Sustainability and stakeholder theory: a processual perspective

Vladislav Valentinov
Department of Structural Development of Farms and Rural Areas, Leibniz Institute of Agricultural Development in Transition Economies, Halle, Germany;
Department of Law and Economics, Martin Luther University Halle-Wittenberg, Halle, Germany and
Next Society Institute, Kazimieras Simonavicius University, Vilnius, Lithuania

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Abstract

Purpose – Sustainability has long been known to present an epistemic challenge. In the corporate setting, this challenge translates into the difficulties experienced by managers not only in devising solutions to corporate sustainability problems, but even in developing the awareness of the latter. The paper explores how these difficulties may be overcome by corporate stakeholder management policies.

Design/methodology/approach – The paper develops a conceptual framework that reconstructs the Hayekian theory of market process in the context of Williamson's (1996) distinction between autonomous and cooperative adaptation.

Findings – Applying the Hayekian theory of market process to the process of engagement and collaboration of corporate stakeholders, the paper shows how the latter process may address the epistemic challenge of corporate sustainability and derives implications for the design of business models for sustainability.

Originality/value – The paper informs stakeholder theory in two ways: first, stakeholder theory is given a novel justification in terms of reflecting the growing prominence of cooperative adaptation and second, corporate stakeholder management is shown to be crucial for maximizing not only economic but also sustainability performance.

Keywords Sustainability, Economics, Governance

Paper type Conceptual paper

1. Introduction

Management scholars broadly agree that stakeholder collaborations may make strong practical contributions toward corporate sustainability management (Wang *et al.*, 2022; Freudenreich *et al.*, 2020; Schaltegger *et al.*, 2019; Valentinov *et al.*, 2019; Hörisch *et al.*, 2014; Garvare and Johansson, 2010). The nature of these contributions has been the object of a considerable interest for stakeholder theorists. For example, Schaltegger *et al.* (2019) highlight the potential of stakeholder theory to justify the business case for sustainability. This is a crucial contribution in view of the widely perceived trade-offs between sustainability and economic performance (Phillips *et al.*, 2019; Pies *et al.*, 2014; Beckmann *et al.*, 2014; Hahn *et al.*, 2010). Freudenreich *et al.* (2020) suggest that corporate sustainability management rests on sustainable business models which require extensive engagement of

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stakeholders. Overall, Hörisch *et al.* (2014) show that stakeholder theory and sustainability management converge on a common vision of the purpose of business and the legitimacy of profit making, embrace the complexity of the sustainability challenge and link it to strategic management.

Yet, what stakeholder theorists have not yet fully considered is that, from the very beginnings of the prominence of sustainable development on the agendas of science, politics and civil society, the notion of sustainability has presented an epistemic challenge. The new transdiscipline of ecological economics, which took shape in the second half of the twentieth century, draws on the core idea that the meaning of sustainability cannot be grasped in terms of the principles and tools of neoclassical economics as well as conventional strategic management (Costanza, 2020). The need for a paradigmatic reorientation of the traditional economic ways of thinking, in theory and practice, was pointed out by numerous scholars, such as Kenneth Boulding (1966) who coined the term "spaceship economics", and Daly (1968) who proposed to redefine economics as a life science which considers the economy to be a part of the ecosystem rather than the other way around (Daly, 1999). Understanding the meaning of sustainability is acknowledged to necessitate "organic worldview" (Ingebrigtsen and Jakobsen, 2012) as well as various systems thinking approaches (Roth, 2019; Jackson, 2019; Capra and Luisi, 2014). Moreover, as argued by Nelson (2013), in a world which is "profoundly unsafe, interdependent, and uncertain", both economists and corporate managers are subject to distinct moral demands of which they ought to be cognizant; these demands may include the possession of what Becker (2012, p. 70) identifies as the basic environmental virtues of attentiveness and receptiveness toward nature.

Even though stakeholder theory does not provide definitive answers to many conundra surrounding the notion of sustainability, the possibility of stakeholder business cases for sustainability (Schaltegger *et al.*, 2019) as well as the existence of stakeholder value creation frameworks for business model analysis (Freudenreich *et al.*, 2020) are highly significant contributions which themselves pose a novel issue of how stakeholder management may generate insight and clarity about the nature of multifarious sustainability problems. This issue is motivated by the fact that stakeholder management, if at all helpful for advancing sustainability, must be able to address the epistemic challenges pertaining to this notion. If the potential of stakeholder management to advance sustainability is to be effectively harnessed, it is crucial to understand the epistemic equipment that enables stakeholder management to realize the possibility of stakeholder business case for sustainability (Schaltegger *et al.*, 2019). Evidently, this epistemic equipment constitutes a crucial area of inquiry in stakeholder theory. The purpose of the present paper is to advance stakeholder theory in precisely this direction. More specifically, the paper will explore why the building of stakeholder relationships may help corporations to become more sustainable, given that corporate managers may not possess an adequate understanding of the nature of sustainability problems experienced by their corporations.

The strategy of the paper is to draw upon the seminal market process theory of Friedrich August von Hayek, a Nobel Prize-winning economist who proposed to see the main "economic problem of society" in "the utilization of knowledge not given to anyone in its totality" (Hayek, 1945, p. 520). Hayek explained this vision of the main economic problem by "the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess". There is room to argue that the epistemic challenge of sustainability may be at least partly related to the similar fact that the knowledge about specific corporate sustainability problems "never exists in concentrated or integrated form" (ibid). Rather, this knowledge may be often supposed to take the form of "the dispersed bits of incomplete and frequently contradictory knowledge" (ibid) possessed by individual stakeholders. As Gick (2003, p. 149) has shown, a key implication of

Hayek's market process theory for business ethics is the futility of any deliberate top-down imposition of "universal ethical rules on societies"; a converse implication, explored in the present paper, highlights the importance of the bottom-up stakeholder relationships for addressing the relevant types of epistemic challenges, such as those of corporate sustainability.

Yet, it is clear that the type of knowledge with which Hayek was concerned was of predominantly economic variety and did not clearly include social and ecological dimensions. Moreover, the chief institutional device for the utilization of this knowledge, according to Hayek, was the economic market defined as price-signaling system (Slobodian, 2018). Not only is strategic stakeholder management clearly different from the emergent properties of this system, however, but also must the knowledge that may be possessed, generated and utilized by stakeholders correspond to the many crucial dimensions of sustainability *if* stakeholder management is to be helpful for the attainment of sustainability goals. In order to see the wide discrepancy between Hayek's vision of the capitalist society and today's *perceived* reality, it may suffice to recollect his optimistic refusal to see any "danger whatever that, in any foreseeable future with which we can be concerned, the population of the world as a whole will outgrow its raw material resources, and every reason to assume that inherent forces will stop such a process long before that could happen" (Hayek, 1998, p. 125). Against the backdrop of the recent decades of discourses on resource scarcity, Bromley (1998) therefore feels obliged to speak of "the poverty of spontaneous order" which is apparently unfit for a "profoundly unsafe, interdependent, and uncertain" (Nelson, 2013) world. For all the brilliance of the Hayekian processual vision of the market economy, it has hence repeatedly been accused of failing to provide an explanation of how economic actors may become attentive and receptive toward nature in the sense of Becker (2012, p. 70).

Consequently, a processual Hayekian explanation of how stakeholder theory could meet the epistemic challenge of corporate sustainability must involve a reappraisal of Hayek's insights. On the one hand, in the spirit of Hayek, the cultivation of stakeholder relationships may be a highly effective form of the decentralized distribution of sustainability-relevant knowledge (cf. Van Assche *et al.*, 2020), on the other, this knowledge might not be limited to the type to which the price-signaling system, favored by Hayek, is ideally adapted. If stakeholder theory takes account of these two aspects of Hayek's work, it can strengthen its processual foundations in such a way as to establish a better conceptual connection to the idea of sustainability. Toward this end, the next section reconstructs the institutional economics context of Hayek's market process theory by revisiting Oliver Williamson's (1996) seminal comparison between the arguments of Hayek and Barnard. On this ground, the subsequent section elaborates the logical relationship between the Hayekian market process theory and stakeholder theory. In the next step, stakeholder theory will be shown to contain a processual core which illuminates the contribution of stakeholder theory to developing business models for sustainability.

2. Conceptual foundations: Hayek and Barnard on adaptation and knowledge

Hayek's work is well known for its liberal thrust and anti-totalitarianism. His contributions to social theory and philosophy drew much inspiration from the tradition of Scottish Enlightenment as well as the evolutionary ideas of Carl Menger (Boettke and Hayek, 2018, p. 179). It is under this influence that Hayek (2013, p. 37) concluded that "social theory begins with—and has an object only because of—the discovery that there exist orderly structures which are the product of the action of many men but are not the result of human design". Hayek conceptualized these structures as spontaneous orders, which can be exemplified in the modern society by the price-signaling system, described by him as "one of those formations which man has learned to use (though he is still very far from having learned to

make the best use of it) after he had stumbled upon it without understanding it" (Hayek, 1945, p. 528).

As a manifestation of spontaneous order, the price-signaling system empowers and induces individual economic actors to harness and capitalize on their unique and idiosyncratic "knowledge of the particular circumstances of time and place" (ibid, p. 521) in a way that transforms market competition into a discovery procedure (Hayek, 1968). His critique of socialism essentially boils down to the thesis that in the system of central planning, this discovery must remain unfeasible. In a free capitalistic society, "the method which under given conditions is the cheapest is a thing that has to be discovered, and to be discovered anew, sometimes almost from day to day, by the entrepreneur, and that, in spite of the strong inducement, it is by no means regularly the established entrepreneur, the man in charge of the existing plant, who will discover what is the best method. The force which in a competitive society brings about the reduction of price to the lowest cost at which the quantity salable at that cost can be produced is the opportunity for anybody who knows a cheaper method to come in at his own risk and to attract customers by underbidding the other producers. But, if prices are fixed by the authority, this method is excluded" (Hayek, 1940, p. 139).

Given Hayek's encompassing interest in the future of human civilization and his philosophical defense of the liberal foundations of the capitalistic society, it is remarkable and perhaps counterintuitive that, from an institutional economics point of view, Hayek's idea of economic adaptation turns out to be comparable with, and functionally equivalent to, the respective idea of Chester Barnard, an author of the 1938 organization theory classic *The Functions of the Executive*. The comparison between the ideas of Hayek and Barnard is suggested and developed by Oliver Williamson, another Nobel Prize winner and the founding father of transaction cost economics, a school of institutional economics thought which seeks to explain the diverse variety of governance structures in terms of their transaction cost-economizing properties (cf. Williamson, 1996, p. 46). In a sense, Williamson and Hayek share a broad inclusive concern with capitalism; yet Williamson's transaction cost economics appears to reduce, as it were, Hayek's fundamental ideas about capitalism to a justification of just one governance structure, that of market governance, which may or may not turn out to be superior to other structures, such as hybrids or hierarchy.

Williamson's contrast between Hayek and Barnard is highly appealing because both scholars grappled with the same phenomenon, economic adaptation. Williamson explains that in Hayek's thought, adaptation is highly effectively organized by the price-signaling system, in which framework "consumers and producers respond independently to parametric price changes so as to maximize their utility and profits, respectively" (Williamson, 1996, p. 102). In view of the mutual independence of individual economic behaviors, Williamson designates this adaptation as autonomous. The type of adaptation with which Barnard was concerned, however, is obviously different, for it occurs "within internal organization" (ibid, p. 101) and presupposes "that kind of cooperation among men that is conscious, deliberate, purposeful" (Barnard, 1938, p. 4). Williamson refers to this type of adaptation as cooperative and indicates that it is needed by "parties that bear a long-term bilateral dependency relation to one another" (Williamson, 1996, p. 102). These parties "must recognize that incomplete contracts require gapfilling and sometimes get out of alignment" (ibid). Williamson concludes that "both Hayek and Barnard are correct, because they are referring to adaptations of different kinds, both of which are needed in a high-performance system". Whereas autonomous adaptation works well for those cases in "which prices serve as sufficient statistics" (ibid), cooperative adaptation is advantageous for the cases of "bilateral (or multilateral) dependency" (ibid, p. 103).

The distinction between cooperative and autonomous adaptation suggests some intuitive parallels with stakeholder theory. It seems plausible that the building of stakeholder relations makes sense in the cases of "bilateral (or multilateral) dependency" (ibid) among stakeholders,

whereas it is probably unnecessary in other cases in which corporate decision-making may confidently rely on price signals. In this sense, stakeholder theory "radicalizes the knowledge problem in such a way that the price system can no longer be considered its premier institutional solution" (Valentinov, 2022, p. 538). Transaction cost economics has indeed been acknowledged to share much common ground with stakeholder theory (Ketokivi and Mahoney, 2016; Freeman *et al.*, 2010, p. 16). Contractual parties certainly present each other's stakeholders (ibid). However, stakeholder theory has a broader scope. It does not limit the meaning of cooperative adaptation to the minimization of hazards of contractual relations; instead, it sees cooperative adaptation to be at the core of the value creation process which may include crucial dimensions of sustainability. The next section elaborates on the significance of this type of adaptation for stakeholder theory and, on this basis, explores the logical relationship between stakeholder theory and transaction cost economics.

3. From market process to the process of stakeholder cooperation

This section contains the key novel ideas of the proposed argument. It highlights the different epistemic assumptions of transaction cost economics and stakeholder theory and revisits the crucial distinction between the autonomous and cooperative adaptation. On this basis, it underscores the role of cooperative adaptation in the collaborative co-creation and consolidation of knowledge, while highlighting the distinct roles of diverse types of stakeholders.

3.1 Reframing the discovery procedure in the stakeholder context

In a recent treatise devoted to Hayek's legacy, Boettke and Hayek (2018) argues that mainstream economics has not succeeded in appropriating several crucial Hayekian insights related to the generation and utilization of subjective knowledge. The operation of competition as a discovery procedure (Hayek, 1968) "implies the existence of sheer (or 'radical') ignorance and genuine uncertainty" (Boettke and Hayek, 2018, p. 86), whereas the neoclassical advances in information economics assume ignorance to be rational rather than radical (ibid, p. 97). Rationally ignorant agents "must know beforehand ... what they are ignorant of and the costs and benefits of the knowledge they could acquire; that is, they must know what it is they do not know" (Thomsen, 1992, p. 23). In line with the Hayekian view of radical ignorance, stakeholder theory does not take value creation potentials to be known to corporate stakeholders in advance; instead, it urges corporate managers to build stakeholder relationships to discover these potentials through collaborative efforts. Put differently, stakeholder relationships offer a way to harness the subjectivity of stakeholders in the search for creative ideas about how to create value.

Williamson's transaction cost economics seems to align itself with the assumption of rational rather than radical ignorance. On the one hand, Williamson does assume bounded rationality, opportunism and contractual incompleteness. On the other hand, contractual parties in his framework remain well-informed about each other's identity, about the specific assets at stake in the transactional relationships and about likely opportunism problems. In fact, it is only based on this knowledge that the parties may devise governance structures and contractual safeguards. But in the more general case of value creation analyzed by stakeholder theory, identities of stakeholders are unknown ex ante. Hence stakeholder interest constellations (such as win-win and win-lose potentials) must be unknown as well. In order to create value, stakeholders need to engage in discovery procedures. The same is true for sustainability which may be part of the value to be created. In sum, transaction cost economics and stakeholder theory may be said to be based on different epistemic assumptions related to the extent of radical certainty to which stakeholders are subject.

Specifically, transaction cost economics assumes that the essential situational parameters are known to stakeholders (i.e. contractual partners), whereas stakeholder theory does not make this assumption. In the former case, contractual parties are aware of and expect contractual hazards which can be mitigated by governance structures. In the latter case, stakeholders experience radical uncertainty regarding the novel value creation potentials (Table 1).

The analytical framework presented in Table 1 fills the gap persisting in Williamson's (1996) contrast between Hayek and Barnard. In the framework, Hayek's market process theory is no longer reduced to a justification of one type of governance structure among several others. The framework does include Williamson's argument that Hayek's market process theory presupposes autonomous rather than cooperative adaptation, but it also incorporates the argument that autonomous adaptation is at the core of competition as a discovery procedure (Hayek, 1968). This nuance is enabled by the differentiation between epistemic assumptions of transaction cost economics and market process theory. A remarkable result of this framework is that the cooperative type of economic adaptation is shown to generalize to the building of stakeholder relationships which is not limited to the installation of contractual safeguards but may encompass a much more diverse variety of stakeholder collaboration opportunities. This diversity is due to the fact that the situational parameters of stakeholder interaction are unknown rather than known to stakeholders. Both stakeholder theory and market process theory are thereby shown to share the assumption of unknown situational parameters. This assumption, in turn, is shown to translate differently into the contexts of autonomous and cooperative adaptation.

A case can be made that the distinction between autonomous and cooperative adaptation may be less sharp for the case of unknown parameters, since collaboration with stakeholders may be part of reality that needs to be discovered in the course of the unfolding of the market process. The distinction is upheld, however, by the possibility that corporate sustainability presupposes the need for cooperative rather than autonomous adaptation. This possibility is implicit in Freeman and Phillips's (2002) seminal libertarian defense of stakeholder theory. According to the authors, "managers who are boundedly rational and acting under real uncertainty, must take the interests of stakeholders into account, else they might misuse shareholders' property to harm others and violate their right to freedom" (ibid, p. 337). Endorsing the libertarian principles of equal respect of everyone's property rights, Freeman and Phillips (ibid) envision the possibility of radical ignorance of corporate managers about the harm they may unknowingly impose on their stakeholders. Clearly, this harm may pose problems of corporate sustainability. Freeman and Phillips's (ibid) argument suggests that minimizing this harm and advancing corporate sustainability call for managers being "attentive and receptive" toward their stakeholders (cf. Becker, 2012, p. 70), in Woermann's (2013, p. 31) terminology, managers may be required to be "vigilant". The additional stakeholder focus thus requires "network ambidexterity: the capacity (. . .) to extract and

Table 1.
An integrative framework of transaction cost economics and stakeholder theory

	Economic adaptation, according to Williamson's (1996) classification	
	Autonomous	Cooperative
Known parameters	Market governance (stakeholder management is not a priority for corporate managers)	Hybrid and hierarchical governance (stakeholders are important, well-known to corporate managers and participate in governance structures)
Unknown parameters	Competition as a discovery procedure, analyzed by Hayek's (1968) market process theory	The building of stakeholder relationships, recommended by stakeholder theory

Source(s): Table by authors

balance the information of partners, taking advantage of structural variables and uniting and aligning all the different objectives within the network" (Payán-Sánchez *et al.*, 2022). The corresponding managerial virtues of attentiveness, receptiveness and vigilance then foreground the insufficiency of autonomous adaptation, according to which corporate managers must pay attention mainly to price signals rather than to the well-being of corporate stakeholders. Thus there seems to be a prima facie case for corporate sustainability as a cooperative rather than autonomous endeavor.

3.2 Mapping possible types of stakeholder cooperation for promoting sustainability

The proposition that stakeholder cooperation for promoting corporate sustainability occurs along the lines of the cooperative type of economic adaptation in Williamson's transaction cost economics can be further unfolded by exploring two terminological issues. The first issue is that the concept of sustainability may or may not be focused on the corporate level (Pater and Cristea, 2016; Mebratu, 1998; Pezzoli, 1997). The present paper relies on the Brundtland report's widely accepted definition of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development (WCED), 1987), and on the distinction between the economic, social and environmental pillars of sustainability, as adopted in this report (cf. Elkington, 1998; Evans *et al.*, 2017; Purvis *et al.*, 2019). As noted by Rasche *et al.* (2023, p. 8), the Brundtland report's definition of sustainability "is not centered on the role of organizations or even corporations. Rather, it understands sustainable development as being concerned with the development of entire societies". To distinguish the Brundtland report's definition of sustainability from the concept of corporate sustainability, Rasche *et al.*, 2023, p. 8) specify the latter concept as follows: "corporate sustainability focuses on managing and balancing an enterprise's embeddedness in interrelated ecological, social and economic systems so that positive impact is created in the form of long-term ecological balance, societal welfare and stakeholder value". Based on Rasche *et al.*'s (ibid) argument, it is sensible to differentiate between corporate-centric and non-corporate-centric understandings of sustainability both of which could be the object of stakeholder cooperation.

The second terminological issue is related to the nature of stakeholders which may obviously be very heterogeneous. Freeman *et al.* (2018, p. 16) distinguish between primary stakeholders who "are directly involved in the value-creating processes of the firm", and secondary stakeholders who "are not directly engaged in value-creating processes, but ... have a legitimate interest in what the firm does" (ibid, p. 17). Primary stakeholders encompass suppliers, financiers, communities, customers and employees, while secondary stakeholders may include government, special interest groups, consumer advocate groups, competitors and media (Freeman *et al.*, 2018, p. 17). The diverse types of primary and secondary stakeholders contribute in different ways to the generation of new knowledge for addressing sustainability challenges, which in turn can be corporate-centric or non-corporate centric. It is reasonable to assume that primary stakeholders may provide particularly valuable inputs for promoting corporate-centric sustainability, while secondary stakeholders may be particularly crucial for supporting corporations in promoting non-corporate centric sustainability. For some specific types of stakeholders, it is possible to come up with stylized ideas about the contributions that they could deliver into the processes of generation of collective knowledge about how to promote sustainability, both corporate-centric and non-corporate-centric (see Table 2).

Diverse as they are, all the stakeholder contributions listed in Table 2 exhibit common features that capture the spirit of the cooperative type of economic adaptation in Williamson's (1996) transaction cost economics. Given that the autonomous type of economic adaptation in

Stakeholder type	Cooperation for focal firm's corporate-centric sustainability	Cooperation for non-corporate-centric sustainability
Employees	participating in sustainability training programs; contributing ideas for sustainable process improvements or product/service innovation	engaging in community outreach programs to promote sustainability education and practices; participating in cross-industry collaborations to address sustainability challenges
Customers	providing feedback on the firm's sustainability initiatives; engaging in co-creation activities to develop sustainable products or services	participating in sustainability campaigns or initiatives promoted by the firm; collaborating with the firm to develop sustainable consumption patterns or sharing best practices across industries
Suppliers	collaborating with the firm to implement sustainable sourcing practices; sharing knowledge on eco-friendly materials, processes, or technologies	promoting sustainable practices in own operations and supply chains; collaborating with the firm and other partners to develop industry-wide sustainability standards
Financiers	supporting the firm's sustainability initiatives by providing resources and investment; engaging in dialogues with the firm to align sustainability goals and strategies	advocating for sustainable practices across investment portfolio; collaborating with the firm to influence industry-wide sustainability policies or regulations
Governmental agencies	ensuring compliance with sustainability regulations and providing guidance on best practices; implementing joint initiatives to develop sustainable policies	participating in public-private partnerships to address sustainability challenges at a larger scale; creating sustainable infrastructure, implementing green technologies and fostering sustainable economic growth
Local communities	participating in knowledge-sharing, awareness campaigns and decision-making processes	collaborating with the firm to develop sustainable practices specific to the region's needs and resources; implementing joint projects addressing local environmental, social and economic challenges
Competitors	engaging in industry collaborations to develop and share best practices for sustainability; undertaking joint research or innovation efforts at addressing shared sustainability challenges	engaging in pre-competitive collaborations to develop industry-wide sustainability standards or certifications; collectively addressing sustainability issues that go beyond individual company boundaries
Special interest groups, advocacy groups and NGOs	sharing insights into emerging sustainability issues and best practices; raising awareness, lobbying for sustainable policies, or implementing joint sustainability projects	conducting research, developing sustainable solutions and influencing policy-making processes; leveraging collective knowledge

Source(s): Table by authors

Table 2. Possible contributions of various types of stakeholders to knowledge generation about sustainability challenges

Williamson's (1996) corresponds to the Hayekian notion of competition as a discovery procedure, stakeholder contributions falling within the cooperative type of economic adaptation differ from this Hayekian notion in several respects. First, the Hayekian discovery procedure relies on the price system's ability to aggregate and transmit decentralized knowledge possessed by individuals within a market. In contrast, the knowledge generation process within the cooperative type of economic adaptation is based on collaborative co-

creation of knowledge among diverse stakeholders, without direct reliance on the intermediation of the price system. Second, the Hayekian discovery procedure emphasizes decentralized and spontaneous information processing, while the knowledge generation process within the cooperative type of economic adaptation involves deliberate efforts to bring together dispersed knowledge. Third, the Hayekian discovery procedure focuses on continuous but short-term adaptation of market actors to changing circumstances. In contrast, the knowledge generation process within the cooperative type of economic adaptation recognizes that sustainable solutions often require long-term collaboration that extends beyond the scope of instantaneous price adjustments.

4. Stakeholder theory's processual insights into sustainability

In Hayek's work, the notion of market process emerges as a logical implication of his decision to locate the central economic problem in the generation und utilization of knowledge rather than in the optimal allocation of scarce resources (cf. Hayek, 1945). Drawing on Hayek's insights, Venkataraman (2019) proposed to see the firm as a locus of processual equilibration of stakeholder interests. If this equilibration works smoothly, the firm "will be managed *as if* for the benefit of all the stakeholders . . . Firms, which are not so managed, will, over time, be selected out of the business (and, therefore, social) landscape" (ibid, p. 164). On Venkataraman's (2019) view, the relevant knowledge generated and utilized by the equilibration process pertains to injustices and side-effects that corporate managers may unknowingly impose on their stakeholders. A similar view of the knowledge problem seems to be embraced by the libertarian argument of Freeman and Phillips (2002) who assume that managers may not be aware of the full range of side-effects they may cause. There is room to argue that the nature of corporate sustainability presents a similar variety of the knowledge problem. Managers may not be aware of the full range of sustainability risks affecting their corporations, or even if they are aware, they may fail to identify realistic and pragmatic solutions. This type of knowledge problem can be addressed by stakeholder theory arguing that the process of engaging stakeholders may help managers to identify both sustainability problems and their solutions. This argument establishes conceptual parallels between the Hayekian market process addressing the economic knowledge problem and the stakeholder engagement process addressing knowledge problems related to sustainability. The latter process exhibits two salient characteristics.

The first of these characteristics highlights the constructivist and performative aspect of the stakeholder engagement process, which is supposed not merely to identify and avoid the possible trade-offs between stakeholder interests, but to create win-win potentials, especially if these potentials seem to be weak and underdeveloped. This argument is at the core of Schaltegger *et al.*'s (2019) contrast between the business case *of* and *for* sustainability. Whereas the former type of business case recommends that managers focus on those sustainability initiatives that improve financial performance, the latter type envisions an active search "for solutions to social environmental problems" and "a pragmatic process of gradually developing a set of different kinds of value which ensures the cooperation and support of various stakeholders . . . in contributing to sustainable development" (ibid, p. 195). Thus, stakeholder solutions to corporate sustainability problems may be taken to present processual constructions which would have remained non-existent if stakeholders had not been engaged. In Hayek's work, there is a related line of thinking. He averred that the economic and technological knowledge available to capitalist entrepreneurs would fail to be generated in the centrally planned economy, a point underestimated by market socialists who believed that the possibility of static welfare maximization did not depend on whether the economy in question is capitalist or socialist (cf. Hayek, 1940). Given that stakeholder theory is often criticized by ignoring the pervasiveness of trade-offs between stakeholder interests

(Pies *et al.*, 2014; Beckmann *et al.*, 2014; Hahn *et al.*, 2010), these critiques appear to be refutable from a processual point of view. If stakeholder engagement is understood as a process, its chief effect is precisely in constructing novel creative win-win solutions, especially in those cases where trade-offs seem to be pervasive and insuperable.

The second salient characteristic of the stakeholder engagement process is related to the evolutionary dynamics of the win-win potentials that could have been constructed in the course of the process. Some of these potentials may come to be integrated into the broader institutional settings of stakeholder interaction, thereby becoming an integral part of the business as usual. Most realistically, this integration occurs through adjustments of the regulatory framework. While some of these adjustments may be undertaken by the public sector directly, others may take the form of multifarious corporate self-commitment strategies (Beckmann *et al.*, 2014). In view of their generic and systemic nature, the improvements in the regulatory and institutional framework may not provide nuanced solutions to idiosyncratic examples of sustainability problems; however, they may be quite effective for those problems that are more standard and widespread and thus amenable to broad institutional solutions. In fact, it is not uncommon to see the political role of the firm in its participation in "rule-setting processes and rule-finding discourses" (Pies *et al.*, 2014) directed at the ongoing improvement of institutional frameworks and the expansion of the range of the win-win logic.

5. Implications

The proposed argument regarding stakeholder theory's contribution to generating novel processual insights for addressing corporate sustainability has significant implications for stakeholder theory, stakeholder management and future research. These implications revolve around the ability to overcome trade-offs and promote win-win outcomes in the design of business models for sustainability, with a focus on ecological and social value alongside economic value. The cultivation of specific managerial capabilities is crucial for achieving this design. Consequently, these ideas pave the way for exploring new research opportunities related to uncovering the epistemic implications of stakeholder theory and the role of stakeholder learning.

5.1 Implications for stakeholder theory

Insofar as stakeholder theory yields novel insights into the processual understanding of sustainability, it offers crucial resources for the design of business models of what Freudenreich *et al.* (2020) call business models for sustainability. This argument is premised on the idea that, by uncovering the possibility of overcoming trade-offs between legitimate stakeholder interests, the Hayekian processual view of stakeholder theory likewise leads to the discovery of novel opportunities of reconciling economic, social and ecological pillars of sustainable development. Whereas sustainability has been seen in some quarters as "a win-win oriented heuristics [which] encourages transcending 'trade-off thinking'" (Beckmann *et al.*, 2014, p. 23; cf. Schaltegger *et al.*, 2019), a broad range of scholarship questioned the possibility of the harmonious unification of these pillars on the win-win basis (Leck and Simon, 2013; Winn *et al.*, 2012; Gray, 2010; Dyllick and Hockerts, 2002; Hahn *et al.*, 2010). Evidently, by overcoming stakeholder interest trade-offs, the Hayekian processual approach offers the potential to restore, at least partly, the win-win nature of sustainable development. This is because stakeholder engagements essentially presents "a Hayekian process of the ongoing generation of novel knowledge. Trade-offs among stakeholder interests are real within the neoclassical conception of static equilibrium, implying a given and fixed state of knowledge of market participants. In contrast, value creation for all stakeholders indicates . . .

the creation of novel knowledge of opportunities" (Valentinov, 2022, p. 539) for overcoming the trade-offs.

But what is the precise nature of dynamics underpinning the processual overcoming of trade-offs within business models for sustainability explored by Freudenreich *et al.* (2020)? Conceptualizing these business models, the authors rightly note that they may create not only economic, but also ecological and social value (ibid, p. 5). Furthermore, the authors see environmental and social activities of corporations as an element of the business model's joint purpose (ibid, p. 9). Freudenreich *et al.* (2020, ibid) suggest that these activities enable corporations to take account of the interests of "societal stakeholders". The dynamic processual element of this vision of business models becomes evident if interest in sustainability is considered to be their common ground, a concept which Sachs and Rühli (2011, p. 111) use to describe the similarity of firms' and stakeholders' perceptions of relevant strategic issues. Alvarez and Sachs (2023) take this concept to mean the existence of a common vocabulary as well as common norms and habits which enable meaningful communication between firms and stakeholders. The implication of the Hayekian processual approach is that the common ground of stakeholder interaction cannot be considered to be fixed; it is inherently dynamic, if for no other reason than that sustainability is a widely shared interest of all stakeholders. In fact, if sustainability is deliberately pursued is an object of the joint interests of all stakeholders, then it has the potential to continually deepen the common ground of stakeholder interaction, such that this deepening becomes the essential dynamics occurring within the business models for sustainability. But if so, then environmental and social activities are not just one element of the business models' joint purpose among many others as Freudenreich *et al.* (2020, p. 9) suggest. Instead, these activities have to be considered to be more fundamental.

5.2 Implications for stakeholder management

In terms of stakeholder management, the suggested dynamic processual element of business models for sustainability can be supposed to find expression in special managerial capabilities that may be designated as "capabilities for sustainability learning". The idea that stakeholder collaboration is powered by managerial capabilities has been prominently proposed by Jones *et al.* (2018) who argued that firms' stakeholder collaborations result in firms' sustainable competitive advantage insofar as these collaborations rest on managerial "close relationship capabilities" which are "valuable, rare and difficult to imitate" (ibid, p. 37; cf. Peteraf and Barney, 2003). Capabilities for sustainability learning can be supposed to emerge from close relationship capabilities insofar as firms work together with their stakeholders on creating new business cases for sustainability (cf. Schaltegger *et al.*, 2019). Similar to close relationship capabilities, capabilities for sustainability learning can be supposed to cultivate tacit, and hence non-imitable, varieties of knowledge, which were underscored by Freeman *et al.* (2007, p. 217) who characterized stakeholder theory as a "theory is about 'knowing how' to engage stakeholders and create value for them, rather than the technical 'knowing that' such and such is the case for all firms for all times for all problems for all configurations of stakeholders". Relying on Mitchell *et al.* (2020), capabilities for sustainability learning may help managers to collaborate with stakeholders on developing novel sustainability solutions in a variety of ways, such as establishing common definitions and vocabularies (ibid, p. 85), fostering continuous outside-in learning (ibid, p. 86) and cultivating "intersubjective agreement around a common purpose" (ibid, p. 87).

Practically, the cultivation of managerial capabilities for sustainability learning can be promoted in a number of ways. First and foremost, managers are advised to approach the issue of corporate sustainability by actively seeking partnerships and collaborations with stakeholders, involving them in the co-creation of sustainable solutions, creating channels for

communication and engaging in open dialogue, joint research and joint initiatives to address sustainability challenges collectively. Second, approaching the issue of corporate sustainability by means of stakeholder engagement may itself be further enhanced by fostering a culture of innovation within the focal companies. Cultivating such a culture encourages and empowers employees to contribute their ideas and knowledge towards sustainability initiatives. Establishing platforms for idea-sharing and cross-functional collaboration can serve as effective mechanisms for harnessing the collective intelligence of employees.

Third, given the centrality of the development of stakeholder business cases for sustainability, managers are advised to actively seek alignment between sustainability and shareholder interests. This can be achieved by communicating and demonstrating the value of sustainability initiatives to shareholders (and other financiers), showcasing the positive impact of corporate sustainability improvements on long-term profitability, risk management and corporate reputation. Furthermore, shareholders may be involved in sustainability dialogues which promote a sense of shared purpose and ensure that sustainability goals are aligned with the overall objectives of the organization. Fourth, managers could invest in employee education and training to equip them with the necessary knowledge, skills and tools to contribute to sustainability initiatives. Providing access to training programs, workshops and educational resources can raise awareness and build capabilities in sustainable practices, empowering employees to become change agents within their respective roles. Lastly, promoting transparency and accountability is essential. Implementing robust measurement and reporting systems allows for the tracking and communication of progress towards sustainability goals. Sharing relevant information with stakeholders enhances transparency and accountability. Engaging in dialogue with stakeholders about sustainability performance, monitoring and adapting to emerging sustainability trends, continuously scanning the external environment for new opportunities and challenges and integrating sustainability considerations throughout the entire value chain all contribute to the practical realization of the processual approach to sustainability and stakeholder theory as advocated in the present paper.

The management implications of the proposed processual perspective on stakeholder theory extend beyond organizational boundaries and have broader societal implications, particularly in the emerging field of grand challenges within management and business ethics scholarship (Voegtlin *et al.*, 2022; Hennchen and Schrempf-Stirling, 2021; George *et al.*, 2016). Grand challenges represent global problems that necessitate coordinated and collaborative efforts to seek plausible solutions, making stakeholder cooperation crucial. Schwab and Vanham (2021) argue that grand challenges are a significant driving force behind the rise of stakeholder capitalism, which they define as an economic model that prioritizes progress, people and the planet. They maintain that preventing catastrophic outcomes stemming from global sustainability challenges can only be achieved through the collaboration of key stakeholders, such as governments, civil society, corporations and the international community. Voegtlin *et al.* (2022) further emphasize that grand challenges possess distinctive characteristics, including complexity, uncertainty and a value-laden nature. There is room to argue that if stakeholder capitalism is to effectively respond to grand challenges, it necessitates the broad institutionalization of managerial capabilities for sustainability learning, in line with the processual approach to stakeholder theory presented in this paper. It is only by harnessing the knowledge and expertise of stakeholders that managers may be able to navigate the inherent uncertainty and complexity of grand challenges (Voegtlin *et al.*, 2022), whereas dealing with the value-laden aspects of grand challenges (ibid) likewise requires managerial capabilities to cultivate collaboration and establish shared goals.

5.3 Implications for further research

The key implication of the proposed argument for further research on stakeholder theory is in drawing attention to this theory's epistemic horizons which have not so far received much emphasis. For example, the central distinction between stakeholder theory and "the mainstream view of shareholder capitalism" (Freeman *et al.*, 2010, p. xv) can be hypothesized to have epistemic implications that still need to be elaborated. Some of these implications have to do with how stakeholders generate and utilize knowledge, and how this task affects the evolution of managerial mindsets (ibid, p. 5). Other implications would be concerned with the nature of the unique contribution that stakeholder scholarship may deliver toward clarifying specific problems and strategies related to sustainability. From an institutional economics perspective, there is a need to know considerably more about how governance structures facilitate stakeholder learning processes, a function quite distinct from the suppression of contractual hazards favored by Williamson (1996). Much more work is needed on exploring the distinction between cooperative and autonomous adaptation in situations of radical rather than rational ignorance (cf. Boettke and Hayek, 2018, p. 97). Perhaps most crucially, this distinction may influence the moral visions of human behavior. While autonomous adaptation may well be compatible with opportunistic impulses assumed by Williamson (1996), cooperative adaptation, especially in the context of sustainability problems, is much more likely to be premised on the principle of responsibility postulated by Freeman *et al.* (2010, p. 8).

Furthermore, there is room to argue that conceptualizing sustainability as the (most) fundamental joint purpose of stakeholder collaborations opens up a new dimension in the further development of stakeholder theory. The founding figures of stakeholder theory have long argued that the practical value of the stakeholder approach to strategic management hangs together with the growing turbulence of the business environment (Freeman *et al.*, 2010, p. 3; cf. Freeman, 1984, p. 27), i.e. with the increasing of environmental dynamism and knowledge intensity of specific business activities, coupled with the increasing task and outcome interdependence (Jones *et al.*, 2018, p. 381). In contrast, Schwab and Vanham (2021) seem to suggest that the primary driver of the stakeholder approach pertains to global sustainability challenges which necessitate collaboration of crucial stakeholders, including corporations, governments and civil society, within the framework of the international community. Whereas the bulk of the mainstream scholarship on stakeholder theory draws inspiration from Freeman *et al.*'s (2010, p. 3) notion of turbulence as the theory's point of departure, it seems no less meaningful to explore the horizons of stakeholder theory if its point of departure is related global sustainability problems rather than turbulence of the business environment.

6. Concluding remarks

The point of departure of the present paper is that the challenge of sustainability is not only practical, political and scholarly but also epistemic. With good reason, corporate managers may be expected to be unaware of major dimensions of the sustainability problems of their corporations; nor can they be supposed to be always capable of devising smooth and effective strategies. A valuable lesson that can be derived from Hayek's Nobel Prize-winning work is that epistemic challenges are not, generally speaking, an insuperable obstacle but an invitation to look for processual solutions. Just as Hayek thought of the market process as a solution to the economic knowledge problem, the existence of the epistemic challenge of sustainability indicates that sustainability presents a knowledge problem of its own, which can be addressed in a processual fashion. Based on the present state of science and practice of corporate sustainability management, the present paper contends that a crucial type of process capable of addressing sustainability problems is that of the engagement, collaboration, or "networking" of corporate

stakeholders. If correct, this contention would open up a new research agenda on how a processual view of stakeholder relationships would enable stakeholder theory to meet the multifarious corporate sustainability problems head on.

While relying on Hayek's processual insights, this research agenda must likewise acknowledge the limits of his thought in making sense of sustainability. Ecological economists have long been aware of these limits (Bromley, 1998); interestingly, some limits have been pointed out from the new institutional economics perspective as well. What is even more interesting is that ecological economics and institutional economics critiques have similar implications. As Williamson (1996) has shown, Hayek's market process is premised on the idea of autonomous adaptation, while the situation of mutual dependency among contractual parties tends to necessitate cooperative adaptation which calls for governance solutions that are more discretionary and deliberate than the price mechanism. From this perspective, corporate sustainability presents a case for cooperative rather than autonomous adaptation. If autonomous adaptation may be exemplified by "the mainstream view of shareholder capitalism" (Freeman *et al.*, 2010, p. xv), then the cooperative one presents a distinct justification for stakeholder theory. This justification generates the novel insight that the building of stakeholder relationships is essential for corporations which seek to maximize not only economic but also sustainability performance. In line with Hayek, stakeholder relationships seem to thrive on uncertainty and radical ignorance that are endemic to many sustainability problems and exhibit processual characteristics of constructing new win-win potentials and integrating these potentials into the evolving institutional frameworks.

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