is the need for a paradigm shift from basing strategic management research on economics to basing it on stakeholder perspective arguing that this can help better address contemporary problems of corporate behaviors. In their illustration, basing strategy on stakeholder paradigm help to better explain how firms build core competences for superior value creation.

As stakeholder theory's arguments become more acceptable, a number of strategic management scholars like Sachs and Ruhli believe that strategic management theories must make this turn towards the stakeholder perspective (Bridoux & Stoelhorst, 2022a; Sachs & Ruhli, 2011). This means removing the contention between the field and stakeholder theory by adopting the assumptions of the stakeholder theory. These authors argue for a paradigm shift from basing strategic management theories like RBT on economics to basing them on stakeholder perspective (Kuhn, 1962).

By doing this, strategic management theories like RBT will do away with seeing maximization of shareholder wealth as the purpose of the firm and embrace the maximization value for all stakeholders as the new objective. They will also expand their conception of the boundary of the firm to include other relevant stakeholders, accept normative elements in their theorization and do away with seeing humans as resources and consider them as resource owners who are to be treated as ends and not means (Sachs & Ruhli, 2011; Freeman et al, 2021).

A rationale behind this position, as Wicks and Harrison (2017) explain, is that there is a growing awareness now that the strategic management field needs to evolve and enrich its underlying theoretical base both to be able to provide new ideas and to help it address contemporary problems. Contemporary problems like economic crisis and corporate corruption, fraud, and abuses have attracted both scholars and practitioners' attention towards considering new ways of looking at firm management (Sachs & Ruhli, 2011). Relying on neo-classical microeconomic assumptions such as seeing economic units as self-interest seekers and markets as perfect, hasn't provided solutions to these problems. This makes stakeholder theory a good framework to begin thinking about management since it is concerned with addressing

these problems. Parmar et al., (2010) argued that stakeholder theory addresses three main problems (1) the problems of value creation (2) the problems of ethics of capitalism and (3) the problem of managerial mindset to deal with the first two problems.

One major problem with this integration approach is that the paradigm shift it proposes would require a total change not only in firm behaviors, or management scholarship but also a change in economic systems, societal laws and culture. Jensen, (2001) argued that seeing long term shareholder value maximization as the firm objective function is a result of about 200 years of research in economics and finance, and this thinking would have to change if stakeholder perspective became the new base for strategic management and economic understanding about firms. Management and shareholders would not be the main actors in the firm; that arrangement would also have to change to include all other stakeholders as key actors in firm management. Corporate laws, labor laws, corporate tax laws, corporate accounting principles all would have to change if this position became the most advanced.

Also, having shareholder wealth maximization as the sole purpose of the firm enables firms to focus resources to this end (Jensen, 2001). Until a clear explanation of how to maximize in all directions (towards all stakeholders' wealth) is given, the consequence is managerial confusion. This could expand management discretion to direct funds anyhow in the name of spending to increase stakeholder value maximization.

Finally, grounding the RBT on stakeholder theory foundations means basing its explanations on normativity. It would have to drop its inclination towards positivism. This could make it a focus of attack by philosophers of science. It will become a theory that not only describes '*what is*' but also prescribes '*what ought to be done*'. This means, it might face similar challenges that scholars of business policy had faced before the strategic management field began to be grounded on economics (Hoskisson, et al, 1999; Barca, 2003).

C. Employing RBT As a Framework for ST Research

Quite the opposite of the previous approach, some other scholars have also used the resource-based theory as the framework to advance stakeholder theory research, particularly instrumental stakeholder theory research (Jones et. al, 2018; Harrison et al, 2010). For instance, Harrison et al (2010) drew on the resource-based theory to theorize that managing a firm for stakeholders could be considered a resource for achieving sustainable competitive advantage. Jones et al (2018), extended this idea by arguing that Communal Sharing Relational ethics as against arm's length relational ethics in managing stakeholder relationships could be considered a resource that leads to sustainable competitive advantage.

As mentioned earlier, instrumental stakeholder theory and resource-based theory have a lot in common. They share the same ontological and epistemological assumptions and belong to the same paradigm (Burrell and Morgan, 1979). Because of this, building arguments of instrumental stakeholder theory within the frame of resource-based theory is possible (Burrell & Morgan, 1979; Gioia, 1999).

Instrumental stakeholder theory tries to explain the performance outcomes of engaging in management of stakeholder relationships; it can therefore do this by adopting the resource-based theory as the theoretical framework on which to associate stakeholder relationships management with performance. This is because the resource-based theory is a strong approach in strategic management for explaining why firms have different performance outcomes. Developing instrumental stakeholder theory within the framework of resource-based theory implies that what stakeholder theory was originally proposed to be would become based on resource-based theory. Freeman (1999) claimed that his book *Strategic Management: A Stakeholder Approach* (1984) was actually premised on an instrumental stakeholder theory: Meaning instrumental theory is quite representative of the theory's original explanation.

A good side of this approach is that it enables stakeholder theory to become more grounded on economic foundations making it more inclined towards positivism. A problem with this approach however is that it could lead to stakeholder theory focusing less on its pure normative commitments and more on its instrumental commitments (Freeman, 1999). Implying that the reason for firms to act morally may just be because it is a means to achieve economic profits and not for any moral reasons. Evan and Freeman (1988), however, argues that stakeholders must be treated as ends in themselves and not a means to achieve firm objectives.

It also means that if a moral behavior would not ultimately contribute to the firm's economic benefit, then there wouldn't be the need for a firm to pursue that moral behavior, Moreover, basing stakeholder theory on Resource based theory will lead to arguments like only a few firms can actually act morally and others cannot do so or imitate them because acting morally must be rare and inimitable to lead to any economic benefit. Weitzner, Deutsch, (2019) raised this issue criticizing Jones et al, (2018) for using this approach.

3.6.4 This study's Approach to synthesis of the two theories

This study adopts the third approach that draw on resource-based theory to advance instrumental stakeholder theory arguments. We adopted this approach because the objective of this study was to study whether stakeholder relationships management can be considered as a firm capability that is valuable, rare, and inimitable to give it sustainable competitive advantage. Thus, our research objectives and questions make taking the third approach to synthesis necessary.

Besides this approach aligns the study much with what strategic management field is about. This field is mainly concerned with explaining the causes and persistence of performance differences among firms. Our study follows this focus of the field to find out whether stakeholder relationships management can be considered one of these causes drawing on resource-based theory.

What makes our study different from previous studies that have taken this approach is that we go beyond theoretical explanation to empirically verify our propositions (Harrison et al, 2010; Jones et al, 2018).

We argue that while stakeholder theory and resource-based theory appear as if they are talking about different things, they are in fact very related theories. Instrumental stakeholder theory's argument that a firm's sustainable superior value creation depends on how it manages relationships with its stakeholders is not contradictory to the resource-based theory's arguments. According to the resource-based theory, to achieve a sustainable superior value creation, a firm must possess some superior resources/capabilities (Barney 1991; 1995). While a firm could have several capabilities, stakeholder relationships management could be one of such capabilities that could lead to superior firm performance.

This means that both theories potentially agree that a firm could achieve sustainable performance with stakeholder relationships management capabilities. In the next chapter, we present arguments about this agreement between the two theories by drawing on resource-based theory propositions to analyze how stakeholder relationships management could lead to superior firm performance.

CHAPTER 4: STAKEHOLDER RELATIONSHIP MANAGEMENT AS A CAPABILITY FOR SUSTAINABLE PERFORMANCE (RESEARCH MODEL)

Stakeholder relationships management's potential impact on firm value creation could be assessed by drawing on the resource-based theory. According to the resource-based theory, a firm achieves superior firm performance by possessing resources or capabilities that are valuable, rare, inimitable and non-substitutable (Barney 1991; 1995). So, to understand whether stakeholder relationships management could result in superior firm performance, we have to assess its value, rareness, inimitability and non-substitutability.

4.1 IS SRM A VALUABLE FIRM CAPABILITY?

Barney (1991), states that resources/capabilities can enable a firm to achieve a competitive advantage only when they are valuable. Valuable resources/capabilities are those that have the potential to improve the efficiency and effectiveness of a firm. They enable a firm to reduce its costs or increase its revenues. They may enable the firm to do this by helping it seize environmental opportunities or neutralize environmental threats (Barney, 1991, 1995).

Stakeholder relationship management's value to a firm therefore can be understood based on whether it enables a firm to seize environmental opportunities and neutralize environmental threats; and improve the firm's effectiveness and efficiency. If it can be established that stakeholder relationship management could satisfy these requirements, then it can be concluded that the capability is a valuable capability and therefore holds a potential for contributing to superior firm performance.

We begin these analyses by explaining how stakeholder relationship management influences a firm's learning, efficiency, innovativeness and resilience and ultimately its performance.

4.1.1 Direct Effects of Stakeholder Relationship management on Knowledge Exchange, Efficiency, Innovativeness and Resilience

The value of stakeholder relationship management (SRM) can be understood through its influence on a firm's ability to access environmental opportunities and threats by facilitating knowledge exchange with stakeholders. Additionally, SRM contributes to firm-level outcomes such as efficiency, innovativeness, and resilience. In what follows, we first explain how SRM enhances a firm's ability to access environmental opportunities and threats through the mechanism of stakeholder-based knowledge exchange.

4.1.1.1 Direct effects of SRM on knowledge exchange

In today's business world, superior firm performance is a function of not just the physical resources that a firm possesses, but more importantly the knowledge resources it has. The sources of knowledge that a firm uses to engage in the production of goods and services also come from both its internal stakeholders like employees and managers and its external stakeholders such as customers, suppliers and local community (Hsu & Chen, 2019). Therefore, effective stakeholder relationships management could enhance a firm's access to quality knowledge from its stakeholders.

The subdimensions of stakeholder relationships management as presented by Plaza U'beda et. al. (2010) includes knowledge of stakeholder characteristics, interactional capability and adaptability to stakeholder demands. A firm usually gains knowledge about its stakeholder characteristics, through research or communication with them. Both these activities eventually enhance a firm's knowledge acquisition that can be used to enhance its production of goods and services. Besides, having knowledge of stakeholder characteristics means an understanding of the various individuals within and outside of a firm that can potentially influence its performance. Interaction with stakeholders also exposes the firm to a lot of knowledge about stakeholders that also can be used by the firm to create value for them and the firm itself. Adapting to changing stakeholder demands and characteristics implies an application of knowledge acquired by the firm

In addition, Stakeholder relationship management enables a firm to possess a number of important intangible relational resources such as stakeholder satisfaction, stakeholder trust, stakeholder loyalty and firm reputation which all enhance the quality of knowledge shared by stakeholders with the firm (Harrison, et al, 2010). Below we explain each of these intangible

resources that stakeholder relationship management can provide a firm with and how the resources help to enhance firm knowledge exchange with stakeholders.

Stakeholder satisfaction is a significant resource that stakeholder relationship management gives a firm which enhances its knowledge exchange with stakeholders. Stakeholders participate in a firm to pursue their own interests (Freeman, 1984; Clarkson, 1995). For instance, employees of a firm participate in a firm to earn wages or salaries; suppliers to get their goods sold for money; and customers to obtain goods at a lower price or higher quality. They become satisfied with a firm which is better able to meet these interests.

Stakeholder relationships management, which includes addressing stakeholder demands, increases stakeholder satisfaction with the firm. Having Knowledge of stakeholder characteristics, for instance, enables a firm to understand stakeholder demands that are urgent, important and legitimate in order to better prioritize and balance their interests (Mitchell et. al., 1997; Freeman, 1984; Plaza-U' beda, 2010). Having processes in place for engaging in interactions and communication with stakeholders also increases stakeholder satisfaction with the firm. Finally, adapting to stakeholder demands and expectations increase their satisfaction in the firm as a whole (Freeman, 1984; Plaza-U' beda, et al., 2010).

Stakeholder satisfaction could enable a firm to have access to quality knowledge from the stakeholders that the firm can use to enhance its efficiency, innovativeness as well as responsiveness to environmental changes. This is because stakeholder satisfaction increases the trust and loyalty of stakeholder with the firm which together enhance stakeholders' interests in the success of the firm and thereby enhance their willingness to share beneficial knowledge with the firm.

Stakeholder trust: Effective stakeholder relationship management could also enhance the trust of stakeholders in the firm, which helps it to access quality stakeholder knowledge (Harrison, et al, 2010). Stakeholder relationships management (SRM) as a capability and each of its three sub-dimensions (Freeman, 1984; Plaza-U' beda, 2010) enhance stakeholder trust. Having knowledge of stakeholder characteristics help the firm to properly prioritize stakeholders and balance their interests in the firm's management, increasing stakeholder perceptions of firm's procedural and distributional justice. Also, having processes for interacting with stakeholders enhances their perception of interactional justice. And finally, adapting to stakeholder demands as well as engaging in win-win transactional exchanges with

stakeholders enhances their perceptions of distributional and procedural justice (Folger & Konovsky, 1989; Bies & Shapiro, 1987).

According to fairness heuristic theory, individuals use perceptions of justice heuristically, as a proxy for trust to form behavioral strategies (Rupp, 2011). When an individual lacks full information as to whether or not to trust another party, they use their justice perceptions of that party to do so. By making genuine effort to understand stakeholders' characteristics, interacting with them, adapting to their demands and engaging in win-win exchanges, the firm which effectively engages in stakeholder relationship management gains the trust of stakeholders (Jones, 1995; Harrison, et al, 2010).

Stakeholder trust also increases a firm's access to quality stakeholder knowledge, as stakeholders would be more willing to share knowledge with firms they trust. This may include sharing knowledge about their own utility functions believing that the firm will use such knowledge to serve them well and not manipulate them (Harrison, et al, 2010).

Stakeholder loyalty: Another intangible resource that stakeholder relationship management helps a firm to gain which enhances its knowledge access is stakeholder loyalty. Stakeholder loyalty can be explained as the commitment or allegiance of stakeholders to the course of a firm (Polonsky, et. al, 2002). Examples of this loyalty are employee affective commitment and customer loyalty. Stakeholder relationship management helps a firm to gain the loyalty of its stakeholders. It does this by increasing stakeholder satisfaction and trust in the firm. When stakeholders are satisfied with a firm, their loyalty to the firm increases. For instance, when employees are very satisfied with a firm, their affective commitment towards the firm increases. Similarly, employee loyalty or customer loyalty increase when they trust a firm (Gustafsson, et. al, 2005; Tett, & Meyer, 1993).

Stakeholder loyalty helps a firm to have access to quality knowledge from stakeholders. As mentioned earlier, when stakeholders are loyal to a firm, they become more committed to its success, and this may include sharing with the firm any beneficial knowledge that could help it succeed.

A positive firm reputation is another resource that a firm can gain from managing stakeholder relationships well. By enhancing stakeholder satisfaction, trust and loyalty, the capability enables the firm to gain a positive public image (Walsh et al, 2009). This is because a firm that properly addresses the interests of its stakeholders is more likely to gain the reputation of its stakeholders (Lange, et. al, 2011). Also, because of their satisfaction, trust and

loyalty to the firm, stakeholders are more likely to spread good information about the firm to others. This helps a firm to have a good image both among its stakeholders and others.

Positive firm reputation has been mentioned by a number of scholars as a potential source of firm competitive advantage including Porter (1980) and Barney (1991). Having a positive reputation helps a firm in a number of ways. For instance, it makes it easy for the firm to attract quality stakeholders including quality human resources. This also enhances the quality of knowledge that could be available for value creation.

In sum, Stakeholder satisfaction, trust, loyalty and firm reputation that result from engaging in stakeholder relationship management, as explained above, improve the quality of knowledge sharing between a firm and its stakeholders.

When scanning a firm's environment for opportunities and threats, one important source for obtaining relevant environmental knowledge is from the firm's own stakeholders (Wilden et. al, 2013). For instance, a firm can obtain information about changes in customer tastes from its customers, workplace attractiveness from employees, and its public image from external directors and local community. Stakeholders, however, are usually more willing to share beneficial knowledge with a firm they are satisfied with, trust in or are loyal to the firm. They are more likely to extend support including sharing beneficial knowledge to a firm that has positive impacts on them rather than those that have harmful impacts on them (Freeman, 1984). Managing stakeholder relationships, which include meeting their interests and demands, increases stakeholder satisfaction, trust and loyalty to the firm and this consequently lead to an increase in the quality of stakeholder knowledge gains from them.

On the other hand, when stakeholders perceive that a firm reneges on its responsibility to them or the firm has harmful impacts on them, they become less satisfied with such a firm and less concerned about the success of the firm and as a result may be less willing to take actions that lead to the success of such a firm. They will as a result generally be less willing to transact with it (i.e., less loyal) and may as well be less willing to disclose beneficial knowledge to it. They may rather give such knowledge to an alternative firm that better serve their interests (Harrison, et al, 2010).

For instance, a firm that is able to provide its employees with their expectations such as higher pay and growth opportunities is likely to have more satisfied, trusting and loyal

employees, who will be more willing to disclose relevant knowledge to the firm that could help the firm to succeed. This is because more success for the firm leads to much better treatment of the employees. (Harrison, et al, 2010). Knowledge shared by stakeholders may include the stakeholders' own utility functions as well as environmental opportunities and threats. Therefore;

Hypothesis 1: SRM has a positive effect on knowledge exchange with stakeholders

4.1.1.2 Direct effects of SRM on Efficiency

In addition to its effect on knowledge exchange, stakeholder relationship management could affect firm efficiency too. The efficiency of a firm refers to the firm's ability to reduce waste in its resources uses. It refers to the ability to optimize the use of resources (such as time, money and personnel etc.) to deliver value to stakeholders. It is the ability to use minimal amount of resources to achieve a given quality of goods and services (Yeung, 2007). Stakeholder relationships management enhances firm efficiency by lowering transaction costs and incidence of legal fines as well as enhancing swiftness in exchanges.

Lowers transaction Costs: Stakeholders are the suppliers of factors that a firm uses to engage in the production of goods and services; and they exchange these factors with the firm. For instance, employees exchange labor for wages; Suppliers exchange raw materials for payment; investors and other financiers exchange financial resources for returns; the government provide legal and institutional framework for taxes; and customers exchange cash for goods (Foss & Foss, 2005; Hill, 1995).

However, because of the tendency for these factor suppliers to opportunistically shirk their commitments, the firm incurs costs (Hill, 1995), including the costs of searching for factor suppliers (i.e., stakeholders) with a lower tendency to shirk, negotiating with them, bonding them with contracts, monitoring, policing and enforcing these contracts. Also, the firm incurs these costs because of uncertainties or lack of full information to accurately assess whether they are shirking their responsibilities. Sometimes even after incurring all these costs, because of lack of full information or uncertainties, they still shirk their responsibility (i.e., moral hazard), also costing the firm. All the above costs incurred in exchanging factors with their suppliers (i.e., stakeholders) is referred to as *transaction costs* (Williamson, 1981; Foss & Foss, 2005). Transaction costs increase the cost of production and diminishes the value that factors can generate for the firm. So according to transaction cost economics, the prime aim of a firm is to minimize transaction costs (Williamson, 1981).

Stakeholder satisfaction, trust and loyalty that a firm potentially gain from managing stakeholder relationships help to lower transaction costs. Trust, for instance, is said to be the opposite of tendencies for moral hazard to occur, as it is the ‘expectation that an exchange partner will not engage in opportunistic behavior, even in the face of countervailing short-term incentives’ (Bradach & Eccles, 1989; Chiles & McMackin, 1996). When there is trust between parties in a relationship, they are less likely to shirk their responsibilities and their commitments, as shirking commitments (or moral hazard) diminish or deteriorates the trust. When trust exists, there may not be the need for excessive negotiation, policing and enforcement effort, making their costs to the firm.

The reputation gained from engaging in effective stakeholder relationships management also helps to attract and retain quality workers, suppliers, customers and other stakeholders, reducing costs incurred in searching, bargaining and negotiation.

Transaction costs raise the cost of production of goods and services, so the less a firm spends in searching, negotiating, contracting, monitoring and enforcement of contracts while acquiring factors of production, the lower the cost those factors become as inputs in the firm’s production process (Williamson, 1981). Lower production costs enables a firm to offer competitive prices to customers.

In short, stakeholder relationship management by enhancing stakeholder satisfaction, stakeholder trust, stakeholder loyalty and firm reputation reduces the transaction costs of the firm and improves its efficiency.

Less legal fines: In addition to lower transaction costs, stakeholder relationship management improves efficiency by lowering incidents of legal fines that a firm incurs (Svendsen, 1998).

Knowing stakeholder characteristics and demands; interactions with stakeholders and adapting to stakeholder demands helps to lower potential stakeholder grievances that may lead to costly legal cases. When stakeholder demands are met through a firm’s genuine relationships with them, then the tendency for resorting to the courts for addressing stakeholder problems become less. Thus, less payments are made on legal cases and settlements of stakeholder problems; this improves firm efficiency (Svendsen, 1998).

Enhances speed and frequency of transactions: In addition to cost efficiency, effective stakeholder relationship management significantly enhances a firm’s time efficiency by improving communication, reducing conflicts, and quickening decision-making processes. Its subdimensions, knowledge of stakeholders, interaction capability, and adaptability to

stakeholder demands, all enhance the speed and frequency of firm stakeholder transactions (Freeman, 1984; Plaza-U'beda, et al, 2010). A good understanding of stakeholders and their needs helps firms anticipate stakeholders' requirements and prioritize them, minimizing delays caused by misunderstanding. Strong interaction capabilities, including clear and frequent communication, prevent bottlenecks and ensure smoother collaboration. Additionally, adaptability to stakeholder demands allows firms to respond quickly to changing expectations, which helps prevent rework. Also, by enhancing trust and loyalty stakeholder relationships management improves stakeholders' willingness and motivations to exchange transactions with the firm, enhancing overall operational agility and time efficiency. Employees will be more motivated to work, customers to buy and suppliers to supply inputs etc when they are in a good relationship with the firm. This increases the speed of transactions and enhances operational efficiency.

Therefore, by lowering transaction costs, legal costs, and enhancing speed of exchanges, stakeholder relationships management directly affects firm efficiency.

Hypothesis 2: SRM has a direct positive effect on firm efficiency

4.1.1.3 Direct effect of SRM on innovativeness

Stakeholder relationship management could also have direct impacts on firm innovativeness. Innovativeness refers to the rate of adoption of innovation by a firm. It implies the willingness and the capacity of a firm to engage in innovation (Calantone et al, 2002). Stakeholder relationships management's impact on innovativeness could be understood in terms of collaborative production between the firm and its stakeholders and innovative value creation for stakeholders (Svendsen, 1998).

Collaborative relationships between a firm and its stakeholders could lead to innovative co-production of goods and services that none of them could do all alone. Just as they encourage knowledge sharing, such collaborations could also encourage the sharing of other resources such as facilities, financial resources and capabilities to co-create innovative products and services. For instance, there are firms that have formed alliances with their competitors to jointly design products and services that each doesn't have the capabilities required to do all alone (Svendsen, 1998). Others have also deepened relationships with suppliers to enhance input production. Example is a famous global retail-coffee chain firm that collaborated with coffee farmers in less developed countries to enhance the quality of coffee beans production (Perez-Aleman & Sandilands, 2008).

Moreover, collaboration between a firm and its stakeholders could lead to the development of innovative ways to address stakeholder demands. According to stakeholder theory, a firm exists to address the interests of the various significant stakeholder groups that participate in it (Freeman, 1984; Donaldson & Preston, 1995). Building stronger relationships with stakeholders helps to share capabilities in order to better address these interests. For instance, there are some firms which have formed alliances with their customers to develop better product features that meet customer requirements. Others have also partnered with NGO's to innovatively address community needs (Peloza & Falkenberg, 2009). Some have also established relationships with professional organizations to develop employee skills and talents. Thus, stakeholder management helps to develop innovative ways of addressing stakeholder demands.

Finally, Stakeholder relationships management, as explained earlier, lowers a firm's transaction costs. This frees up the capital available for other important firm activities such as research and development and other innovative investments. Thus,

Hypothesis 3: SRM has a direct positive effect on firm innovativeness

4.1.1.4 Direct effect of SRM on Resilience

Stakeholder relationships management could also have direct effects on firm resilience. Resilience refers to the ability of the firm to cope with changes due to environmental disruptions, adapt to the disruptions and provide a quick response, as well as maintain high situational awareness (Ambulkar et al., 2015). Stakeholder relationships management by fostering trust, collaborative problem solving, resource sharing and stakeholder support during crisis (Choi and Wang, 2009) enhances a firm's resilience.

Stakeholder relationships management enhances the trust between the firm and its stakeholders which help the firm to better navigate crisis. As firms engage in activities that better addresses stakeholder interests, overtime the firm gains the trust of its stakeholders that could help it better deal with environmental disruptions. Firms with stronger stakeholder relationships could even outperform their colleagues during crisis due to the relational capital they have (Choi and Wang, 2009).

When stakeholders trust a firm, they not only share useful knowledge that helps it manage disruptions but also extend other support especially during crisis that can help the firm to deal with the disruptions. Strong stakeholder networks helps a firm to have access to financial, informational, and logistical support during disruptions. For example, when a firm

has strong relationships with suppliers, they could continue providing inputs even in times of crisis, ensuring continuity in supply chains and helping the firm to bounce back (Ambulkar et al., 2015). Similarly, employees could be more motivated to give their best to help a firm that is in crisis when the firm has a stronger relationship with them than otherwise. Customers too may extend their loyalty to a firm that has a good relationship with them even when the firm is going through crises. That means a good relationship with stakeholders sustains business with them even in times of crisis, helping the firm to better address disruptions.

Besides, being known to be in good relationships with stakeholders enhances the reputation and legitimacy of a firm. This could help mitigate the reputational damage a firm may face during crisis. Bundy et al. (2017) emphasized that stakeholder trust mitigates negative impacts during crises by maintaining legitimacy.

Additionally, strong firm-stakeholder relationships could foster collaborations between the firm and stakeholders for addressing environmental disruption. Linnenluecke (2017), highlighted that collaborations with stakeholders could lead to innovations that drives firm resilience. A firm and its stakeholders could jointly innovate ways to address their common environmental problems. As some environmental problems such as economic crises, social changes, etc could affect both the firm and its stakeholders, collaborations between firm and stakeholders could help them jointly address these problems. Therefore,

Hypothesis 4: SRM has a direct positive effect on firm resilience

4.1.2 Indirect Effects of Stakeholder Relationship Management

Apart from its direct effects on firm efficiency, innovativeness and resilience, SRM also could indirectly affect these outcomes through its effects on knowledge exchange. Thus, knowledge exchange could act as a mediator between stakeholder relationships management and these organizational outcomes. This is explained further below.

4.1.2.1 SRM, Knowledge Exchange and Firm Efficiency

Stakeholder relationship management, by enhancing firms' knowledge access, could have an indirect effect on firm efficiency as explained below.

First, trust built between a firm and its stakeholders enhances knowledge sharing by stakeholders with the firm including their own utility functions (Harrison, et. al, 2010), which

helps a firm to better allocate resources to satisfy their needs and avoid wasting resources on activities that do not eventually satisfy stakeholder interests and enhance firm performance. A for-profit making firm's primary objective is basically to make profit by satisfying what stakeholders' needs (Freeman, 1984; Barney et al, 2018). So being well informed about the specific needs of stakeholders enables the firm to reduce wasteful spending on activities that do not eventually satisfy stakeholders' needs and improve profitability.

For example, a strong trust-based firm relationship with customers enhance knowledge exchange, as customers in such a relationship could freely share their needs with the firm without doubt that such knowledge could be used to manipulate them (Kujala & Korhonen, 2017; Harrison et al, 2010). This enables the firm to invest its resources into activities that eventually lead to higher customer satisfaction and firm performance, rather than waste them on alternative activities that don't help achieve these.

Second, collaboration between firms and stakeholders could lead to knowledge sharing about how to reduce waste. Having shared interests with stakeholders enable sharing knowledge about how to reduce costs to both parties (Kujala & Korhonen, 2017). Example, a stronger relationship between a firm and suppliers could enhance knowledge sharing about how to reduce waste in the supply-chain and enhance exchanges. A stronger supplier-firm relationship enhances interactions among them that could lead to arrangements such as just-in-time delivery reducing inventory cost (Bhattacharya & Fayezi, 2021).

Finally, enhanced knowledge exchange between a firm and its stakeholders could help reduce transaction costs (Williamson. 1981). Transaction costs refer to the cost a firm bear in order to undertake transactions. These costs include searching for partners for transactions, contracting them and monitoring them to make sure that they are doing the right thing. These costs are born as a result of the tendency for the exchange partners to act opportunistically and the lack of full knowledge by firm's decision makers about the behaviors of its exchange partners (Williamson. 1981). Stakeholder relationship management by enhancing trust between the firm and its stakeholders and by also enhancing a firm's access to knowledge about its stakeholders helps to reduce the transaction costs that the firm could otherwise incur. Knowledge about stakeholders reduces the need for and the cost of searching for more appropriate ones to deal with, contracting and monitoring them. Lower transaction cost means higher efficiency. Thus,

Hypothesis 5: Knowledge exchange mediates the effect of SRM on firm efficiency

4.1.2.2 SRM, Knowledge Exchange and Firm Innovativeness

Innovation is the conversion of knowledge into new or improved products, services or processes (Molina-Morales & Martinez-Fernandez, 2010). It involves the generation, acceptance, and implementation of new ideas, processes, products, or services (Calantone et al, 2002). Innovativeness implies the willingness and the capacity of a firm to engage in innovation (Calantone et al, 2002).

This capacity to engage in innovation is influenced by a number of factors; a very important among these is firms' exposure to new ideas (or knowledge). Knowledge generation, therefore, influences a firm's innovativeness. According to Schumpeter (1934), innovation occurs when a firm integrates newly learned knowledge with their existing knowledge that causes changes in their conduct (i.e. products, services and processes). Kogut and Zander, (1992), also indicated that innovation results from the combination and exchange of knowledge. Firms combine knowledge to produce products and services; and when a firm exchanges and combines new knowledge with the existing ones, it results in innovation. Thus, firm innovativeness depends on its knowledge exchanges, particularly with stakeholders.

Effective stakeholder relationship management enhances knowledge exchange with both the internal and external stakeholders that helps a firm to innovate (Harrison et. al, 2010). A good relationship with stakeholders, including frequent relational interactions, exposes the firm to new ideas that could be adopted to improve existing products, processes and services and create new ones (Kujala & Korhonen, 2017). This may include knowledge about consumer preferences, technological advancements, market trends and emerging opportunities, which could propel its innovation process. Therefore,

Hypothesis 6: Knowledge exchange mediates the effect of SRM on firm innovativeness

4.1.2.3 SRM, Knowledge Exchange and Firm Resilience

As mentioned earlier one major indicator of the value of a firm's resource/ capability is whether it enables the firm to respond to environmental changes, seize opportunities and manage threats (Barney, 1991;1995; Teece, 2007). Stakeholder relationship management by enhancing a firm's access to relevant environmental knowledge helps the firm to be able to better sense changes in the environment, seize opportunities and neutralize threats in them, thereby making the firm more resilient.

When a firm scans its environment for opportunities and threats, its main source of knowledge is its stakeholders. So, by enhancing knowledge exchange, stakeholder relationships management enables a firm to better respond to changes in its environment, enhancing its resilience.

According to Teece (2007), a firm's responsiveness to environmental changes includes its ability to sense changes in its environment, seize opportunities in them and reconfigure its internal processes to be able to respond to the changed environment. Having knowledge of stakeholder characteristics and their demands enables a firm to sense changes in its environment. Interactions with stakeholders also enables the firm to seize environmental opportunities and adaptability to changing stakeholder demands implies reconfiguration. Thus, by enhancing knowledge access, stakeholder relationship management makes a firm more resilient, able to address environmental disruptions. Therefore,

Hypothesis 7: Knowledge exchange mediates the effect of SRM on firm resilience

4.1.3 Efficiency, Innovativeness, Resilience and Performance

Firm efficiency, innovativeness and resilience affect a firm's ability to achieve sustained superior performance. There exists ample research in the strategic management literature explaining the existence of such relationships. Here we reiterate them to explain the chain of effects of stakeholder relationships management on superior firm performance.

4.1.3.1 Efficiency and Performance

A firm's ability to reduce waste (e.g. reduce costs) in its operations has a direct effect on its performance. Lower costs of operation means that, given the price and demand, the firm could have a larger profit margin. For example, in a monopolistic or oligopolistic market situation, the demand curve is downward sloping; meaning, higher price leads to a lower demand and vice versa (Barca, 2017; Barney, 1986b). So, in order to make higher profits without reducing demand, the firm would need to avoid increasing the price paid by customers: instead, the firm could achieve higher profit by lowering its production costs.

Moreover, a firm that is able to lower its costs could even offer customers lower prices compared to what competitors offer, which increases the demand of its products compared to competitors. Thus, higher efficiency gives the firm a competitive advantage over its competitors and enables it to offer lower prices to raise its demand and still make profits (Porter, 1980, p36).

Michael Porter's explained such a strategy as a low-cost strategy that a firm can pursue to gain competitive advantage. Firms that could lower their unit costs and price to customers have a very big advantage of increasing demand, market share, and customer loyalty (Porter, 1980, p35).

Thus, a firm that is very efficient relative to competitors has a lower cost advantage that could help it achieve superior performance. Therefore,

Hypothesis 8: Firm Efficiency has a positive effect on performance

4.1.3.2 Innovativeness and performance

Profits are determined not only by lower production costs but also by a higher customer willingness to pay for a firm's products and services. One way a firm could enhance customers' willingness to pay for its products and services is its ability to offer products and services with valuable features different from what is offered by its competitors. Customers would be willing to pay higher for a firm's products when the benefits they derive from those products are higher than what they could get from competitors' them (Porter, 1980, p37).

Some firms are able to charge higher prices because their products offer customers some prestige in the society, others because they are able to offer better after-sales services and others too because their products are more user-friendly, eco-friendly or durable. Customers become more loyal to such firms, especially when competitors are not able to offer similar product or service features (Porter, 1980, p38). Porter argued that the more a firm is able to differentiate its products and services compared to its competitors, the higher its chances of gaining a competitive advantage over them.

Moreover, an innovative firm could also innovate more cost-effective technology and production processes thereby increasing its efficiency and profit potential. Given price of products, a firm that is able to innovate a more cost-effective way of producing goods can increase its profits by lowering its unit cost of production. An example is a firm that is able to digitize or mechanize its production processes in an industry where competitors are still using manual production processes. Such a firm could engage in mass production of goods and services at a lower unit cost thereby increasing its profitability. Therefore,

Hypothesis 9: Firm innovativeness has a positive effect on performance

4.1.3.3 Firm Resilience and performance

Firms from time to time are faced with unpredicted environmental circumstances that need to be responded to in order to continuously stay fit (Teece, 2007).

The environment of firms changes from time to time, and these changes could pose threats or offer opportunities to the firm. Environmental changes refer to changes in any of the external factors affecting the firm. Environmental changes may be evolutionary meaning changes occur bit by bit, requiring gradual adjustment to be made to firm's existing capabilities, processes and products etc.; or revolutionary, meaning the changes occur in a very fast, sudden and often in a dramatic way and may require a total overhaul of existing capabilities, products or process and the creation of new ones (Tushman and Anderson, 1986).

A firm needs to be able to sense these environmental changes, seize the opportunities in them, manage their threats and make the right changes to its operations. Especially, in a highly dynamic environment, such an ability is very necessary for performance (Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002; Winter, 2003).

Resilient firms are able to manage environmental disruptions very well, preventing any negative impacts that such disruptions could have on their operations. Ability to deal with environmental disruptions makes resilient firms' operations less affected by such disruptions, making them better able to perform even in such circumstances. On the other hand, firms who are less resilient could have their operations seriously affected by environmental disruptions causing them to underperform or even be knocked out of business.

Thus, the ability for a firm to survive and sustain long-term performance is dependent on its resilience. When a firm is less resilient, it could hardly sustain performance potential as environmental disruptions occur and vice versa. Therefore,

Hypothesis 10: Firm resilience has a positive effect on performance

So, is stakeholder relationship management a valuable firm capability having a potential to give competitive advantage? While empirical testing of our hypothesis will confirm this, the answer from the above explanations indicate a YES answer. As we mentioned at the beginning of this lengthy discussion, a resource/capability can be considered a potentially valuable capability when it enables a firm to exploit environmental opportunities or neutralize environmental threats. Also, it is valuable, when it ultimately improves the efficiency and effectiveness of the firm. The above discussions have demonstrated that the capability could satisfy these criteria. Therefore, it could be a valuable one and has potential to contribute to superior firm performance.

4.1.4 Moderation of Stakeholder Culture

Engaging in stakeholder relationships management does not automatically mean that a firm will be able to benefit from its potential value- i.e. efficiency, innovativeness, resilience and consequential performance. Certain factors could cause some firms who engage in stakeholder relationship management to derive less value from it than others. Below we discuss an important factor that could influence the value derived from stakeholder relationship management.

Cost of Cultural alignment

To effectively manage stakeholder relationships and benefit from knowledge sharing, efficiency, innovativeness, resilience and performance it brings, a firm needs to align its internal culture with this purpose. This alignment may be costly depending on the extent of incompatibility of firm culture with stakeholder relationship management. Trying to change an incompatible firm culture could make the net benefits a firm gets from SRM lower or even negative (Jones & Harrison, 2018).

The culture of a firm consists of established stable values, beliefs and shared ways of doing things in a firm. It basically emerges as a result of learned and shared set of responses to firm environment, tasks and problems. An important dimension of firm culture is its stakeholder culture, which refers to shared norms, beliefs and values about the way management (and employees of a firm) approach stakeholder issues (Jones et al, 2007). According to Jones et al, (2007), there are five different kinds of stakeholder culture that a firm could have based on whether it is more *self-regarding* (i.e. less stakeholder oriented) or *other-regarding* (i.e. more stakeholder oriented) or between the two. While some firms have more self-regarding cultures, others have more other regarding cultures. Self-regarding cultures refer to those cultures in which the members of a firm, especially the managers, are more interested in achieving their own self-interests, while other-regarding cultures are those in which they are concerned about the interests of other stakeholder groups.

The five kinds of firm cultures identified by Jones et al (2007), are agency culture, corporate egoist culture, instrumentalist culture, moralist culture and Altruist culture, listed in order from the most self-regarding to the most other regarding respectively.

Agency cultures, which can also be referred to as *full self-regarding cultures*, are characterized by management pursuit of self-interest at the individual level, even at the expense of shareholder interests. These cultures are basically amoral because of the lack of moral

consideration of the interest of other legitimate economic actors. This moral problem is what the agency theory basically attempts to resolve (Jones, 2007; Boesso & Kumar, 2016).

Corporate egoist cultures refer to those that emphasize short-term shareholder profit maximization. Firms with these cultures only consider stakeholder interests as much as they contribute to short-term shareholder wealth maximization. When pursuit of corporate egoism is done with guile then it can result in stakeholder manipulation and firm opportunism. However, corporate egoism without guile can have positive effects on the firm by enhancing its temporary competitive position with less harm to stakeholders. Although, this cultural orientation does not morally consider broader stakeholder interests, it at least considers shareholder interests (Jones, 2007; Boesso & Kumar, 2016).

Instrumentalist cultures are those which are oriented towards pursuing the long-term shareholder profit maximization by attending to the moral obligation of satisfying all stakeholder interests. Thus, instrumentalist cultures try to satisfy stakeholder interests but with the aim of ultimately improving shareholder long term profits.

Moralist cultures, on the other hand, are those that are oriented towards concern for all stakeholders' interests. This moral position is only violated when that is important to ensure the survival of the firm. Unlike instrumentalist cultures, moralist cultures' ultimate goal is not shareholder profit maximization but rather the survival of the firm for the benefit of all stakeholders (Jones, 2007; Boesso & Kumar, 2016).

Altruist cultures or full other regarding cultures are those in which moral obligation to other stakeholders dominate firm decision making even when that goes against the very survival of the firm.

According to Jones et al (2007), the two extreme cultures- agency cultures and altruist cultures may not survive in a competitive market. Therefore, the cultures that are relevant for strategic analysis are the three middle cultures (corporate egoist, instrumentalist and moralist cultures).

We argue that effective stakeholder relationship management to achieve the above hypothesized outcomes is influenced by these culture types. While some cultures support the engagement of stakeholder relationships management and consequently the attainment of the above value others do not. For instance, firms with agency culture hinder engagement in effective stakeholder relationship management and benefiting from the above value - i.e.

knowledge access, innovativeness, efficiency, resilience and performance. Likewise, firms with altruist cultures may be overly generous and as a result may end up incurring too much cost in stakeholder relationships management for the firm to make any profits or even survive (Jones, 2007; Boesso & Kumar, 2016).

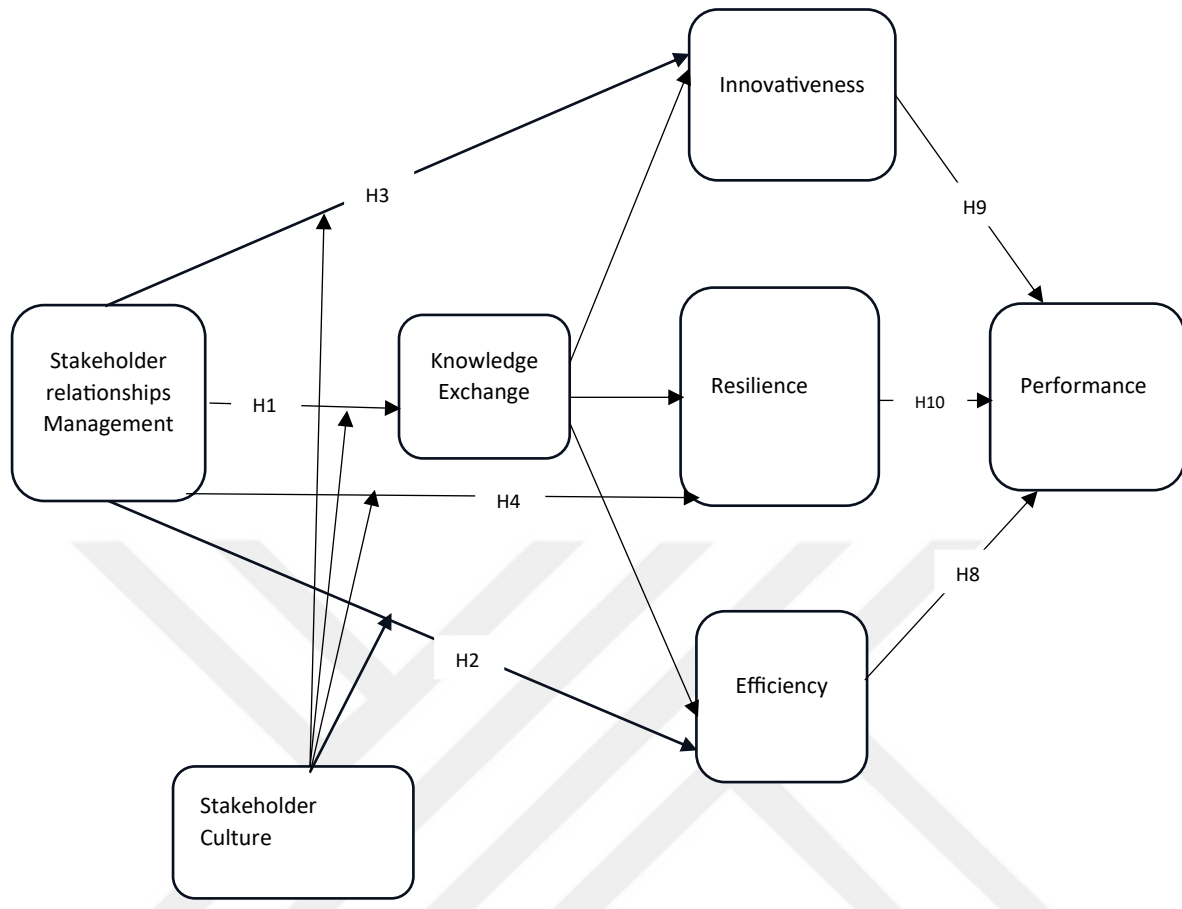
Firms with corporate egoist cultures can only provide a little support for engaging in effective stakeholder relationships management, since such cultures are only interested in the short-term shareholder profits. Even if a firm with such culture possess the capability, the culture will hinder the capability's effective utilization and the firm's achievement of sustained superior performance from it. This is because overtime, the pursuit of only short-term shareholder interests may bring harm to other stakeholders, and this may deteriorate the trust stakeholders have for the firm and consequently their reciprocation.

A firm that already has instrumentalist or moralist culture may bear less costs in trying to manage stakeholder relationships since these cultures enable it (Jones, et al., 2018). However, a firm that has an agency or corporate egoist culture may have to change their cultures in order to permit effective stakeholder relationship management to attain its benefits since such cultures prevents the effective management of stakeholder relationships. So, a firm with these cultures will have to change its culture into becoming a moralist culture or at least an instrumentalist one in order to be able to effectively build and manage stakeholder relationships. Changing the culture of a firm too can be very costly, which may lead to potential net loss in value derived from stakeholder relationships management. Therefore, the impacts of stakeholder relationships management on its value outcomes is moderated by the type of stakeholder culture a firm has. Thus;

Hypothesis 11: Stakeholder culture moderates the effects of SRM on Knowledge exchange, resilience, innovativeness, and efficiency; such that SRM's effect on these firm outcomes will be strongest for moralists, then instrumentalists and weakest for corporate egoist cultures.

Thus, the culture of a firm affects the value it derives from stakeholder relationship management. Firms that do not have cultures that are compatible with the capability can hardly derive any value from the capability. Trying to change their culture to accommodate the capability too could come at a higher cost that may put them at a competitive disadvantage compared to their colleagues who already have more compatible cultures.

Figure 1: Model of the value of stakeholder relationship Management



Note: Hypotheses 5, 6, and 7, which examine the mediating role of knowledge exchange between SRM and each of the three secondary mediators, are not illustrated in the figure because they involve indirect paths. Similarly, the paths from the four control variables - firm age, size, industry, and ownership - to the mediators and the dependent variable are omitted to maintain the visual clarity and readability of the figure.

4.2 IS SRM A RARE CAPABILITY?

The second condition that the resource-based theory proposes to be met before a resource/capability could contribute to firm competitive advantage is rareness (Barney, 1991; 1995; Mata et. al, 1995). By rareness, it means the resource/capability should not be possessed by several other firms. It should be one that isn't common among firms competing with the focal firm. If the resource were to be common, then all the firms could use it to create value and in the end none of them will be able to earn above normal profits from using it. This is not to say valuable resources that are common are unimportant. Such resources may be significant for the survival of the firm but not sources of superior performance. A resource needs to be rare to contribute to firm superior performance (Barney, 1991; 1995).

In order to understand whether SRM could be a rare capability or not, let's look at the characteristics of resources/capabilities that are more likely to be rare and that have the potential to cause superior performance of a firm that possesses it.

4.2.1 *Characteristics of Rare resources/capabilities*

Firm-specific, and not tradable: Resources/capabilities that are firm-specific have a greater potential to contribute to superior performance than those that can be traded in an open market (Dierickx and Cool, 1989). This is because resources that are built within a firm are more likely to be rare among competing firms as it is difficult for two firms to develop exactly the same resource. Such resources become heterogeneously distributed among firms, making them difficult for two or more firms to have exactly the same.

However, resources that can easily be traded in an open market are less likely to contribute to firm competitive advantage. This is because any firm can acquire such resources and use them to pursue its strategy. So, in the end no firm can earn above normal profits with such resources. Thus, such resources by virtue of the fact that they are tradable cannot be rare to contribute to superior firm performance.

Mostly intangible: While the resource-based theory does not categorically discriminate between tangible and intangible resources, intangible resources are more likely to be rare and contribute to superior performance than tangible ones. This is because they cannot easily be traded in an open market and are sometimes complex phenomena that cannot easily be understood. They are also less mobile compared to the tangible resources (Barney, 1991, 1995).

Tangible resources on the other hand can easily be traded in the market, so they are not mostly rare. However, sometimes a tangible resource can also contribute to firm competitive advantage. An example is the special location of a firm, which can't be acquired by competitors, making it rare and enabling the firm to earn above normal profits.

Exists as a result of a firm's specific history: when the existence of a resource is as a result of the specific historical path that a particular firm has taken and the resource is difficult to be accumulated by any other firm within a short period of time then the resource becomes rare (Dierickx and Cool, 1989). Thus, resources/capabilities whose existence are as a result of the historical path of a particular firm are more likely to be rare because it may be difficult for another firm to create the specific historical circumstances of the focal firm in order to also have the same resources/capability.

Asset Mass inefficiency: This is when acquiring additional aspects of a resource depends on the resource endowments of a firm. Resources/capabilities whose acquisition heavily depends on the resources that are already possessed by a firm are likely to be very rare. This is because firms do not have the same resources/capabilities endowment, so it will be difficult for competing firms to be able to acquire that particular same resource/capability when they do not previously own the needed prior resource endowments (Dierickx and Cool, 1989).

In all, resources/capabilities become rare when they are not easily tradable among competing firms, are mostly firm-specific and depend on a firm's own historical path.

Now let's assess the stakeholder relationship management based on these factors to understand whether it could be a rare capability or not.

Every firm is embedded in a unique stakeholder network. No two firms have exactly the same set of stakeholders: their employees, managers, investors, suppliers, customers and local communities are different (Svendsen, 1998). Even if some of these stakeholders (eg. customers) are shared by firms, they do not have exactly the same set of stakeholders; and they do not also have the same degree of relationships with them. This makes the relationship between a firm and its stakeholders a unique resource. No other firm can have the same stakeholder relationships as a focal firm.

In addition, a significant aspect of relational stakeholder management is trust, a phenomenon that takes a relatively long time to develop but could easily be destroyed at a moment (Kujala & Korhonen, 2017). This makes the relationship between a firm and its

stakeholders very unique compared to its competitors. No two firms could have the same level of trust of stakeholders because they have unique histories of relationships with stakeholders causing them to also have different levels of stakeholder trust.

Moreover, effective stakeholder relationship management as a capability is non-tradable. It is an intangible firm capability that cannot be bought and sold in an open market. It is developed within a firm through learning. It comes to exist as a firm learns ways of managing relationships with stakeholders.

A firm's possession of the capability to effectively manage their stakeholder relationships is based on their own specific historical path, including circumstances prevailing at time of founding, the mistakes the firm has made and learnt from in the past, and through the experiences accumulated and shared by persons who have worked or dealt with the firm.

The capability is embedded within the processes of the firm (Vesalainen & Hakala, 2014; Kale, et al, 2009). So even when employees come and leave, the capability stays within the firm's processes to be applied by latter generations of the firm's employees. The capability is also more than the individual knowledge of employees. It is made up of *a special combination* of the specialized knowledge of employees together with firm technology and firm-specific circumstances (Kogut & Zander, 1992). This makes it not transferable by any single employee when they are employed by another firm.

Another aspect of the rareness of stakeholder relationships management is the intangible resources that result from having the capability i.e. stakeholder satisfaction, stakeholder trust, stakeholder loyalty and firm reputation. These are each rare resources that are not easily tradable in the market, built within a firm and exist because of the specific historical path of the firm. A combination of the capability and its derivative resources forms even a higher level of a rare bundle of firm resources and capability that competitors may not be able to obtain at least within a short period of time (MacDuffie, 1995).

In short, while all firms have their own understanding of how to relate with their stakeholders, they do not have the same capability to do so. The capability is heterogeneously distributed among them. Some firms are more capable of managing stakeholder relationships and the less capable ones may not be able to easily acquire the same aspects of the capability of the more capable ones. So, the stakeholder relationship management capability of a firm could be a rare capability as it is firm-specific, heterogeneously distributed and non-tradable.

Therefore, firms that are able to obtain value (efficiency, innovativeness, resilience and performance) from their stakeholder relationship management are more likely to sustain such value. This is because other firms cannot easily obtain the specific aspects of their capability. They are embedded in a totally different set of stakeholder networks that could make it difficult for them to obtain the unique aspect of a firm's stakeholder relationship management.

4.3 SRM AND SUSTAINED PERFORMANCE (IS SRM INIMITABLE?)

The interest of strategic management research in general and resource-based theory more specifically is not only what causes differences in firm performance but also what causes the persistence of this difference in firm performance (Barney, 1991; Barca, 2017). A number of reasons for this persistence of firm performance differences have been researched in the field of strategy. But dominant explanations include barriers to entry of new firms to compete out existing profits and barriers to imitation preventing both incumbents and potential new entrants from copying the specific resources, capabilities or strategies of the firms earning superior profits (Barney, 1991; Barca, 2017). Others include consumer switching costs, consumer preferences, economics of scale etc.

The resource-based theory emphasizes barriers to imitation as the main mechanisms for the persistence of firms' performance differential (Barca, 2017; Barney, 1991, 1995). According to the theory the sustainability of firms' performance differences depends on the inimitability of their resources or capabilities (Barney 1995). We, therefore, below assess the inimitability of stakeholder relationship management in order to find out whether a performance advantage obtained from it could be sustained or not.

Is SRM an Inimitable Capability?

The resource-based theory argues that a valuable and rare resource/capability can lead to superior firm performance. However, if this valuable and rare resource/capability is one that can easily be copied by competitors of the firm, then the superior performance will be competed away. Thus, to sustain a superior performance that a firm has gotten because of a resource/capability, the resource/capability must be one that will be very difficult for competitors to imitate (Barney, 1991, 1995; Mata et. al, 1995). In addition, it should also be difficult for competitors to substitute the resource or capability. This means competitors should

not be able to possess alternative resources/capabilities that help them implement the same strategies as the focal resource/capability permits the firm to implement (Mata, et al, 1995; Barney, 1995). So, then, what factors ensure that a firm's valuable and rare resources become difficult to imitate? Barney (1991, 1995) explained a number of mechanisms that ensure the inimitability of a resource/capability and consequently the sustainability of an advantage a firm gets from having such a resource. These mechanisms are causal ambiguity, social complexity and historical path dependence.

Causal ambiguity means a situation, whereby the specific causes of a firm's superior performance are not known (Barney, 1991). Thus, it exists when there is ambiguity or lack of knowledge about the sources or causes of the existence of a firm's competitive advantage. So, it may be difficult to know which aspect of the firm's resources contributes to its superior performance. Competitors, therefore, may not be able to understand which aspects of the firm's resources to imitate in order to also enjoy the competitive advantage. In such a situation, the advantage enjoyed by the focal firm becomes sustainable.

Mata, et al, (1995), explained that there are at least two reasons why a causal ambiguity about the sources of firm's competitive advantage may occur. First is, when the resource/capability, giving the firm the competitive advantage, is a taken for granted, unspoken and tacit attribute of a firm. That is when the resource or capability that causes a firm's competitive advantage is a phenomenon that is part of the firm's routine processes that is taken for granted and not really described. An example is the firm's culture, which is the way of doing things in a particular firm that is taken for granted and less physically described. The second is the significance of *numerous small decisions* (Mata et. al, 1995; Barney, 1995). The source of a firm's competitive advantage may be seen as one big decision, resource or capability. However, behind that big decision, resource or capability are a number of numerous small decisions made within the firm that are not really observable, especially by competitors. These unobserved small decisions therefore make it difficult for competitors to imitate the firm's resource/capability that gives it a performance advantage. Let's take firm reputation as an example. It may be seen that a firm enjoys a competitive advantage because of its positive reputation. However, the positive reputation came to be a firm resource due to a number of small decisions made by the managers and employees of the firm that have had a positive impact on stakeholders. Thus, when the resource /capability that gives a firm superior performance is as a result of numerous small decisions that have been made within the firm, competitors wouldn't know exactly what to imitate in order to also acquire the resource or to also enjoy the

superior performance enjoyed by the firm. This is because those small decisions may not be very visible and as a result make the advantage enjoyed by the firm sustainable (Mata, et.al 1995; Barney, 1995).

Social complexity: Another mechanism that can cause the persistence of superior firm performance is when the resource that is the source of the performance is socially complex-meaning, when they are complex social phenomenon beyond the capacity of any firm to influence. A Resource/ capability which is socially complex make it difficult for one to understand how the various aspects of the resource/capability fit together to make up the resource/capability. Barney, (1991) gave example of socially complex resources as organizational culture and firm reputation. How the various aspects of these resources fit together to form the resource may not be known with certainty because of their complexity, so such resources cannot be easily imitated. Therefore, a superior performance enjoyed from such kinds of resources become sustainable (Barney, 1991; 1995).

Path dependency of resources or capabilities explains the characteristics of resources or capabilities that come to exist because of a specific historical path the firm has taken. Such resources cannot easily be imitated by other firms at least in the short run because of time compression diseconomies (Dierickx & Cool, 1989). Resources that depend on the specific history of a particular firm may not easily lend themselves to copying by other firms; and as a result, if the performance advantage of the firm depends on those resources, then such an advantage can be sustained (Barney; 1991, 1995).

Now let's assess stakeholder relationship management based on these mechanisms to understand whether it is difficult to imitate and holds a potential to contribute to the sustainability of firm superior performance.

Stakeholder relationship management is a socially complex capability. This is because it is an intangible capability whose various aspects is not easily understood and imitated. It often exists because of the complex interpersonal relationship between firm members and stakeholders or because of inter-firm relationships between the firm and its stakeholder's established overtime etc. How various aspects of a firm's stakeholder relationship management fit together to give it a stronger capability may not be easily understood to imitate. For instance, the trust that exists between a firm and its stakeholders is usually complex for competitors to understand the specifics to do to also possess similar trust. While they may try imitating certain actions of the firm, they may not be able to imitate everything, and also their own stakeholders may not necessarily be influenced by those actions.

Also, value gained from stakeholder relationship management may have the characteristic of causal ambiguity. This is because stakeholder relationship management is often part of the taken *for granted* routines in an organization; and it evolves and changes overtime through a number of small decisions made within a firm. It is not just one practice for competitors to easily imitate but something that is part of firm processes and culture (Kale et, al, 2009). This could make it hard for competitors to understand what aspect of the firm's processes to copy in order to also have the advantages the focal firm gains from it.

Moreover, stakeholder relationships management as a capability comes to exist overtime as a result of the specific historical path a firm has taken. Its existence doesn't just occur at once; it exists as a result of numerous small decisions, and lessons learned over time. It may be an outcome of numerous events occurring throughout the history of the firm such as experiences of firm's founders, knowledge learned from circumstances at the time of founding, mistakes made in firm-stakeholder relationships in the past from which lessons were learnt, the experiences of some past staff who have left the firm or probably passed on, experiences of current staff, organizational technology, past organizational circumstances such as crisis, expansion and withdrawal from business etc. So, it is a capability that reflects the unique history of an individual firm. Therefore, it may not easily lend itself to imitation by competitors.

Thus, stakeholder relationship management as a firm capability potentially exhibits the characteristics of resources/capabilities that are not easily imitable (i.e. causal ambiguity, social complexity and historical path dependency); and as a result, holds a great potential for contributing to sustained superior performance of firms.

To conclude, potentially satisfying the conditions of value, rareness and inimitability, stakeholder relationship management can be said to contribute to sustained performance differential among firms. Meaning, because the capability is valuable, heterogeneously possessed by firms and difficult to imitate, it can be a potential reason for the existence of sustained performance differences among firms. And thus, firms who effectively manage their stakeholder relationships and have a culture that supports it may be able to achieve and sustain superior performance. The next chapter presents the methodology used to test the hypothesis proposed in this chapter about the value of stakeholder relationships management

CHAPTER 5: METHODOLOGY

5.1 Research Design

The field of strategy has always attempted to explain complex issues that relate to firm superior performance and the choice of a methodology for strategy research has mostly reflected this complexity (Galbreath, 2004). Different methodologies have been employed by strategy researchers in the past to conduct their research based on their research questions. Examples of these methodologies include network analysis (Gulati, 1995), panel data analysis (Gimeno and Woo, 1996), event history analysis (Blodgett, 1992), quantitative surveys (Galbreath, 2004) and case studies (Kazeminia, 2021).

In historical terms, early strategy (or business policy) researchers such as Ansoff (1965) and Andrews (1971) mostly emphasized normative aspects of strategy as they were more interested in developing best practices for practicing managers rather than pursuing knowledge for scientific advancement (Hoskisson, et. al, 1999). To these business policy (or early strategy) researchers, firms and their problems are unique in nature, and it was practically impossible or undesirable for generalizations to be made across firms. Therefore, early strategy researchers tended to favor qualitative and inductive reasoning approaches- predominantly in-depth case studies of a single firm or industry in their studies. They hardly generalized their findings across firms. Whenever they attempted generalizations, they often utilized data gathered through inductive reasoning approaches such as comparative analysis of several firm cases. Example of this is the work of Chandler (1962) (Hoskisson et, al, 1999; Galbreath, 2004).

The emphasis on case approaches and lack of generalization of strategy studies deprived the field of a scientific base for its endeavors. As a result, other scientific fields did not recognize it as an adequate academic field of study. The field therefore needed a strong theoretical foundation to build and empirically test its theories in order to allow for generalizations. This led to a shift of the field towards beginning to use mostly economic theories to examine strategic phenomena (Barca, 2003; Schendel and Hatten 1972). Also, unlike early business policy studies that mostly considered firms as close systems, new understanding of firms as open systems (Thompson, 1967) made grounding the field on economic theory, especially industrial organization economics, very appropriate (Schendel and Hatten 1972; Hoskisson, 1999).

As the field began to be grounded on economic foundations, there was an enormous change in the methodologies that were employed to study strategic phenomena. Schendel and

Hatten (1972) for instance strongly advocated that the field of strategy needed to undertake empirical research to demonstrate relationships among variables. They also suggested that the field needed to go beyond inductive approach and carry out more deductive studies using more reliable data (Schendel and Hatten 1972; Hoskisson, 1999).

Thus, more quantitative methods based on positivistic approach began to be used for research in the field of strategy instead of the previous normative inductive case study methodology that dominated business policy studies. For instance, industrial Organization Economics, which had a great influence on the field of strategy (especially after the publication of Porter (1980)), has often carried out empirical tests using positive economics. It has often conducted statistical analysis of data on large numbers of firms or industries to explain relationships between concepts. A lot of strategic management research therefore also adopted such quantitative methodology. They took data on several firms and ran statistical analysis to explain and predict relationship among concepts. Thus, economics did not only influence theoretical development in the field of strategy but also encouraged strategy researchers to adopt more positivistic methodologies which were used by economists (Hoskisson, et. al, 1999).

As time went by quantitative and qualitative methodologies and even both together have been used by strategy researchers to conduct their research whenever appropriate.

The resource-based theory which gained dominance in the strategy field as from the 1990s has been bedeviled by methodological issues. This is because of the problem of unobservable constructs embedded in the theory's arguments (Godfrey and Hill, 1995). The theory argues that factors that cause a firm's superior performance are the firm's possession of valuable resources or capabilities that are inimitable by its competitors. These resources and capabilities may be inimitable because their causes are not known or they are socially complex to be understood clearly by the competitors (Barney, 1991; 1995). This poses a challenge to researchers too who would like to study and observe such resources.

Godfrey and Hill (1995), therefore, suggested that RBT scholars must focus on examining what the observable consequences of the unobservable resources that they theorize could be and how that relates to the predictions they make. And despite methodological challenges, researchers of resource-based theory have been able to conduct a lot of empirical research to test their propositions. Most of the studies that tested the propositions of resource-based theory used quantitative methodology to do so. They did that by collecting and analyzing data from a large sample of firms to empirically test the relationship between strategic resources and competitive advantage (e.g., Huselid et. al, 1997; Hult, & Ketchen, 2001; McEvily, & Chakravarthy, 2002; Pettus, 2001; Ling-Yee, & Ogunmokun, 2001).

A number of other studies in the literature have also used qualitative methodologies such as the case study methodology (just as early strategy researchers did) to conduct RBT studies (eg. Kazeminia, 2021; Johnsen & Ford, 2006; Collis, 1991; Hoskisson, et. al 1999). Case study methods could be more appropriate when the objective of the research is to understand a phenomenon in detail and a more in-depth firm data is needed for that purpose. Also, case studies may be more appropriate when the research does not intend to generalize its findings (Neuman, 2014, p 179). For instance, RBT research whose purpose is to understand in detail a particular strategic resource that gives a particular firm competitive advantage may adopt case study methodology to do that. This is because the resource may be unique to that particular firm and the researcher may not intend to generalize such findings.

However, to empirically address the research questions of this study, we need to demonstrate whether a relationship exist between concepts. Our study's research questions aim not to understand any resource or capability in detail but to explain and predict that a relationship exists between a firm capability (i.e. stakeholder relationship management) and other constructs (i.e. efficiency, innovativeness, resilience and performance) as well as to explain the moderators of such relationships (i.e stakeholder culture).

Our research questions were formulated based on these aims of the study and concur with Godfrey and Hill (1995)'s suggestions that despite the problems of unobservable in RBT's propositions, what RBT researchers need to do is to identify what the observable consequences of unobservable resources are likely to be, and then empirically see whether such predictions have a correspondence.

Besides, research on stakeholder theory have also often used quantitative methodologies to establish relationships between stakeholder orientation and performance (eg. Bettinazzi & Zollo, 2017; Greenley & Foxall, 1998). This makes quantitative methodology appropriate, in our case, for studying the effects of stakeholder relationships management.

Therefore, to test the research questions of our study, we needed to use quantitative methodology. We needed to use more reliable data to empirically test whether the relationships proposed by our study exists between the concepts of our study and to generalize such explanations. In so doing, we needed to obtain data from a large number of firms to be able to run regression analysis. To tap the unobservable constructs in the study (e.g. stakeholder relationship management), survey methods was used to generate responses from the top management of firms. This method has been widely used in the field of strategy to measure unobservable constructs (Galbreath, 2004; Godfrey and Hill, 1995).

One advantage of using quantitative methodology for this study is that future research can replicate the study to confirm whether the relationships it proposes indeed exist. Also, this choice of methodology is in line with Barney and Mackey's (2005) argument that the best RBT empirical work involves collecting data from firms that have been carefully sampled.

5.2 Sampling and Data Sources

To conduct this study, medium to large firms registered with Ankara Sanayî Odası (i.e. Ankara Chamber of Industry) and Istanbul Sanayî Odası (i.e. Ankara Chamber of Industry) were chosen as the sample. Ankara Sanayî Odası and Istanbul Sanayî Odası are chambers of manufacturing enterprises operating in Türkiye's two largest cities, Ankara and Istanbul. Their databases include manufacturing firms across various industries, making them suitable for this study.

The databases of these chambers were chosen as against other chambers in Türkiye because the firms registered with the chambers are all engaged in manufacturing products for sale making them very suitable for this study. Besides, collecting data from firms operating in several industries as against a single industry helps to generalize the study's findings across industries. This is recommended when examining a relatively general phenomena, which is not limited to only a single industry like stakeholder relationships management or its outcomes (Armstrong & Shimizu, 2007). Probably, that is why a number of studies in the past chose a multi-industry instead of single industry in sourcing their data for strategy research (eg. Markides & Williamson, 1994; Hansen, et al, 2004; Song, et.al, 2005). Data about the firms in our sample was gathered by using survey methodology.

5.3 Data Collection

To obtain survey data on the constructs of our study and firm demographics, important informants of the firms in our sample were targeted. According to Rousseau (1985), organizational phenomena must be measured at the organizational level. However, since organizations cannot complete survey questionnaires by themselves, important informants who represent the organizations can complete the questionnaires on behalf of the organizations (Galbreath, 2004). Therefore, managers of the companies in our sample were targeted as key informants of their firms to complete the survey questionnaire. Managers of firms were targeted for surveys because firms are often a reflection of the perceptions and characteristics of their management. Management's perceptions of reality influence the strategic actions and reality of

the firms they manage (Hambrick & Mason, 1984; Hambrick, 2007, Abatecola et, al. 2018, Liu et. al, 2018).

Also, managers were targeted because they are more likely to possess better understanding of the hard-to-observe strategic resources and capabilities of the firm (Wilden et al., 2013). Moreover, surveying managers blends the advantage of getting responses from persons who represent their firms and who are also stakeholders of the firms themselves. The reasons outlined above may explain why many strategy researchers in the past have relied on firm managers as key informants for data collection (eg. Gold et. al, 2001; Galbreath, 2004; Wilden et al., 2013).

The survey was conducted using concurrent multi-mode design of data collection (De Leeuw, 2005). A structured questionnaire was employed, and data was collected via two internet-based methods of data collection-i.e. through direct emailing method and through the online platform of an experienced research institution. Before the internet-based data collection, the questionnaire of the study was prepared using *google forms*. The Internet-based survey method was chosen because it reduces difficulty in accessing the respondents as researchers are often refused access to firm premises because of security or other reasons, for face-to-face data gathering. Also, internet-based method is one of the least-costly methods of obtaining data from a large sample of potential respondents spread across wide geographic area (Manfreda, et al, 2006; Neuman, 2014).

In the first method, the researcher directly shared the questionnaire via email with the companies in the sample. Some companies responded directly to the email-distributed questionnaire. To increase response rate, we followed the suggestions of Dillman's (1978) modified total survey design method for conducting e-mail surveys. Dillman (1978), suggested that people respond to questionnaires more readily if they perceive the costs of participating in the research to be minimal. So, in return for their assistance in data gathering, the companies were promised general summaries of the study results upon request, assured of their anonymity and confidentiality of their responses in the opening email message.

Also, following Dillman's (1978) recommendation, three wave mailing was carried out. In the first wave an e-mail requesting the participation of the potential respondents together with a link of the questionnaire was e-mailed to all the firms in the sample. A week later a second wave was carried out by sending a reminder email together with the link again to all potential respondents who have not responded. After another week the last wave of mailing was done by sending another email together with the link of the questionnaire again to non-respondents reminding them to complete the questionnaire. A number of previous studies

employed this procedure and obtained a high response rate as Dillman assured (eg. Doney & Cannon, 1997; Song, et al. 2005).

However, a common disadvantage of email method for data gathering is that it often results in low response rate (Manfreda, et al, 2006; Dillman et al, 2009). Hence, with this method we obtained only about 71 responses from companies, making the use of an additional method of data collection necessary. Therefore, we employed the services of the research institution to augment the data gathered via the direct e-mailing method.

Much of the study's data was collected using the data collection platform of an institution premised in a science and technology center of a reputable university in Ankara, recognized for its extensive experience in conducting similar studies. The institution operates an online platform renowned for its efficiency in managing survey distribution and data gathering.

The platform includes a comprehensive database of registered individuals, including company managers who are compensated for participating in surveys. For this study, constraints were put on the platform to filter potential respondents based on specific inclusion criteria. Only managers of industrial enterprises with 50 or more employees, located in Ankara and Istanbul, were allowed to complete the questionnaire. These constraints ensured that the respondents matched the study's target sample, enhancing the validity and reliability of the data.

Using the research institution's platform, the questionnaire was distributed electronically to the identified managers. The platform facilitated seamless communication with participants. Respondents were briefed on the purpose of the study, assured of confidentiality, and encouraged to provide accurate and honest responses. The data collection phase spanned five months, from 26th September 2024 to 25th February 2025, during which periodic reminders were sent to maximize response rates.

The google form questionnaire used in the direct e-mailing method had similar features as the one used on the platform of the research institution. The questions had similar wordings, arrangements and orders in both methods. This was done to reduce measurement errors that might result from switching methods (Dillman et al, 2009; Dillman & Christian, 2005). Also, it adhered to rigorous ethical research standards, including obtaining informed consent from participants, maintaining anonymity, and securing all collected data. Participants were informed that their responses would be used solely for academic purposes.

We obtained about 330 responses using the research institution's platform. Together with the direct emailing method the total response obtained was 401. After the data collection process, data collected from the two sources were cross-checked using company names to eliminate

duplicates and ensure the integrity of the dataset. Also, to improve data quality we eliminated responses which are incomplete, contained response sets, or do not meet with the requirements of the study. Example, about 6 were eliminated because the respondent companies have less than the minimum required age of 3 years. Eliminating all these reduced the remaining data to 306 responses, which were used for the study's analysis. Given about 4195 number of medium to large manufacturing enterprises in Istanbul and Ankara as of 2021, that represents 7.29 % response rate (<https://www.sanayi.gov.tr/plan-program-raporlar-ve-yayinlar/81-il-sanayi-durum-raporlari>).

Finally, we assessed whether non-response bias existed by comparing the characteristics of early and late respondents using Mann–Whitney U tests for continuous variables (e.g., age and firm size) and Chi-square tests for categorical variables (eg. industry type, ownership type and stakeholder culture). Both tests revealed no significant differences ($p > 0.05$), meaning non-response bias is unlikely (Armstrong & Overton, 1977).

5.4 Measurement

Seven constructs were measured in the study- namely, stakeholder relationships management, knowledge exchange, resilience, innovativeness, efficiency, performance and stakeholder culture. These constructs were measured generally by using multiple item measures instead of single item measures. This is because multiple item measures increase the confidence of accurately measuring these constructs; and thus, generally improve the reliability and validity of the measures (Gold, 2001; Neuman, 2014, p 214). Also, we mostly used Likert scales because that helps in standardizing and quantifying relative effects (Gold, 2001). Most of the items of the survey were measured on a 7-point Likert scale.

All the measures for survey data collection were administered in Turkish Language. They were therefore translated into Turkish Language from English and back to English language by a different translator to confirm accuracy of the translations. After that, three professors of management and organization studies who are native speaker of Turkish Language, fluent in English language and also part of the dissertation jury checked the measures in Turkish language to critique how each item sounds in the Turkish context. This is to make sure that each measurement item depicts the intended meaning in the Turkish context (Schaffer & Riordan, 2003).

Since this is the first time the scales were translated into Turkish language and applied in Türkiye, their factor structure could be different as they might be interpreted differently in Turkish language by respondents in Turkish context. So, prior to conducting full model validity analysis, we first conducted independent validity and reliability analyses for each scale. These analyses are presented below along with brief descriptions of the respective scales, prior to the combined full model validity assessment.

5.4.1 Stakeholder relationship Management Capability (SRMC): Stakeholder relationship management capability according to Freeman (1984) and Plaza-U'beda, et al, (2010) is made up of three sub-dimensions. These sub-dimensions are a firm's knowledge of its stakeholders, interaction capability and adaptability to stakeholder demands.

Therefore, in this study, the construct was measured using items that capture these three sub-dimensions of the construct. We adopted the scale of Plaza-U'beda, et al, (2010) that consists of 5 items measuring the knowledge of stakeholders, 6 items measuring Interaction capability and 5 items measuring adaptability to stakeholders. The scale was measured on a seven-point Likert scale (from 1: strongly disagree, to 7: strongly agree).

After data collection, the scale's dimensionality was assessed first using exploratory factor analysis. We conducted exploratory factor analysis on the scale since this is the first time we translated the scale into Turkish language and applied it in Turkish context. Also, exploratory factor analysis is important to test the discriminant validity of the scale (Hair et al. 2019, Kline 2016). Because the scale originally consisted of three factors, we requested Stata to retain 3 factors with more than 1 eigenvalue. Also, only items with more than 0.30 factor loadings were asked to be reported under a factor (Fabrigar et al, 1999; Costello & Osborne, 2005).

The EFA result on the scale revealed only two factors with most of the items loading strongly on factor 1, while the negatively worded items loaded on factor 2. Apart from the negatively worded items, AD2 and AD5 also cross loaded on the second factor as shown on table 5.01. Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, SRMC construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

Table 5.01: EFA results of SRM before rotation

	Items	First factor	Second Factor	Uniqueness
KS1	The company keeps documented information on the previous relationships with stakeholders	0.44		0.80
KS2	Knowledge of all stakeholders and their demands is very important for the managers	0.62		0.60
KS3	The company obtains feedback on its repercussions on stakeholders	0.61		0.61
new_KS4	The company dedicates little time and few resources to knowing the characteristics of its stakeholders		0.50	0.74
new_KS5	There is a lack of information and documentation on stakeholders' demands (-)	0.33	0.55	0.59
INT1	The company frequently has meetings with the stakeholders	0.68		0.53
INT2	The company consults the Stakeholders and asks them for information before taking decisions	0.78		0.39
INT3	The company's formal or informal cooperation with its stakeholders is intense	0.46		0.78
INT4	Stakeholders participate in the company's decision-taking process	0.68		0.52
INT5	The company strives to develop new contacts with all the stakeholders	0.80		0.35
INT6	The company dedicates time and resources to assessing and prioritizing the demands of the different stakeholders	0.81		0.35
AD1	The company makes a special effort to prepare the information for the different stakeholders according to their needs	0.79		0.34
AD2	There is frequent managerial debate about the demands of the stakeholders	0.37	-0.34	0.74
AD3	The company is willing to change its objectives in line with stakeholders' demands	0.67		0.51
new_AD4	The company dedicates little time and few resources to adapting to Stakeholders		0.53	0.69
AD5	The company's policies and priorities are adapted to Stakeholders' demands	0.55	-0.33	0.59

We then conducted a postestimation rotation using oblique rotation as this is the best method when factors are believed to be correlated. The oblique rotation was done using oblimin, applying Kaiser normalization and reporting loadings greater than 0.30. The output is displayed in the table 5.02 below.

The output of the oblique rotation indicates most items strongly loading on one factor. Factor1 represents a common underlying construct shared by items KS1, KS2, KS3, INT1, INT2, INT3, INT4, INT5, INT6, AD1, AD3, and AD5. It accounts for 5.63 units of variance which is approximately 80.12% of the total variance.

The output, however, also produced a second factor which accounts for 1.47 units of variance, approximately 20.94% of the total variance. This factor consists of the negatively worded items in the scale, new_KS4, new_KS5 and new_AD4, and a moderate negative cross loading of AD2.

Table 5.02: EFA results of SRM after rotation

Variable	First Factor	Second Factor	Uniqueness
KS1	0.41		0.79
KS2	0.57		0.60
KS3	0.58		0.61
new_KS4		0.51	0.74
new_KS5		0.59	0.59
INT1	0.64		0.53
INT2	0.77		0.39
INT3	0.46		0.78
INT4	0.69		0.52
INT5	0.76		0.35
INT6	0.79		0.35
AD1	0.82		0.34
AD2	0.45	-0.31	0.74
AD3	0.70		0.51
new_AD4		0.55	0.69
AD5	0.62		0.69

We then run confirmatory factor analysis of the scale to test the fitness of the two-factor model and also the construct and convergence validity of the scale. We run the CFA analysis using SEM modeling. The postestimation goodness of fit analysis is displayed in the table below.

Table 5.03: Goodness of Fit statistics of SRMC scale

Model	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
2 factor	354.62***	103	3.44	0.87	0.85	0.09***
1factor (A)	163.07***	45	3.6	0.92	0.90	0.09***
1factor (B)	21.85	15	1.70	0.995	0.989	0.039

* P< 0.05** p<0.01

***p<0.001

Findings from the CFA analysis reveal that the 2-factor model's fit to data is not satisfactory (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). The χ^2 score which is a measure of discrepancy between the model and the data is statistically significant. The CFI and TLI are below the recommended threshold of 0.90. RMSEA is above

the recommended maximum of 0.08 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014).

The output of the estimates from the CFA analysis was then used to estimate the Average variance extracted and the composite reliabilities of the two factors to determine their convergence validities. As displayed in table 5.04. Factor 1 has a strong composite reliability of 0.89 above the minimum threshold of 0.70 (Fornell & Larcker 1981; Cheung, et al, 2024). Factor two, however, has a composite reliability of 0.65 below the minimum threshold. The AVE of both factors however are below the minimum threshold of 0.50 (Fornell & Larcker 1981; Cheung, et al, 2024). Since factor two has both CR and AVE below the minimum threshold we decided to discontinue with the factor (Fornell & Larcker 1981; Cheung, et al, 2024). Besides, the items together don't theoretically represent any factor apart from the fact that they are negatively worded, making them culprits of interpretation bias during data collection.

For factor 1, Items KS1, INT3, AD2 have very low factor loadings below the minimum threshold of 0.50, so we first remove them to see if the average variance extracted would come above the minimum threshold (Hair et al, 2019; p 617; Fornell & Larcker 1981; Cheung, et al, 2024). Hair et al, (2019; p 617) suggested that loadings should be at least 0.5 and ideally 0.7 or higher, justifying the removal of these items which loaded below 0.50. Upon removing them the Composite reliability rose further to 0.91 and while the average variance extracted rose to 0.494 slightly below the minimum threshold of 0.50. We then removed the next lowest loading item, which is AD5, which also cross-loaded during initial EFA analysis (Hair et al, 2019; p617). After this, the composite reliability became 0.90 and the AVE rose to 0.53, implying the convergence and the construct validity of the one factor scale of stakeholder relationship management capability with 9 items (Fornell & Larcker 1981; Cheung, et al, 2024). The remaining 9 items also loaded quite well on one factor in EFA analysis. Our findings of one factor Stakeholder relationships management scale is very similar to Breternitz, (2019), who also translated the scale to German and found a one factor structure after eliminating some weakly loading items.

We then tested the fitness of the one factor model to data. The result is displayed in table 3 as model 1 factor (A). It shows an improvement in chi square, and a satisfactory CFI (0.92) and TLI (0.90) as they are both above the minimum threshold of 0.90. However, RMSEA was above the maximum threshold 0.08 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). To improve RMSEA we covaried items which were originally intended to

capture the same latent construct – i.e. between items KS2 and KS3, between items INT1, INT2, INT4, INT5, and INT6 and between AD1 and AD3. The result after covarying these items is a very satisfactory and a well-fitting model as displayed in table 5.03 as model 1 factor (B) (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). The Cronbach ‘s alpha value for the scale is 0.90 which is far above the minimum threshold of 0.70 signifying the internal consistency reliability of the scale (Hair et al, 2019, p123; Bland & Altman, 1997).

Table 5.04: CFA Factor loadings, AVE and CR of SRMC scale

	<i>Item loadings in SEM CFA analysis</i>	2factor SRM	1 factor SRM
	Factor 1	CR= 0.89 AVE=0.42	CR=0.90 AVE=0.53
KS1	The company keeps documented information on previous relationships with stakeholders (important meetings, conflicts, agreements, judicial or extrajudicial demands, etc.)	0.42	Eliminated
KS2	Knowledge of all stakeholders and their demands is very important for the managers (performance, relationships among them, positions of power, importance and satisfaction...)	0.59	0.59
KS3	The company obtains feedback on its repercussions on stakeholders	0.59	0.59
INT1	The company frequently has meetings with the stakeholders	0.68	0.68
INT2	The company consults the Stakeholders and asks them for information before taking decisions	0.78	0.78
INT3	The company’s formal or informal cooperation with its stakeholders is intense (commitments, collaboration agreements....)	0.46	Eliminated
INT4	Stakeholders participate in the company’s decision-taking process	0.78	0.78
INT5	The company strives to develop new contacts with all the stakeholders	0.69	0.69
INT6	The company dedicates time and resources to assessing and prioritizing the demands of the different stakeholders	0.81	0.81
AD1	The company makes a special effort to prepare the information for the different stakeholders according to their needs	0.80	0.79
AD2	There is frequent managerial debate about the demands of the stakeholders	0.38	Eliminated
AD3	The company is willing to change its objectives in line with stakeholders’ demands	0.66	0.64
AD5	The company’s policies and priorities are adapted to Stakeholders’ demands	0.55	Eliminated
	Factor 2	CR= 0.65 AVE=0.39	
KS4	The company dedicates little time and few resources to knowing the characteristics of its stakeholders (relationships between different stakeholders, potential threats, cooperation, etc.) (-)	0.64	Eliminated
KS5	There is a lack of information and documentation on stakeholders’ demands (-)	0.55	Eliminated
AD4	The company dedicates little time and few resources to adapting to Stakeholders (-)	0.64	Eliminated

5.4.2 Knowledge exchange: The knowledge Exchange construct explains the extent of knowledge sharing between the firm and its stakeholders. The construct was measured using four-item scale adapted from Kim & Shim, (2018). It was measured on a 7-point Likert scale (1= strongly disagree, 7= strongly agree). To test the construct validity of the scale we run both exploratory and confirmatory factor analysis. The EFA results as displayed on table 5.05 indicate that all items load strongly on one factor, which could signify the construct validity of the scale as explained below. This factor explains 64.39% of the total variance, capturing the common variance among the items. Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, knowledge exchange construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

Table 5.05: EFA loadings of Knowledge Exchange Scale

	Variable	Factor1	Uniqueness
E1	We frequently exchange important information (such as market trends) with stakeholders	0.77	0.41
E2	We often obtain valuable information through our relationships with stakeholders	0.88	0.23
E3	We share our business experience with stakeholders	0.73	0.46
E4	We learn a lot from our stakeholders	0.83	0.32

We then run the confirmatory factor analysis to find out if the 1 factor fit with data and to also confirm the construct validity. The CFA results are displayed in table 5.06 below. It confirms that all the items load well on the single factor.

We also computed the average variance extracted and the composite reliability of the scale using estimates from the CFA Analysis. The average variance extracted, and the composite reliability of the factor is 0.67 and 0.89 which are above the minimum thresholds of 0.50 and 0.70 respectively (Fornell & Larcker 1981; Cheung, et al, 2024). This indicates the convergence and construct validity of the scale as displayed in table 5.06.

Table 5.06: CFA Results. AVE and CR of Knowledge Exchange

	Items factor loadings from CFA	AVE= 0.67 CR==0.89
E1	We frequently exchange important information (such as market trends) with stakeholders	0.77
E2	We often obtain valuable information through our relationships with stakeholders	0.91
E3	We share our business experience with stakeholders	0.73
E4	We learn a lot from our stakeholders	0.84

Also, when we checked its fitness to data. It had satisfactory fitness to data as displayed in table 5.7 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). The χ^2 score which is a measure of discrepancy between the model and the data, is not statistically significant. The χ^2/df score is below the maximum threshold of 5. The CFI and TLI are above the minimum recommended threshold of 0.90. RMSEA is below the recommended maximum of 0.080 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). Also, the Cronbach 's alpha value for the scale is 0.88 which is above the minimum threshold of 0.70 signifying the internal consistency reliability of the scale (Hair et al, 2019, p123; Bland & Altman, 1997).

Table 5.07: Goodness of fit statistics of Knowledge Exchange Scale

Model	χ^2	Df	χ^2 / df	CFI	TLI	RMSEA
KnowEX	4.011	2	2.0	0.997	0.991	0.057

* P< 0.05** p<0.01

***p<0.001

5.4.3 Resilience was measured by a four-item scale we adapted from Ambulkar et al, (2015).

The scale consists of four items measured on a seven-point Likert scale (1 = strongly disagree, 7 = strongly agree). The items measure the ability of the firm to cope with changes due to environmental disruptions, the ability to adapt to disruptions and provide a quick response, and the ability to maintain high situational awareness. The items and the results of exploratory factor analysis on the scale are displayed in table 5.08 below.

Table 5.08: EFA Results of the Resilience Scale

	Variable	Factor1	Uniqueness
R1	We are able to cope with changes brought by disruptions in our business environment	0.82	0.33
R2	We are able to easily adapt to disruptions in our business environment	0.90	0.19
R3	We are able to provide a quick response to disruptions in our business environment	0.89	0.21
R4	We are able to maintain high situational awareness at all times	0.82	0.33

A one-factor structure is appropriate since all items load strongly on Factor 1. Factor 1 has an eigenvalue of 2.9441 (>1), meaning it explains a substantial amount of variance. All variables (R1–R4) are strongly related to this factor and can be retained. Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, resilience construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

We then run confirmatory factor analysis on the scale. As displayed in table 5.9 below, all the items load well on the one factor resilience construct with a composite reliability of 0.92 and average variance extracted of 0.75 far above their minimum thresholds of 0.70 and 0.50 respectively (Fornell & Larcker 1981; Cheung, et al, 2024). This means the scale has both convergence and construct validity. The model also has a partial fitness to data as CFI and TLI are above their minimum thresholds of 0.90 with RMSEA showing unsatisfactory fitness (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). Modifications to improve RMSEA led to perfect fitness as the model becomes just identified with degrees of freedom reducing to zero (Hu & Bentler, 1999). The Cronbach's alpha value of the scale was 0.92, implying that the scale has high internal consistency reliability.

Table 5.09: CFA Results, AVE and CR of Resilience scale

	Items of Resilience scale (CR=0.92)	CR=0.92 AVE= 0.75
R1	We are able to cope with changes brought by disruptions in our business environment	0.82
R2	We are able to easily adapt to disruptions in our business environment	0.92
R3	We are able to provide a quick response to disruptions in our business environment	0.90
R4	We are able to maintain high situational awareness at all times	0.82

Table 5.10: Goodness of Fit statistics of the Resilience scale

	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
Resilience1	33.86 ***	2	16.93	0.97	0.90	0.23***

* P< 0.05** p<0.01

***p<0.001

5.4.4 Innovativeness was measured by adapting the six-item scale from Calantone, et al (2002). The scale has 5 positively worded item and one negatively worded item. The scale was measured on a seven-point Likert scale (1 = strongly disagree, 7 = strongly agree). An exploratory factor analysis reveal that all the positively worded items loaded on one factor while the negatively worded item does not as table 5.11 shows.

All variables (except new_IN5) fit well on one common factor, meaning they all capture the same construct. With an eigen value of Eigenvalue = 3.355, the factor explains almost 55.92% of the total variance (Fabrigar et al, 1999; Costello & Osborne, 2005). Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, innovativeness construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

Table 5.11: EFA result of the Innovativeness Scale

Variable		Factor1	Uniqueness
IN1	Our company frequently tries out new ideas	0.87	0.24
IN2	Our company seeks out new ways to do things	0.89	0.22
IN3	Our company is creative in its methods of operation	0.82	0.33
IN4	Our company is often the first to market with new products and services	0.82	0.34
new_IN5	Innovation in our company is perceived as too risky and is resisted		0.997
IN6	Our new product introduction has increased over the last 5 years	0.69	0.52

We then ran a confirmatory factor analysis including all items of the scale. CFA also reveals a low loading of New_IN5 signifying the necessity of its elimination from the scale to improve convergence validity (Hair et al, 2019, p 617). The scale even though had a satisfactory composite reliability and average variance extracted, removing the negatively worded item new_IN5, further rose the CR to 0.91 and AVE to 0.68 (Fornell & Larcker 1981; Cheung, et al, 2024).

Table 5.12: CFA Results, AVE and CR of Innovativeness Scale

	Innovativeness	CR=0.86 AVE=0.57	CR=0.91 AVE=0.68
IN1	Our company frequently tries out new ideas	0.89	0.89
IN2	Our company seeks out new ways to do things	0.91	0.91
IN3	Our company is creative in its methods of operation	0.83	0.83
IN4	Our company is often the first to market with new products and services	0.80	0.80
New_IN5	Innovation in our company is perceived as too risky and is resisted	0.05	Eliminated
IN6	Our new product introduction has increased over the last 5 years	0.68	0.68

We then tested the fit indices of the remaining 5 item scale. The result, displayed in table 5.13 as innov1, signifies that the model has a partial fitness to data as CFI and TLI are above the minimum threshold of 0.90. However, RMSEA is above the maximum threshold of 0.08 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014).

Following suggestion of modification indices on Stata, we allowed covariation between items 2 and 4 and item 4 and 6. The result is displayed in table 5.13 as innov2. It shows an excellent fit of the model to data (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). Also, the Cronbach 's alpha value for the scale is 0.91 which is far above the minimum threshold of 0.70 signifying the internal consistency reliability of the scale (Hair et al, 2019, p123; Bland & Altman, 1997).

Table 5.13: Goodness of fit statistics of the Innovativeness Scale

Model	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
Innov1	37.24***	5	7.45	0.94	0.97	0.145***
Innov2	0.56	3	0.19	1.00	1.01	0.000

* P< 0.05** p<0.01 ***p<0.001

5.4.5 Efficiency was measured with items that captures cost efficiency and time efficiency. We adopted the measures of cost efficiency and time efficiency from Yeung, (2008). The scale consists of three items each of cost (CE1, CE2, CE3) and time efficiency (TE1, TE2, TE3). The result of the exploratory factor analysis on the scale is displayed in the table below:

Table 5.14: Results of EFA on Efficiency scale

	Variable	First Factor	Uniqueness
CE1	Our firm has very low total quality costs relative to the total output	0.51	0.74
CE2	Our firm reveals low engineering change rates in the production		0.92
CE3	Our firm has very low unit costs of manufacturing	0.34	0.88
TE1	Our firm reveals outstanding delivery speed and reliability	0.67	0.55
TE2	Our firm has a very short manufacturing lead time	0.65	0.58
TE3	Our firm reveals a high inventory turnover rate.	0.74	0.46

It revealed a single factor that encompassed both time and cost efficiency items (Fabrigar et al., 1999; Costello & Osborne, 2005). The three-time efficiency items and one cost efficiency item (CE1) loaded strongly onto this factor. However, one cost-efficiency item (CE3) showed weak loading, while another (CE2) did not load on the factor at all. Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, efficiency construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

A confirmatory factor analysis was then performed on the scale. The result, as displayed on the table below, indicates that all the items of time efficiency loaded well on the factor and the factor's average variance extracted (0.55) and composite reliability (0.79) were above the minimum threshold of 0.50 and 0.70 respectively (Fornell & Larcker 1981; Cheung, et al, 2024), meaning the time efficiency factor has both convergence and discriminant validity.

However, for Cost efficiency, items CE2 and CE3 loaded poorly on the factor confirming the result we had in the Exploratory factor analysis. The cost efficiency's average variance extracted (0.36) and the composite reliability (0.56) were also below the minimum threshold of 0.50 and 0.70 respectively, signifying that the factor lacks a construct validity (Fornell & Larcker 1981; Cheung, et al, 2024). We then removed items CE2 and CE3 which loaded poorly while combining item CE 1 with the time efficiency items to test them as a one factor model in line with the results we had in the exploratory factor analysis. Combining the items to test a one factor efficiency model resulted in low factor loading for CE1 and lowered the average variance extracted of the factor to 0.46 below the minimum threshold (Fornell & Larcker 1981; Cheung, et al, 2024). So, we decided to remove the remaining cost efficiency item CE1 from the efficiency construct all together in order to raise the AVE back to an acceptable limit (Fornell & Larcker 1981; Cheung, et al, 2024). Also, according to Hair et al

(2019; P617), factor loadings below 0.50 are not practically significant, making the removal of the remaining cost efficiency item with a loading of 0.42 justified. This means we continued to measure efficiency only with the three items capturing time efficiency which had a CR of 0.79 and an AVE of 0.55 above their minimum thresholds (Fornell & Larcker 1981; Cheung, et al, 2024).

Table 5.15: Efficiency scales' CFA, and validity Result

		2 Factor Model	Combined Single factor model
	Cost efficiency items	CR=0.56 AVE=0.31	CR=0.76 AVE=0.46
CE1	Our firm has very low total quality costs relative to the total output	0.72	0.42
CE2	Our firm reveals low engineering change rates in the production	0.45	Eliminated
CE3	Our firm has very low unit costs of manufacturing	0.46	Eliminated
	Time efficiency items	CR= 0.79 AVE=0.55	CR=0.76 AVE=0.46
TE1	Our firm reveals outstanding delivery speed and reliability	0.74	0.73
TE2	Our firm has a very short manufacturing lead time	0.67	0.65
TE3	Our firm reveals a high inventory turnover rate.	0.82	0.84

The goodness of fit statistics of the three-item time efficiency construct is displayed in table below. It shows excellent fitness for the three-item time efficiency construct. This is expected as a three-item construct would have 0 degrees of freedom, making it a just-identified model ($df = 0$) which always produces a perfect fit. This means fit indices are not useful for model evaluation in this case; instead factor loadings, AVE, CR, and theoretical justification become the most important indicators of a factor's fitness (Fornell & Larcker, 1981; Hu & Bentler, 1999). The Cronbach's alpha value for the scale is 0.78 which is far above the minimum threshold of 0.70 signifying the internal consistency reliability of the scale (Hair et al, 2019, p123; Bland & Altman, 1997).

Table 5.16: Goodness of fit statistics of the Efficiency Scale

	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
Only Time efficiency	0	0	-	1	1	0.00

* P< 0.05 ** p<0.01 ***p<0.001

5.4.6 Performance: Performance differences among firms is mostly measured using their profitability and/or growth. In this study, we adopted the scale of Powell & Dent-Micallef, (1997), which captures these dimensions. This scale measures a firm's financial performance, sales growth and profitability over 3 years compared to its competitors. The scale has five items, two measuring the firm's sales growth, two its financial performance and the last one measuring its profitability relative to competitors. An example of items on the scale is '*Over the past 3 years, our financial performance has exceeded our competitors*'.

An advantage of using this scale is that by measuring sales growth, financial performance and profitability, the scale minimizes the risk of measuring firm performance based on only the profit reserved for investors of the firm. Sales growth, for example, is quite an inclusive measure of firm performance, since it is out of sales that a firm pays all stakeholders including suppliers, employees, and the government. So, higher sales growth means a higher amount of what could be paid to these stakeholders.

Also, by measuring a firm's relative performance over a three-year period, the scale helps to level out fluctuations in firm performance in any particular year. This is in line with the literature; a number of previous studies on firm performance often averaged performance over a three-year period in order to level out fluctuations (e.g. Robins and Wiersema, 1995; Combs and Ketchen, 1999; Huang et. al, 2015). The result of exploratory factor analysis on the scale is displayed in the table below. It displays a single factor structure with all five items strongly loading onto it. Also, with an eigen value of 4.035, the factor explains a large proportion (80.71%) of the variance. Since most of the items in the unrotated factor matrix load on the first factor and since the first factor explains a large proportion of the variance in the items, Performance construct can be said to be unidimensional (Carmines & Zeller, 1979, Clark & Watson, 1995).

Table 5.17: EFA results of the Performance Scale

	Variable	Factor1	Uniqueness
P1	Over the past 3 years, our financial performance has been outstanding	0.85	0.27
P2	Over the past 3 years, our financial performance has exceeded our competitors'	0.92	0.16
P3	Over the past 3 years, our sales growth has been outstanding	0.90	0.19
P4	Over the past 3 years we have been more profitable than our competitors	0.92	0.15
P5	Over the past 3 years, our sales growth has exceeded our competitors'	0.90	0.19

Confirmatory factor analysis also produced a satisfactory one factor model as displayed in the table below. All items loaded well on the one factor performance scale. The composite

reliability of the factor is 0.96 and the average variance extracted is 0.81 meaning the scale also has a strong convergence and construct validity (Fornell & Larcker 1981; Cheung, et al, 2024).

Table 5.18: CFA Results, AVE and CR of Performance

		CR=0.96 AVE=0.81	CR=0.96 AVE=0.81
P1	Over the past 3 years, our financial performance has been outstanding	0.85	0.90
P2	Over the past 3 years, our financial performance has exceeded our competitors'	0.91	0.91
P3	Over the past 3 years, our sales growth has been outstanding	0.91	0.89
P4	Over the past 3 years we have been more profitable than our competitors	0.93	0.94
P5	Over the past 3 years, our sales growth has exceeded our competitors'	0.91	0.92

The fitness of the one factor model to data is also displayed in the table below. Initial analysis displayed in the table as Perf1 indicates a partial fitness to data with CFI and TLI above their minimum thresholds of 0.90 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). However, the RMSEA was above its maximum threshold. After modifying the model by covarying performance items P1 and P5 as well as P1 and P4 we had a well-fitting model displayed in the table as Perf 2 with all indicators falling within their acceptable ranges. The Cronbach's alpha value for the scale is 0.96 which is far above the minimum threshold of 0.70 signifying the internal consistency reliability of the scale (Hair et al, 2019, p123; Bland & Altman, 1997).

Table 5.19: Goodness of fit Statistics of the Performance scale

Model	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
Perf1	59.84	5	11.96	0.967	0.935	0.190 ***
Perf2	6.07	3	2.04	0.998	0.994	0.058

5.4.7 Stakeholder Culture of a firm refers to shared values, beliefs and practices about how stakeholder issues are handled in a firm. According to Jones et. al, (2007), three stakeholder cultures are relevant for competitive strategy analysis. They are the corporate egoist cultures, instrumentalist cultures and moralist cultures listed in order from the least to the highest respectively according to how more stakeholder oriented they are. To measure stakeholder culture, therefore we used a scale that captures these three categories of stakeholder culture. We

adopted the scale developed by Boesso and Kumar (2016) which was designed to measure a firm's stakeholder culture. It consists of four items each capturing one of the following four dimensions of stakeholder culture. The first item taps a firm's moral orientation (i.e. whether it is more self-regarding vs other-regarding), the second measures the respect a firm gives to stakeholder rights (i.e. only shareholder rights only vs the rights of all stakeholders), the third item measures the relevance of stakeholders to the firm (i.e. whether the firm only considers shareholders as important vs considers all stakeholders), and the final item captures the firm's moral philosophies (i.e. limited morality vs broad morality). For each item respondents were asked to choose one out of three responses provided, each representing the different types of stakeholder culture. After data collection, following Boesso and Kumar (2016), responses on the first three items were used to determine the culture of the firm. In case of a tie, example where a respondent chooses a different culture each for the first three items, then his/her response on the fourth item is used to break the tie. See appendices for a detailed presentation of the scale.

5.4.8 Control Variables: In this study four variables were controlled including firm age, size, industry and ownership structure. As explained under each of the variables below, they are controlled because of their potential to impact the outcome of the study.

- a) **Firm age** was controlled because it could influence the performance of firms (Zahra, Ireland, and Hitt, 2000). Older firms have higher opportunities of performing, being more efficient, innovative, resilient and possessing processes for knowledge exchange than newly established ones (Sanders and Boivie, 2004). Firm age can also affect the stakeholder relationship management capabilities of firms because older firms are more likely to possess experience in managing stakeholder relationships than younger ones. Therefore, the age of the firm could confound with the results of the study, if not controlled. Firm age was measured using the year since a firm was founded. This measure was included in the survey questionnaire.
- b) **Firm size** was also controlled because it has the capacity to influence the performance of firms. For instance, larger firms may have easy access to lower cost capital at a much lower risk than smaller firms (Schilke, 2014). Firm size also can influence a firm's ability to manage its relationship with stakeholders as larger firms are more likely to have larger numbers of primary stakeholders to manage than smaller firms. Firm size was measured using the number of full-time employees of the firm. This measure was included in the survey questionnaire too.

- c) **Industry structure** was controlled because performance of firms may be influenced by their industries (Dess, Ireland, & Hitt, 1990). In fact, Porter's environmental approach (1980), is based on this understanding that the nature of firms' industry influence their performance. Also, resource-performance relationships may be industry dependent (Armstrong & Shimizu, 2007). This means some resources may significantly influence performance in some industries than others. The above reasons make controlling the industry very important. In the survey, respondents were asked to indicate the industry of their firms, which were later dummy coded based on their technological intensities by assigning 1 to more technologically intensive industries and 0 to less technologically intensive industries. We chose to dummy code the industries based on technological intensities because this aspect of the firm's industry could influence most of our dependent variables such as knowledge exchange with stakeholders, innovativeness and resilience. A firm may be engaging in knowledge exchange and innovative activities not because they have stakeholder relationships management capability but probably because the nature of its industry requires regular search for knowledge and innovation to survive and perform. Besides several previous strategy research with similar dependent variables like ours have also dummy coded firms' industry based on their technological intensity (e.g., Zhou et al, 2019)
- d) **The ownership structure** of firms was also controlled because it could confound with the result of the study. It could affect the firm's engagement in stakeholder relationships management and the outcomes the firm obtain. Privately owned firms are usually highly controlled by and run for investor interests. Publicly owned firms on the other hand have more diffused shareholders; and the shareholders often have relatively less influence on the management of the firm. Also, ownership structure could affect firm's possession of certain capabilities and its performance (Khamis et al, 2015). To measure firms' ownership structure, the following question was included in the survey questionnaire: '*Is your firm (a) privately owned firm or (b) publicly listed firm*'. After data collection, a dummy was generated with 1 representing privately owned firms and 0 representing publicly owned ones.

5.4.9 Full Model Validity Analysis

After individually confirming the validity and reliability of the scales of the study, we combined all the scales in a model to assess their validities. A Confirmatory Factor Analysis (CFA) was conducted on the combined measurement model, with latent factors representing each scale. The output of the CFA analysis indicates a fitting model. As displayed in table 5.20, all the indices were satisfactory. The χ^2/df is 2.30 below the maximum threshold of 3, the CFI and TLI are 0.933 and 0.926 respectively above their minimum thresholds of 0.90 and the RMSEA is 0.065 below its maximum threshold of 0.08 (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014).

Table 5.20: Goodness of fit statistics of the combined model of all Scale

	χ^2	Df	χ^2/df	CFI	TLI	RMSEA
Model with all scales	895.11***	390	2.30	0.933	0.926	0.065***

* P< 0.05 ** p<0.01 ***p<0.001

Also as displayed in table 5.21 all items loaded well on their respective constructs.

Table 5.21: Factor Loadings by Construct

<i>(Standardized coefficients, all significant at p < 0.001)</i>						
Construct	Indicator	Loading		Construct	Indicator	Loading
Stakeholder Relationships Management	KS2	0.585		Innovativeness	IN1	0.873
	KS3	0.580			IN2	0.892
	INT1	0.685			IN3	0.841
	INT2	0.767			IN4	0.808
	INT4	0.679			IN6	0.699
	INT5	0.815		Resilience	R1	0.837
	INT6	0.833			R2	0.919
	AD1	0.806			R3	0.888
	AD3	0.650			R4	0.813
Knowledge Exchange	E1	0.795		Performance	P1	0.851
	E2	0.883			P2	0.917
	E3	0.743			P3	0.904
	E4	0.842			P4	0.926
Efficiency	TE4	0.847			P5	0.905
	TE5	0.606				
	TE6	0.742				

The output estimates from the CFA were subsequently used to calculate the Average Variance Extracted (AVE) and Composite Reliability (CR) for each factor representing the study's constructs, in order to assess convergent and construct validity. As shown in Table 5.22, all factors demonstrated strong composite reliability ($CR > 0.70$) and average variance extracted ($AVE > 0.50$), consistent with the thresholds recommended by Fornell and Larcker (1981) and Cheung et al. (2024). These results indicate that all constructs in the study exhibit satisfactory levels of convergent and construct validity. Also, for each construct, the square root of the Average Variance Extracted ($\sqrt{AVE}$) exceeded its inter-construct correlations, supporting their discriminant validities (Fornell and Larcker, 1981).

Table 5.22: AVE and CR of each scale

Construct	Average Variance Extracted	Composite Reliability
SRM	0.515	0.904
Knowledge Exchange	0.658	0.886
Innovativeness	0.694	0.917
Efficiency	0.545	0.779
Resilience	0.763	0.926
Performance	0.827	0.959

Having confirmed the validity and reliability of the measurement scales, we proceeded to analyze the hypothesized relationships among the constructs.

CHAPTER 6: DATA ANALYSIS AND RESULTS

6.1 DATA ANALYSIS PLAN

Data of the study was analyzed using Stata 18.5 BE. After checking to ensure the validity and reliability of the scales used in the study, descriptive statistics of the responding firms were examined. Then the study's hypothesis were analyzed; first by checking regression assumptions to know if we could use traditional regression analysis method like the OLS linear regression analysis. While most assumptions were met, assumptions of normality and homoscedasticity were not met. As a result, we proceeded with a more robust regression analysis method which is SEM bootstrapping method with 1000 replications.

6.2 DESCRIPTIVE STATISTICS

The descriptive statistics reveal important characteristics of the firms included in the study. The average firm size was 1,049 employees, though the median of 150 indicates a right-skewed distribution, with most firms falling into the medium-sized category (50-249 employees, 61.76%) and a smaller proportion classified as large (250+ employees, 38.24%). Firms' age varied widely, with an average founding year of 1992 (median 1997), leading to a mean age of 32.34 years (median 28 years). The majority of firms were privately owned (91.50%), with only 8.50% listed on the stock exchange. In the case of stakeholder culture, most firms were predominantly moralist (58.82%), followed by corporate egoist (23.53%) and instrumentalist (17.65%). Geographically, most firms were located in İstanbul (69.61%), with the remaining 30.39% in Ankara.

In terms of industry distribution, 57.19% of firms operated in low-tech sectors, with textiles and clothing (16.01%) and metal processing (12.09%) being the most common. The remaining 42.81% were in medium-high tech industries, led by electronics, electricals, and energy (13.73%) and machinery (9.80%). The sample's diversity in size, age, ownership, culture, location, and industry makes it appropriate for the analysis of our study's hypothesis.

6.3 CORRELATION ANALYSIS

After ensuring that our study's scales were reliable and valid, and verifying the nature of our data sample through descriptive statics, we proceeded to do correlation analysis to check the correlation between the variables of the scale. We averaged the scores of each firm for each variable in the scale, then used them to run pairwise correlation analysis. The correlation results is displayed in the table below.

Table 6.01: Pairwise Correlation Matrix of Variable Means

	Variable	1	2	3	4	5	6	7	8	9	10
1	Industry	1									
2	Ownership	-0.04	1								
3	Firm Age	-0.003	-0.32*	1							
4	Employees	0.12*	-0.41**	0.24**	1						
5	SRM	0.03	-0.07	-0.01	-0.01	1					
6	Knowledge Ex	0.03	-0.04	-0.04	-0.01	0.79**	1				
7	Efficiency	-0.06	-0.08	0.05	0.09	0.55**	0.57**	1			
8	Resilience	-0.01	-0.09	0.03	0.07	0.71**	0.68**	0.68**	1		
9	Innovativeness	-0.07	-0.08	0.04	0.00	0.70**	0.70**	0.60**	0.72**	1	
10	Performance	-0.03	-0.08	0.07	0.12*	0.52**	0.48**	0.55**	0.60**	0.62**	1

*p<0.05

** p<0.01

The correlation analysis reveals several significant relationships among the key variables. Stakeholder Relationship Management (SRM) demonstrates strong positive associations with knowledge exchange (0.79), resilience (0.71), innovativeness (0.70), efficiency (0.55), and firm performance (0.52) (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995). These results suggest that firms with stronger stakeholder relationships management capabilities engage in more effective knowledge exchange, exhibit greater resilience, foster higher innovativeness, operate more efficiently, and achieve better overall performance. Additionally, knowledge exchange is also strongly correlated with innovativeness (0.70), efficiency (0.57), and resilience (0.68), indicating that effective knowledge exchange with stakeholders enhance these organizational outcomes (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995). Furthermore, innovativeness (0.62), efficiency (0.54), and resilience (0.60) each show strong positive relationships with firm performance.

The control variables—firm age, size, industry and ownership structure—exhibit only weak correlations (≤ 0.24) with the main variables of the study, suggesting that they do not significantly influence the relationships under investigation. Firm size, measured by employee

count, shows negligible associations with resilience, innovativeness, and efficiency (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995)

These findings imply that the effects of SRMC on knowledge exchange, and their subsequent impact on performance could be strong regardless of firm age, size, or industry and ownership structure. Overall, the correlation results indicates that stakeholder relationship management could play a central role in driving knowledge exchange, operational efficiency, resilience, and innovativeness, all of which collectively contribute to enhanced firm performance (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995).

6.4 REGRESSION DIAGNOSTICS

Traditional regression analysis incorporates some assumptions, so before conducting regression analysis, it was essential to verify that those important assumptions were met to ensure the validity of the results (Tabachnick & Fidell, 2001; Wooldridge, 2019, p55-60)

These assumptions include normality of residuals, homoscedasticity, absence of influential outliers, lack of high multicollinearity among independent variables, linearity of relationships between independent and dependent variables, and proper model specification without omitted variable bias (Tabachnick & Fidell, 2001; Wooldridge, 2019, p55-60). We therefore conducted diagnostic tests to verify these assumptions, by including all relevant predictors into five models- i.e. when knowledge exchange, resilience, innovativeness, efficiency and performance is dependent variables. We used OLS regression analysis to conduct these regression diagnostics.

6.4.1 Testing for Multicollinearity

Multicollinearity occurs when predictor variables in a regression model are highly correlated, obscuring their individual effects on the dependent variable (Gujarati & Porter, 2009). This condition inflates coefficient variances and generates unstable estimates and reduced statistical power (O'Brien, 2007). Even though multicollinearity does not bias predictions, it compromises the interpretation of individual predictors by widening confidence intervals and producing counterintuitive coefficient signs (Wooldridge, 2019). Diagnostic measures for estimating multicollinearity include variance inflation factors (VIF), where values exceeding 10 indicate problematic collinearity (Kutner et al., 2005; Gujarati & Porter, 2009).).

Even though we have one main independent variable in our model, all the variables in our model are predictors of the dependent variable, performance. So, to compute the Variance Inflation factor of all predictors, we first regressed performance on all of them including the control variables. After that we estimated their variance inflation factors (VIFs). As shown in the table below, all VIF values were below 5, indicating that multicollinearity was not a major issue. Specifically, the highest VIF was 3.23 (SRM), while the mean VIF across all variables was 2.10, which is well below the commonly accepted threshold of 10 for serious multicollinearity concerns (Gujarati & Porter, 2009).

Table 6.02: VIF of Predictor Variables

Variable	VIF	1/VIF
Firm innovativeness	2.74	0.37
SRM	3.23	0.31
Firm Efficiency	2.00	0.50
Firm Resilience	3.05	0.33
Knowledge Exchange	3.12	0.32
Industry of firm	1.04	0.96
Size of firm	1.26	0.79
Ownership structure	1.30	0.77
Age of firm	1.14	0.87
Mean VIF	2.10	

6.4.2 Test of Model Specification Errors

To understand whether the regression model suffered from omitted variable bias, the Ramsey RESET test was conducted (Ramsey, 1969). This test examines whether the model is correctly specified by checking for omitted nonlinear relationships (Wooldridge 2019, p302-336; Greene, 2018, p. 334–336). We applied the test on all the regression models in our study to detect potential omitted variables or functional form misspecification. For the resilience, efficiency, and innovativeness models, the test results ($F(3,296) = 0.47$, $p = 0.706$; $F(3,296) = 0.48$, $p = 0.696$; and $F(3,296) = 0.65$, $p = 0.584$ respectively) failed to reject the null hypothesis of no omitted variables at all significance levels. Similarly, the performance model showed no evidence of specification errors ($F(3,296) = 0.33$, $p = 0.803$). However, the knowledge exchange model yielded a statistically significant result ($F(3,297) = 4.60$, $p = 0.004$), which

suggests potential omitted variables or nonlinear relationships not captured in the current specification relationships (Wooldridge 2019, p302-336; Greene, 2018, p. 334–336).

These findings indicate that while resilience, efficiency, innovativeness, and performance models appear to be well-specified, we have to do additional diagnostics for the knowledge exchange model. The significant RESET test for knowledge exchange indicates the need for this further investigation, so we conducted link tests (Wooldridge 2019, p302-336). The link test for the knowledge exchange model showed no evidence of misspecification, as the squared predictor term ($_hatsq$) was statistically insignificant ($p = 0.616$). While the linear predictor ($_hat$) was significant ($p = 0.025$), the nonsignificant $_hatsq$ suggests the model's functional form is adequately specified without omitted nonlinearities (Wooldridge 2019, p302-336).

This suggests that there is no strong evidence of omitted variable bias in all our regression models, and the models are appropriately specified in their current form. Consequently, no additional modifications were necessary to address model specification concerns.

6.4.3 Linearity

To test the linearity assumption, we utilized the added variable plots (avplots) in Stata (Cook & Weisberg, 1982, 68-72; Belsley, et. al, 1980, p30-33). This approach allowed us to visually examine the relationship between each independent variable and dependent variable while controlling for the effects of other predictors in the model Stata (Cook & Weisberg, 1982, 68-72; Belsley, et. al., 1980, p30-33). The results indicated that all the constructs in our study exhibited a linear relationship with the dependent variable, as the data points were consistently plotted around a straight-line (Cook & Weisberg, 1982, 68-72; Belsley, et. al., 1980, p30-33). This suggests that the linearity assumption holds, supporting the appropriateness of using linear regression for further analysis.

Figure 2: Linearity of Relationship between performance and its predictors

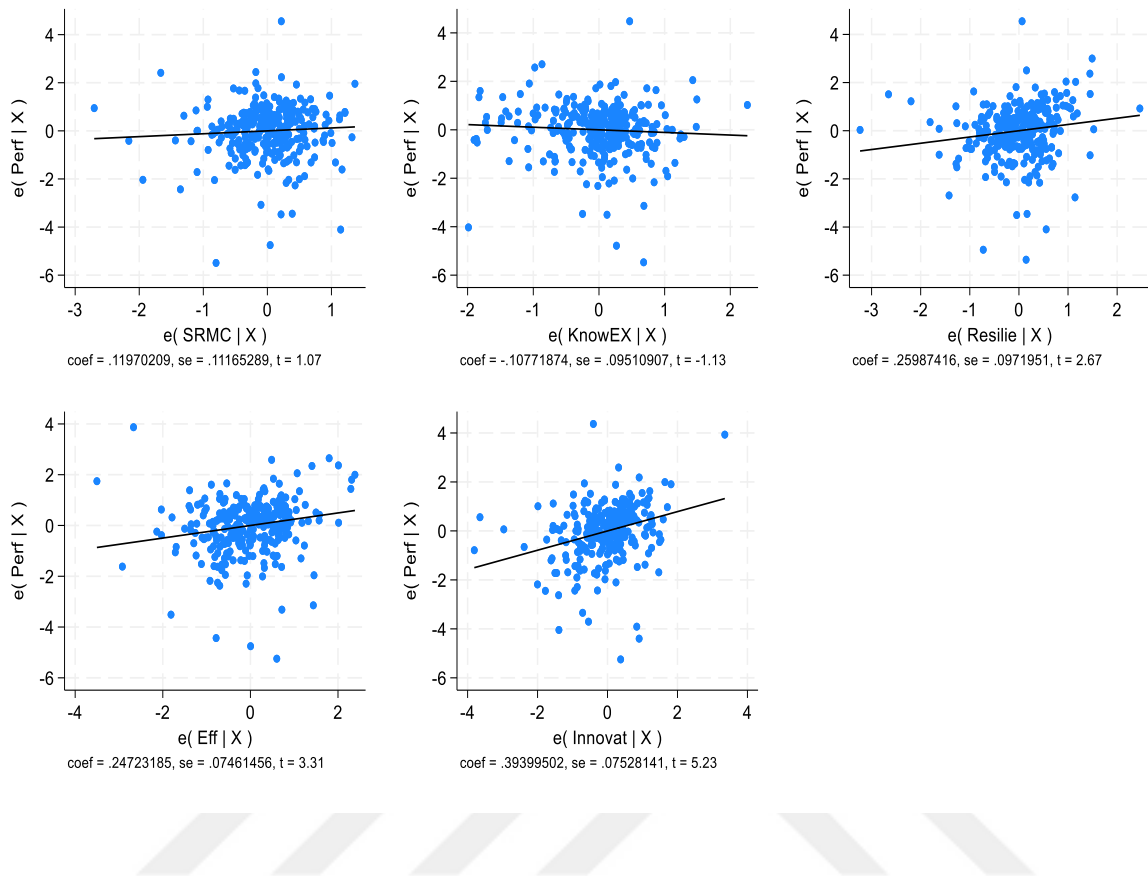


Figure 3: Linearity of the relationship between Innovativeness and its predictors in the model

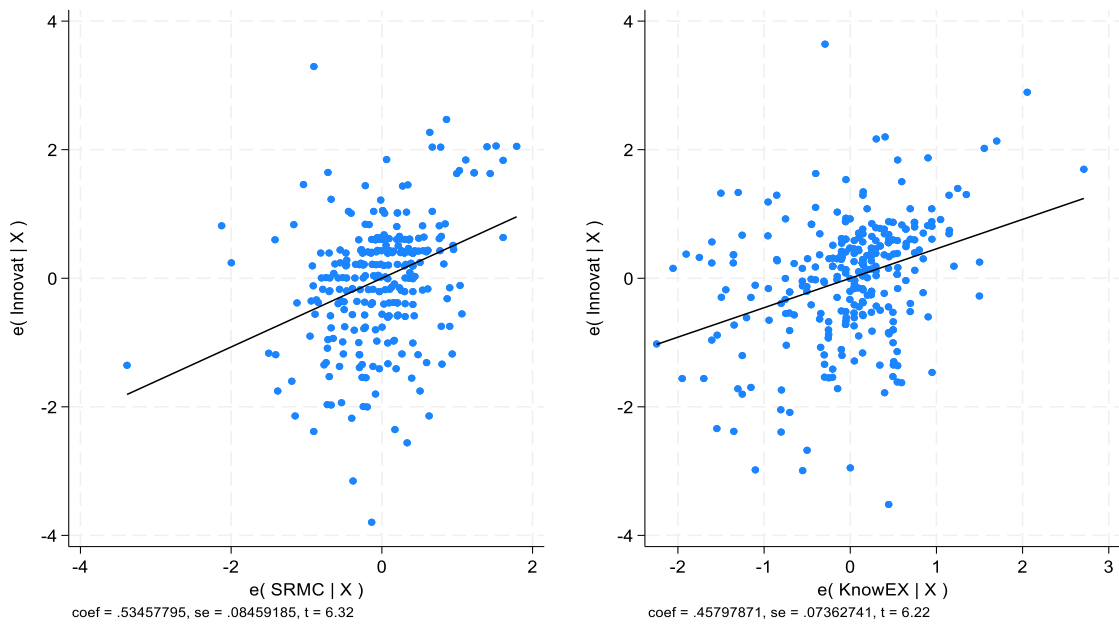


Figure 4: Linearity of the relationship between Efficiency and its predictors in the model

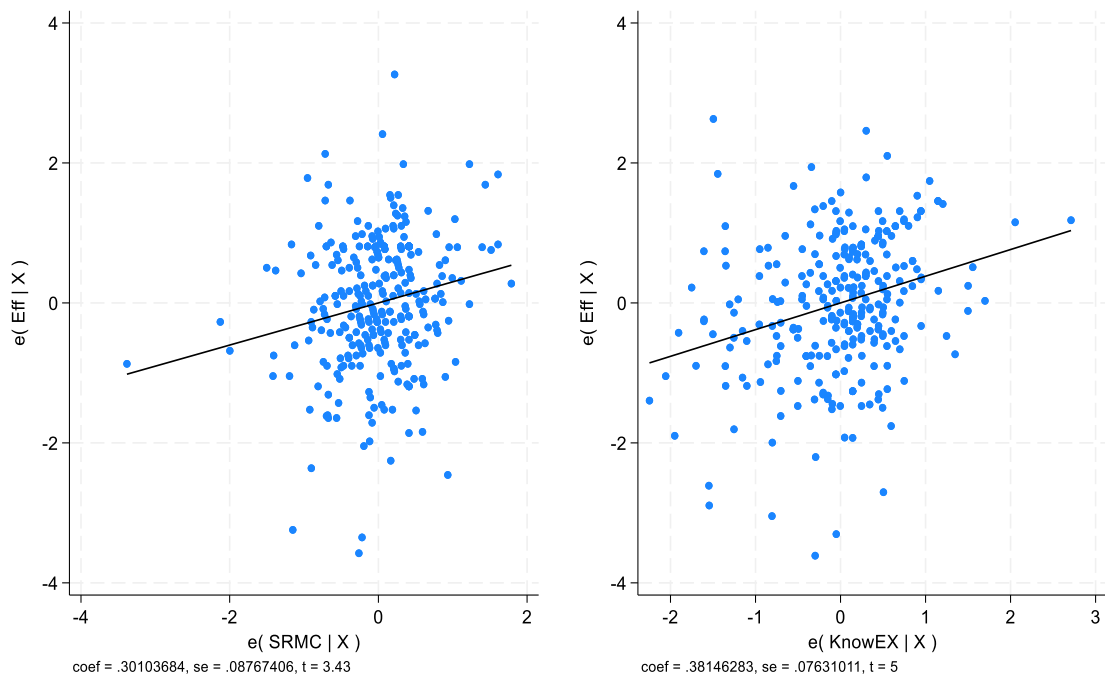


Figure 5: Linearity of the relationship between Resilience and its predictors in the model

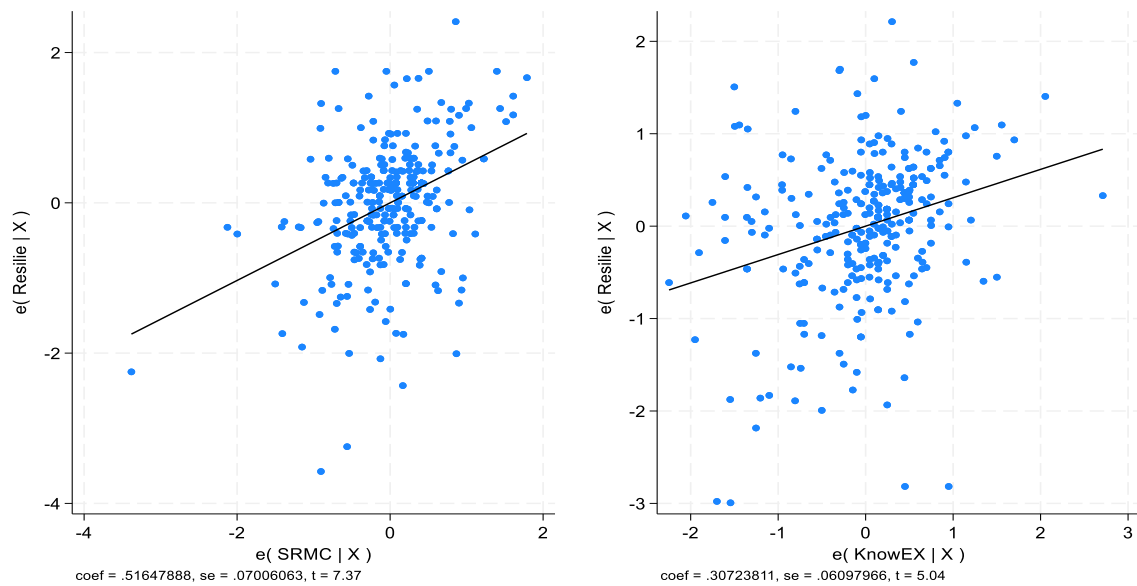
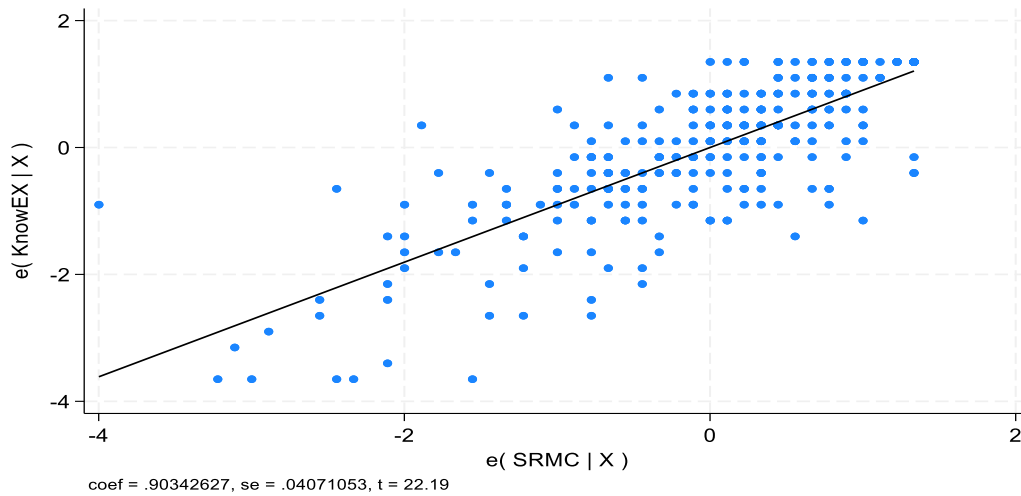


Figure 6: Linearity of Knowledge exchange and its predictors



6.4.4 Outliers

A visual observation of our scatter plots may indicate the potential existence of some outliers. Regression analysis assumes the absence of outliers, so if outliers exist in the data, it can affect the results. If an outlier has high influence (often detected using Cook's Distance), it can unduly affect coefficient estimates, making the model sensitive to small changes in data (Cook, 1977, p15-18; Field, 2018, p. 358–360)

Outliers can also inflate standard errors, reducing statistical power and making hypothesis testing unreliable. To estimate the influence of potential outliers in our data, we first regressed the dependent variable on all predictors, then estimated the DFBETA statistic of each observation (Belsley, et al, 1980, p 13-20; Fox, 2016 pp. 280–283).

The DFBETA statistics were calculated to assess the influence of individual observations on each regression coefficient. These values measure how much each coefficient changes when a particular observation is excluded from the estimation (Belsley, et al, 1980, p 13-20; Fox, 2016 pp. 280–283). Across all 306 cases, most DFBETA values fell within acceptable ranges (typically between -0.2 and +0.2), indicating no single observation exerted disproportionate influence on the parameter estimates (Belsley, et al, 1980, p 13-20; Fox, 2016 pp. 280–283). However, a few cases showed relatively larger values, suggesting they might need closer examination. We therefore further investigated these potentially influential points and the rest by conducting Cook's distance analysis (Cook, 1977, p15-18; Field, 2018, p. 358–

360). The overall results suggests that while a few observations show moderate influence, none were sufficiently extreme (Cook's >1) to meaningfully affect the regression results when removed. All of the observations have Cook's distances that are far below the maximum threshold of 1 (Cook, 1977, p15-18; Field, 2018, p. 358–360). The observation with the highest had a cook's distance of 0.13, which is far below the maximum threshold of 1, meaning it does not exert undue influence on regression coefficients

6.4.5 Normality

Normality assumption in regression means that the errors (residuals), which is the differences between the actual and predicted values, should be normally distributed reliable (Wooldridge, 2019, p55-60; Tabachnick & Fidell, 2019). This is important because many statistical tests in regression, such as confidence intervals and p-values, rely on this assumption to be valid. When the errors of a regression model are normally distributed then its regression results (like coefficients and significance tests) are more reliable (Wooldridge, 2019, p55-60; Tabachnick & Fidell, 2019). In large sample size like in our case, normality is less of a concern because the Central Limit Theorem helps the estimates remain accurate (White, 1980; Greene, 2018). Nevertheless, we conducted the normality test to find out whether there is the need to take corrective action.

To assess the normality of residuals, a number of diagnostics were employed such as histogram with a superimposed normal curve, descriptive statistics, joint skewness-kurtosis test and Shapiro-Wilk's test in each case of our dependent variable (Tabachnick & Fidell, 2019).

All models showed consistent patterns of non-normality:

- Left-skewed distributions (skewness ranging from -1.03 to -1.07)
- Heavy tails (kurtosis values between 7.82 and 7.95)
- Extreme residual values (minimum -5.35 to maximum 4.52)
- Significant test results (all $p < 0.001$) for:
 - Joint skewness-kurtosis tests (Adj χ^2 (2) 61.8-63.1)
 - Shapiro-Wilk tests (W statistics 0.915-0.921)

While the sample size mitigates some concerns, the consistent non-normality could affect inference reliability. We therefore needed to employ more robust regression method such as SEM bootstrapping method that could deal with issues of non-normality and estimate correct confidence intervals and standard errors (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368)

6.4.6 Assessment of Heteroscedasticity

Traditional regression analysis like OLS regression method assumes that the variability of errors (residuals) in a regression model is roughly constant across all levels of the predicted value (Breusch & Pagan, 1979; Cook & Weisberg, 1983). Thus, the spread of residuals remains even. This is ideal because it ensures reliable statistical inferences. Heteroscedasticity occurs when the variability of residuals changes systematically (e.g., residuals fan out or cluster as predictions increase or decrease), which can bias standard errors and significance tests. Detecting heteroscedasticity is important because it signals that model assumptions may be violated, therefore requiring adjustments like robust standard errors (Breusch & Pagan, 1979; Cook & Weisberg, 1983).

To test the heteroscedasticity of our regression models we used the Breusch-Pagan and Cook-Weisberg tests (Breusch & Pagan, 1979; Cook & Weisberg, 1983). Our diagnostics revealed consistent heteroskedasticity across all models, violating the assumption of constant error variance. The Breusch-Pagan/Cook-Weisberg tests showed significant results for all the models:

- Knowledge exchange ($\chi^2=38.18$, $p<0.001$)
- Innovativeness ($\chi^2=34.70$, $p<0.001$)
- Efficiency ($\chi^2=38.13$, $p<0.001$)
- Resilience ($\chi^2=70.62$, $p<0.001$)

To address this, we could either apply heteroskedasticity-robust standard errors (HC3) in traditional OLS regression analyses or continue with a more robust regression analysis method like SEM bootstrapping analysis (Yuan & Hayashi, 2003).

In all, our data meets most of the assumptions of traditional regression analysis apart from normality and homoscedasticity assumptions. To avoid these two problems from biasing our regression analysis, we chose to continue the analysis of hypothesis with a more robust

regression analysis method- SEM bootstrapping method. Bootstrapping resamples data and estimates more accurate confidence intervals and standard errors (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368; Yuan & Hayashi, 2003)

6.5 CHECKING COMMON METHOD BIAS

Common method bias (CMB) refers to the systematic variance attributed to the measurement method rather than the constructs being studied, which can potentially inflate relationships among variables (Podsakoff et al., 2003). Because we used one questionnaire to take all our data of variables of our study, it is possible for common method bias to exist in our data, so we tested the common method bias using Harman's one factor method, by letting all measurement items load on a single factor in a principal component factor analysis. The results indicate that the first factor accounted for approximately 39.29% of the total variance, which is below the maximum accepted threshold, of 50% for CMB to be a serious concern (Podsakoff & Organ, 1986). An additional examination of factor loadings reveals that no single factor dominated the explained variance, and multiple factors emerged, reducing the likelihood of severe CMB. Furthermore, since we included procedural remedies, such as ensuring respondent anonymity, it likely mitigated bias in responses (MacKenzie & Podsakoff, 2012).

6.6 ANALYSIS OF HYPOTHESIS USING SEM BOOTSTRAPPING

In total, the study proposed eleven hypotheses. Hypotheses 1 to 10 were tested simultaneously using SEM with bootstrapping. Subsequently, we conducted SEM multigroup analysis to examine the moderation of stakeholder culture on the effects of Stakeholder relationships management.

6.6.1 SEM Bootstrapping Analysis testing hypothesis 1-10

In order to get more bias corrected standard errors and confidence intervals we used SEM bootstrapping method which is a more robust regression technique than OLS regression method (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368; Yuan & Hayashi, 2003). Unlike OLS regression method that rely on theoretical assumptions, such as normally distributed errors or large sample size, bootstrapping generates empirical estimates of uncertainty by repeatedly sampling from the observed data. This approach is particularly valuable when dealing with small datasets, non-normal error distributions, or complex models

where analytical solutions for standard errors and confidence intervals are difficult to derive (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368; Yuan & Hayashi, 2003). By resampling the data with replacement and refitting the regression model each time, bootstrapping constructs an approximation of the sampling distribution for important statistics, such as regression coefficients or predicted values. This allows us to assess variability and construct confidence intervals without depending on strict parametric assumptions (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368; Yuan & Hayashi, 2003).

One of the primary advantages of bootstrapping in regression is its ability to provide robust inferences even when traditional assumptions fail. For instance, in cases where the residuals display skewness or heteroscedasticity, bootstrapping offers a more reliable alternative (Bollen & Stine, 1992, p. 430; Nevitt & Hancock, 2001, p. 368; Yuan & Hayashi, 2003).

Before Bootstrapping, we needed to make sure that our model fits well to the data. So, we built our SEM model using the means of each construct, estimated and assessed the goodness of fit statistics of the model. As displayed in the table below. Apart from CFI which displayed an acceptable level of fitness with a 0.905 value above the minimum acceptable level of 0.90. The remaining statistics did not show a reasonable level of fitness (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). So, we had to improve our model specification in order to improve fitness. Hence, apart from our hypothesized paths, we modified our model by adding additional paths that are theoretically reasonable. These paths are:

1. Innovativeness → Resilience: The theoretical justification for adding this path to the model is that, according to dynamic capabilities, firms which are more innovative have a higher chance of being able to address environmental disruptions than their colleagues (Teece, et al, 1997; Teece, 2007). As the environment changes the ability for a firm to quickly sense these changes, seize opportunities and reconfigure capabilities often through innovation leads to firm resilience. Firms which are not innovative enough to reconfigure their resources as the environment changes are likely to be less resilient and may even be knocked out of business (Teece, et al, 1997; Teece, 2007). In addition to theoretical justification, a look at the correlation matrix also reveals a strong correlation between innovativeness and resilience (0.72) further justifying the need for an inclusion of a regression path between them (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995).

2. Efficiency → Resilience: Efficiency plays a critical role in building organizational resilience, especially in dynamic or uncertain environments. Efficient operations, which is characterized by lean processes, optimized supply chains, and effective resource management, enable firms to respond swiftly to disruptions, recover faster, and maintain stability during crises (Sheffi & Rice, 2005). Christopher & Peck (2004) argue that lean (efficient) supply chains, when properly managed, enhance resilience by reducing vulnerabilities while retaining flexibility. This is because efficiency minimizes waste, shortens response times, and ensures that resources are available when needed, all of which contribute to a firm's ability to absorb shocks (Wieland & Wallenburg, 2013). Empirical support from Kamalahmadi & Parast (2016) further confirms that operational efficiency strengthens resilience by improving risk mitigation and recovery capabilities. Therefore, efficiency, especially time efficiency is important for achieving long-term resilience, justifying the inclusion of a path between them in the model. Also, a strong correlation between the two constructs (0.68) statistically justifies the need for such inclusion (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995).
3. Innovativeness → Efficiency: We included another path from innovativeness to Efficiency as this is a well-established relationship in organizational and operations management literature. Innovativeness, defined as a firm's ability to adopt and implement new ideas, technologies, or processes, can enhance efficiency by reengineering better work processes, reducing redundancies, and improving resource allocation (Damanpour, 1991). Process innovations, especially, helps to streamline operations, automate repetitive tasks, and eliminate waste, leading to more efficient productivity (Gunday et al., 2011). Furthermore, Teece's (2007) dynamic capabilities framework also suggests that innovative firms excel at reconfiguring resources efficiently, allowing them to adapt processes in ways that minimize costs and maximize output. Empirical studies, such as those by Saunila & Ukko (2012), also demonstrates that innovation capabilities in SMEs directly contribute to operational efficiency. Thus, firms that prioritize innovativeness are likely to develop more efficient systems. The inclusion of a regression path between the two constructs is further supported by the strong correlation between innovativeness and efficiency (0.60) as can be seen in the correlation matrix (Cohen, 1988; Hair et al, 2019, p109; Bland & Altman, 1995).

After we included these three paths to the model, we run estimates of the model again and realized the model was just defined. So, we had to remove one path from the model to get a positive degree of freedom (Kline, 2016, p. 210–212).

We included four control variables in the model, regressing the dependent variable and all mediators on them. However, we realized that these control variables didn't actually have any significant impact on the dependent variable, so we decided to remove only the path from ownership type dummy to the first mediator knowledge exchange. This is because it wasn't statistically significant and there was not much theoretical significance in controlling the effect of ownership type of firm on knowledge exchange between firms and stakeholders. All the other paths from control variables to all the mediators and performance were kept unchanged. This gave us a positive degree of freedom of 3.

We run the model again, the goodness of fit statistics is displayed in table 6.03 below in the third column. All the fit statistics shows an excellent to perfect fit of the model to data (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014).

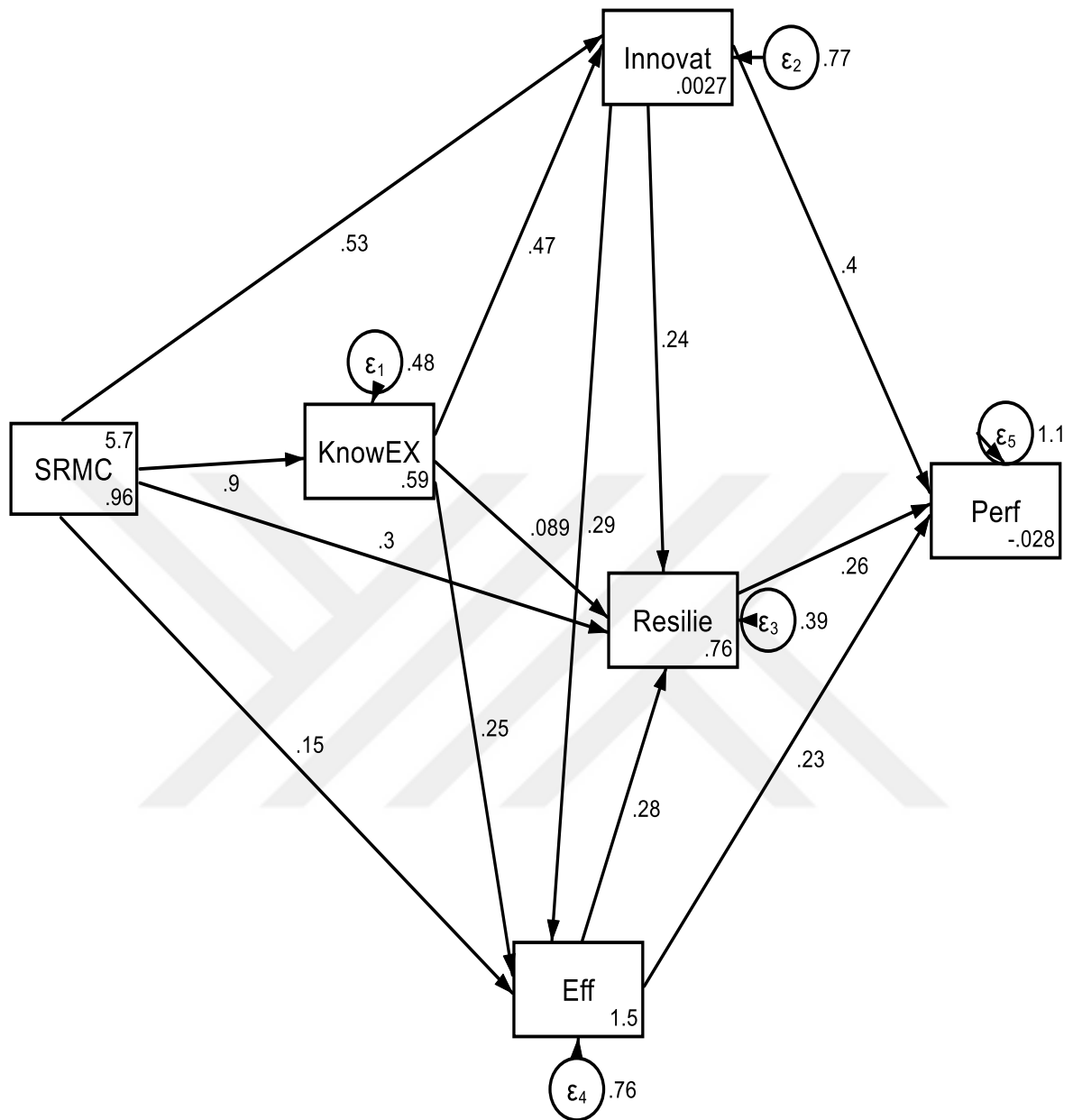
Table 6.03: Model Comparison Before and After Path Additions

Fit Statistic	Initial Model	Revised Model	Improvement	Interpretation
χ^2 (df)	120.27 (5)	1.65 (3)	$\Delta 118.62^{***}$	Significant better fit
χ^2/df	24.05	0.55	-23.5	Excellent fit
RMSEA [90% CI]	0.275 [0.234, 0.319]	0.000 [0.000, 0.077]	-0.275	Excellent fit
CFI	0.905	1.0	+0.095	Perfect fit
TLI	0.336	1.0	+0.677	Perfect fit achieved

The inclusion of the three paths produced dramatic improvements in model fit. While the original specification showed poor fit (RMSEA = 0.275, CFI = 0.905), adding the three theoretically justified pathways resulted in excellent fit statistics. ($\Delta\chi^2 = 118.62$, $p < .001$; RMSEA = 0.000; CFI = 1.000) (Hair et al, 2019, p579; Hu & Bentler, 1999; De Carvalho & Chima, 2014).

After having an excellent fit of the model to data we then bootstrapped it with 1000 replications. The goodness of fit indices remained the same after bootstrapping. The regression co-efficient of the model are displayed in figure 7 below.

Figure 7: Model with regression coefficients of structural paths



Note: SRMC= Stakeholder relationships management, KnowEx=Knowledge Exchange, Eff=Efficiency, innovat=innovativeness, Resilie= Resilience, Perf= Performance

6.6.1.2 Direct Effects of SRM

The SEM results demonstrate that SRM has a strong, statistically significant direct effect on knowledge exchange ($\beta = 0.903$, $p < 0.001$), supporting Hypothesis 1. SRM also showed significant direct effects on innovativeness ($\beta = 0.530$, $p < 0.001$) and resilience ($\beta = 0.303$, $p < 0.001$), supporting Hypotheses 3 and 4 respectively. However, the direct effect on efficiency was not statistically significant ($\beta = 0.148$, $p = 0.134$), failing to support Hypothesis 2.

6.6.1.2 Indirect Effects of SRM

SRM also have statistically significant indirect effect on Efficiency ($\beta = 0.502$, $p < 0.001$), innovativeness ($\beta = 0.421$, $p < 0.001$) and resilience ($\beta = 0.494$, $p = 0.001$). However, while Knowledge exchange directly mediated the effect of SRM on both efficiency ($\beta = 0.23$, $p < 0.05$) and innovativeness ($\beta = 0.42$, $p < 0.001$), it does not directly mediate its effects on resilience since the direct effect of knowledge exchange on resilience is insignificant ($\beta = 0.09$, $p > 0.10$). Nevertheless, knowledge exchange does affect resilience through efficiency and innovativeness making the total effect of knowledge exchange on resilience significant ($\beta = 0.31$, $p < 0.001$). Therefore, the total indirect effect of SRM on resilience via knowledge exchange (and its downstream outcomes) was significant ($\beta = 0.279$, $p < 0.05$). Thus hypothesis 5, 6 and 7 were supported. *Please check table 6.04 below for summaries and appendices for the full table of direct, indirect, and total effects.*

6.6.1.3 Performance Outcomes

All three mediating capabilities showed positive effects on superior performance. Innovativeness had the strongest effect ($\beta = 0.404$, $p < 0.001$), followed by resilience ($\beta = 0.261$, $p = 0.014$) and efficiency ($\beta = 0.226$, $p = 0.041$), supporting Hypotheses 8-10.

Table 6.04: Bootstrapped SEM Results of SRM Effects (1,000 replications; N = 306)

Relationship	β Coeff.	Robust SE	z-value	p-value	95% CI	Hypothesis Supported?
Direct Effects						
SRM $\rightarrow$ KnowEx	0.903***	0.057	15.86	<0.001	[0.791, 1.015]	H1: ✓
SRM $\rightarrow$ Efficiency	0.148	0.099	1.50	0.134	[-0.045, 0.341]	H2: ✗
SRM $\rightarrow$ Innovativeness	0.530***	0.097	5.48	<0.001	[0.340, 0.719]	H3: ✓
SRM $\rightarrow$ Resilience	0.303***	0.071	4.24	<0.001	[0.163, 0.442]	H4: ✓
Indirect Effects						
SRM $\rightarrow$ KnowEx $\rightarrow$ Efficiency	0.23*	-	-	-	-	H5: ✓
SRM $\rightarrow$ KnowEx $\rightarrow$ Innovativeness	0.421***	-	-	-	-	H6: ✓
SRM $\rightarrow$ KnowEx $\rightarrow$ Resilience	0.279*	-	-	-	-	H7: ✓
SRM $\rightarrow$ all mediators $\rightarrow$ Efficiency	0.502***	0.091	5.54	<0.001	[0.325, 0.680]	
SRM $\rightarrow$ all mediators $\rightarrow$ Innovativeness	0.421***	0.077	5.47	<0.001	[0.270, 0.571]	
SRM $\rightarrow$ all mediators $\rightarrow$ Resilience	0.494***	0.075	6.60	<0.001	[0.347, 0.640]	
Performance Outcomes						
Efficiency $\rightarrow$ Performance	0.226*	0.111	2.04	0.041	[0.009, 0.444]	H8: ✓
Innovativeness $\rightarrow$ Performance	0.404***	0.082	4.94	<0.001	[0.244, 0.564]	H9: ✓
Resilience $\rightarrow$ Performance	0.261*	0.106	2.47	0.014	[0.054, 0.468]	H10: ✓

Notes: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$ (two-tailed). SRM = Stakeholder Relationship Management; KnowEX = Knowledge Exchange. KnowEx+ = Knowledge Exchange and its downstream effects. Estimates use bias-corrected bootstrap confidence intervals. Model fit: $\chi^2(3) = 1.65$ ($p = 0.649$), CFI = 1.0, TLI = 1.0; RMSEA = 0.00

Apart from the hypothesized relationship we also observed the regression coefficients of the added paths. As displayed in table 6.05, all the three added paths were statistically significant: Innovativeness $\rightarrow$ Resilience ($\beta=0.241$, $p < 0.001$); Efficiency $\rightarrow$ Resilience ($\beta=0.283$, $p < 0.001$); Innovativeness $\rightarrow$ Efficiency ($\beta=0.288$, $p < 0.001$).

Table 6.05: Results of added paths

Relationship	β Coeff.	Robust SE	z-value	p-value	95% CI	Supported?
Efficiency → Resilience	0.283***	0.051	5.59	<0.001	[0.184, 0.382]	Yes
Innovativeness → Resilience	0.241***	0.060	4.02	<0.001	[0.124, 0.359]	Yes
Innovativeness → Efficiency	0.288***	0.086	3.36	<0.001	[0.120, 0.456]	Yes

Notes: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$ (two-tailed). All estimates use bias-corrected bootstrap confidence intervals (1,000 replications).

6.6.2 Moderation of Stakeholder Culture

Our final hypothesis proposed that culture moderates the effect of SRM on its outcomes, such that the effect of SRM would be weaker for corporate egoists than would be for instrumentalists and strongest for moralists. We used multi-group SEM to analyze this hypothesis, splitting the data into three groups, each representing one of the stakeholder cultures. (Kline, 2016, p. 315–320; Byrne, 2012 p. 217–230; Jöreskog 1971, 409–426).

We tested two models; the first is an unconstrained model where all parameters for each group were allowed to estimate freely. This helps understand the structure of differences in regression coefficients across groups. The second model is the constrained model where all the four structural paths from SRM to its outcomes were constrained so that each path is equal for all groups. We bootstrapped each model with 1000 replications. After which we compared both models to understand whether stakeholder culture moderates the effects of SRM (Kline, 2016, p. 315–320; Byrne, 2012 p. 217–230; Jöreskog 1971, 409–426).

As shown in Table 6.06, the unconstrained model demonstrated adequate fit ($\chi^2(9) = 10.23$, $p = 0.332$; RMSEA = 0.037, CFI = 0.999), while the constrained model also showed acceptable fit ($\chi^2(17) = 26.78$, $p = 0.061$; RMSEA = 0.075, CFI = 0.992) (Hair et al., 2019, p. 579; Hu & Bentler, 1999; De Carvalho & Chima, 2014). A likelihood ratio test revealed a significant difference between the models ($\Delta\chi^2(8) = 16.55$, $p = 0.035$). Although both models are statistically acceptable, the unconstrained model fits better, suggesting moderation by stakeholder culture (Kline, 2016, pp. 315–320; Byrne, 2012, pp. 217–230; Jöreskog, 1971, pp. 409–426).

Table 6.06: Model Fitness Comparison between constrained and unconstrained Models

Fit Index	Unconstrained Model	Constrained Model	Difference	Acceptable Threshold
χ^2 (df)	10.232 (9)	26.779 (17)	$\Delta\chi^2(8) = 16.55^*$	$p > 0.05$ (non-sig. preferred)
RMSEA [90% CI]	0.037 [0.000, 0.121]	0.075 [0.000, 0.127]	+0.038	<0.08
CFI	0.999	0.992	-0.007	>0.90
TLI	0.988	0.949	-0.039	>0.90

Note: $*p < 0.05$ for χ^2 difference. **Difference (Δ)** for χ^2 is significant ($p = 0.035$), indicating the constrained model fits worse than the unconstrained model. Constrained model forces all SRM paths to be equal across groups.

Table 6.07: Comparison of Path Coefficients Across Stakeholder Cultures

Path	Corporate Egoists (1)	Instrumentalists (2)	Moralists (3)	Differences
SRM $\rightarrow$ Knowledge Ex	0.935***	0.996***	0.841***	2 > 1 > 3
SRM $\rightarrow$ Efficiency	-0.042 (ns)	0.614***	0.152 (ns)	2 > 3 > 1
SRM $\rightarrow$ Innovativeness	0.618***	0.542**	0.473***	1 > 2 > 3
SRM $\rightarrow$ Resilience	0.599***	0.119 (ns)	0.200**	1 > 3 > 2

Notes: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$. Bootstrapped SEs (1,000 reps). (ns) = not significant

6.6.3.1 Differences in SRM's effects among Stakeholder Culture

Even though culture moderates the effect of SRM on its outcomes, as displayed in table 6.07, the nature of moderation is not in the pattern we hypothesized. Even for some paths, corporate egoists experience the strongest effect of SRM followed by instrumentalists and then to moralists (eg. SRM $\rightarrow$ Innovativeness). This is opposite to the direction of moderation hypothesized, which proposed the strongest effect for moralists. So, stakeholder culture's moderation varies from path to path.

The above findings, therefore, partially support and partially reject hypothesis 11; as it shows that stakeholder culture moderates SRM effects; but moralists does not always have a higher SRM-outcome effect compared to instrumentalists and corporate egoists cultures.

Table 6.08: Summary of findings

Hypothesis	Accepted/ Rejected
Hypothesis 1: SRM has a positive effect on knowledge exchange with stakeholders	Accepted
Hypothesis 2: SRM has a direct positive effect on firm efficiency	Rejected
Hypothesis 3: SRM has a direct positive effect on firm innovativeness	Accepted
Hypothesis 4: SRM has a direct positive effect on firm resilience	Accepted
Hypothesis 5: Knowledge exchange mediates the effect of SRM on firm efficiency	Accepted
Hypothesis 6: Knowledge exchange mediates the effect of SRM on firm innovativeness	Accepted
Hypothesis 7: Knowledge exchange mediates the effect of SRM on firm resilience	Accepted
Hypothesis 8: Firm Efficiency has a positive effect on performance	Accepted
Hypothesis 9: Firm innovativeness has a positive effect on performance	Accepted
Hypothesis 10: Firm resilience has a positive effect on performance	Accepted
Hypothesis 11: Stakeholder culture moderates the effects of SRM on Knowledge exchange, resilience, innovativeness, and efficiency; such that SRM's effect on these firm outcomes will be strongest for moralists, then instrumentalists and weakest for corporate egoist cultures.	Partly accepted

CHAPTER 7: DISCUSSIONS, RECOMMENDATIONS AND CONCLUSION

7.1 **Discussions**

This thesis attempts to integrate insights of Resource-Based Theory and Stakeholder Theory by drawing on the former to assess whether Stakeholder Relationships Management can be conceptualized as a valuable, rare, and inimitable firm capability that contributes to sustainable competitive advantage. It proposed that stakeholder relationships management's value can be understood through its influence firm's knowledge acquisition, innovativeness, efficiency, resilience, and performance. It assessed eleven hypotheses about the value of stakeholder relationships management. Out of this, the results of the study supported nine of them, rejected one and partially supported another too. Below we discuss the implications of the findings of the study.

7.1.1 The value of stakeholder relationships management.

As Barney (1991) explained, a resource's value can be determined by its ability to help a firm exploit environmental opportunities and address threats, thereby enhancing its effectiveness or reducing its costs. The positive effect of stakeholder relationship management on knowledge exchange, firm efficiency, resilience, innovativeness and performance, indicates its value as a firm capability. It enables the firm to better address environmental opportunities and threats by enhancing learning, innovativeness and resilience. It also lowers costs by enhancing efficiency and improves effectiveness by making the firm innovative and resilient. Thus, the study confirms that stakeholder relationships management is a valuable firm capability. The findings of the study is in line with previous research that have also recognized the strategic value of stakeholder relationship management as a firm resource. Example, Harrison et al, (2010) and Jones et al (2018) theorized that managing the firm for stakeholders could be considered a valuable firm resource. Our study goes beyond theoretical considerations to empirical verification to confirm the existence of this value in stakeholder relationships management.

Stakeholder relationships management and knowledge exchange: The strong positive effect of stakeholder relationships management on knowledge exchange indicates that firms

which effectively engage in stakeholder relationships management are more likely to learn about their business environment more than those with weaker stakeholder relationships management. Barney (1991) argues that if a resource/capability enables a firm to exploit environmental opportunities and threats then such a resource is valuable, so by enabling environmental knowledge acquisition, Stakeholder relationship Management could be a valuable firm capability. This finding of the study, about stakeholder relationships management's impact on knowledge access, is supported by previous studies. For instance, Dyer and Nobeoka (2000) demonstrated how Toyota's strong supplier relationships fostered knowledge-sharing networks, enhancing the firm's ability to learn from its supply chain partners. Similarly, Hart and Sharma (2004) found that firms engaging with fringe stakeholders (e.g., NGOs, local communities) gained early insights into emerging risks and opportunities, improving strategic adaptability. Ayuso et al. (2011) further confirmed that structured stakeholder dialogue mechanisms enhance organizational learning by integrating external knowledge into decision-making processes. Additionally, Laursen and Salter (2006) showed that firms practicing open innovation, a form of stakeholder-driven learning, achieve higher innovation performance using external expertise. These studies collectively support our findings that effective SRM enhances firm learning, making it a valuable capability for achieving competitive advantage.

Stakeholder relationships management and firm innovativeness: After knowledge exchange, the strongest impact of Stakeholder relationships management was observed on firm innovativeness. A strong direct and indirect effect of the capability on innovativeness implies the capability's substantial influence on firm innovativeness either through learning or through other means. Acquisition of knowledge from stakeholders helps the firm to be innovative as learning is a primary ingredient of innovation.

However, knowledge exchange only partially mediated the effect of stakeholder relationships management on innovativeness. This means that apart from learning, there are other means through which stakeholder relationships management affect firm innovativeness. For instance, close ties with suppliers or customers can lead to co-development of innovative products (Von Hippel, 1988).

Previous research support these findings of the study about the positive effect of stakeholder relationship management on innovativeness. For instance, as mentioned earlier, Laursen and Salter (2006) showed that firms practicing open innovation, a form of stakeholder-driven learning, achieve higher innovation performance using external expertise. Bogers et al.

(2017) also found that stakeholder collaboration significantly increases innovation outputs. Finally, Nahapiet and Ghoshal (1998) highlighted how social capital derived from stakeholder networks facilitates knowledge combination and innovation. By enhancing the innovativeness of a firm, stakeholder relationships management improves a firm's effectiveness, making it a valuable firm capability.

Stakeholder relationships management and firm efficiency: The findings of the study also indicates that stakeholder relationships positively affects firm efficiency. This happens through knowledge exchange for all firms and also directly for firms with instrumentalist stakeholder cultures. Thus, stakeholder relationships management has the potential to improve the time efficiency of firms through knowledge sharing with stakeholders. Since a firm carries out its functions through human stakeholders, a good relationship between the firm and its stakeholders enhances open communication between the firm and these stakeholders, reducing time wasting and improving the firm's efficiency. Previous studies support these findings of the study about the positive effect of stakeholder relationships management on efficiency. For example, Dyer and Singh (1998) demonstrated that strong inter-firm relationships enhance efficiency by reducing transaction costs and improving coordination. Similarly, Klassen and Vereecke (2012) found that effective stakeholder engagement in supply chains leads to operational efficiency gains through shared best practices. Furthermore, Hillman and Keim (2001) showed that firms with strong stakeholder experience improved resource allocation and reduced inefficiencies due to better-informed decision-making.

Stakeholder relationships management and firm resilience: Research on Stakeholder Theory has long argued that SRM enhances the long-term viability of a firm (Freeman 1984; Parmar et al., 2010). Our findings confirms this by showing a direct and indirect effect of SRM on resilience. Establishing trust-based relationships with stakeholders enables stronger stakeholder support in crises times sustaining firm performance. The study however didn't find a significant direct mediation of only knowledge exchange between SRM and firm resilience. It found that sequential mediation where SRM and resilience were mediated by both knowledge exchange and then innovativeness, or knowledge exchange and then efficiency are significant. This implies that knowledge gained from stakeholders does not automatically influence firm resilience. It could only do so when converted to improve efficiency or innovation. This confirms the explanations of dynamic capabilities framework which argues that to be resilient a firm must not only sense environmental knowledge, but must convert the knowledge into opportunities seizure, threat management and resource reconfiguration (Teece, et al, 1997;

Teece, 2007). Thus, sensed knowledge must be converted into improved operational efficiency or innovation, to thrive amid disruptions.

Previous studies also support the findings that stakeholder relationships management affect firm resilience. For example, Bundy et al. (2017) showed that stakeholder trust buffers firms against crises by ensuring continued resource access. Williams et al. (2017) also found that resilient firms integrate stakeholder insights into adaptive strategies.

Stakeholder relationships management and Performance: The significant indirect effects of stakeholder relationship management (SRM) on firm performance through multiple mediators (knowledge exchange, innovativeness, efficiency, and resilience) confirm SRM's substantial contribution to superior organizational outcomes. These findings validate these four factors as critical mediating mechanisms in the SRM-performance relationship. This is a unique contribution of the study to stakeholder theory literature. While numerous studies have examined the performance outcomes of Stakeholder relationships (e.g., Hillman & Keim, 2001; Berman et al., 1999), few have comprehensively investigated the underlying mechanisms through which this influence occurs. Existing research has typically focused on isolated mediators or no mediators at all.

For instance, Scholtens and Zhou (2008) studied direct effects of stakeholder management on financial performance without mediators. Choi and Wang (2009) focused on the resilience benefits of stakeholder relationships management and modelled that SRM helps the firm to sustain perform in times of crises but did not include mediators between stakeholder relationships management and performance. Dyer & Nobeoka, (2000) emphasized information sharing as a primary pathway to which stakeholder management results in performance. Zhao et al (2019), also focused on the benefits of knowledge as the mechanisms mediating stakeholder relations and firm performance. Laursen & Salter (2006) focused on both knowledge access and innovation.

Unlike these previous studies, our research advances understanding of the mechanisms connecting stakeholder relationships management and performance by incorporating multiple sequential mediators. The study demonstrates how SRM's benefits accumulate through knowledge exchange → operational improvements (efficiency/innovativeness) → enhanced resilience to superior performance. This also provide empirical support to dynamic capabilities view (Teece, 2007), showing how SRM enables firms to sense opportunities through

stakeholder knowledge, seize them through innovation, transform through efficiency gains, achieve fitness by becoming resilient and achieve sustainable performance advantages.

All in all, the significant effects that SRM have on knowledge acquisition, innovativeness, efficiency, resilience, and performance imply that it is a valuable firm capability. It enhances a firm's ability to exploit environmental opportunities, manage threats, improve effectiveness, and lower costs.

7.1.2 The rareness of stakeholder relationships management

In addition to its value, stakeholder relationship management is a rare capability making any firm that obtain its value, in terms of benefits in knowledge, efficiency, innovativeness, resilience and performance, likely to enjoy a competitive advantage. As argued earlier, stakeholder relationships management is non-tradable, mostly firm-specific and historical path dependent capability, making it a rare and heterogeneously distributed capability (Barney, 1991, 1995). Therefore, benefits of efficiency, innovativeness, resilience and performance obtained from stakeholder relationships management cannot easily be competed away as no firm can possess exactly the same aspects of the other's stakeholder relationship management capability.

Also, every firm is embedded in a very unique stakeholder network making its relationships with its stakeholders different from other firms (Jones, et al, 2018). This implies that every firm must manage its own network well to obtain the above studied benefits. Firms cannot copy others' networks, they have to concentrate on their own stakeholder network and strengthen their relationships within it to obtain any benefits mentioned above. The uniqueness of stakeholder network means that stakeholder relationships management advantages provide more enduring benefits to any firm that manages its network well. Besides, an aspect of stakeholder relationships management is trust, which takes time to form usually in a path dependent manner based on how a firm has treated its stakeholders over time but could easily be destroyed (Barney, & Hansen, 1994; Pirson, & Malhotra, 2008). Therefore trust-based Stakeholder relationships is a rare critical resource that sustains the benefits of efficiency, resilience, innovativeness and performance just for the firm possessing it (Barney, & Hansen, 1994; Pirson, & Malhotra, 2008). All these factors make stakeholder relationships management of every firm very unique and rare contributing to competitive advantage. Given the unique attributes of stakeholder relationships management of firms, those which are able to obtain

valuable benefits in terms of knowledge, innovativeness, efficiency and resilience from it are more likely to sustain the benefits. Its uniqueness also makes its benefits unique for the focal firm.

7.1.3 The inimitability of stakeholder relationships management

Stakeholder relationships management of a firm is inimitable because it is path dependent, socially complex and its benefits are causally ambiguous, making it an inimitable capability, which could give a firm sustainable competitive advantage (Barney, 1991; Dierickx & Cool, 1989).

Stakeholder relationships management is path dependent in that the capability to engage effectively in stakeholder relationships management develops over time (Harrison, et al, 2010; Barney 1991;1995). For instance, building stakeholder trust does not happen overnight. It usually takes time to develop (Dyer & Chu, 2003; Pirson, & Malhotra, 2008; Barney, & Hansen, 1994). This makes the specifics of a firm's stakeholder relationships management inimitable, and hence the knowledge, efficiency, resilience, innovativeness and performance derived from it also become inimitable. Other firms would not be able to easily imitate these firm outcomes because the focal firm derive these benefits from how it has been managing its own stakeholder relationship over time and which is not easily imitated by others, at least in the short run.

Also, SRM is socially complex because it involves intricate webs of interpersonal and interorganizational relationships (Barney, 1995; Gulati, 1998). While competitors may observe surface-level SRM practices, they cannot replicate the underlying social architecture - the unique combination of stakeholder goodwill, informal communication channels, and shared understandings developed over time (Kale et al., 2000). This implies that the positive influence of stakeholder relationships management on knowledge exchange, efficiency, innovativeness, resilience and performance is not also easily imitated as their sources is socially complex.

Besides these benefits of SRM (knowledge, innovativeness, efficiency, resilience and performance) are also causally ambiguous because the exact mechanisms that transform stakeholder relationships into these benefits are not easily traceable (Lippman & Rumelt, 1982). This ambiguity results from: (1) the idiosyncratic nature of each firm's stakeholder network (Jones et al., 2018), and (2) the complexity of informal relational capital (Nahapiet & Ghoshal, 1998) making these benefits not easily relatable to their sources by competitors.

In all social complexity and path dependence of stakeholder relationships, and the causal ambiguity associated with their benefits makes effective stakeholder relationships management an inimitable capability for achieving sustainable competitive advantage.

7.1.4 The Organization of Stakeholder Relationships Management

The fact that stakeholder relationships management has the potential to lead to sustainable competitive advantage does not mean that any firm that purports to manage stakeholder relationships can gain a sustainable competitive advantage from it. Another important aspect that determines whether a firm would obtain a sustainable competitive advantage from stakeholder relationships management or not is how well the firm is organized to exploit the benefits that the capability could provide (Barney, 1995). Firm organization determines the firm's ability to benefit from the knowledge, efficiency, innovativeness, resilience and performance that stakeholder relationships management could give. Firms that are well organized to exploit these benefits of stakeholder relationships management are likely to achieve such benefits while those not organized to do so might not realize and exploit such benefits.

Firm organization means having the processes and structures in place to exploit the benefits provided by the capability. Meaning a firm must have the right structure and processes for stakeholder engagement, knowledge exchange, and improving efficiency, innovativeness, resilience. Firms that have such structure and processes in place achieve such benefits more than their colleagues that do not.

In this study, we included one aspect of firm organization in our model, which is stakeholder culture (Jones et al, 2007; Boesso & Kumar, 2016). We tested that firms that have moralist stakeholder culture will get better of these benefits than those with instrumentalist culture who will also have better outcomes than those with corporate egoist culture.s While the findings of the study suggest that stakeholder culture moderates the effects of stakeholder relationships, contrary to our expectation it does not show that moralists would benefit from these outcomes more than instrumentalists and corporate egoists. Even in some cases like the effect of SRM on innovativeness, egoists had the most significant effect size. This finding has an interesting implication. This paradox may occur perhaps because moralists already embed stakeholder considerations in operations, leaving less marginal gain from additional SRM

efforts. Egoists, on the other hand, may experience sharper improvements when adopting SRM, as it compensates for their usual transactional approach (Jones, et al, 2007)

Another important related finding was that for all cultures combined, knowledge exchange fully mediate the relationship between stakeholder relationship management and efficiency with no significant direct effect, while for instrumentalists there is a partial mediation with a significant direct effect. This particular finding implies that for instrumentalists, there are other mechanisms driving stakeholder relationships management's effects on efficiency apart from knowledge exchange. Perhaps, instrumentalists' focus on profit enhancement as the reason for stakeholder engagement could potentially influence their use of stakeholder relationships management for other means of gaining efficiency aside those gained through knowledge exchange (Jones et al, 2007; Boesso & Kumar, 2016).

In all, firm organizations, consisting of having appropriate structures and processes to fully exploit the benefits of stakeholder relationships management, influences a firm's ability to benefit from the capability. The culture, processes, systems, human capital etc. of firms could determine the extent to which stakeholder relationship management could influence knowledge exchange, efficiency, innovativeness, resilience and performance. Future studies could explore the moderating effects of these other organizational aspects

7.2 Contribution of this study to literature

This study makes a number of contributions to both the resource-based theory and stakeholder theory. First the study contributes to recent calls for research integrating stakeholder theory with mainstream strategic management theories like the resource-based theory (e.g., Bridoux & Stoelhorst, 2022; McGahan, 2021; Freeman et al., 2021; Barney et al., 2021a; Barney, 2018; Harrison et al., 2019). This thesis empirically tests one of the ways that this integration could be done, by examining stakeholder relationships management as a resource and assessing how it contributes to sustainable competitive advantage. Below we assess the contributions that this study makes to individual theories.

7.2.1 *Contribution to Resource-Based Theory (RBT)*

Empirical Contribution: This study adds empirical support to the proposition of RBT. The RBT from its inception has been challenged by empirical validation due to the difficulty of measuring its unobservable constructs (Barney & Arkan, 2005; Priem & Butler, 2001). By operationalizing stakeholder relationship management (SRM) as a capability and measuring its value through measurable outcomes (knowledge exchange, efficiency, innovativeness, and resilience), this study has added empirical support to RBT'S propositions. It illustrates Godfrey and Hill's (1995) suggestion that RBT scholars must concentrate on empirically verifying the observable aspects of the unobservable constructs embedded in the theory. Also, while stakeholder management may have been suggested previously as a potential resource capable of contributing to sustainable competitive advantage (Harrison, et al, 2010; Jones et al, 2018), there are scanty studies, if any, that empirically verifies this potentiality. This study moved a step beyond theorization to empirical validation. It therefore contributes to RBT by empirically demonstrating the value of stakeholder relationships management as a capability as well as explaining its rareness, inimitability, and organization.

Bridging RBT with Relational-based and External perspectives: Traditional RBT often concentrates on internal resources as the source of superior firm performance (Barney, 1991; Priem & Butler, 2001). However, it has long been emphasized in strategic management that factors external to the firm can also influence its performance (Porter, 1980). The drive to address the neglect of the influence of external elements in RBT influenced the development of theoretical fragments such as the relational based view and the dynamic capabilities view (Dyer & Singh, 1998; Teece, et al 1997). According to the relational based view, aside from internal resources, the relationships a firm makes with outside entities could be important resources that influences firm performance (Dyer & Singh, 1998). Dynamic capabilities view also explains that, aside from having valuable resources, the ability to sense environmental changes and reconfigure these resources as the environment changes is important to achieving sustainable firm performance (Teece, et al 1997; Teece, 2007). This study contributes to these attempts to include external elements in RBT explanation, by presenting findings that verifies that a firm's management of its relationships with stakeholders, both within it and outside, influences its performance. It contributes to RBT, by showing that managing external relational resources, are essential complements to managing internal resources. It pushes RBT to incorporate stakeholder-based resources as integral to competitive advantage.

7.2.2 *Contribution to Stakeholder Theory (ST)*

Supporting Stakeholder theory's position as a strategic management theory: Stakeholder theory which was originally proposed as a strategic management theory (Freeman, 1984), has since attracted relatively marginal attention from strategic management scholars, because of its normative commitments (Freeman et al., 2021; Valentinov & Chia, 2022; Harrison, 2011). However, this study has proven that SRM does not only enhance the morality of a firm but has positive economic outcomes, aligning the stakeholder theory with the rest of theories within the mainstream strategic management field. Thus, by examining stakeholder relationships management as a firm capability, this study provides support for the instrumental study of stakeholder relationships management, enhancing stakeholder theory's alignment with the rest of mainstream strategic management.

Advancing the strategic value of Stakeholder relationship management: By framing SRM as a capability that drives knowledge sharing, innovation, efficiency and adaptability, the study helps reposition stakeholder relationships management from a normative obligation to a core organizational competence. Stakeholder relationships management while ethically desirable is avoided by firms because of the cost implications (Harrison, et al., 2019). This study has proven that stakeholder relationships management instead enhances the efficiency of a firm together with other economic benefits such as access to knowledge, innovativeness, resilience and overall performance. Thus, contrary to the fears that some corporate executives may have for engaging in stakeholder relationships management, it could in fact lead to their success (Harrison, et al., 2019).

Advancing the Dynamic Perspective of Stakeholder Relationships Management: This study's findings show that stakeholder relationships management enhances firm's ability to sense environmental knowledge (Knowledge exchange), adapt as environment changes (resilience) as well as reconfigure resources (innovate), supporting the dynamic view of stakeholder relationships management (Teece, et al, 1997; Teece, 2007). Thus, SRM is shown not only as a static resource but also a dynamic process that contributes to the continuous renewal of firm capabilities. This potentially responds to recent scholarly suggestions to connect stakeholder theory with dynamic and evolutionary perspectives (eg. Wicks and Harrison 2017, p. 17).

Enriching the Value Creation Narrative in ST by identifying mechanisms: Stakeholder Theory has long emphasized value creation for stakeholders, but the mechanisms of how value

is created and captured through stakeholder engagement are often underexplored (Barney & Harrison, 2018; Freeman et al, 2018). This study clarifies some of these mechanisms by showing how SRM leads to superior value creation. It proposed and verified that the mechanisms through which stakeholder relationships management lead to superior value creation include its influence on knowledge gains, efficiency, innovativeness, and resilience. It also explained that stakeholder culture moderates the impacts of stakeholder relationships management on these mediating mechanisms. While some previous studies have tested the role played by some of these mechanisms in translating stakeholder relationships management into firm performance (Choi & Wang, 2009; Dyer & Nobeoka, 2000; Zhao et al, 2019; Laursen & Salter, 2006), we are unaware of any study that has incorporated all of these mechanisms and tested them in one model.

7.3 Limitations of the Study and Suggestions for future research

Despite attempts to rigorously conduct this study, it encountered a number of limitations which we would like to acknowledge and suggest for future research to consider. The following presents the limitations and suggestions for future research.

Cross-Sectional Design: The study uses a cross-sectional design, which limits the ability to establish causal relationships. Longitudinal data would allow for a more robust understanding of how stakeholder relationships evolve and contribute to sustained performance over time (Neuman, 2014, p44).

Future studies should use longitudinal designs to explore how stakeholder relationship management (SRM) capabilities evolve over time and how they dynamically influence knowledge exchange, innovativeness, efficiency, resilience, and performance. This would provide stronger evidence for causal inference and help discover the temporal patterns of value creation through stakeholder engagement.

Self-Reported Measures: Data were collected through self-reported surveys, which may introduce common method bias or social desirability bias (Neuman, 2014; p330; (Podsakoff et al., 2003). It is possible for respondents to overestimate their firm's capabilities or performance, especially in areas like innovativeness or stakeholder relationships management. Even though our statistical checks revealed no severe concern for common method bias, using different data collection methods could further reduce any potential bias.

To reduce single-informant bias and further improve data quality, future research should collect data from multiple respondents within each firm or even from external stakeholders themselves. This would offer richer insights into how stakeholder relationships are perceived and managed across organizational levels. Future research could also combine both objective and subjective data (Podsakoff et al., 2003; MacKenzie & Podsakoff, 2012). They could use published company data and gather company documents to understand their stakeholder engagement practices and performance and could triangulate them with subjective or perceptual data.

Context-Specific Findings: The study was conducted in a specific national (i.e. Türkiye) and industry context (i.e. manufacturing). As such, the generalizability of the findings to firms operating in different institutional, cultural, or industry environments may be limited (Neuman, 2014; p306). Future research could replicate the study across various sectors and countries to enhance external validity (Neuman, 2014; p306). Given that the effectiveness of SRM may vary across sectors and institutional environments, future studies should also examine cross-industry or cross-national differences. For example, future studies could compare examine the role of SRM in regulated industries versus unregulated ones, or in emerging markets versus developed economies

Focus on Formal SRM Practices: The study primarily captures formal and measurable aspects of stakeholder relationship management. However, informal relational dynamics, such as implicit trust-building in stakeholder relations, are harder to quantify but may play a significant role. To capture the complexity of stakeholder relationships, future studies could use qualitative or mixed method designs. Case studies, interviews, or ethnographic research can help uncover the informal practices, narratives, and relational dynamics that quantitative surveys may not capture (Neuman, 2014; p201-244).

Omission of Potentially relevant Moderators and Mediators: Aside from stakeholder culture, there could be a lot of other potential moderating variables, such as environmental dynamism, stakeholder salience, etc which could influence the strength or direction of the relationships between SRM and the outcome variables. Including such factors could refine the explanatory power of the model. Future research should explore and include these other important moderating factors that may condition the relationship between SRM and firm outcomes. Additionally, mediating mechanisms such as stakeholder trust, satisfaction, commitment, and loyalty were included in our explanations but were not empirically tested as

measurable constructs. Exploring these mechanisms could deepen our understanding of how SRM translates into tangible benefits.

Including Stakeholder Outcomes: Stakeholder relationships management has two main ultimate outcomes, firm-outcomes and stakeholder-outcomes (Freeman et al, 2021; Freeman, et al, 2018). This study focused on firm outcomes, excluding stakeholder outcomes. Future research can also examine the influence of stakeholder relationship management as a firm resource on stakeholder outcomes including stakeholder appropriated benefits, stakeholder happiness etc. This would align with the normative foundations of stakeholder theory and offer a more balanced view of value creation.

7.4 Conclusion

This dissertation attempted an integration between Resource-Based Theory and Stakeholder Theory by using the former to assess whether Stakeholder Relationship Management (SRM) can be considered as a strategic capability capable of contributing to sustainable superior firm performance. Drawing on core RBT propositions that resources and capabilities which are valuable, rare, inimitable, and supported by an appropriate organizational context can drive long-term firm success (Barney, 1991; 1995), this study investigated the extent to which SRM fulfills these criteria. It hypothesized that stakeholder relationships management by enhancing firm learning, efficiency, innovativeness, resilience and performance, is a valuable firm capability.

To empirically test these hypotheses, data were collected from managers of manufacturing firms operating in Ankara and Istanbul, Türkiye. The findings confirmed that SRM significantly enhances firm learning, efficiency, innovativeness, resilience, and overall performance, demonstrating its value as a strategic capability. Furthermore, the study argued that the benefits firms derive from managing stakeholder relationships are not only valuable but also rare and difficult to imitate, because of the firm's embeddedness in unique stakeholder networks. Each firm has a unique network of stakeholders, making it nearly impossible for another to imitate the specific nature of the stakeholder relationship of another. Also attributes of stakeholder relationships management such as trust and loyalty are path dependent, causally ambiguous and socially complex and cannot easily be imitated by another firm (Barney, & Hansen, 1994; Pirson, & Malhotra, 2008). Therefore, firms that are organized to harness the

benefits (learning, efficiency, innovativeness, resilience and performance) of stakeholder relationships management are more likely to achieve and sustain competitive advantage.

This thesis makes several important contributions to strategic management theory. First, it advances stakeholder theory by framing Stakeholder Relationships Management not simply as an ethical imperative but as a strategic capability with economic consequences. This shifts the conversation from stakeholder obligations to stakeholder-based strategic value. It has also provided support for the instrumental stream of stakeholder theory as an important strategic management theory that aligns with the rest of mainstream strategic management theories, which are concerned with explaining differences in economic performance of firms. Furthermore, it has also explained the mechanisms connecting stakeholder relationships management and superior firm value creation, which has been undertheorized in the literature (Freeman, et al, 2018; Barney & Harrison, 2018). Also, by demonstrating that Stakeholder Relationships Management enables firms to build dynamic capabilities such as learning, innovation, and resilience, the study responds to recent scholarly suggestions to connect stakeholder theory with dynamic or evolutionary perspectives (eg. Wicks and Harrison 2017, p. 17).

It also contributes to the resource-based view by extending its focus on internal aspects of firm to considering the implications of managing the external and relational aspects of firm (Priem & Butler, 2001). It further provides empirical validation to RBT's propositions. It also demonstrates the mechanisms linking the possession of strategic capabilities to firm performance. In this regard, the thesis contributes to a growing body of work that sees stakeholder theory and RBT not as competing logics but as mutually reinforcing frameworks (e.g., Bridoux & Stoelhorst, 2022; McGahan, 2021; Freeman et al., 2021; Barney et al., 2021a; Barney, 2018; Harrison et al., 2019).

The findings of this study also have important implications for managers. Especially, for firms operating in contexts with high environmental uncertainty, market competition, and stakeholder complexity; investing in the development of Stakeholder Relationships Management capabilities such as stakeholder intelligence systems, processes for stakeholder interactions, collaboration and adaptation, can enhance their capacity to learn, innovate, be efficient, resilient, and perform.

Managers are encouraged to view stakeholders not merely as external pressures but as potential collaborators and co-creators of value. Stakeholder relationships management should

therefore be treated as a core organizational process, integrated into strategic decision-making and supported by leadership commitment and performance incentives.

Like all research, this study is not without limitations. It has acknowledged these limitations and made suggestions for future research to address them. These include its cross-sectional design which limits the ability to make conclusive causal inferences. Although strong associations were observed between Stakeholder Relationships Management and various firm outcomes, longitudinal research would be needed to confirm causality and examine how Stakeholder Relationship Management capabilities evolve over time. Also, the study focused on manufacturing firms in two major Turkish cities, Ankara and Istanbul. While these settings are economically significant, the findings may not be fully generalizable to other sectors, regions, or institutional contexts. Future studies could test the model in other industrial and geographical contexts and could also conduct cross context comparisons. Additionally, the study relied solely on managerial perceptions, which, while useful and common in strategic management research, may not fully capture the perspectives of stakeholders themselves. It also took data from only one manager per firm at a single time point which may likely introduce biases. Even though our controls minimized common method bias, future research could use different data sources to investigate the relationships studied. Future studies may also explore other moderators and mediators that influence the effectiveness of Stakeholder Relationships Management. Future studies could also explore the effect of stakeholder relationships management as a firm capability on stakeholder outcomes such as stakeholder satisfaction and happiness.

To conclude, this study calls for firms to engage in stakeholder relationships management and view it not just as a moral obligation but also as a strategic capability that enable them to adapt, learn, and innovate; as well as also achieve efficiency and performance. It has shown that Stakeholder Relationship Management is not only ethically sound but strategically valuable. When appropriately developed and embedded within firm routines, Stakeholder Relationships Management emerges as a capability that supports sustained competitive advantage.

By integrating stakeholder theory and the resource-based view, this study offers both theoretical and practical explanation of how firms achieve sustainable performance through stakeholder relationships management.

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9. APPENDICES

9.1 THE STUDY'S QUESTIONNAIRE

PART A. DEMOGRAPHIC DETAILS

Please provide responses to the following questions about your firm.

1. How many full-time employees does your firm currently employ? _____ (please specify a number)
2. What year was your company founded? _____ (please specify a number)
3. Is your firm (a) privately owned firm or (b) publicly listed firm (please circle corresponding number)
4. In which industry does your company mainly operate? _____
5. What is your position in your company? _____

PART B. THE STUDY'S CONSTRUCTS

Stakeholder Relationship Management

	<i>Knowledge of stakeholders</i>	Totally Disagree						Totally Agree
1	The company keeps documented information on the previous relationships with stakeholders (important meetings, conflicts, agreements, judicial or extrajudicial demands, etc.)	1	2	3	4	5	6	7
2	Knowledge of all stakeholders and their demands is very important for the managers (performance, relationships among them, positions of power, importance and satisfaction...)	1	2	3	4	5	6	7
3	The company obtains feedback on its repercussions on stakeholders	1	2	3	4	5	6	7
4	The company dedicates little time and few resources to knowing the characteristics of its stakeholders (relationships between different stakeholders, potential threats, cooperation, etc.)	1	2	3	4	5	6	7
5	There is a lack of information and documentation on stakeholders' demands (-)	1	2	3	4	5	6	7
	<i>Interaction Capability</i>	Totally Disagree						Totally Agree
6	The company frequently has meetings with the stakeholders	1	2	3	4	5	6	7
7	The company consults the Stakeholders and asks them for information before taking decisions	1	2	3	4	5	6	7
8	The company's formal or informal cooperation with its stakeholders is intense (commitments, collaboration agreements....)	1	2	3	4	5	6	7
9	Stakeholders participate in the company's decision-taking process	1	2	3	4	5	6	7
10	The company strives to develop new contacts with all the stakeholders	1	2	3	4	5	6	7
11	The company dedicates time and resources to assessing and prioritizing the demands of the different stakeholders	1	2	3	4	5	6	7

	Adaptation Capability	Totally Disagree						Totally Agree
12	The company makes a special effort to prepare the information for the different stakeholders according to their needs	1	2	3	4	5	6	7
13	There is frequent managerial debate about the demands of the stakeholders	1	2	3	4	5	6	7
14	The company is willing to change its objectives in line with stakeholders' demands	1	2	3	4	5	6	7
15	The company dedicates little time and few resources to adapting to Stakeholders	1	2	3	4	5	6	7
16	The company's policies and priorities are adapted to Stakeholders' demands	1	2	3	4	5	6	7

Knowledge Exchange

		Strongly Disagree						Strongly Agree
1	We frequently exchange important information (such as market trends) with stakeholders	1	2	3	4	5	6	7
2	We often obtain valuable information through our relationships with stakeholders	1	2	3	4	5	6	7
3	We share our business experience with stakeholders	1	2	3	4	5	6	7
4	We learn a lot from our stakeholders	1	2	3	4	5	6	7

Innovativeness

		Strongly Disagree						Strongly Agree
1	Our company frequently tries out new ideas	1	2	3	4	5	6	7
2	Our company seeks out new ways to do things	1	2	3	4	5	6	7
3	Our company is creative in its methods of operation	1	2	3	4	5	6	7
4	Our company is often the first to market with new products and services	1	2	3	4	5	6	7
5	Innovation in our company is perceived as too risky and is resisted	1	2	3	4	5	6	7
6	Our new product introduction has increased over the last 5 years	1	2	3	4	5	6	7

Efficiency

	Cost efficiency	Strongly Disagree						Strongly Agree
1	Our firm has very low total quality costs relative to the total output	1	2	3	4	5	6	7
2	Our firm reveals low engineering change rates in the production	1	2	3	4	5	6	7
3	Our firm has very low unit costs of manufacturing	1	2	3	4	5	6	7
	Time efficiency							
4	Our firm reveals outstanding delivery speed and reliability	1	2	3	4	5	6	7
5	Our firm has a very short manufacturing lead time	1	2	3	4	5	6	7
6	Our firm reveals a high inventory turnover rate.	1	2	3	4	5	6	7

Resilience

		Strongly Disagree						Strongly Agree
1	We are able to cope with changes brought by disruptions in our business environment	1	2	3	4	5	6	7
2	We are able to easily adapt to disruptions in our business environment	1	2	3	4	5	6	7
3	We are able to provide a quick response to disruptions in our business environment	1	2	3	4	5	6	7
4	We are able to maintain high situational awareness at all times	1	2	3	4	5	6	7

Performance

		Strongly Disagree						Strongly agree
1	Over the past 3 years, our financial performance has been outstanding	1	2	3	4	5	6	7
2	Over the past 3 years, our financial performance has exceeded our competitors'	1	2	3	4	5	6	7
3	Over the past 3 years, our sales growth has been outstanding	1	2	3	4	5	6	7
4	Over the past 3 years we have been more profitable than our competitors	1	2	3	4	5	6	7
5	Over the past 3 years, our sales growth has exceeded our competitors'	1	2	3	4	5	6	7

Stakeholder culture

For each of the following issues please CIRCLE the response option (a) or (b) or (c) that most closely describes the way in which your company manages relationships with various stakeholder groups.

- In managing stakeholder relationships my company [...].*
 - regards the interests of any stakeholder group as important only to the extent that the stakeholder can contribute to the company's short-term financial success.
 - realizes that moral behavior is important but only to the extent that it is advantageous for the company to do so.
 - shows a genuine concern for every stakeholder's interests.
- In managing stakeholder relationships my company [...]*
 - deals with stakeholder groups in ways that work to the best advantage of the company
 - acts in ways that appear to be moral but with the underlying goal of advancing company's economic interests.
 - shows a prima facie respect for the rights of all stakeholder groups.
- In managing stakeholder relationships my company [...].*
 - would not hesitate in violating an agreement (made with a stakeholder group) if it is to the advantage of the company.
 - avoids treating a stakeholder group unfairly or poorly only in order to avoid negative public relations.
 - will make any compromises *only when* it seriously threatens the economic wellbeing of the company.
- In managing stakeholder relationships my company [...].*
 - generally, interprets laws and contracts related to different stakeholder groups in ways that favor company profitability.
 - acts in ways that allow the company to project an image of being trustworthy with important stakeholder groups.
 - does not allow ethical standards to be violated for economic gains under any circumstances

9.2 DIRECT EFFECTS

	Observed coefficient	Bootstrap std. err.	Z	P>z	Normal [95% conf. based interval]	
Structural						
Knowledge Ex						
SRM	.9030549	.0569387	15.86	0.000	.7914571	1.014653
Ownership_dummy2	-.0008992	.1644072	-0.01	0.996	-.3231313	.3213329
Age	-.0018109	.0019334	-0.94	0.349	-.0056003	.0019785
Employees	8.55e-07	9.11e-06	0.09	0.925	-.000017	.0000187
Innovativeness						
KnowledgeEX	.4657926	.0804128	5.79	0.000	.3081865	.6233987
SRM	.5298473	.0967599	5.48	0.000	.3402015	.7194932
Ownership_dummy2	-.1403222	.2150151	-0.65	0.514	-.561744	.2810996
IndustryDummy	-.2644617	.1082125	-2.44	0.015	-.4765544	-.052369
Age	.0031623	.0026159	1.21	0.227	-.0019647	.0082894
Employees	-1.16e-06	.0000192	-0.06	0.952	-.0000387	.0000364
Resilience						
KnowledgeEx	.0892507	.0662233	1.35	0.178	-.0405446	.2190461
Innovativeness	.2411965	.0600009	4.02	0.000	.1235969	.3587962
Efficiency	.2826893	.0505829	5.59	0.000	.1835485	.38183
SRM	.3025308	.071411	4.24	0.000	.1625678	.4424939
Ownership_dummy2	.0056476	.1306929	0.04	0.966	-.2505058	.261801
IndustryDummy	.0049203	.0705819	0.07	0.944	-.1334175	.1432582
Age	-.0001708	.0014911	-0.11	0.909	-.0030934	.0027517
Employees	.0000134	.0000123	1.09	0.276	-.0000107	.0000376
Efficiency						
KnowledgeEX	.2535977	.0858017	2.96	0.003	.0854295	.4217658
Innovativeness	.2877249	.0857331	3.36	0.001	.119691	.4557587
SRM	.1479329	.0986763	1.50	0.134	-.0454691	.3413349
Ownership_dummy2	.0538887	.1781185	0.30	0.762	-.2952172	.4029946
IndustryDummy	-.1295997	.1065947	-1.22	0.224	-.3385216	.0793222
Age	.0012279	.00207	0.59	0.553	-.0028293	.0052851
Employees	.0000287	.000013	2.20	0.028	3.11e-06	.0000542
Performance						
KnowledgeEX	0	(no path)				
Innovativeness	.4038792	.0817732	4.94	0.000	.2436066	.5641518
Resilience	.2609976	.1058032	2.47	0.014	.0536271	.468368
Efficiency	.22644	.1107475	2.04	0.041	.0093789	.4435011
SRM	0	(no path)				
Ownership_dummy2	.1895879	.2376083	0.80	0.425	-.2761158	.6552917
IndustryDummy	.0113464	.1219626	0.09	0.926	-.2276959	.2503887
Age	.0022271	.0024983	0.89	0.373	-.0026695	.0071236
Employees	.0000325	.0000278	1.17	0.242	-.000022	.0000871

9.3 INDIRECT EFFECTS

	Observed coefficient	Bootstrap std. err.	Z	P>z	Normal-based [95% conf. interval]	
Structural						
KnowledgeEX						
SRM	0	(no path)				
Ownership_dummy2	0	(no path)				
Age	0	(no path)				
Employees	0	(no path)				
Innovativeness						
KnowledgeEX	0	(no path)				
SRM	.4206363	.076832	5.47	0.000	.2700484	.5712242
Ownership_dummy2	-.0004188	.0765833	-0.01	0.996	-.1505192	.1496816
IndustryDummy	0	(no path)				
Age	-.0008435	.0009107	-0.93	0.354	-.0026284	.0009414
Employees	3.98e-07	4.24e-06	0.09	0.925	-7.92e-06	8.72e-06
Resilience						
KnowledgeEX	.221923	.0443434	5.00	0.000	.1350114	.3088345
Innovativeness	.0813367	.0299551	2.72	0.007	.0226258	.1400477
Efficiency	0	(no path)				
SRM	.4937193	.0748096	6.60	0.000	.3470952	.6403434
Ownership_dummy2	-.0303046	.0852773	-0.36	0.722	-.1974451	.1368359
IndustryDummy	-.1219341	.0468431	-2.60	0.009	-.213745	-.0301233
Age	.0008036	.0011392	0.71	0.481	-.0014291	.0030363
Employees	8.00e-06	6.53e-06	1.23	0.220	-4.79e-06	.0000208
Efficiency						
KnowledgeEX	.1340201	.0468358	2.86	0.004	.0422236	.2258166
Innovativeness	0	(no path)				
SRM	.5024904	.0907197	5.54	0.000	.324683	.6802978
Ownership_dummy2	-.0407227	.0705812	-0.58	0.564	-.1790593	.0976139
IndustryDummy	-.0760922	.0359244	-2.12	0.034	-.1465027	-.0056817
Age	.0002079	.0010035	0.21	0.836	-.0017588	.0021747
Employees	-1.19e-09	5.36e-06	-0.00	1.000	-.0000105	.0000105
Performance						
KnowledgeEX	.3571117	.0600552	5.95	0.000	.2394058	.4748177
Innovativeness	.1493328	.0400453	3.73	0.000	.0708454	.2278202
Resilience	0	(no path)				
Efficiency	.0737812	.034259	2.15	0.031	.0066349	.1409276
SRM	.7389818	.0682492	10.83	0.000	.6052159	.8727477
Ownership_dummy2	-.0602965	.1267278	-0.48	0.634	-.3086784	.1880855
IndustryDummy	-.1839278	.0716652	-2.57	0.010	-.324389	-.0434666
Age	.0014268	.0017153	0.83	0.406	-.0019351	.0047887
Employees	.0000118	.0000107	1.10	0.272	-9.22e-06	.0000328

9.4 TOTAL EFFECTS

Observed	Bootstrap			Normal	Based	
	Observed coefficient	Bootstrap std. err.	Z	P>z	Normal-based Normal-based [95% conf. interval]	
Structural						
KnowledgeEX						
SRM	.9030549	.0569387	15.86	0.000	.7914571	1.014653
Ownership_dummy2	-.0008992	.1644072	-0.01	0.996	-.3231313	.3213329
Age	-.0018109	.0019334	-0.94	0.349	-.0056003	.0019785
Employees	8.55e-07	9.11e-06	0.09	0.925	-.000017	.0000187
Innovativeness						
KnowledgeEX	.4657926	.0804128	5.79	0.000	.3081865	.6233987
SRM	.9504836	.0671127	14.16	0.000	.8189453	1.082022
Ownership_dummy2	-.140741	.1989738	-0.71	0.479	-.5307225	.2492405
industryDummy	-.2644617	.1082125	-2.44	0.015	-.4765544	-.052369
Age	.0023188	.0026053	0.89	0.373	-.0027874	.0074251
Employees	-7.58e-07	.000018	-0.04	0.966	-.0000361	.0000346
Resilience						
KnowledgeEX	.3111737	.075808	4.10	0.000	.1625928	.4597546
Innovativeness	.3225333	.05962	5.41	0.000	.2056802	.4393864
Efficiency	.2826893	.0505829	5.59	0.000	.1835485	.38183
SRM	.7962502	.0541314	14.71	0.000	.6901545	.9023458
Ownership_dummy2	-.024657	.1494979	-0.16	0.869	-.3176675	.2683535
industryDummy	-.1170138	.0895133	-1.31	0.191	-.2924566	.058429
Age	.0006327	.0019813	0.32	0.749	-.0032505	.004516
Employees	.0000214	.0000125	1.72	0.086	-3.03e-06	.0000459
Efficiency						
KnowledgeEX	.3876178	.0795887	4.87	0.000	.2316268	.5436088
Innovativeness	.2877249	.0857331	3.36	0.001	.119691	.4557587
SRM	.6504233	.0699008	9.30	0.000	.5134203	.7874262
Ownership_dummy2	.013166	.1916499	0.07	0.945	-.3624609	.3887928
industryDummy	-.2056919	.112924	-1.82	0.069	-.4270189	.0156351
Age	.0014358	.0023051	0.62	0.533	-.0030821	.0059537
Employees	.0000287	.0000131	2.19	0.028	3.02e-06	.0000543
Performance						
KnowledgeEX	.3571117	.0600552	5.95	0.000	.2394058	.4748177
Innovativeness	.553212	.0714093	7.75	0.000	.4132524	.6931717
Resilience	.2609976	.1058032	2.47	0.014	.0536271	.468368
Efficiency	.3002212	.1043027	2.88	0.004	.0957917	.5046507
SRM	.7389818	.0682492	10.83	0.000	.6052159	.8727477
Ownership_dummy2	.1292915	.2790857	0.46	0.643	-.4177064	.6762893
industryDummy	-.1725814	.1411185	-1.22	0.221	-.4491686	.1040059
Age	.0036539	.003136	1.17	0.244	-.0024925	.0098003
Employees	.0000443	.0000248	1.79	0.074	-4.33e-06	.000093

9.5 FIGURES OF SRMC'S EFFECTS FOR DIFFERENT CULTURES

Figure 8: SRM's effects for Corporate Egoists

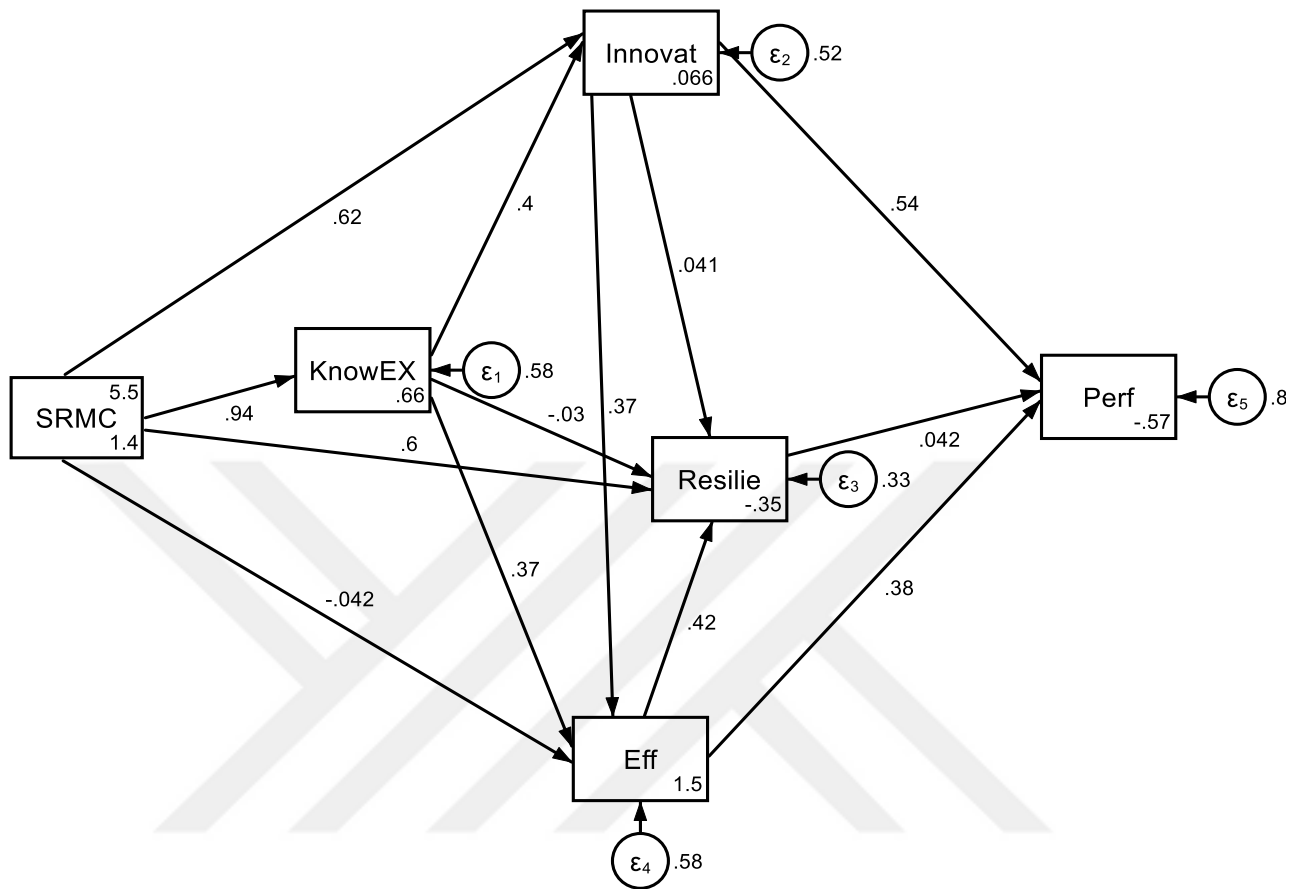


Figure 9: SRM's effects for Instrumentalists

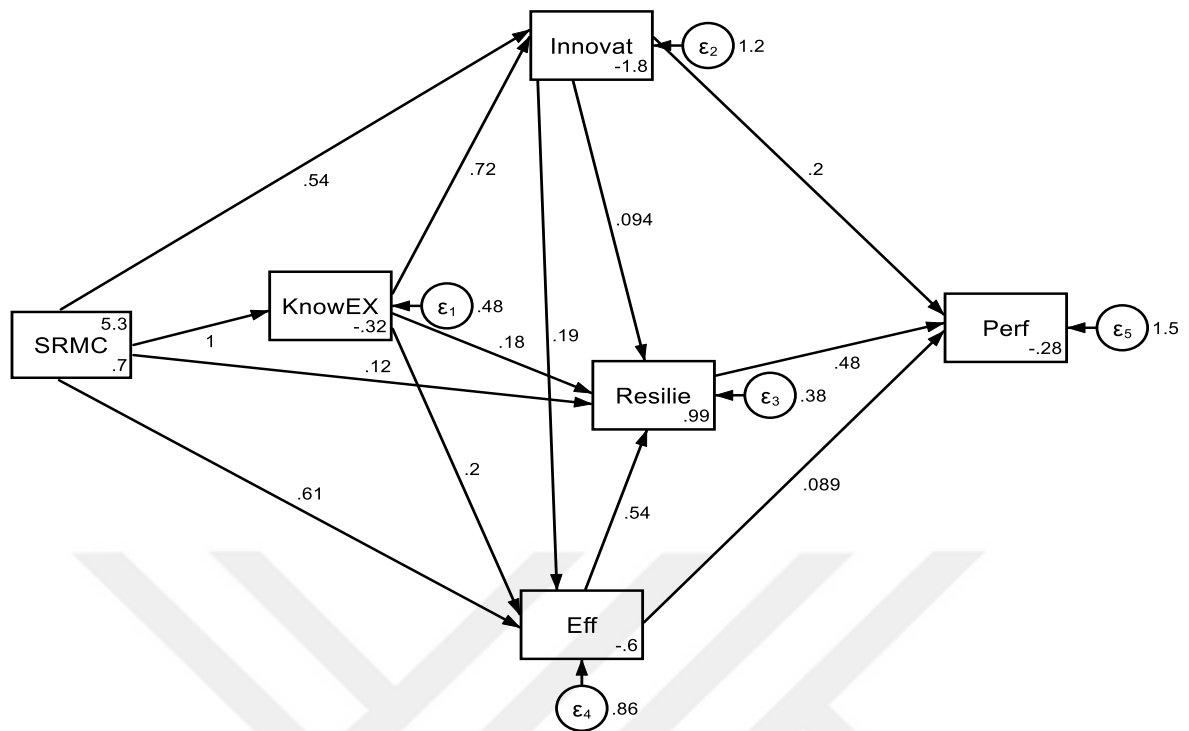
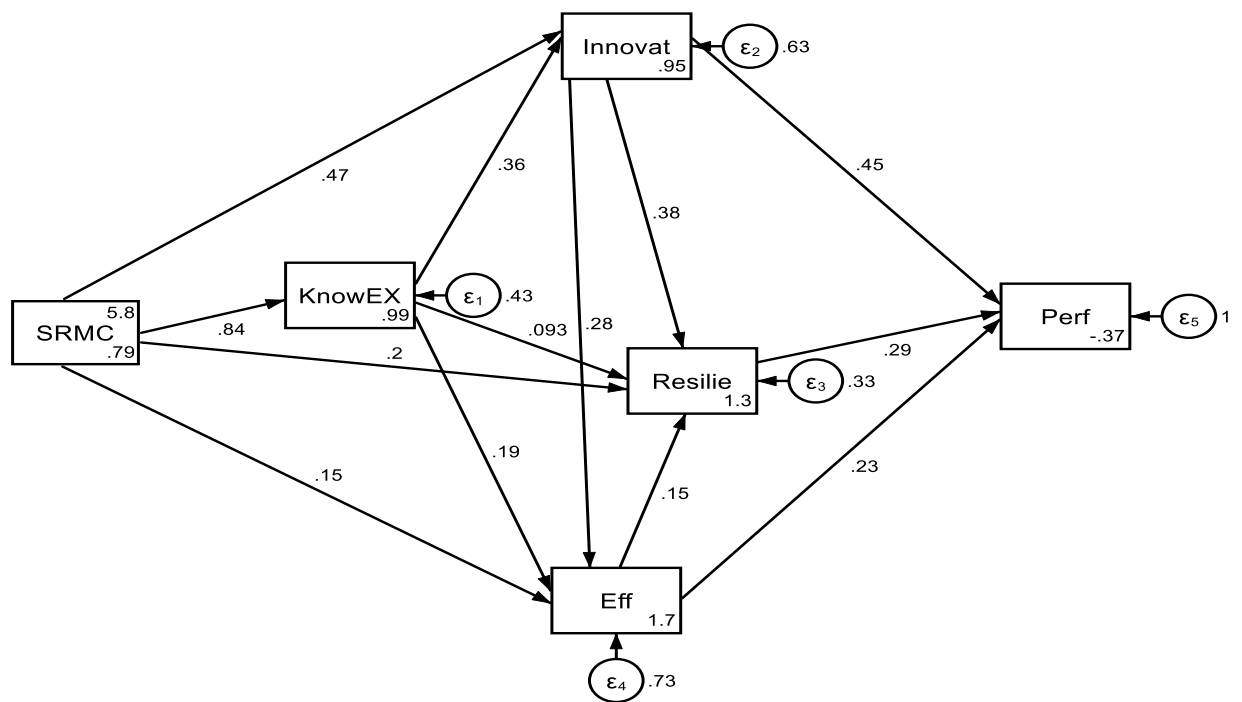


Figure 10: SRM's effects for Moralists



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