RECASTING ENTERPRISE STRATEGY: TOWARDS STAKEHOLDER RESEARCH THAT MATTERS TO GENERAL MANAGERS

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Forthcoming, Journal of Management Studies (Special 50th Anniversary Issue)
ABSTRACT

As well as specifying functional, business unit, and corporate levels of strategy, early strategy scholars delineated enterprise level strategy as the uppermost level of strategy. Enterprise strategy articulates how the firm engages with actors in its economic, social, and political environment to ensure long-term corporate performance. As a growing body of evidence shows, heterogeneity in how firms identify, and engage with, their stakeholders can explain why some firms outperform their peers. However, my literature survey of more than three decades of published research reveals that enterprise strategy has stayed firmly in the shadows behind business and corporate strategy. Furthermore, many theories of firm-stakeholder relationships are normative (i.e. explain how firms should act) and do not inform strategy effectively. In this paper, I argue why enterprise strategy research is required as a cohesive body of work that connects with research in business and corporate strategy. I finish by proposing three research domains - strategic goals, organization design, and organization boundaries – that hold the potential to link stakeholder issues with mainstream concerns in strategy research and, thus, to revive a coherent research program in enterprise level strategy.

Key words: Enterprise strategy, general management, stakeholders, sustainability
RECASTING ENTERPRISE STRATEGY: TOWARDS STAKEHOLDER RESEARCH THAT MATTERS TO GENERAL MANAGERS

General managers grapple with issues as diverse as employee industrial action, government red tape, and conflict with partners over intellectual property rights. Though these issues are far removed from the pricing, strategic positioning, and business portfolio concerns that form the cornerstone of MBA syllabi, they are germane to general management. As opposed to specialists, general managers should grasp the “bigger picture,” and identify how diverse parts of the firm come together to shape performance. Doing so requires an understanding of the firm’s internal workings and its social and environmental context (Bower, Leonard & Paine, 2011). Seminal management scholars recognized this and identified managing firms’ relationships with their stakeholders - the diverse social actors who affect, and are affected by, business activity - as an explicit task of top management (Andrews, 1971). Similarly, as well as delineating functional, business unit, and corporate strategy, early strategy scholars defined “enterprise strategy” as the uppermost level of strategy (Ansoff, 1979; Schendel & Hofer, 1979).

Enterprise strategy articulates the firm’s relationship with society and addresses the question of how to engage with stakeholders to ensure the sustainability of the business. At its core lies the idea that firms must balance tensions between short-term economic gain and longer-term sustainable performance. In recent years, the idea that firms have to care only about shareholder value has been challenged. In part, this challenge is a response to corporate collapses and scandals. But, even more fundamentally, it emanates from the insight that collaboration with a broad range of stakeholders matters for corporate value creation. Sustainable performance requires inputs from multiple stakeholders, including, but not only, providers of capital. In the decade since Margolis and Walsh’s (2003: 268) call for systematic inquiry, research into the role
of the corporation in society has increased appreciably. Much research has investigated the relationships between corporations and their stakeholders. Empirical evidence underscores the influence of non-financial stakeholders on economic value creation (Harrison, Bosse & Phillips, 2010). Understanding how different kinds of stakeholders impact the firm is therefore a critical task for general managers.

In this paper, I explore some of the inroads afforded by research into enterprise strategy. Using a literature survey painting a bleak picture of the field as a point of departure, I propose how we might consider enterprise strategy in a new light to foster a cohesive research program on firm-stakeholder relations that can effectively inform strategy. Indeed, enterprise strategy has long disappeared from most categorizations of strategy (for example, Venkatraman, 1989). Instead, these categorizations have focused on business- and corporate-level strategy. An important reason for the neglect of an overarching enterprise strategy is, I suggest, that relevant research has been conflated with related work in business ethics. The normative flavor of this work has hampered the development of a coherent body of research. In contrast to researchers of business strategy and corporate strategy, who have established a body of knowledge and partial consensus around the core questions to be solved, the same cannot be said for researchers of enterprise strategy.

Recent reviews already provide a comprehensive overview of stakeholder theory (Laplume, Sonpar & Ritz, 2008), and I therefore focus specifically on research at the interface of stakeholder theory and general management. My primary aim, however, is to be prospective – rather than retrospective - and to outline future research directions. In doing so, I specify three core themes that link stakeholder issues with central concerns in strategy research - organizational goals, organization design, and the boundaries of the firm - and suggest how
existing work in management and strategy can be applied to advance understanding in these domains.

**Strategic Goals in the Face of Competing Stakeholder Demands.** At the core of enterprise strategy lies the recognition that short-term gain could come at the expense of longer-term performance. Hence, a central issue for research at the enterprise level concerns how general managers choose between the short- and the long-term. More generally, how do they distribute value between competing stakeholders? Behavioral theory recognizes that the firm does not necessarily have a single objective function (Cyert & March, 1963; Simon, 1947). Existing research demonstrates that firms can – and do – manage multiple, apparently incompatible, goals at the same time. Though prior work on the ambidextrous organization explores competing economic goals within the multi-business firm (Birkinshaw & Gibson, 2004), there remains the potential to apply the lens of ambidexterity to understand how firms balance economic and social goals.

**Organization Design and Stakeholder Demands.** Following on from the recognition that firms face stakeholders with competing interests, how should general managers configure their firms to respond to stakeholder demands? Firms are more than the sum of their parts and can accomplish more complex tasks than can any individual. Though design is usually conceived as a corporate level problem, it is just as applicable at the enterprise level to explain why some firms can simultaneously respond to a broad range of stakeholders. Firms that succeed in satisfying diverse stakeholders do so not necessarily because they are more ethical or enlightened than their peers but because they permit specialization and local learning rather than impose uniform solutions from the top (Crilly & Sloan, 2012). By enabling a division of labor between managers, who specialize their attention on different stakeholders (e.g. shareholders, customers,
employees, suppliers), some firms facilitate simultaneous attention to a large number of distinct stakeholders (Crilly, 2011).

**Boundaries of the Firm and Interorganizational Relationships.** Third, how ought general managers to think about the boundaries of the firm? Though firm scope is a core concern of corporate strategy, there has been little questioning of its meaning other than the boundaries of production and geography. The unique contribution of a stakeholder perspective to understanding the boundaries of the firm is to recognize that other categories of boundaries also matter for how we manage the enterprise. At the enterprise level, perceived boundaries based on notions of identity, which may not map precisely onto the legal boundaries of the firm, influence the kinds of relationships that managers are likely to pursue with external actors (Brickson, 2005) and have broad implications for resource allocation and social welfare (Lamont & Molnár, 2002).

*Strategy at the enterprise level, in other words, is not only about social responsibility concerns or ethical issues.* Rather, it matters fundamentally for how firms create value and sustain competitive advantage. All three domains have at their core the idea that organizations face competing pressures: How firms reconcile pressures from a variety of financial and non-financial stakeholders is a function of the goals that their managers prioritize, the organizational structures that managers design to centralize or decentralize decision-making, and the coordination mechanisms that managers employ with actors outside the boundaries of the firm. Fortunately, the seminal organization literature offers guidance as to how we should think about related issues. As I outline below, the Carnegie School, in particular, offers a useful lens through which to conduct descriptive and analytic research into firm-stakeholder relationships. Further, recasting enterprise strategy in a less normative light holds the promise to foster cohesive
research and to generate more substantive implications for general management in balancing tensions between shareholding and non-shareholding stakeholders.

ENTERPRISE STRATEGY AS THE UPPERMOST LEVEL OF STRATEGY

Seminal management scholars viewed stakeholders as integral to firms’ strategy. Stakeholders were instrumental in helping firms to realize their objectives. Moreover, creating corporate value implied value creation both for shareholders and non-shareholding stakeholders. The centrality of stakeholders to the purpose and activity of the firm is reflected in early classifications of the levels of strategy. In an influential text, Schendel and Hofer (1979) distinguish four levels of strategy: functional, business, corporate, and enterprise.

Functional strategy. Functional strategy concerns a single function (for example, marketing, finance, research and development) and the objectives within that functional area. Business units routinely develop their own strategies for each department. This level of strategy has conventionally been the domain of scholars in accounting, marketing, finance, and other disciplines.

Business strategy. The core concern of business strategy is the competitive advantage of the individual business unit, which conventionally focuses on a particular product or geographic market. The crucial questions here revolve around the unit’s strategic positioning and the allocation of resources among different functions.

Corporate strategy. Corporate strategy involves delineating the appropriate scope of the firm (i.e. which businesses are, or should, we be in?) and ensuring that the corporation adds value so that the whole is greater than the sum of its parts. Core issues include how best to parent
individual business units and how to structure the organization so that units specialize and collaborate where appropriate.

*Enterprise strategy.* Enterprise strategy concerns the role of the firm in its broader social, legal, and political environment. Enterprise strategy is “something that could order and direct the activities of a corporation and the managers who run it” (Freeman et al. 2010, p. 222).

According to Schendel and Hofer (1979: 12), "enterprise strategy attempts to integrate the firm with its broader, noncontrollable environment ... in the sense of the overall role that business, as one of society's important institutions, should play in the everyday affairs of society" (p. 12). Enterprise strategy is set at the topmost level of the organization (Hillman, Keim & Luce, 2001). The questions most salient to enterprise strategy are: why the organization exists, and how it functions (e.g. as a for-profit or not-for-profit entity).

The distinctions between these four levels of strategy are highlighted in Table I.

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There is evidence that decisions at each level contribute to firms’ performance. The higher up in the strategy hierarchy, the more complex the strategy problem as more dimensions become salient. At the corporate level, the task is not to maximize performance in any single business unit but to improve performance of the firm as a whole. This requires an understanding of how different businesses fit together and complement one another. At the enterprise level, the strategic problem is to understand how diverse stakeholders affect, and are affected by, the firm as well as to understand the relationships between these stakeholders. This understanding requires an awareness of complementarities and trade-offs - for example,
understanding how allocating resources to one stakeholder group might affect the stakeholder, its relation to the firm, as well as the ultimate creation of economic value.

The goals of enterprise strategy are less likely than those of business or corporate strategy to be purely financial. Within enterprise strategy, there is certainly room for ethics (c.f. Freeman, 1984), but conceptualizations of enterprise strategy differ. More generally, at the core is the insight that the firm’s sustainability depends ultimately on its legitimacy and its capacity to meet the demands of its stakeholders.

One of the surprising features of Table I concerns the dominant research themes. Within the literature on both business and corporate strategy there have been numerous attempts to argue for, and to measure, the magnitude of business unit and corporate effects on firms’ profitability (e.g. Bowman & Helfat, 2001; Rumelt, 1991; McGahan & Porter, 1999). These attempts have often used techniques such as variance decomposition. However, they form only a small part of the literature on business and corporate strategy. Increasingly, research has progressed along understanding how business and corporate strategy can create value, rather than whether business strategy and corporate strategy create value. In enterprise strategy, there has been less attention to identifying such contingencies. As I indicate in the subsequent section, the limited research specifically focused on enterprise strategy has been dominated by the existence of the social performance – financial performance relationship and ethical concerns.

**The Current State of Affairs: A Dormant Stream of Research**

Though research in the social sciences – and, indeed, management especially - admittedly lacks the model questions and answers found in more paradigmatic disciplines in the natural sciences (Kuhn, 1996), there has been a growing body of evidence and some convergence around
central questions in business and corporate strategy. To what extent can the same claim be made for enterprise strategy?

Since 1979, research and teaching have blossomed in the areas of business and corporate strategy. Business strategy research has been strengthened by contributions from industrial organization and organizational economics. A vast literature has developed in corporate strategy, and scholars have identified the relevance of a broad range of variables at the corporate level (cf. Bowman & Helfat, 2001, for an overview). In contrast, in her review of contributions to research in international strategic management research, Lu (2003) notes that enterprise strategy has stayed firmly in the shadows.

To assess the influence of enterprise strategy on the mainstream management literature, I searched for articles containing the string “enterprise strategy” in six major general interest management journals (Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Journal of Management Studies, Organization Science, and Strategic Management Journal) and two business ethics journals (Business and Society, and Journal of Business Ethics). This was a comprehensive search of all articles that appeared in the eight journals over the period 1980 to 2012. After excluding eight articles which contained the string “enterprise strategy” to denote the strategy of multinational enterprises or entrepreneurial ventures, across the 33 years only seven articles were published in the general interest journals and 13 in the business ethics journals. A summary table (Table II) is provided.

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INSERT TABLE II ABOUT HERE

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If anything, the 20 papers cited in Table II exaggerate the influence of enterprise strategy on the literature\(^1\): The authors of most works cited refer to enterprise strategy cursorily, citing Freeman (1984) or Freeman and Gilbert (1988) to position their work within stakeholder theory and, less frequently, Schendel and Hofer (1979), to position their work within the strategy literature. None of the authors aim explicitly to develop the enterprise strategy construct. In sharp contrast to business strategy and corporate strategy, whose authors cite each other and build on their more recent works, research in enterprise strategy is dormant is far from achieving the status of a coherent body of research. As highlighted in Table II, amongst the articles in the general interest management journals, most articles explore a single topic: the link between corporate social responsibility and financial performance. There is limited work that considers the meaning of enterprise strategy for managers and how they might strategize at the enterprise level.

This lack of attention to enterprise strategy in the literature is in many ways a surprise. There is ample evidence that firms vary in how they manage their stakeholders (Shropshire & Hillman, 2007). As stakeholder management ultimately does influence firms’ financial performance (Kacperczyk, 2009), identifying the kinds of stakeholder management practices linked to superior performance is an important task for strategy scholars. Strategy at the enterprise level goes beyond social responsibility concerns; it matters for how firms create value and sustain competitive advantage. Yet, stakeholder issues are not routinely discussed alongside mainstream strategy issues. For example, even though major business schools routinely offer courses on business ethics and social responsibility as a result of the recent concern with corporate scandals and the ethical challenges of the workplace, these courses are often stand-

\(^1\) Admittedly, as mentioned elsewhere, most research relevant to the enterprise level of strategy does not employ the enterprise strategy label but can still make a very valuable contribution to building this area of research.
alone modules, and stakeholder management rarely forms part of the mainstream strategy curriculum.

In the practitioner space, research into the issues that actually occupy CEOs’ time finds compelling evidence that CEOs routinely focus their attention on corporate- and enterprise-level issues rather than issues of business strategy. Enterprise-level concerns include responding to new regulation facing the firm and understanding the likely impact of changing social demands on the firm’s current strategy (e.g. Friedman, 2011). There is also some, albeit, limited evidence that the label of enterprise strategy has been adopted by some corporations to distinguish strategy around sustainability-related concerns (cf. Kiron et al., 2012), albeit executives still face a lack of frameworks to guide them as they think about such issues and seek to integrate them with corporate strategy concerns.

Of course, the lack of an explicit discussion and extension of enterprise strategy in the literature does not mean that relevant issues have been wholly neglected. Indeed, work investigating the linkage between how firms address stakeholder issues and how they generate financial performance has flourished since the 1970s. The relationship between social and financial performance is admittedly a complex one. Whereas some studies show a generally positive relationship (e.g. Cochran & Wood, 1984), others show a negative one (c.f. Orlitzky, Schmidt & Rynes, 2003). These conflicting results might be explained, in part, by the difficulty of operationalizing firms’ social performance (Clarkson, 1995), but more generally speak to the contingent nature of the social-financial performance relationship: Allocating corporate resources to socially responsible practices impacts performance, though the specific impact presumably depends on the context in which the firm competes and the other resources at its disposal.
Despite the evidence that stakeholders matter – albeit in complex ways - for firms’ competitive advantage, there are two challenges facing the development of a cohesive body of research in enterprise strategy. The first is the conflation of enterprise strategy with business ethics. The normative basis underlying much of the research related to firms’ engagement with their stakeholders makes it difficult for researchers to build consistently on each other’s work. The second is the lack of consensus on the questions that matter.

For the first, any formulation of strategy that explicitly takes account of the firm’s relationship with its stakeholders necessarily touches on normative issues because the responsibilities of the firm vis-à-vis its stakeholders are contested, and ultimately arguments about the responsibility are usually normative rather than based on legal obligations or instrumental benefits (Donaldson & Preston, 1995). Indeed, the mere idea that firms might strategize around issues related to stakeholder welfare is anathema to some scholars (Quinn & Jones, 1995).

Within the business ethics literature, apparently the most receptive field to the enterprise strategy idea (cf. Table II), scholars routinely identify ethics as a core component of enterprise strategy. For example, Stead and Stead (2000: 313) define enterprise strategy as a “framework for integrating the moral responsibilities of organizations into their strategy formulation and implementation processes.” This point of departure is embedded within normative stakeholder theory. Stead and Stead argue that, “It is this moral dimension of stakeholder theory that is the primary focus of enterprise strategy.” Consistent with this, much of the existing work that begins to address enterprise strategy specifies the importance of corporate values. Freeman (1984) proposes that enterprise strategy starts with understanding the stakeholders most salient to the firm, which requires understanding the firm’s effects on its stakeholders, the values of
management, the values of stakeholders, and societal trends and their likely impact on the firm (Freeman, 1984). Freeman (1984: 91) declares that enterprise strategy “does not necessitate a particular set of values, nor does it require a corporation be ‘socially responsive’ in a certain way. It does examine the need, however, for an explicit and intentional attempt to answer the question ‘what do we stand for.’”

Yet, stakeholder theory is not only normative, it is also descriptive – i.e. it explains how managers and their organizations actually behave towards stakeholders and vice versa – and instrumental, i.e. it is useful in helping organizations to reach their goals (Donaldson & Preston, 1995). Both the descriptive and instrumental dimensions of stakeholder theory support the development of a consistent research program in enterprise strategy, and perhaps more so than the normative dimension which has been the focus of most work in the area thus far. The advancement of science requires scholars to agree on the basic facts, thereby allowing ideas to build on one another and an advancement of research (Kuhn, 1996). Their importance notwithstanding, normative positions do not easily lend themselves to research for subsequent scholars to build on. Descriptive research (that is, understanding how executives actually make decisions and behave vis-à-vis their stakeholders and how this behavior changes in response to conditions) and instrumental research (that is, understanding the consequences for performance – of the different ways in which executives behave vis-à-vis their stakeholders) are potentially stronger pillars on which to build a cohesive research program.

The second concern relates to the influential questions that are relevant to enterprise strategy. For a long time, the question that has dominated issues bridging firms’ strategy and their stakeholders has been the relationship between social performance and financial performance. In a comparatively early survey of the literature, Margolis and Walsh (2003) find
127 articles that address the relationship between corporate social responsibility and financial performance. This relationship undoubtedly matters. In the absence of performance implications, issues relating to stakeholders might still matter to managers but they would not necessarily be of strategic importance. However, understanding the influence of stakeholder engagement on firms’ financial performance cannot support an entire stream of research. In the subsequent section, I outline three areas of research that are likely to prove fruitful in forging a link between enterprise strategy and ‘mainstream’ strategy research.

**QUESTIONS IN ENTERPRISE STRATEGY: LOOKING AHEAD**

What are the questions that might reasonably advance knowledge in enterprise strategy? There is already a burgeoning literature that goes beyond whether a relationship exists between social and financial performance to identify the moderators of this relationship and the boundary conditions. Efforts to better delineate the relationship are proving fruitful. However, apart from direct consideration of the consequences for long-term financial performance of firms’ stakeholder engagement, there is a need for descriptive theories that explain why firms engage with their stakeholders in different ways. Building on existing research in strategy, I suggest three domains of research that are likely to be especially productive for enterprise strategy scholars going forward: organizational goals, organization design, and firm boundaries. These domains are integral both to strategy and, specifically, to understanding how firms respond to stakeholder pressures.

**Enterprise Strategy and Organizational Goals**

Purpose is inherent to strategy (Freeman & Gilbert, 1988), and strategy research ultimately involves explaining why some firms have greater success than others in achieving
their goals. Within both business strategy and corporate strategy, superior financial performance is typically the assumed goal of firms. That is, most explanations of good strategy start from the perspective that financial performance is the appropriate objective. Further, financial performance is often operationalized by shareholder returns. There are good reasons for this and, in practice, shareholder returns play an increasingly important role in executive compensation (Conyon, 2006).

A normative case can be made either for or against shareholder returns as an appropriate goal for the firm. Much existing research in the domain of stakeholder theory argues for the importance of attending to stakeholder interests. Some scholars make this case on the basis that stakeholders contribute resources to the firm and, hence, ultimately affect shareholder value. Others contend that creating value for stakeholders is prima facie important and that the task of management ought to consist of maximizing corporate value, i.e. the value created for all stakeholders. Given the existence of externalities and the imperfect nature of factor markets, measures taken to maximize shareholder value will not necessarily – at least in the short term - maximize corporate value. For example, employees who make firm-specific commitments may be under-remunerated (Blair & Stout, 1999). Hence, a case can be made that managers also bear a fiduciary duty to non-shareholding stakeholders (Freeman, 2002). On the other hand, shareholder value as an objective may minimize agency costs and managerial opportunism (Conyon, 2006). Whether or not shareholder value maximization is a reasonable objective for the firm thus remains widely debated. In part, the advantage of shareholder value lies in its simplicity (Sundaram & Inkpen, 2004) – rather than necessarily that it is an accurate proxy for corporate value – and the debate is unlikely to be settled anytime soon.
These normative issues notwithstanding, there are compelling reasons at the enterprise level of strategy to consider seriously the goals that firms pursue and the consequences of organizational goals for firms’ financial performance. Evidence shows that firms often pursue apparently paradoxical objectives (Andriopoulos & Lewis, 2009): For example, they frequently refine known ways of conducting business whilst engaging in search and experimentation. Similarly, explicit consideration of firms’ relationships with their stakeholders acknowledges the idea that firms face conflicting objectives, and the contribution of enterprise strategy is to make the discussion of objectives central within research on general management.

Descriptively, which objectives do firms actually pursue? How do they manage and, potentially, reconcile the conflicting interests of shareholders and non-shareholding stakeholders? This question is important as it is impossible to separate the corporation totally from individual actors - managers, employees, as well as other stakeholders who contribute to the activities of the corporation – who may pursue their own objectives.

One stream of literature that holds considerable promise in advancing understanding of how goals relevant to stakeholders are set within the firm is behavioral theory. The Carnegie School (Cyert & March, 1963) has directly addressed the goal-setting process from the perspective of coalitions within the organization. Firms might reconcile competing objectives by attending to different goals at different times (Cyert & March, 1963) or by allowing different parts of the business to focus their attention on different goals (March & Simon, 1958). These thoughts have been applied directly in the literature on organizational ambidexterity to explain how managers can address strategic contradictions (Smith & Tushman, 2005). Achieving ambidexterity – which might be one way to address the concerns of shareholders and non-
shareholding stakeholders – requires an appropriate organizational structure and context with, for example, the right kinds of incentives (cf. Adler, Goldoftas & Levine, 1999).

Of course, the challenge for researchers in applying the lens of ambidexterity to understand how firms address pressures from shareholders and non-shareholding stakeholders is that the gulf between competing stakeholders (for example, shareholders and local communities) may be more difficult to reconcile than the tension between exploitation and exploitation, the primary problem that ambidexterity scholars have tried to solve. The existing research on ambidexterity offers thus at best a starting point for understanding how firms reconcile tensions between their shareholders and non-shareholding stakeholders.

**Enterprise Strategy and Organization Design**

A central issue for general managers is how to design the firm so as to enable collaboration across its individual business units. As most large firms consist of distinct business units, each of which might serve a different product space or customer segment, how should these distinct units be connected? Business units, despite specializing in certain activities, must usually collaborate in some form or other with other units.

The competing goals and interests that stakeholders pursue vis-à-vis the firm create a challenge of coordination that makes organization design peculiarly relevant to enterprise strategy. Surprisingly, most investigations of firm-stakeholder relations view the firm as a unitary actor and have ignored how top managers structure their firms to allow different units to prioritize distinct stakeholders. In part, this lack of attention to organization design may be explained by the scant availability of internal data on firms’ organization in comparison to substantial firm-level social performance data. Yet, continuing to view the firm as a unitary actor is an important oversight. If design can play a role in facilitating firms’ attention to multiple,
competing goals, then it potentially offers guidance to general managers as they think about how to balance pressures for shareholder returns with societal expectations to attend also to non-shareholding stakeholders.

Research on ambidexterity, as highlighted above, proposes both structural and contextual ways to manage paradoxes. The structural approach, which borrows much from the Carnegie School’s notion of differentiated attention, implies task specialization within different units (McDonough & Leifer, 1983). In contrast, the contextual approach implies the use of social and behavioral influences to encourage units to attend to opposing goals (Andriopoulos & Lewis, 2009; Drazin & Van de Ven, 1985). The former, by encouraging specialization, risks misfit between units whereas the latter tends to require an ability to manage paradoxes throughout the organization.

The existing evidence reveals that firms can benefit from applying principles of organization design to better address pressures from diverse stakeholders, and that elements of both structure and context matter (Crilly & Sloan, forthcoming). Specifically, individual middle managers from firms with high social performance focus their attention on a narrower range of stakeholders than do peers from firms with low social performance. This finding is at odds with the commonly held belief that doing ‘good’ requires a broad scope of attention towards different stakeholders. While this may be true at the level of the organization, it does not necessarily hold at the level of individual managers or business units. Any individual manager might be unable to attend sufficiently well to a broad set of diverse stakeholders. Instead, organizations may be able to engage more effectively by distributing responsibility for distinct stakeholder issues across individual units.
Second, firms that achieve high social performance not only rely on formal design (e.g. structural specialization) but also foster elements of the informal organization. Given that workers rarely have responsibility for specific stakeholders written into their contracts, executives may have to rely on norms rather than fiat to distribute attention to stakeholders within the firms. In this vein, architecture which denotes the “structure of communications, interactions, and authority relationships across organizational structures” (Joseph & Ocasio, 2012: 634), is emerging as a counterpart to design because it also gives space to the shared understandings and informal interactions amongst individuals. These less formal elements of architecture include shared values that facilitate coordination and bring together distinct business units (Crilly & Sloan, forthcoming). Presumably, too, top managers play an integrative role though each may also have specific responsibility for a narrow range of stakeholders (Crilly & Sloan, 2012).

Whilst the idea that top managers might configure their organizations to respond more effectively to stakeholder pressures is consistent with seminal work in organization theory (e.g. Cyert & March, 1963; Lawrence & Lorsch, 1967), the use of design to manage firms’ relations with their stakeholders is absent from most research in stakeholder theory. A design perspective also provides a basis for stakeholder engagement that is rooted in effective management rather than normative positions. Rather, evidence-based practices and structures can guide managers’ decisions vis-à-vis their stakeholders. And, they do so by influencing lower-level managers who may be critical actors in determining how firms actually behave vis-à-vis their stakeholders.

However, more research must be conducted into understanding the environments in which design solutions such as specialization are beneficial. No one structure is likely to be universally appropriate for all firms and in all environments. Conceivably, excessive
specialization could also harm firms’ social performance and undermine stakeholder support when organizations do not have the requisite means in place to integrate activities across different business units. Pushing decision-making downwards, as excessive specialization tends to involve, can also be dangerous as individual managers may not be subject to the same controls as in organizations with more centralized decision-making. Similarly, in highly uncertain environments there may be a premium on the ability to integrate.

**Enterprise Strategy and the Boundaries of the Firm**

The boundaries of the firm rank among the most germane issues in strategy (Rumelt, Schendel, and Teece, 1994). As managers ascend the corporate hierarchy, defining the scope of the firm becomes a more important task. Corporate managers have to determine the range of the activities that the firm itself conducts rather than those it procures from the market.

Conventionally, boundaries have been studied from two perspectives: production and geography. The geographic and product scope of the firm conventionally denotes the portfolio of businesses over which the firm has ownership and thus represents an unambiguous, legal demarcation of boundaries. This overwhelmingly contractual understanding of the firm is consistent with the depiction of firms as “legal fictions” (Jensen & Meckling, 1976: 312), whereby the firm, as a single actor in law, serves as a context for individuals to contract for services.

However, the multifaceted relationships that firms maintain with their stakeholders imply the need to go beyond a simple firm-versus-market dichotomy. In practice, the distinction between what is internal and external to the firm is often blurred because transactions are not necessarily wholly internal to the firm or wholly market-based. In this vein, scholars from disciplines as diverse as economics, sociology, and strategy acknowledge that not all
eventualities can be readily contracted for. Thus, scholars devote considerable attention to the role of relationship-management between firms (c.f. Gibbons & Henderson, 2012). Network forms of organization (Podolny & Page, 1998), through which ties between social actors result in relational embeddedness (Gulati & Gargulio, 1999), are consistent with this. Coordinating relations between firms can reduce transaction costs and give rise to resources that transcend firm boundaries and thus become the basis of firms’ competitive advantage (Dyer & Singh, 1998).

The literature has conventionally examined inter-firm relationships, but interorganizational relationships potentially go much further than relationships between firms to encompass relationships between firms and their stakeholders. Stakeholders provide a range of resources to firms, including capital, labor, and legitimacy. The contribution of an enterprise perspective to understanding boundaries may thus lie in the awareness that conceivably the firm can extend beyond its legal boundaries (Preston, Post & Sachs, 2002) to encompass a network of external actors.

A key unanswered question is: How do general managers conceive of the boundaries of the firm? Specifically, do they perceive the firm’s boundaries as identical to its legal boundaries? Or, do they perceive the firm’s boundaries as more porous? In the same way as the distinction between firm and market is not always neat, boundaries are not always discrete (Bail, 2008; Lamont & Molnár, 2002), and people routinely make conceptual distinctions of actors and groups with consequences for resource allocation, exclusion and social inequality (Lamont & Fournier, 1992; Weber, 1922). For some time, social scientists have been interested in how individuals and groups categorize themselves in relation to others. In contrast to legal boundaries, these categories are subjective and frequently contested. For instance, members of a racial group
might demarcate themselves from members of other races and define themselves in opposition to others.

These ideas have begun to guide research into how managers categorize the firm vis-à-vis its stakeholders (e.g. Brickson, 2007). Organizational identity orientation has emerged as an important construct to explain why firms differ in their behaviors vis-à-vis their stakeholders (Brickson, 2005). Executives can conceive of the firm as an atomized actor set apart from its stakeholders (individualistic), as a dyadic partner to specific stakeholders (relational), or a part of a larger community (collectivistic) (Brickson, 2005). These distinct orientations have implications for how firms engage with, and allocate resources to, their stakeholders. For example, a relational orientation might be linked to the steady use of long-term sourcing practices with the same suppliers as opposed to arms-length procurement from the marketplace.

In public perception, boundaries between firms and external actors can also become blurred. For example, when firms contract business processes to external partners, the actions of their partners may be regarded as synonymous with the firms doing the outsourcing. The consequent responsibilities of the outsourcing firm extend beyond its legal responsibilities.

Thus far, the main predictors of organizational identity orientation have been industry variables and client type (Brickson, 2005). Yet, there is variance within firms that compete in the same industry, and understanding the drivers of identity orientation would be a productive endeavor for future research. Similarly, it is important to understand the consequences of different orientations for firms’ long-term performance and to delineate the kinds of conditions under which a relational or collectivistic orientation might be beneficial or detrimental.

In addition to understanding how managers actually conceive of the boundaries of the firm, transcending the corporate level of strategy to consider the enterprise level also shifts
attention to how firms manage coordination with actors beyond the firm. As mentioned above, coordination within the firm is important when managers or business units specialize their attention on the demands of individual stakeholders. Yet, coordination also matters between the firm and its stakeholders (for example, to improve working relationships with stakeholders involved in the production function, or to reduce misunderstandings with socio-political stakeholders) and between stakeholders themselves, who frequently have relationships with one another (Rowley, 1997). As an example of the latter, evidence shows that firms can co-opt some stakeholders to help them to address the concerns of other stakeholders (Na, Qian & Crilly, 2013). In this way, they can engender joint interests among stakeholders. For example, firms in China that treat employees well benefit from the subsequent commitment of their employees who support corporate efforts to engage with their local communities.

There is increasing interest in how firms can improve coordination with external actors (e.g. Baldwin, 2008). Yet, most of the current research in management examines the relationships between suppliers and vendors. There remains scope to delineate how firms can systematically engender coordination with a broad range of interdependent stakeholders. Fortunately, here too, the Carnegie School provides a useful point of departure. March and Simon (1958: 182) mention that coordination can occur by structure – for example, by using plans which reduce the need for communication between parties – or by feedback and active communication. The adoption of standards such as supplier codes and environmental guidelines are forms of structured coordination that reduce the need for ad hoc negotiations with stakeholders. Yet, they cannot entirely suppress the requirement for unstructured coordination, which involves more active communication with stakeholders. The extent to which firms employ unstructured coordination is unclear. Crucially, can executives effectively employ unstructured
coordination with their stakeholders when they and their stakeholders approach the same issue from different assumptions and speak a different language? The multifaceted nature of firm-stakeholder relationships increase coordination difficulties beyond those expected between vendors and suppliers.

AN INTEGRATIVE FRAMEWORK

Figure 1 reflects the three domains central to advancing understanding on enterprise strategy: intent, boundaries, and design. In addition to being independently important, there are likely to be significant interactions between each domain.

INSERT FIGURE 1 ABOUT HERE

First and foremost, an organization’s identity - and, by extension, whether it has an individualistic, relational, or collectivistic orientation – is reflected and enacted in its goals (Ashforth & Mael, 1996). Whether the firm and its managers explicitly view value creation for non-shareholding stakeholders as a prima facie objective depends crucially on how they conceive of the role of the firm in society. Individualistic orientations are compatible with the primary goal of shareholder wealth maximization (Brickson & Lemmon, 2009), though executives might still view engagement with non-shareholding stakeholders as instrumental in achieving shareholder returns. Collectivistic orientations, in contrast, are compatible with an objective function that sees a role for the firm in creating social value. Of course, just as any single organization can pursue multiple goals simultaneously, so too can a single organization harbor multiple identities (Pratt & Rafaeli, 1997).
Similarly, how executives design the organization depends on the goals that they define as important. If they are primarily concerned to maximize shareholder value, executives may centralize decision making (Crilly & Sloan, 2012) in order to reduce the scope for managerial opportunism (cf. Conyon, 2006). In contrast, where managers have greater discretion and fewer constraints, they may attend more to non-shareholding stakeholders (cf. Kacperczyk, 2009). Where the firm pursues multiple goals simultaneously, the design challenge becomes greater still. How can top managers achieve coordination between business units that focus their attention on the interests of different stakeholders? In a functional form organization, for example, the finance, marketing, and HR units might readily prioritize the concerns of distinct stakeholders. Coordination might be achieved through fiat and structure, but the informal organization also offers scope for integrating the concerns of different units.

**DISCUSSION**

As firms are an important vehicle for organizing economic life, how they create and distribute economic value among their stakeholders is of the utmost significance to general management. Though early strategy scholars viewed defining the nature of the relationship between the firm and its stakeholders as a top-level issue ("enterprise strategy") facing general managers, the growing attention to corporate social responsibility has ironically led to the pigeonholing of enterprise strategy as a subdomain of business ethics. Whilst ethics and normative concerns matter, the argument made in this paper is that scholars and general managers alike stand to benefit from research that draws on core domains of strategy to explain why firms behave differently vis-à-vis their stakeholders and what the consequences are for their sustainable performance. Ultimately, managerial decisions that impact stakeholders can be
informed by substantive management research into how firms reconcile competing objectives and pressures from stakeholders with divergent interests.

The overarching aim of this paper has been to delineate three research domains that can support a program of research in enterprise strategy: strategic intent, organization design, and organization boundaries. These three domains are central to both the seminal and current research in management theory and strategy. Hence, scholars can draw on existing literature to inform future studies. Yet, it is not trivial to translate the findings of prior research and apply them to understand and explain how firms engage with their stakeholders. For example, though work on ambidexterity is potentially fruitful in explaining how firms might pursue wealth maximization for both shareholders and non-shareholding stakeholders, the existing work in this stream is largely restricted to explaining how firms resolve a less fundamental tension (i.e. exploration and exploitation). Similarly, research that explores interorganizational coordination has primarily investigated the relationships between firms and their suppliers. The challenge for researchers is to understand the limits to which similar frameworks can be applied to explain collaboration between firms and governments or communities.

An impetus for the proposed research program is the need for descriptive theory that explains how firms actually respond to stakeholder concerns. One obstacle to establishing a coherent body of research around how firms manage their stakeholder relationships has been the confusion between stakeholder-related research and research in business ethics. Whilst normative theory (i.e. how managers ought to act) has a role to play, having a body of stylized facts may be more productive in terms of generating consensus among researchers. It is also worth noting that the stakeholder literature has been hampered by a lack of unifying conceptual schema and vocabulary necessary for more systematic progress. Micro-level research, informed
by psychology and normative ethics, has focused on the drivers of individuals’ pro-social behavior. Macro-level research, informed by economics and sociology, has focused on the market and societal drivers of firms’ social responsibility and the financial rewards – or penalties – associated with social responsibility.

The proposed research agenda is not meant to be restrictive. Though there is need for consensus around the scope of enterprise strategy, research paradigms can constrain ways of thinking and approaching problems. Such constraints are problematic when addressing issues as fuzzy as firm-stakeholder relations. Interdisciplinary work may be particularly beneficial in countering these constraints. Outside of the management literature, Elinor Ostrom’s (1990; 2010) insights into economic governance and the design of collaboration amongst multiple parties can potentially inform research in enterprise strategy.

Finally, the proposed research program is necessarily selective and incomplete. The call for descriptive and analytic research is not intended to ignore the value of normative research. Managers do face important normative and ethical issues in their decision-making, and there are ample attempts in the literature to integrate business ethics and strategy with many implications for practicing managers (cf. Minoja, 2012). By itself, however, normative research cannot resolve the long-standing dispute about the role of the firm in society (e.g. Berle, 1931; Dodd, 1932), especially when individual decision-makers are likely to retreat to their personal beliefs about the firm’s responsibility (Donaldson & Preston, 1995). Instead, knowledge based on descriptive and analytic research holds the greatest potential to inform strategy and policy making.
REFERENCES


FIGURE 1. Enterprise Strategy Research Framework

**Strategic Intent**
- Which goal(s) does the firm pursue?
- How does the firm reconcile potentially conflicting goals?
- How do some firms achieve ambidexterity, enabling them to attend to competing stakeholders?

**Boundaries**
- How do executives conceive of the firm vis-à-vis its stakeholders?
- What is the role of organizational identity in shaping responses towards stakeholders?
- How does the firm coordinate activity with external stakeholders?

**Organization Design**
- How is the firm structured to attend to multiple stakeholders simultaneously?
- What is the role of the informal organization?
- Which internal coordination mechanisms exist?

**Corporate value creation**
- Shareholder returns
- Social performance
### TABLE I. Levels of Strategy

|                          | **Functional Strategy**                                                                                                                                                                                                 | **Business Strategy**                                                                                                                                                                                                 | **Corporate Strategy**                                                                                                                                                                                                 | **Enterprise Strategy**                                                                                                                                                                                                 |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Central question         | How to contribute to the competitive advantage of the business?                                                                                                                                                       | How to compete in a given business or industry?                                                                                                                                                                                                                                             | How to achieve corporate advantage from bringing multiple businesses together?                                                                                                                                                                                                     | How to engage with actors in the economic, social, and political environment to ensure the sustainability of the business?                                                                                                                                          |
| Importance for performance| Substantial evidence exists that good management practices improve performance (e.g. Bloom, Kretschmer & Van Reenen, 2011).                                                                                                                                               | Early studies demonstrate evidence for business unit effects on profitability (e.g. Rumelt, 1991). Hundreds of subsequent studies demonstrate consequences of specific strategies.                                                                                       | Corporate-level strategy has a sizeable, albeit difficult to measure, effect on firms’ profitability (Bowman & Helfat, 2001).                                                                                                                                                       | Most, though not all, studies show a moderately positive link between social performance and financial performance (Margolis & Walsh, 2003). Increasingly, scholars try to identify when social engagement produces positive financial returns.                                                                 |
| Dominant research themes | - Finance  
- Operations management  
- Marketing  
- Human resources                                                                                                                                                                                                                                               | - Industrial organization  
- Strategic positioning  
- Resource-based view                                                                                                                                                                                                                                   | - Portfolio composition and firm boundaries (vertical and horizontal)  
- Organization design  
- Modes of market entry (e.g. M&A, alliances)                                                                                                                                                                                                                       | - (Proposed)  
- Goal-setting and its implications for long-term performance  
- Organization design to address stakeholder issues  
- Firm boundaries and stakeholder relations                                                                                                                                                                                                                         |
<table>
<thead>
<tr>
<th><strong>Author(s)</strong></th>
<th><strong>Outlet</strong></th>
<th><strong>Core Theme</strong></th>
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<tbody>
<tr>
<td>Berman, Wicks, Kotha, Jones (1999)</td>
<td><em>Academy of Management Journal</em></td>
<td>Link between stakeholder management and corporate financial performance</td>
</tr>
<tr>
<td>Freeman (1999)</td>
<td><em>Academy of Management Review</em></td>
<td>Link between instrumentalism and ethics; suggestion that enterprise strategy is equivalent to “normative core” (the actual purpose of the firm)</td>
</tr>
<tr>
<td>Meznar &amp; Nigh (1995)</td>
<td><em>Academy of Management Journal</em></td>
<td>Corporate use of public affairs to manage relations with social and political stakeholders</td>
</tr>
<tr>
<td>Waddock &amp; Graves (1997)</td>
<td><em>Strategic Management Journal</em></td>
<td>Link between corporate social and financial performance</td>
</tr>
<tr>
<td>Escobar &amp; Vredenburg (2011)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Contention that enterprise strategy represents the answer to “what do we stand for?” (rather than “how do we compete?”)</td>
</tr>
<tr>
<td>Fassin (2010)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Extension of an existing typology of stakeholders</td>
</tr>
<tr>
<td>Hillman, Keim &amp; Luce (2001)</td>
<td><em>Business and Society</em></td>
<td>Implications of board membership for firm-stakeholder relations</td>
</tr>
<tr>
<td>Huse &amp; Eide (1996)</td>
<td><em>Business and Society</em></td>
<td>How corporate managers can manage stakeholders and reduce stakeholder control of the firm</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Journal Title</td>
<td>Summary</td>
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<tr>
<td>Husted &amp; Allen (2000)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Degree of compatibility between strategizing and ethics</td>
</tr>
<tr>
<td>Judge &amp; Krishnan (1994)</td>
<td><em>Business and Society</em></td>
<td>Correlation between firms’ profitability, strategy, and stakeholder satisfaction</td>
</tr>
<tr>
<td>Morris (1997)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Contention that enterprise strategy represents the stakeholders accorded priority by the firm</td>
</tr>
<tr>
<td>Purnell &amp; Freeman (2012)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Contention that ethical decision-making and the pursuit of business have become detached</td>
</tr>
<tr>
<td>Shropshire &amp; Hillman (2007)</td>
<td><em>Business and Society</em></td>
<td>Review of stakeholder management literature, specifying the factors that alter stakeholder management across time</td>
</tr>
<tr>
<td>Stead &amp; Stead (2000)</td>
<td><em>Journal of Business Ethics</em></td>
<td>Integration of environmental responsibility into organizations’ management systems</td>
</tr>
</tbody>
</table>