ACQUISITIONS, STAKEHOLDER ECONOMIES OF SCOPE, AND STAKEHOLDER ORIENTATION

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ABSTRACT

An acquisition brings multiple stakeholder networks together into one combined firm, which inevitably results in changes to the relationships and value propositions the firm has with its stakeholders, and ultimately to the value the firm creates for them. In this paper, we argue that stakeholder economies of scope are possible through managing the *stakeholder relationships* of multiple business units in a way that creates more total economic value for stakeholders than if those businesses were each managed separately. For example, a broadly stakeholder-oriented acquiring firm can create a stakeholder economy of scope by expanding its broad stakeholder orientation to a newly acquired business unit. The increase in total economic value this generates for the combined network of stakeholders is not recognized in other types of economies of scope. Alternatively, we argue that when an acquiring firm with a narrow stakeholder orientation expands its orientation to a newly acquired division that is broadly stakeholder oriented, the combined firm experiences a reduction of total economic value, all else equal, due to what we term stakeholder diseconomies of scope. Stakeholder economies and diseconomies of scope have the potential to help explain more of the large variance in the performance of acquiring firms than has been explained previously.

INTRODUCTION

Much of the strategic management literature is intended to explain firm financial performance. However, from its inception strategic management has also been interested in the broad purpose of the firm and its impact on society. For example, in an important early text, Learned, Christensen, Andrews and Guth (1965:17) identified four components of strategy, with the fourth being “acknowledged obligations to segments of society *other than the stockholders* (italics added).” This notion was carried forward as a firm’s “enterprise strategy” and discussed at a foundational strategy conference at the University of Pittsburg in 1977 (Schendel & Hofer, 1979: 11). Indeed, at the same conference Newman (1979: 45) presented a model that looks very much like what we now call a stakeholder map, reflecting the idea that the firm’s activities have an impact on a broad group of customers, suppliers, employees, financiers and the community, and that these stakeholders also have an impact on the firm. Of course, Freeman’s (1984) classic book, *Strategic Management: A Stakeholder Approach*, underlined this point and provided both justification for and advice about managing stakeholders.

In spite of these early advances, some strategies have been studied largely from the perspective of their influence on one or a small set of stakeholders. For example, acquisitions are one of the most popular of all corporate strategies, and one of the most studied; however, the predominant, almost exclusive, dependent variable in these studies has been some variant of financial returns, predominantly for shareholders (i.e., Allen and Soongswang, 2006; Datta, Pinches & Narayanan, 1992; Hogarty, 1970; King, Dalton, Daily & Covin, 2004; Loughran & Vijh, 1997). Surely, though, shareholders are not the only primary stakeholders who experience M&A activity as value-enhancing or value-destroying. Consider that non-shareholder stakeholders often find their implicit contracts changing during the post-acquisition period

(Cording, Harrison, Hoskisson, & Jonsen, 2014; Shleifer & Summers 1988). The managers of acquiring firms ultimately have to decide the extent to which they are willing to trade off financial gains for shareholders against the interests of a wider set of stakeholders (Meyer, 2001).

We examine how acquisitions are likely to affect the total incremental economic value created for a firm's primary stakeholders, as a function of the stakeholder orientation of the acquiring and acquired firms. We define primary stakeholders as those that are involved in the value creating processes of the firm, which include employees, customers, suppliers, and capital providers (shareholders and financiers). We are using the term "economic value" in the traditional sense of what a stakeholder would be willing to pay for the utility received through economic exchanges with the firm. An acquisition alters the total amount of economic value a firm creates for its stakeholders, and our theory helps explain why.

This paper explains a novel type of economy of scope that has the potential to explain previously unspecified sources of value for a firm's primary stakeholders. We call it a *stakeholder economy of scope*, defined as the value-creating economic benefits resulting from managing the stakeholder relationships of multiple business units together rather than separately. We are building our theory on the general concept of economies of scope, which are said to exist when one firm manages two or more business units in a way that creates more value than if those businesses were each managed separately (Cassiman, Colombo, Garrone & Veugelers, 2005; Panzar & Willig, 1981; Sakhartov & Folta, 2014). This concept has been enhanced and made more practical by distinguishing specific types of economies of scope such as: sharing activities (Singh & Montgomery, 1987), spreading core competencies (Prahalad & Hamel, 1990), improving internal capital allocation (Brouthers & Brouthers, 2000), spreading risk (Chatterjee, 1986), exploiting tax advantages (Scott, 1977), reducing competition (Bradley, Desai, & Kim, 1988), and restructuring poorly configured businesses (Chatterjee & Lubatkin, 1990). These other types of scope economies share at least two things in common. First, they assume that firms prioritize cost reduction and associated profit maximization above all other outcomes (Rumelt, Schendel, & Teece, 1991). Second, they largely depend on activities performed during the post-deal integration phase (Haspeslagh & Jemison, 1991), although the economic gains, if any, may be anticipated during the deal making process and thus absorbed into the share price of the acquiring firm before the merger is even consummated. Stakeholder economies of scope are similar in terms of their emphasis on the integration phase but, because they affect the aggregate economic value for all stakeholders, differ in terms of the outcomes they generate.

Stakeholder economies of scope depend on the assumption that all stakeholders are engaged with the firm through incomplete contracts, whether explicit or implied (Schreuder & Ramanathan, 1984; Werder, 2011), and not just the shareholders. It is well accepted that shareholders do not receive a fixed return but have residual claims on firm profit. The other primary stakeholders' contracts, however, are incomplete in *two* ways. First, like shareholders, the total value they receive from the firm in any time period is not completely specified up front (Asher, Mahoney & Mahoney, 2005; Hoskisson, Gambeta, Green, & Li, 2018; Mahoney, 2013). Second, and more importantly for value creation, they are unlike shareholders in that the contributions they provide the firm are also incompletely specified (Asher, et al., 2005; Blair, 1995; Mahoney, 2013). The implication is that some of the variance (positive or negative) in economic value resulting from an acquisition can be understood to come from differences in the contributions made by the firm's non-shareholder stakeholders during the integration period.

Developing theory about stakeholder economies of scope requires that we specify a time period for measuring outcomes that is long enough to include most of the acquisition integration process. Thus, our propositions consider the sum of economic value at the acquiring firm after the acquisition has been integrated *compared with* the sum of economic value produced in both firms prior to deal announcement. This incremental value creation approach is consistent with Garcia-Castro and Aguilera (2015), who argue that although it is particularly difficult to measure total value created by a firm for its stakeholders at any point in time, it is a much more reasonable proposition to measure changes in value created from one time period to another. This idea of incremental value creation for involved stakeholders is operationalized in the empirical work of Lieberman, Balasubramanian, and Garcia-Castro (2018).

In our propositions we argue that a broadly stakeholder-oriented acquiring firm can create a stakeholder economy of scope by expanding its stakeholder orientation to the newly acquired business unit. The increase in total economic value this generates for the combined network of stakeholders is not recognized in other types of economies of scope. Alternatively, we argue that when an acquiring firm that is not broadly stakeholder oriented expands its orientation to a newly acquired business unit that is broadly stakeholder oriented, the combined firm experiences a reduction of total economic value due to what we term stakeholder diseconomies of scope. The propositions we develop cover a range of possible combinations of acquiring firm and acquired firm stakeholder orientations.

This paper makes three primary contributions. First, it develops a deductive explanation for a novel form of value creation in M&A. Stakeholder economies and diseconomies of scope offer a richer understanding of why acquisitions can lead to wide variance in total firm performance. Second, this paper applies stakeholder theory to corporate strategy and highlights some important dynamics that underlie value creation through M&A activity. Finally, the logic we develop can guide executives at acquiring firms with specific advice that hinges on the degree to which their firm is broadly stakeholder oriented. We begin by defining three types of stakeholder orientations.

FIRM-LEVEL STAKEHOLDER ORIENTATION

A firm with a broad stakeholder orientation manages for stakeholders by seeking "to identify and understand how the welfare of its stakeholders is affected by the actions it takes" (Freeman, Harrison, Wicks, Parmar & de Colle, 2010: 62) and, as a result, enjoys strong relationships with multiple types of stakeholders (Choi & Wang, 2009; Freeman, 1984; Hillman & Keim, 2001; Jones, 1995; Sisodia, Wolfe & Sheth, 2007). The visions of these firms tend to be broad in terms of the influence of the firm on many stakeholders and even society at large (Freeman, Harrison & Wicks, 2007). Their leadership focuses on fostering strong relationships with stakeholders (Bridoux & Stoelhorst, 2016; Jones, Harrison & Felps, 2018).

The instrumental benefits of a broad stakeholder orientation are well described in other work, and there is a large body of empirical evidence that suggests such a stakeholder orientation can even generate higher focal firm shareholder performance (i.e., Choi & Wang, 2009; Henisz, Dorobantu & Nartey, 2014; Hillman & Keim, 2001; Sisodia, et al., 2007). The benefits arise because stakeholders who receive value that exceeds their expectations tend to respond by providing additional effort, resources, and information that, in aggregate, improves firm performance (Bosse et al., 2009; Harrison et al., 2010). A broadly stakeholder-oriented firm views its stakeholders as actors who have intrinsic worth of their own (e.g., Donaldson & Preston, 1995; Jones, 1995) and explicitly recognizes the challenges associated with serving multiple stakeholders' objectives.

In addition to what we are calling a broad stakeholder orientation, other orientations toward stakeholders exist within firms (Brickson, 2005, 2007; Jones, Felps & Bigley, 2007). One of the most common is a single stakeholder orientation focused on shareholder returns (Stout, 2012), or what we will call a shareholder dominant orientation. This firm orientation is supported by popular financial theory (i.e., Brealy, Myers & Marcus, 2017; Danielson, Heck and Shaffer, 2008; Jensen and Meckling, 1976) and the moral argument that focusing managers on the objective of maximizing profit for equity holders will maximize social welfare as, eventually, all economic resources will flow freely to their highest and best use for society (Friedman, 1970; Jensen, 2002). This perspective also asserts that limiting managers' discretion by measuring them against the central objective of shareholder value maximization prevents them from making decisions that serve themselves (Jensen, 2002). In addition, the public accounting profession uses this orientation as a foundation for its approach to auditing (Beyer, Cohen, Lys, & Walther, 2010; Harrison & Van der laan Smith, 2015). It is even considered by some to be a legal requirement, and although this argument has been largely refuted, it has become institutionalized to the point that many managers and business scholars still support it (Heminway, 2017; Kelly, 2001; Marens & Wicks, 1999; Stout, 2012).

The managers of a shareholder dominant firm tend to treat non-shareholder stakeholders as instruments for the creation of shareholder value (Garcia-Castro & Aguilera, 2015; Jones, et al., 2007). Thus, leadership in this sort of firm is focused on minimizing the value appropriated by all other stakeholders in order to maximize the residual value available for shareholders (Coff, 1999; Freeman et al., 2010; Friedman, 1970; Jensen & Meckling, 1976). Consequently, the shareholder dominant orientation is particularly relevant to the context of acquisitions because there is so much change and thus so many opportunities to essentially rewrite existing formal and informal contracts with stakeholders. An acquiring firm with a shareholder dominant orientation will attempt to extract as much value as possible from non-shareholder stakeholders so that it can be reallocated to shareholders. One of our arguments, to be developed in detail in a later section, is that such activities are likely to be value destroying over the long run.

It is possible to distinguish firms based on their stakeholder orientations. Examples of these differing stakeholder orientations can be found in the 2017 rankings by Just Capital (Justcapital.com), a company that polls Americans to determine which issues matter most and then evaluates the largest publicly traded companies based on these issues.[1] In the semiconductor and equipment industry, Just Capital's 2017 survey reports that Intel and Texas Instruments both treat their employees, customers, shareholders, and communities in ways that exceed what these stakeholder groups tend to get from other firms. We are describing these firms as broadly stakeholder oriented. Shareholder dominant firms are also found in the semiconductor industry. For example, Justcapital.com reports that Xilinx generates exceptional shareholder value but does not stand out for its treatment of any other type of stakeholder.

We do not claim all firms fit perfectly into one of these two ideal types (Clark, Steckler, & Newell, 2016), but rather that many firms fall somewhere in between in their stakeholder orientations (Brickson, 2005, 2007; Jones et al., 2007). Consequently, we add a third firm-level orientation. We use the term "narrowly stakeholder oriented" to indicate a firm that manages for a comparatively smaller set of stakeholder types. Such a firm may be emphasizing excellent treatment of stakeholders they perceive as being most essential to their value-creating activities or most salient based on power, legitimacy or urgency (Mitchell, Agle & Wood, 1997).[2] In the semiconductor industry, Qualcomm is one example of a narrowly stakeholder-oriented firm

[1] Just Capital has identified 39 components of seven major issues of concern to Americans. They then use numerous sources of information to rate companies on these components. A Research Advisory Council of academics, economists and subject matter experts ensures that rigorous methods are used. They also give the rated companies an opportunity to respond to their ratings and provide additional data before the ratings are published.
[2] These ideas are somewhat similar to the concept of "enfranchised" stakeholders in work by Klein, Mahoney, McGahan and Pitelis (2017).

because Just Capital's 2017 survey reports it is exceeding the expectations of its employees and communities, but its shareholders and customers are not benefitting from the same level of attention and value creation. Applied Materials is another narrowly stakeholder-oriented firm in this industry. In direct contrast to Qualcomm, Applied Materials is creating exceptional value only for its customers and shareholders. For the sake of clarity, we define narrowly stakeholder oriented firms as those focusing primarily on the welfare of two or more primary stakeholders but not all of them.

The Micro-behaviors Arising from Orientation

The broad stakeholder orientation is largely enacted and maintained via informal social norms (Scott, 1995) as actors across the stakeholder network reward and punish others for supporting or violating, respectively, their perceived norms of social justice (Harrison et al., 2010). Shared beliefs and understandings about the intrinsic value of stakeholders underlie and reinforce informal codes of conduct that include rewards, taboos, and sanctions (North, 1991). Consistent with the broad stakeholder orientation, a growing literature in behavioral economics shows that when a group of people can reward and punish each other for upholding or violating acceptable social norms, respectively, they collectively benefit from greater cooperation (see Fehr, Fischbacher, & Gatcher 2002; Fehr & Gachter, 2000). Broadly stakeholder oriented firms tend to adopt norms associated with high levels of trust, resource sharing, joint wealth creation, and relational contracting, which can lead to high productivity levels (Bridoux & Stoelhorst, 2016; Jones, 1995; Jones, Harrison & Felps, 2018). Individuals quickly learn that cooperative behavior eventually improves their collective outcomes whereas uncooperative or untrustworthy behavior is actually costly to themselves and the firm.

The applicable social norm that is most common in broadly stakeholder oriented firms is meritocracy (Phillips, Freeman, & Wicks, 2003). This norm, also referred to as the equity norm, allocates value to stakeholders according to the value of the contributions they make to the firm (Adams, 1965). Higher value contributions merit higher value allocations. Note that this view clearly identifies shareholders as one type of stakeholder that, like the others, deserves a fair return for their contributions.

The sustainability of the broad stakeholder orientation comes from the distributed nature of the individual actors' behaviors (Boyd, Gintis, Bowles, & Richerson, 2003). When a stakeholder is directly harmed [benefitted] by a norm violation, they tend to impose a sanction [reward] that is large enough to noticeably harm [benefit] the offender (Fehr & Fischbacher, 2004). This direct (i.e., second party) reciprocity can be severe, but it might only come from one actor. Indirect (i.e., third party) reciprocity, or rewards and punishments allocated by observers who are not directly affected by the norm violation, can be much more influential for the offender. This multi-directional accountability for behaving according to cooperative social norms is also explained by the concept of generalized exchange, in which a firm's behavior toward one stakeholder influences other stakeholders (Bearman, 1997; Cording et al., 2014; Ekeh, 1974). That is, what a stakeholder gives to and gets from the firm directly is not fully explained by implicit contract theory. Instead, a stakeholder's behavior toward the firm is often partially in response to their perceptions of how the firm has treated another stakeholder or group of stakeholders.

The more the norm is violated, the more cost third parties are willing to incur in punishing the offenders (Fehr & Fischbacher, 2004). Although the sanctions from a third party tend to be smaller than those of second parties, they can add up quickly when multiple third parties choose to punish the offender (Fehr & Fischbacher, 2004). Individual actor's behaviors are guided through gradually intensifying forms of reward and punishment, as needed, until they align with the social justice norm (Ostrom, 1990; Wiessner, 2005). If this does not eliminate non-cooperative behavior after some time, the violator may choose or be forced to separate from the stakeholder network.

The shareholder dominant orientation, by contrast, is largely maintained through more formal control aspects of the institutional environment like rules, structures, and standards (North, 1991; Williamson, 1983). This orientation is more individualistic (verses collective) (Brickson, 2007), arms-length (Bridoux & Stoelhorst, 2014), and focused on transactions (Hillman & Keim, 2001). Such an orientation encourages micro-behaviors from stakeholders in the network that are more exclusively focused on driving profits within each of their respective firms verses broader considerations of value at the collective stakeholder network level. Therefore, this orientation tends to attract individual stakeholders who are more interested in firm level profit (Bridoux & Stoelhorst, 2014, 2016). This reduces the likelihood that third parties will incur their own costs to punish norm violators (Fehr & Gatcher, 2002; Gurerk, Irlenbusch, & Rockenbach, 2006). In this environment, second and third parties believe the shareholder dominant orientation is the best strategy because they observe that the other stakeholders are similarly focused on the same objective (Nash, 1951).

The formal hierarchy at a shareholder dominant oriented firm assigns accountability for the appropriate micro behaviors across the employees. Employees believe their immediate superior is monitoring their contributions based on their influence on shareholder wealth, and that they will be rewarded or punished by their immediate superior accordingly. They also recognize an expectation that they monitor their subordinates' contributions based on the same objective. Customers and suppliers also engage with the firm with the understanding that shareholder wealth is the primary objective, which typically means that firm profit is the superordinate goal. As such, value is likely to be distributed according to the stakeholder's bargaining power (Coff, 1999). Thus, stakeholders recognize that incurring costs to enforce social norms is unlikely to lead to improved outcomes because other stakeholders (including third parties) are unlikely to do the same. Although the market creates corrective reputational effects over time for egregious profit oriented behavior that is opportunistic (Hill, 1990), there is more localized norm sanctioning among stakeholder-oriented firms. This orientation does not exclude cooperation between stakeholders where the intent in both firms is profit maximization (Lorenzoni & Lipparini, 1999). The practices of shareholder dominant firms tend to attract and retain stakeholders with high bargaining power who believe the appropriate norm is to behave in profit maximizing ways that benefit their own shareholders (Bridoux & Stoelhorst, 2014).

For the purposes of exposition, we assume that narrowly stakeholder oriented firms are generally oriented toward a narrower group of prominent stakeholders. However, the situation is a little more complex than this because it may be difficult to establish and maintain a stable orientation. We address this issue further in the discussion section with regard to how more complexity might affect the predictions built into our propositions.

Stakeholder Orientation and Acquisitions

The M&A context

Acquisitions bring multiple stakeholder networks together into one combined firm, which can represent a major upheaval for stakeholders in one or more of the firms involved. The post-deal integration phase is especially volatile for the stakeholders of the acquired firm because they often have to adjust to so many aspects of the acquiring firm, including its policies, strategies, contracting approach, management control structures, cultural norms, and values. Accordingly, realizing the full value of an acquisition requires a high level of cooperation during the integration phase (Haspeslagh & Jemison, 1991). The challenge varies according to whether the acquired firm will be fully integrated into the acquiring firm, will be allowed to operate independently, or will experience a level of integration somewhere in between (Pablo, 1994). Given our paper's theoretical approach, we assume the acquiring firm intends to fully integrate the acquired firm (Graebner, et al., 2017).

Stakeholder theory views the firm as a nexus of stakeholder contracts – some of which are explicit but all of which have at least some implicit, and therefore *in*completely specified, components, as explained previously (Asher, et al, 2005; Baker, Gibbons & Murphy, 2002; de Luque, et al., 2008; Donaldson & Preston, 1995; Hill & Jones, 1992; Hoskisson, et al., 2018; MacLeod & Malcomson, 1989; Rousseau, 1995). The acquiring firm may view the post-acquisition period as an opportunity to renegotiate implicit contracts with both their own as well as the acquired firm stakeholders (Cording, et al. 2014; Lind, Greenberg, Scott, & Welchans, 2000; Shleifer & Summers 1988). Consequently, the integration period is a vulnerable time for stakeholders at both firms because they face uncertainty about changes in the value that will be available to them in the future (Buono & Bowditch, 1989; Emmanouilides & Giovanis, 2006). How the acquiring firm treats its stakeholders during the integration has a strong effect on the ultimate success or failure of the deal (Hambrick & Canella, 1993). For example, an examination of the failed merger between telecom companies Telia of Sweden and Telenor of Norway suggests the integration was doomed by attempting to allocate equal amounts of value regardless of stakeholder's contributions (Meyer & Altenborg, 2007). This is especially important for employees as well as suppliers and customers who have made asset-specific investments (not transferable to another firm) and thus may be subject to holdup (Wang, He & Mahoney, 2009).

A parental orientation can transfer to an acquired firm

An important aspect of stakeholder theory is the idea that a stakeholder orientation is a set of principles that can pervade an entire organization, a result of deliberate management communications and actions that both convey and reinforce this orientation (Freeman, 1984; Freeman, Harrison & Wicks, 2007; Jones, et al., 2007). A shareholder dominant orientation reflects a different set of principles that can pervade a firm. The notion that a set of principles can pervade an organization is consistent with what Prahalad and Bettis call a dominant general management logic, which is defined "as the way in which managers conceptualize the business and make critical resource allocation decisions—be it in technologies, product development, distribution, advertising, or in human resource management" (1986: 490).

Grant (1988) argues that examining the dominant logic of a corporation is particularly helpful in identifying the potential for economies of scope at the strategic rather than the operating level. We agree with Grant on this point, and suggest that the corporate headquarters of a diversified firm strongly influences its operating units in terms of principles, processes, and norms (Menz, Kunisch & Collis, 2015), particularly as they apply to management of stakeholders (Crilly & Sloan, 2012; Jones, et al., 2007). Corporate influence comes through mechanisms such as various forms of communication, training, goal setting and performance evaluation, as well as through corporate resource allocations that reflect management priorities with regard to how well a firm addresses the interests of various stakeholders (Harrison, et al., 2010; Harrison & Van der laan Smith, 2015; Prahalad & Bettis, 1986). Following this reasoning, we argue an acquirer's stakeholder orientation is like a dominant logic in that it is embedded within the corporate office (Nell & Ambos, 2013), and that it can be transferred to acquired firm stakeholders. Focusing on stakeholder orientation and shareholder value, one study of 1,884 acquisitions found the shareholders of a stakeholder-oriented acquirer enjoy higher cumulative abnormal returns after an acquisition (Bettinazzi & Zollo, 2017).

Managers act intentionally

The acquiring firm's managers play an important role in the transfer of the parent's orientation to an acquired firm. For example, managers can engage in behaviors that directly influence the construction of norms of justice and employees' perceptions of the authenticity with which the organization is abiding those norms (Cording, et al., 2014; Monin, Noorderhaven, Vaara, & Kroon, 2013). Managers' behaviors therefore affect and are affected by the orientation – through means such as internal and external communications, promotion, recognition and other rewards, and forming explicit and implicit contracts with stakeholders (Brickson, 2005, 2007; Bridoux & Stoelhorst, 2016; Jones, 1995). We argue that peers and other third parties can also greatly affect the transfer of a stakeholder orientation to an acquired firm through their efforts to enforce the meritocratic social justice norm.

STAKEHOLDER ECONOMIES OF SCOPE

In this section, we explain the conditions under which acquirers can create stakeholder economies or diseconomies of scope. As explained in the introduction, a stakeholder economy of scope comes from managing the stakeholder relationships of two business units in a way that creates more total economic value for stakeholders than if those business units with their own orientations were each managed separately. This phenomenon and its impact on total economic value is distinct from the types of scope economies previously identified in the literature, and will be measured by the increase in the total economic value (defined previously) for the combined firm after the integration process. We expect that when the acquirer is broadly stakeholder oriented, it will allocate more of the incremental economic value to its non-shareholder stakeholders than to its shareholders.

Norms of justice, whether meritocratic or some other norm, are enacted during post-merger integration through intergroup dynamics (Monin, Noorderhaven, Vaara, & Kroon, 2013). From a micro-behavioral perspective, motivation or intention to perform an action comes from a person's belief about the consequences that it will generate. These beliefs are formed by observing the consequences of previous actions (Weick, 1995), with the recognition that the actions of others typically influence the consequences of one's own actions (Simon, 1966). Thus, a driver of stakeholder economies is that the acquiring firm's stakeholder orientation can unlock a cycle of value creation among the acquired firm stakeholders who get rewarded for behaviors viewed as consistent with the justice norm and punished for behaviors that violate that norm. The parent firm must behave consistently so the acquired firm managers learn new action-consequence patterns as experienced by themselves as well as others (Weick and Roberts, 1993).

Broadly stakeholder oriented acquiring firms give salience to the stakeholders of newly acquired business units, and allocate more time, attention, money and other resources to addressing those stakeholders' interests than is necessary simply to retain their participation with the firm (Harrison, et al., 2010). They are less likely to breach or unilaterally rewrite implicit contracts that disadvantage the stakeholders of the acquired firm or their own stakeholders. Instead, they diligently seek to discover what those contracts are, and to enhance or at least satisfy them whenever possible. Bridoux and Stoelhorst (2016) refer to this sort of behavior as equality matching, in which firms treat their stakeholders as equals, and attempt to balance reciprocity (see also Fiske, 1991). Even if an acquiring firm finds it necessary to make adjustments to implicit contracts in pursuit of other (e.g., operational) economies of scope, they will respectfully engage with the new stakeholders to find solutions that are the least value destructive so that all stakeholders incrementally improve value creation.

Stakeholders are more likely to cooperate with an acquiring firm that exhibits distributional justice (Bosse et al., 2009; Ellis, Reus & Lamont, 2009). This is because managers, second parties, and third parties all effectively enforce the meritocratic social justice norm. Stakeholders in a shareholder dominant firm who are not used to this norm learn through observation that it is costly to violate the norm. The new stakeholders learn to comply (Fehr & Gachter, 2000) or they choose to leave (Bridoux & Stoelhorst, 2014). Either way, the norm survives because it is the acquiring firm that directs the integration process. For example, in research conducted in Japan a broad stakeholder orientation was more prevalent in relationship-based diversification where growth was pertinent for all stakeholders involved, versus transaction-based diversification that was more focused on profits for the diversifying firm alone (David, O'Brien, Yoshikawa, & Delios, 2010).

In the following sections, we present logic for five conditions that lead to stakeholder economies or diseconomies of scope based on five unique combinations of firms, where each combination is distinguished by the orientations of the acquiring firm and the acquired firm.

Expanding a Stakeholder Orientation

The first condition is when the acquiring firm is broadly stakeholder oriented and the acquired firm is shareholder dominant. In the semiconductor and equipment industry, this would be like Intel acquiring Xilinx. When the acquiring firm first begins to integrate the stakeholders of a shareholder dominant business unit, accounting profit may be depressed because managers make new, higher investments in value propositions with other stakeholders that exceed their opportunity costs. Total economic value for the firm is unchanged (Garcia-Castro & Aguilera, 2015), but the allocation of value shifts in favor of the non-shareholder stakeholders. However, as the new stakeholders learn the pattern of rewards and punishments that uphold the meritocratic social justice norm, the collective network of stakeholders experience the positive effect of cooperation on total economic value explained previously. The improvement in primary stakeholder value propositions should stimulate positive reciprocity in the form of greater effort or other forms of value contributed to the firm. Lipponen, Olkkonen, and Moilanen (2004) found employees who perceive procedural justice during post-merger integration positively reciprocate towards the firm, and our argument follows stakeholder theory logic in extending this to the other types of primary stakeholders (see Bosse et al., 2009). This cycle also expands to affect the behaviors of third party stakeholders associated with both organizations. The newly enlarged stakeholder network also gives the acquiring firm the potential to leverage generalized exchange effects to more stakeholders through its reputation. As the acquiring firm gains a stronger reputation, it more easily can attract additional stakeholders who appreciate the stakeholder orientation.

While these value dynamics play out during the integration phase, we note that a broadly stakeholder oriented acquirer that recognizes the opportunity to change a shareholder dominant acquired business unit to a broadly stakeholder oriented business unit will most likely have performed due diligence before the deal to determine if the potential target's stakeholders could indeed make the conversion (Bettinazzi & Zollo, 2017). Under the assumption that shareholder dominant business units probably have like-minded suppliers and customers, converting the larger stakeholder network to the acquirer's principles will likely require consistent behavior over a sustained period. A broadly stakeholder oriented firm must carefully consider these issues before trying to engage in such a conversion process. Analogously, this is like a firm acquiring a target that has potential resource complementarity, where one firm lacks a resource that is needed, which is provided by the other firm to the transaction (Harrison, Hitt, Hoskisson, & Ireland, 1991).

In sum, an acquiring firm with a broad stakeholder orientation can transfer its orientation and the associated value creation benefits to its acquired businesses. The potential marginal benefit in terms of total economic value will be greatest when the acquired firm is shareholder dominant because such firms are not already enjoying the benefits of cooperation that arise from the meritocratic social justice norm. For example, IKEA, the Swedish-based global furniture retailer, has been acknowledged by researchers as a having the characteristics of a firm with a broad stakeholder orientation (Sisodia, et al., 2007). When IKEA acquired the troubled European furniture retailer Habitat, IKEA sought to transfer its management expertise to a new and broader set of stakeholders. Analysts were originally critical of the acquisition, but it has proven to be successful in terms of broader stakeholder objectives (Warnaby, 1999).

P1: A broadly stakeholder oriented firm that acquires and integrates a shareholder dominant firm creates greater total economic value *due to stakeholder economies of scope*.

Enhancing a Stakeholder Orientation

The second condition that can support stakeholder economies of scope is when the acquiring firm is broadly stakeholder oriented and the acquired firm is also broadly stakeholder oriented. In the semiconductor and equipment industry, given our examples noted previously, this would be like Intel acquiring Texas Instruments.

The stakeholders of both firms under this condition are accustomed to being comparatively more open about their multi-attribute utility functions in the course of their interactions with these firms. Firms with a broad stakeholder orientation tend to build trusting relationships in which stakeholders reveal more of the tangible and intangible factors that are important to them because those firms have demonstrated patterns of using this nuanced and sometimes sensitive information to entrepreneurially craft expanded value propositions for the stakeholders (Harrison, et al., 2010). As two firms like this come together and expand the number of stakeholders in the mix, they will arguably find more opportunities to entrepreneurially combine complementary utilities to create even better value propositions (Tantalo & Priem, 2014). Applying the logic developed previously, as stakeholders at the combined firm begin to enjoy these enhanced value propositions, positive reciprocity will spread, in turn, among those stakeholders directly affected, third parties who are indirectly affected, and members of the network who are affected only in generalized ways.

To the extent the concept of organizational culture, defined as the members' shared beliefs, values, and assumptions (Schein, 1985), overlaps the concept of stakeholder orientation, we expect M&A performance to be enhanced when a firm tries to integrate an acquired firm that has a similar stakeholder orientation. This argument is consistent with the M&A literature that has largely accepted that the integration phase proceeds more smoothly when the two firms have similar cultures (Bauer & Matzler, 2014). Similar arguments are made in the alliance literature. That is, advantages are expected for alliance partners that are characterized by cooperative capabilities and trustworthiness because they arguably experience lower governance costs and can explore more possible opportunities together when they do not have to protect their assets with contracts the way they would in a more transactional alliance where trustworthiness does not exist (Dyer & Singh, 1998; Hansen, Hoskisson, & Barney, 2008).

P2: A broadly stakeholder oriented firm that acquires and integrates another broadly stakeholder oriented firm creates greater total economic value *due to stakeholder economies of scope*.

Eradicating a Broad Stakeholder Orientation

Like other types of scope economies, the underlying dynamics reverse under certain conditions to result in diseconomies of scope that reduce value. In this section we explain how an acquirer with a shareholder dominant orientation can create a stakeholder diseconomy of scope by integrating an acquired firm that has a broad stakeholder orientation. In the semiconductor and equipment industry, this would be like Xilinx acquiring Texas Instruments. This diseconomy shows up in a reduction of total economic value for the combined firm after the integration process, and the loss of value affects the non-shareholder stakeholders the most. Importantly, shareholders of the combined firm may even see an improvement in their value allocation.

Similar to the broad stakeholder orientation, the shareholder dominant orientation is like a dominant logic in that it can be transferred from an acquiring firm to an acquired firm's stakeholders. Hubbard and Purcell (2001) found employees in acquired firms are concerned about how breaches in psychological contracts by the acquiring firm will affect the justice they and others in their work group will experience. If employees and other primary stakeholders of the acquired firm are accustomed to the stakeholder orientation, they will perceive breaches in their implicit or explicit contracts when the acquiring firm institutes its formal rules, structures, and standards for maximizing shareholder value. In some cases, the actions associated with pursuing traditional cost-reducing economies of scope are simply shifting value from many stakeholder groups to just one stakeholder group, the shareholders (Shleifer & Summers 1988).

From the employee perspective, acquisition integration activities performed in the name of achieving various operational economies of scope frequently include layoffs or reductions in benefits (Bhagat, Shleifer & Vishny, 1990; Pontiff, Shleifer & Weisbach, 1990). For example, some acquirers compare the contribution matching rates of retirement plans for both firms and then adopt the plan with the lower matching rate. Similarly, an acquiring firm may select a less expensive and, for employees, less desirable healthcare plan in an effort to save costs. These actions directly shift economic value from employees to shareholders. If the newly acquired employees believe they are being mistreated, their motivation to cooperate with the acquiring firm is reduced or may even result in value destroying behaviors such as voluntary turnover of highly valued employees.

A key difference between the broad stakeholder and shareholder dominant orientations is the power of second- and third-party reciprocity on the social norms. The stakeholders of shareholder dominant firms do not support each other for incurring costs to enforce the meritocratic social justice norm. One person who incurs a personal cost to reward or punish another person in this setting is unlikely to have enough impact to increase cooperation in the group (Fehr & Gachter, 2000). For example, employees whose trust has been violated are less likely to make new firm-specific investments in the merged firm or share private knowledge that would be valuable to managers of the newly merged firm (Harrison, et al., 2010). These sorts of investments are important to the value-creating processes of the firm.

Customers and suppliers of the acquired firm who are accustomed to a broad stakeholder orientation also face uncertainty during the integration phase. Like employees, this uncertainty makes them less likely to make asset specific investments that may be essential for remaining competitive (Hoskisson, et al., 2018). Changes for customers may include reductions in service levels, higher prices, less favorable contract or financing terms, elimination of products, or changes in service locations (Brush, Dangol & O'Brien, 2012). Suppliers may experience changes in order volumes and credit terms as the acquiring firm tries to rationalize its supply base and leverage its buying power (Lumineau & Henderson, 2012). For example, one study found that “suppliers that are terminated subsequent to a customer merger experience negative and significant abnormal returns at the merger announcement and significant cash-flow deterioration post-merger” (Fee & Thomas, 2004: 425).

Clearly, these sorts of changes can erode the trust and loyalty these stakeholders need to perceive before they will share sensitive, but important, knowledge with the acquiring firm (Harrison et al., 2010). The employees, suppliers, and customers will all learn to defend their own value propositions by behaving in profit-maximizing ways (Bridoux & Stoelhorst, 2014). Customers, for example, may slow down their payments to the firm. Suppliers may shift resources towards other buyers that provide greater potential value resulting in less reliable shipments or goods and services that do not reflect their best efforts. If the shareholder dominant orientation of the acquiring firm hurts these stakeholders enough, they will terminate their relationships with the acquiring firm.

The initial moves by a shareholder dominant firm when integrating a broadly stakeholder oriented firm often result in a shift of value from non-shareholders to the shareholders (see Shleifer & Summers 1988). Most M&A scholars recognize the improvement in shareholder value as a signal that the acquisition strategy worked (King, Dalton, Daily & Covin, 2004). The acquired firm stakeholders then learn through observation and experience that their efforts will only be rewarded by the most pertinent person on the other side of their implicit or explicit contract, and that those efforts need to be aligned with the profit maximization objective. Cording et al. (2014) found empirical support in a sample of merging firms that employees initially reciprocate positively or negatively towards the combined firm based on whether the firm appears to have upheld or breached, respectively, its implicit contracts with *other* employees and customers. For example, a customer may refuse to purchase a product, in part, because the firm from which they are buying is acquired by a firm with a reputation for taking poor care of its employees or is a poor corporate citizen. As stakeholders stop making personal investments to uphold the social justice norms, the combined firm will lose the advantages of cooperation that had existed inside the acquired firm before the integration began. Finally, as word gets out about how the shareholder dominant acquiring firm manages its stakeholders, fewer cooperative-type stakeholders will be attracted to engage with the combined firm (Bridoux & Stoelhorst, 2014).

Ultimately these dynamics represent what we call a stakeholder diseconomy of scope that reduces the combined firm's total economic value, all else equal. The shareholders, however, may realize short-term gains. Considering the employees, Kavanagh and Ashkanasy (2006) argue that the success or failure of an acquisition hinges on individual employees' and managers' perceptions of justice during the integration phase. Our logic follows that of Bosse et al. (2009) extending to all primary stakeholders because, as explained above, they all engage with the firm based on incomplete contracts. When a shareholder dominant firm that engages in the sorts of behaviors described in this section integrates a firm with a broad stakeholder orientation, its short-term profit may grow as value is shifted away from employees, customers, and suppliers. However, even if the short-term revenue/cost ratio appears favorable, the longer-term effects from rewriting stakeholder's implicit contracts are likely to be unfavorable as individual stakeholders of the acquired firm (who feel betrayed) begin to provide fewer resources and lower effort. We argue that a cycle of value destruction, like the one described here as a stakeholder diseconomy of scope, has been heretofore under-conceptualized in the corporate strategy literature. This new concept can help to explain more of the observed variance in acquisition performance, even when measuring longer-term changes in terms of shareholder value.

P3: A shareholder dominant firm that acquires and integrates a stakeholder-oriented firm reduces total economic value *due to stakeholder diseconomies of scope*, although acquiring firm shareholders may still realize a short-term incremental gain due to wealth transfers from some stakeholders to shareholders through violating or re-writing implied or written contracts.

We should note at this point that it is possible for firms to have a dominant orientation towards a stakeholder other than shareholders (Harrison & Bosse, 2013). For example, a firm may be employee dominant (e.g., employee owned firms—Sauser, 2009) or customer dominant (e.g., Heinonen, & Strandvik, 2015). Although we have used shareholder dominance in our reasoning because of its prominence and institutional support, most of our arguments apply equally well to acquiring and acquired firms with a different dominant stakeholder orientation.

Narrowing or Expanding a Stakeholder Orientation

The fourth condition also supports stakeholder diseconomies of scope and is characterized by an acquiring firm that is narrowly stakeholder oriented and an acquired firm that is broadly stakeholder-oriented. In the semiconductor industry, this would be like Applied Materials acquiring Texas Instruments.

The mechanism underlying the logic of this proposition is similar to proposition 3 if the acquiring firm continues its narrow focus when the firms are combined. The acquiring firm will tend to violate or renegotiate the value propositions for stakeholder groups at the acquired firm that it is not oriented towards serving. These stakeholders will be upset and can be expected to negatively (directly) reciprocate towards the newly combined firm. The stakeholder groups that both firms were already oriented towards serving will still be the most salient after the combination. However, members of these stakeholder groups at the acquired firm will observe the diminished value propositions received by the newly less-salient stakeholders. This will violate the justice norms they perceived in the past, and can be expected to lead to some instances of negative indirect and generalized reciprocity towards the acquiring firm managers. Because these types of reciprocity can have even greater impact than direct reciprocity (Fehr & Gachter, 2000), the firm-level effect may, ultimately, be less total economic value than the two firms had generated when operating independently, all else equal.

On the other hand, if the acquiring firm is influenced by the acquired firm such that it adopts a broader stakeholder orientation, there is potential for broader stakeholder economies of scope because the previously neglected stakeholders of the original acquiring firm will be given better treatment, resulting in positive reciprocity and the resulting effects elaborated in previous sections. Consequently, the behavior of the acquiring firm has much to do with the potential for stakeholder economies or diseconomies of scope. This logic results in the following two propositions:

P4a: A narrowly stakeholder oriented firm that acquires and integrates a broadly stakeholder oriented firm and continues its narrow stakeholder focus in the combined

firm reduces total economic value *due to stakeholder diseconomies of scope,* although selected stakeholders may still realize an incremental gain.

P4b: A narrowly stakeholder oriented firm that acquires and integrates a broadly stakeholder-oriented firm and adopts a broader stakeholder orientation in the combined firm increases total economic value *due to stakeholder economies of scope*.

We fully acknowledge that these propositions have not taken into account the strategic importance of one stakeholder group over some other group. That is, some stakeholders may have greater importance to the strategic competitiveness of a firm than other stakeholders (Harrison & Bosse, 2013). Since managing for stakeholders has incremental costs associated with it (Harrison & Bosse, 2013; Jones, Harrison & Felps, 2018), one could reason that a firm is being strategic when it is persistently treating some stakeholders better than others. Doing so, in fact, may lower overall costs and this may be the primary strategic reason for a narrow stakeholder orientation. Also, the stakeholders that are not included as close partners may also understand this and still participate in transactions with the focal firm.

However, based on the logic contained herein, an acquiring firm that seeks strategic advantage from always favoring one or a small set of stakeholders over other stakeholders is unlikely to realize greater total economic value due to stakeholder economies of scope because it does not allow for the increased reciprocity or generalized exchange effects that are central to our arguments. In other words, although cost minimization may still be present, the firm may be missing out on opportunity maximization stemming from a broader stakeholder orientation. Furthermore, when an acquisition results in any one stakeholder group being treated less well than it was previously, we might expect stakeholder diseconomies of scope. Implicit contracts are broken, and value is reduced, among those stakeholders where the acquired firm had been oriented, which stimulates negative reciprocity in secondary, third-party, and generalized interactions. This same logic applies to other combinations of firms, such as when a narrowly stakeholder oriented firm acquires another narrowly stakeholder oriented firm, and the stakeholders given most salience are different.

When both firms share the shareholder dominant orientation, we expect the integration process to unfold without significant changes to stakeholders' explicit or implicit contracts. Stakeholders, therefore, will not experience treatment that greatly exceeds or falls short of their existing expectations for justice because their new parent has a familiar orientation. As a result, the way the stakeholders of the acquired firm interact with the stakeholders of the acquiring firm will not create or destroy value that is attributable to stakeholder economies or diseconomies of scope, all else equal. This situation, where both firms are shareholder dominant, would seem to be the most beneficial for realizing the other types of scope economies discussed in the literature because non-shareholder stakeholders' value propositions can be realigned to maximize shareholder value without backlash. Thus, we offer no proposition here because this situation is unrelated to stakeholder economies of scope.

While the bulk of our arguments primarily focus on the post-merger integration phase, managers and researchers who grasp them will be able to shift some of their attention to pre-merger decisions (Haspeslagh & Jemison, 1991). For example, we expect that the potential for stakeholder economies of scope will have an influence on a firm's decision to engage in an acquisition, and its choice of a target firm. This potential can be manifest in at least two ways. First, a firm may seek out acquisition targets of firms with a similar stakeholder orientation. Such a combination would simplify the acquisition integration process because managers and employees would not have to be oriented in new ways to prioritize and engage with stakeholders, and customers, suppliers, shareholders and financiers would know what to expect. For example, Southwest Airlines, a company recognized for its broad stakeholder orientation, arguably found AirTran Airways an attractive acquisition target in 2011 based, at least partly, on similarities in its orientation. Second, it is also possible that a firm with a narrow or shareholder dominant stakeholder orientation would find a firm with a broad stakeholder orientation very attractive for acquisition because of its expertise in managing a more diverse group of stakeholders and the additional social capital and knowledge such a firm's stakeholder network would bring into the combined entity. For example, in addition to providing a platform for local grocery delivery, Amazon's decision to acquire Whole Foods may have included this sort of rationale.

DISCUSSION

The reasons why many acquisitions fail to produce the expected returns are still poorly understood. One result is that stock market participants are not particularly good at predicting outcomes from acquisitions at the time they are announced, even in the case of horizontal acquisitions, which are arguably the easiest types of acquisitions for deal participants to understand (Oler, Harrison & Allen, 2008). Oler, et al (2008) explain that acquisitions are too complex for the market to fully comprehend, making ex ante predictions of their probable performance implications difficult. Although there may be many explanations, our paper provides two additional explanations for this. First, stakeholder economies and diseconomies of scope have not been identified (until now) as possible influences on firm performance. Second, stock market participants' focus on shareholder value is arguably myopic – acquisitions can create or destroy total economic value for any or all of the stakeholders at the combined firm.

The traditional types of scope economies (listed in the introduction) influence the activities of a range of stakeholders and provide the justification for many acquisitions. To the extent pursuing these other scope economies is perceived as a violation of justice norms among the acquired firm's stakeholders, it could be that some failed acquisitions really have generated the benefits of traditional economies of scope, but that those gains have been offset by stakeholder diseconomies of scope.

Preliminary empirical evidence suggests the theory developed herein has merit and is worthy of further investigation. Considering only the acquirer's degree of stakeholder orientation and its relationship to shareholder value creation after the acquisition, Bettinazzi and Zollo (2017) find a positive effect that gets stronger when the two firms are more closely related in terms of SIC code similarity. They also find, however, that integrating the acquired firm only strengthens the effect on shareholder performance when the acquirer is oriented towards certain types of stakeholders. Our arguments provide two possible explanations for this finding. First, this may be due to the acquired firm's orientation towards those same stakeholder groups before the deal. Second, the cumulative abnormal returns to shareholders do not capture the economic gains for the non-shareholder stakeholders.

In exploring the concepts of stakeholder economies and diseconomies of scope, this paper responds to calls for more conceptual work on complementarity in M&A (e.g., Bauer & Matzler, 2014; Harrison, et al., 1991). The literature provides arguments about why organizational complementarity or fit, beyond organizational similarity, are associated with improved M&A outcomes, but scholars have not agreed on how to measure these concepts (Bauer & Matzler, 2014). Our work provides more clarity about how specific firm-level orientations interact to create or destroy total economic value.

This paper is also consistent with the position of early strategic management scholars that we should examine the implications of strategies for a broad group of stakeholders beyond just the shareholders (Learned, et al., 1965; Newman, 1979; Schendel & Hofer, 1979). As we mentioned in the introduction, almost all of the extant acquisitions literature has focused solely on financial returns, primarily for shareholders (i.e., Allen and Soongswang, 2006; Datta, Pinches & Narayanan, 1992; Hogarty, 1970; King, Dalton, Daily & Covin, 2004; Loughran & Vijh, 1997). The theory developed herein applies a multiple stakeholder approach.

Practitioners

To practitioners, we emphasize that acquisitions can be tough on an acquired firm's stakeholder orientation, especially if layoffs are necessary due to operational redundancies, which is often the case in horizontal acquisitions. We expect the leadership teams at some stakeholder-oriented firms are already aware of stakeholder economies of scope, although they are unlikely to call the phenomenon by this name. One implication is that managers of firms with a broad stakeholder orientation may be especially reluctant to be acquired. Taking this idea one step further, we might find that *takeover defenses that are largely believed to reduce shareholder value actually help prevent the destruction of total economic value for the stakeholders at these firms*.

For a firm that makes an acquisition with the intent to create stakeholder economies of scope, careful stewardship over the newly combined firm is necessary to reinforce those aspects of the orientation that are most closely associated with the potential for stakeholder economies, sending strong signals through communication and other behaviors with regard to how stakeholders are to be treated. A culture of trust and respect enables the firm to obtain knowledge about stakeholders' needs and aspirations, thus improving the odds of creating or maintaining value-creating relationships (Bosse, et al., 2009; Harrison, et al., 2010; Jones, 1995; Jones, Harrison & Felps, 2018). Leaders must also anticipate that the intense and volatile environment that is characteristic of an acquisition will cause anxiety in stakeholders, so they must carefully address their stakeholders' concerns throughout the acquisition and integration process.

For managers of shareholder dominant firms, the arguments presented here discourage buying broadly stakeholder oriented targets unless other traditional economies of scope can generate enough incremental shareholder value to offset the reduction in total economic value from a stakeholder diseconomy of scope.

Future research

Our paper applies micro-foundational value creation mechanisms found in stakeholder theory to an acquisition context. However, we limited this initial exploration of stakeholder economies of scope to distributional justice considerations (e.g., economic value). Firms also exhibit organizational justice in the way they engage their stakeholders during decision processes (procedural justice) and in the way they regard stakeholders in routine interactions (interactional justice) (Bosse, et al., 2009; Donaldson & Preston, 1995). These other types of justice may also be important for more completely understanding how stakeholders behave during M&A integration and how those behaviors affect total economic value.

For the sake of parsimony, we have simplified our assumptions about the narrow stakeholder oriented firms. Firms may, in fact, have both stakeholder and shareholder orientations operating in the same firm. Although this may mean that they are "stuck-in-the-middle" and cause problems inherent to the firm because there is no dominant culture, this instability may be passed on to a potential target as well. Thus, there is further room for theorizing about more culturally unstable firms using our framework. Other forms of heterogeneity in M&A may also condition the effects explained here. For example, how do these dynamics differ in the case of a cost-focused merger of equals versus a cross-selling acquisition or a knowledge access deal that involves less integration?

Likewise, there may be potential problems associated with trying to manage multiple stakeholders, especially in complex acquisition transactions. For example, Gambeta, Koka, and Hoskisson (2018) empirically examine both the beneficial and potentially counterproductive implications of emphasizing strong stakeholder relationships with employees such that there is a tradeoff between local search (leading to exploitative innovations) and distant search (leading to exploratory innovations).

Stakeholder economies of scope may also be relevant in other streams of corporate strategy research. Beyond the acquisition context, corporate restructuring strategies such as divestitures, carveouts, and spinoffs conceivably create uncertainty among the affected stakeholders. To the extent the due diligence process before a potential acquisition reveals conditions that will lead to stakeholder diseconomies of scope, the firms may instead choose to enter a joint venture. Future research can explore whether and how the arguments made here apply to these other strategies.

Our initial theorizing, for simplicity and space reasons, considers stakeholder economies of scope separately from all other types of scope economies. However, a broad stakeholder orientation, with its emphasis on organizational justice and exemplary treatment of a broad group of stakeholders, may be necessary to fully unlock the potential of other types of scope economies. Some stakeholders can be in roles that give them more influence over the success of the integration efforts (Clark & Geppert, 2011; Clark et al, 2010; Monin et al, 2013), so integration periods that certain stakeholders perceive as excessively (un)fair can (undermine)accelerate the realization of other types of economies of scope. Thus, combinations of various scope economies may have moderating effects on the total economic value created or destroyed for stakeholders. Future studies will attempt to parse the independent effects of different types of economies of scope alone and in combinations.

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