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The idea of adaptation in transaction cost economics: an application to stakeholder theory

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Abstract

Purpose – Transaction cost economics sees a broad spectrum of governance structures spanned by two types of economic adaptation: autonomous and cooperative. Stakeholder theorists have drawn much inspiration from transaction cost economics but have not paid explicit attention to the centrality of the idea of adaptation in this literature. This study aims to address this gap.

Design/methodology/approach – The authors develop a novel conceptual framework applying the distinction between the two types of economic adaptation to stakeholder theory.

Findings – The authors argue that the idea of cooperative adaptation is particularly useful for describing the firm's collaboration with primary stakeholders in the joint value creation process. In contrast, autonomous adaptation is more relevant for firms interacting with secondary stakeholders who are not directly engaged in joint value creation and may not have formal contractual relationships with the firm. Accordingly, cooperative adaptation can be seen as vital for resolving team production problems affecting joint value creation, whereas autonomous adaptation addresses how the firm maintains legitimacy within the larger stakeholder environment.

Originality/value – Similar to its significance for transaction cost economics, the distinction between the two types of adaptation equips stakeholder theory with a new systematic understanding of a potentially broad spectrum of firm–stakeholder collaboration forms.

Keywords Autonomous adaptation, Cooperative adaptation, Stakeholder theory, Transaction cost economics

Paper type Viewpoint

1. Introduction

Stakeholder theory has benefited from transaction cost economics scholarship in various ways. One fundamental aspect of stakeholder theory is the recognition of contractual parties

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as stakeholders in each other's interests (Freeman *et al.*, 2010, p. 29). If so, then contractual risks, which are a central concern of transaction cost economics, can be traced back to the specific nature of the underlying stakeholder relationships (Freeman *et al.*, 2010, p. 29; Bridoux and Stoelhorst, 2022a; Asher *et al.*, 2005). These risks sensitize stakeholders to the necessity of safeguarding their relationships (Ketokivi and Mahoney, 2016), leading to the development of governance mechanisms that protect vulnerable stakeholders (Stoelhorst and Vishwanathan, 2022) and reduce transaction costs (Jones and Harrison, 2019). At the same time, stakeholder relationships are widely seen as irreducible to purely transactional relations between stakeholders (Freeman *et al.*, 2020; Bridoux and Stoelhorst, 2016). Stakeholder theory's solutions to contractual risks are accordingly different from typical transaction cost economics solutions (Bridoux and Stoelhorst, 2022a). This difference arises from the fact that stakeholder theory adopts a rich and moral view of human nature, in contrast to transaction cost economics (Freeman *et al.*, 2020).

While the conversation between stakeholder theory and transaction cost economics has been extraordinarily productive, it has curiously omitted one of the fundamental concepts of the latter literature. The concept we have in mind is economic adaptation. Williamson's (1996, p. 101, 1991) interest in this concept, as he himself makes clear, is grounded in Hayek's (1945, p. 524) famous argument that "the economic problem of society is mainly one of rapid adaptation in the particular circumstances of time and place." In full agreement with Hayek, Williamson (1996, p. 101) likewise designated adaptation as "the central economic problem." He then proceeded to discuss two types of adaptation, autonomous and cooperative, and to show how these two types of adaptation ultimately span the broad spectrum of governance structures, delimited by the polar modes of market and hierarchical governance. The relevance of the idea of adaptation to stakeholder theory is likely to raise little doubt. Moral and effective stakeholder relationships obviously provide a platform for stakeholders to adapt to each other's needs, interests and circumstances in ways that would not be feasible outside of these relationships. Given that the idea of adaptation enables transaction cost economics to develop a highly coherent and systematic understanding of governance structures, we want to ask whether the same idea can be applied to the stakeholder theory context with similarly beneficial effects.

The main contribution of the present paper is in the precise development of this application. We show that cooperative and autonomous adaptation discussed by Williamson (1996) translate into two ideal types of firm–stakeholder collaborations. While cooperative adaptation underpins value-creating stakeholder relationships, autonomous adaptation enables the firm to gain legitimacy and earn the license to operate in an environment of stakeholders who may be potentially numerous, remote and dispersed. In the context of stakeholder theory, both types of adaptation involve moral behaviors that go beyond the opportunism assumption of transaction cost economics itself. This argument enriches the dialogue between stakeholder theory and transaction cost economics in several ways. First, by discussing the transaction cost economics idea of adaptation in the stakeholder theory context, the argument deepens the common ground between the two scholarly approaches. Second, by overcoming the opportunism assumption of transaction cost economics, it provides a novel perspective on the irreducibility of stakeholder relationships to pure transactional relationships. Third, by accentuating the significance of the adaptation idea for the systematic character of transaction cost economics, the argument moves stakeholder theory toward a similarly comprehensive understanding of how specific firm–stakeholder collaborations draw on the two ideal types of adaptation.

The rest of the paper proceeds as follows. Section 2 summarizes the key elements of the current conversation between stakeholder theory and transaction cost economics and draws attention to the conspicuously missing discussion of the idea of economic adaptation. Section 3 presents an original conceptual framework for unpacking this idea in the stakeholder theory context. This framework is then illustrated through an analysis of Walmart, a prominent US-based multinational retailer, in Section 4. Sections 5 and 6 discuss how the proposed argument contributes to stakeholder theory and stimulates further research.

2. Literature review

Transaction cost economics, as elaborated in the Nobel Prize–winning work of Oliver Williamson, presents a uniquely systematic approach to understanding the economic institutions of capitalism, which are supposed to "have the main purpose and effect of economizing on transaction costs" (Williamson, 1996, p. 46). Williamson traces the emergence of transaction costs back to what he takes to be the features of human nature, such as bounded rationality and the tendency to opportunistic behavior. Transaction costs make contractual relationships inherently hazardous. Seeking to "identify, explicate, and mitigate" contractual hazards, transaction cost economics embraces the discriminating alignment hypothesis, which predicts that transactions align with governance mechanisms, such as markets, hybrids and hierarchies, in a way that minimizes transaction costs (Williamson, 1996, p. 101). Williamson explains that efficient governance of transactions that are affected by significant risks of opportunistic behavior calls for the use of contractual safeguards that may be implemented within hybrid and hierarchical governance mechanisms (Williamson, 1996).

Williamson (1996, p. 101) subscribed to the Hayek's (1945) understanding of "adaptation as the central economic problem," but distinguished two types of economic adaptation, only one of which he attributed to the work of Hayek himself. Williamson calls the latter type of adaptation "autonomous" and explains that it involves the independent response of consumers and producers "to parametric price changes so as to maximize their utility and profits, respectively" (Williamson, 1996, p. 102). He acknowledges that autonomous adaptation is not well geared to those situations where economic actors need to coordinate their actions. These situations require cooperative adaptation, which helps economic actors avoid operating at cross-purposes. Williamson (1996, p. 102) sees the idea of cooperative adaptation to be grounded in the organization theorist Chester Barnard's (1938, p. 4) vision of "that kind of cooperation among men that is conscious, deliberate, purposeful." Transaction cost economics draws on the idea that market governance is highly effective in enabling autonomous adaptation but performs worse on cooperative adaptation, whereas the opposite holds true for hierarchy (Williamson, 1996, p. 105).

Stakeholder theorists have demonstrated a keen interest in transaction cost economics; however, the notion of economic adaptation has not received much discussion. While some stakeholder scholars use the term "adaptation," they do not take it to refer to Williamson's (1996) distinction between its two basic types (cf. Klein *et al.*, 2019). Instead, the conversation at the intersection of the two scholarly fields focused on exploring their commonalities and differences. In this line, Freeman *et al.* (2010, p. 29) have asserted that transaction cost economics is generally consistent with stakeholder theory. They recognized that both schools of thought share a fundamental concern with value creation that can be effectively fueled by successful stakeholder collaborations. Freeman and Evan (1990, p. 354) have also praised transaction cost economics for proposing a valuable perspective on the firm as a series of multilateral contracts among stakeholders. Despite these areas of agreement, there have been some contentious debates between the two perspectives. For example, Williamson and Bercovitz (1996) have questioned the utility of extensive stakeholder representation on stakeholder boards, while Freeman *et al.* (2010, p. 17; cf. Freeman and Evan, 1990) have criticized transaction cost economics for sidelining the political nature of decision-making about the allocation of costs of contractual safeguards. However, these debates do not diminish the key value of transaction cost economics for stakeholder theory. This value lies in identifying stakeholder constellations that generate contractual hazards. By leveraging the insights provided by transaction cost economics, firms may be empowered to manage their stakeholder relationships more effectively.

To make this point, Ketokivi and Mahoney (2016, 2017) characterized transaction cost economics as "constructive stakeholder theory," whose main insight is that stakeholder relationships must be safeguarded to prevent them from being adversely affected by contractual hazards. These hazards materialize from stakeholder constellations marked by contractual incompleteness, such as team production and innovation (e.g. Stoelhorst and Vishwanathan, 2022; Bridoux and Stoelhorst, 2022a,b), asset specificity (e.g. Williamson, 1996; Boatright, 2002; Donaldson and Preston, 1995) and hold-up (e.g. Bridoux and Stoelhorst, 2022a,b; Williamson, 1996; Asher *et al.*, 2005). The constructive impetus of transaction cost economics lies in its capacity to aid stakeholder scholars in devising novel forms of stakeholder governance that ameliorate contractual hazards and protect vulnerable stakeholders (e.g. Stoelhorst and Vishwanathan, 2022; Bridoux and Stoelhorst, 2022a). Moreover, safeguarding stakeholder relationships along the recommended lines may engender sustainable competitive advantage (e.g. Jones *et al.*, 2018). First, moral and well-functioning stakeholder relationships may economize on transaction costs (e.g. Jones *et al.*, 2018; Jones and Harrison, 2019). Additionally, firms' access to unique resources hinges on the strength of their relationships with stakeholders who possess control over these resources (Barney, 2018). In addition to shedding light on sustainable competitive advantage, transaction cost considerations have also proven useful in understanding why corporate interactions with environmental groups tend to rely on hybrid governance mechanisms (King, 2007).

Yet, the important point emerging from the literature is that although transaction cost economics is widely recognized as a useful foundation for stakeholder theory, the two literatures diverge significantly in their underlying assumptions and managerial recommendations. As Bridoux and Stoelhorst (2022a, p. 229) note:

> Stakeholder theorists have always emphasized that the role of firms in capitalism is to organize cooperation among stakeholders, and have always held that organizing such cooperation requires different solutions than those formulated in [. . .] transaction cost theory.

Many scholars argue that stakeholder theory presents a more nuanced and moral view of human nature by countering the opportunism assumption in transaction cost economics and appreciating the complexity of human behavior (Wicks and Harrison, 2017; Zakhem and Palmer, 2017; Bridoux and Stoelhorst, 2016, 2014; Dyer and Chu, 2003; Heide and John, 1992; Valentinov and Roth, 2024). While transaction cost economics aims to develop governance solutions to control opportunism, stakeholder theory recommends building stakeholder relationships based on trust, reciprocity, fairness and justice (e.g. Bosse *et al.*, 2009; Harrison *et al.*, 2010). For example, Freeman (1994) suggests that the governance of stakeholder relationships may not only aim to suppress opportunism but also promote Rawlsian fairness. While Mitchell and Cohen (2006) commend transaction cost economics for being inclusive of a broad range of stakeholders, they criticize its limited view of how stakeholders respond to moral issues. These arguments highlight the divergent perspectives of transaction cost economics and stakeholder theory, underscoring the need for careful consideration of the assumptions and recommendations of each approach.

This discrepancy between transaction cost economics and stakeholder theory evidently goes back to the tensions between stakeholder theory and the mainstream literature on economics and strategic management (Bridoux and Stoelhorst, 2022b; Freeman *et al.*, 2020). Bridoux and Stoelhorst (2022b) note that "since its inception, stakeholder theory has positioned itself as an alternative to economic theorizing," particularly in the interpretation of competition, managerial functions and human motivation. Bridoux and Stoelhorst (2022b) argue that these substantive differences have impeded stakeholder theory's acceptance among strategic management scholars and weakened its impact on the practice of strategic management. Freeman *et al.* (2020, p. 216) concur, stating that the tensions are a result of a narrow form of economic theorizing that arose in business strategy and policy and persists today. As such, a stakeholder theory interpretation of transaction cost economics encounters a dilemma. On the one hand, stakeholder theorists are willing to benefit from transaction cost economics' constructive impetus, as pointed out by Ketokivi and Mahoney (2016). On the other hand, they must reconsider this impetus in the light of a more comprehensive and ethical understanding of human nature.

This reconsideration assumes paramount importance as the business risks faced by today's corporations extend far beyond the contractual hazards traditionally emphasized by Williamson. For instance, Yaziji and Doh (2009, p. 42) identify social risks as a major variety of business risks originating from potential adverse evaluations of corporate legitimacy by actors such as non-governmental organizations (NGOs). These actors have the ability to subject corporations to normative delegitimation (Yaziji and Doh, 2009, p. 58) through activities such as organizing naming-and-shaming campaigns, boycotts and other publicly visible protests (de Bakker and den Hold, 2023, p. 253). Such actions may ultimately lead to litigation, incurring significant transaction costs. These transaction costs, stemming from social risks, fall beyond the scope of transaction cost economics, which primarily focuses on contractual hazards. Consequently, the prevailing conceptual realm of transaction cost economics inadequately reflects the complexities of today's business environment. For instance, the contemporary business landscape witnesses a substantial surge in demands for environmental, social and governance (ESG) reporting (Vanderford, 2023; Rasche *et al.*, 2023). Non-compliance with these demands introduces another dimension of social risk that significantly differs from contractual hazards but nevertheless demands serious attention from corporations.

Hence, to provide a more accurate portrayal of today's business environment, it becomes necessary to reevaluate the logical relationship between contractual hazards and economic adaptation. In this reevaluation, stakeholder theory emerges as a pivotal conceptual framework that sheds light on the inadequacy of reducing contemporary business risks solely to contractual hazards. Stakeholder theory posits that the intricate web of stakeholder relationships that corporations must navigate extends beyond the confines of contractual relationships. Importantly, not every stakeholder in a corporation maintains a contractual relationship with it. While transaction cost economics concentrates exclusively on contractual hazards arising solely from stakeholders with contractual ties to the corporation, stakeholder theory extends its focus to include the social risks that may emanate from stakeholders lacking such contractual ties.

Given that transaction cost economics is rooted in the realm of contractual relationships between corporations and stakeholders, it delineates the concept of adaptation, encompassing both cooperative and autonomous forms, within the context of these contractual relationships. Against this backdrop, a seminal implication of stakeholder theory is that corporations must adapt not only to stakeholders with contractual ties to the corporation but also to those without such ties. As articulated by Donaldson and Preston (1995, p. 67), stakeholder theory advocates that corporate leaders must recognize and adapt to the diverse array of stakeholders, irrespective of their contractual status with the firm. For instance, the societal expectations that corporations engage in ESG reporting, as underscored by a broad spectrum of stakeholders, a significant portion of whom lack contractual ties with the corporation, evade the scope of transaction cost economics. In this context, stakeholder theory propels corporations to align with these expectations as a means to mitigate social risks, perceiving the corporation as a system of social relationships that extends beyond the confines of contractual relationships alone (Hendry, 2001). Consequently, this distinction between transaction cost economics and stakeholder theory necessitates an examination of how stakeholder theory can differentiate between contractual and non-contractual relationships while simultaneously connecting to the two modes of economic adaptation articulated within transaction cost economics.

3. Unpacking the idea of economic adaptation in the stakeholder theory context

As shown in the preceding literature review, Williamson distinguished between two contrasting forms of economic adaptation: autonomous adaptation via markets and cooperative adaptation via hierarchies. The market governance mode presumes that economic actors must adapt to an inscrutable and stochastic environment, while the hierarchical governance mode mandates mutual adaptation amongst a cohort of interdependent actors who are acutely cognizant of their interdependence. As Williamson explained, cooperative adaptation furnishes "elastic and adaptive" responses to "unanticipated disturbances" that may eventuate during contract implementation (Williamson, 1991, p. 273). In transactional contexts where such disturbances are particularly likely, the exigency for cooperative adaptation is markedly accentuated, notwithstanding its correlation with lower "incentive intensity" (Williamson, 1996, p. 104).

3.1 Distinguishing the two types of adaptation

We argue that both types of economic adaptation are pertinent for the context of firm–stakeholder interaction but have different relevance for stakeholders that can be categorized as primary and secondary. According to the definition provided by Freeman *et al.* (2018, p. 16):

> Primary stakeholders are directly involved in the value-creating processes of the firm. This gives them an economic stake. For example, financiers such as banks require repayment of loans and shareholders expect price appreciation and dividends, employees expect competitive remuneration and job security, local communities demand taxes, customers expect or product or service with economic value at least equal to what they paid, and suppliers demand to be paid for what they provide to the firm.

In contrast, secondary stakeholders are defined by Freeman *et al.* (2018, p. 17) as those stakeholders who:

> Are not directly engaged in value-creating processes, but [. . .] have a legitimate interest in what the firm does. They may well influence and affect the interests of primary stakeholders. For instance, consumer advocate groups have an interest in the quality and safety of the firm's products and services and how the firm treats its customers.

Other examples of secondary stakeholders noted by Freeman *et al.* (2018, p. 16) are special interest groups, the media, government officials and regulators, NGOs and union leaders.

Within this framework, we define cooperative adaptation as the manner in which firms engage with primary stakeholders who actively participate in the joint value creation processes, akin to Barnard's concept of "conscious, deliberate, purposeful" cooperation. Bridoux and Stoelhorst (2022a) elucidate how the collaborative pursuit of value often triggers team production problems that elevate the risk of opportunistic behavior.

Stakeholder theory, attuned to these challenges, proffers ethical solutions distinct from the transaction cost economics paradigm. In contrast, we use the term autonomous adaptation to depict the firm's posture concerning secondary stakeholders, particularly those who are numerous, remote, or dispersed. Given that these stakeholders are not directly involved in value creation, the challenges of interaction do not typically revolve around team production problems. Instead, the focus shifts to the potential collateral effects of the firm's actions on these stakeholders and the concomitant legitimacy concerns.

Stakeholder theory does not advocate for an overly rigid distinction between primary and secondary stakeholders. As Freeman *et al.* (2018, p. 16) acknowledge, "primary and secondary stakeholders do not have clear boundaries, and the even the boundary between primary and secondary stakeholders is semi-permeable." Arguably, this seeming lack of conceptual precision is not accidental; it is anchored in the pragmatist philosophical foundations of stakeholder theory. Freeman (2017, p. 5) explained that "[o]ftentimes, management theorists overemphasize the role of definition in theories or frameworks. As a pragmatist philosopher, I believe that definitions often lack precision and that this is a good feature of language for most purposes. For instance, much is written about the definition of "stakeholder". "Does it include NGOs or competitors? Yes or No? Once and for all, let's get it right," they say. My response is that it depends on what problem you are trying to solve. For certain problems, such as governance at the board level, you may want a narrow definition, while for some societal problems, you may want a broader one. There is no one right definition, as the definition in use depends on the problem one is trying to solve, whether theoretical or practical."

In the context of our present inquiry, we interpret Freeman's notion of "the problem one is trying to solve" as the challenge of discerning between contractual and non-contractual stakeholder relationships, the latter extending beyond the purview of transaction cost economics. We posit that relationships between the firm and primary stakeholders, given their direct involvement in the firm's value-creating processes (Freeman *et al.*, 2018), are highly likely to be contractual. Conversely, many interactions between the firm and secondary stakeholders may lack a formal contractual nexus. A firm may have no contractual affiliations with special interest groups, the media, government officials, regulators and NGOs. Yet, the absence of contractual ties does not diminish these stakeholders' legitimate interests in the firm's activities (Freeman *et al.*, 2018). Therefore, stakeholder theory calls upon corporations to adapt to the interests of these stakeholders, even when they fall outside the conventional scope of transaction cost economics.

We acknowledge that some secondary stakeholders may have formal contractual relationships with the corporation. For example, Unilever, one of the world's largest consumer goods companies, has partnered with WWF to promote sustainable agriculture; Starbucks collaborates with Conservation International to ensure the ethical sourcing of coffee beans; and Walmart has partnered with Feeding America to address hunger and food insecurity in the United States. But we want to emphasize the possibility that not all secondary stakeholders can be assumed to have such formal contractual relationships, particularly if these stakeholders are numerous, remote, or dispersed. For example, in situations where a corporation operates in remote or geographically dispersed regions, the broader local community, extending beyond immediate employees and customers, assumes the role of secondary stakeholders. While no direct contracts may bind the corporation to individual community members, the corporation's activities profoundly affect their lives, including factors such as job opportunities, environmental impacts and community well-being. Similarly, NGOs and environmental advocacy groups, as secondary stakeholders, often possess memberships dispersed across geographical boundaries. Corporations may not engage in contractual negotiations or agreements with individual members, but these groups wield significant influence in shaping public opinion, advocating for policy changes and impacting corporate decisions on environmental practices. Furthermore, in the digital age, corporations find themselves interacting with myriad individuals across social media platforms and online communities. These users, despite the absence of contractual relationships, possess the ability to voice their opinions, influence brand perception and shape the corporation's reputation. No less important, while the corporation has a direct contractual relationship with its suppliers, the employees of those suppliers who are not directly involved in contractual negotiations or agreements with the corporation can be secondary stakeholders. The corporation's actions and decisions can affect the livelihoods of these employees.

Notably, the possible lack of corporate certainty regarding the identities of specific secondary stakeholders has received relatively limited attention in stakeholder theory. Much of stakeholder scholarship emphasizes stakeholder mapping and salience analysis, which take a degree of this certainty for granted (cf. Freeman, 1984; Mitchell *et al.*, 1997). It is in fact true that to manage their stakeholder relationships effectively, corporations need to know exactly who their stakeholders are. We argue, however, that the logical requirement of corporate knowledge about stakeholder identities holds for primary stakeholders with whom the corporation explicitly works together within contractual relationships. We argue that this requirement does not necessarily hold for secondary stakeholders, particularly those who are numerous, remote, or dispersed. The question arises: How can corporations adapt to the interests and expectations of these stakeholders? Our contention is that the nature of this adaptation aligns closely with the concept of autonomous adaptation within transaction cost economics. Williamson (1996, p. 102) delineates autonomous adaptation as an independent response of individual consumers and producers to parametric changes in their market environment. Analogously, we propose that corporations can adapt to the rising societal expectations embedded within their stakeholder environment, recognizing that this environment may include numerous, remote or dispersed secondary stakeholders.

This conceptual analogy underscores the need for a more precise definition of the term "stakeholder environment." While the literature lacks a strict definition for this term, Freeman *et al.* (2007, p. 51) suggest a connection between "environment" and secondary stakeholders as follows: "we need to look at the broader business environment on a routine basis, and in particular we have to be concerned with those groups that can affect our primary relationships. We'll call these groups secondary stakeholders. So, activists, governments, competitors, media, environmentalists, corporate critics, and special-interest groups are all stakeholders, at least instrumentally, insofar as they can affect the primary business relationships." Drawing from this notion, we define "stakeholder environment" as the overarching contextual space in which a corporation operates, encompassing both primary and secondary stakeholders. Within this environment, primary stakeholders are typically well-defined and typically linked by contractual relationships with the corporation. In contrast, secondary stakeholders, especially those who are numerous, remote, or dispersed, may remain individually unknown or not easily identifiable by the corporation. In the following sections of this paper, we will refer to these specific secondary stakeholders collectively as the "larger stakeholder environment" of the corporation. The term "larger" underscores the potential challenge of obtaining a comprehensive overview of these stakeholders.

3.2 Nature of autonomous adaptation

The concept of autonomous adaptation, which Williamson (1996, p. 101) traced back to Hayek's understanding of how the market process integrates the knowledge bits of its individual participants, plays a similar role in the autonomous adaptation of the firm to secondary stakeholders. The firm's autonomous adaptation makes it aware of stakeholder expectations it faces and helps it devise targeted stakeholder management strategies, while potentially enabling its access to individual stakeholders' knowledge. In the extant stakeholder scholarship, this type of adaptation is foreshadowed by McVea and Freeman's (2005) Hayek-inspired discussion of the importance of harnessing unique and idiosyncratic knowledge bits from stakeholders. Freeman and Phillips (2002) libertarian defense of stakeholder theory likewise suggests a variety of knowledge problems experienced by corporate managers. Being "boundedly rational and acting under real uncertainty" (Freeman and Phillips, 2002, p. 337), managers must nevertheless take account of the legitimate interests of all the firm's stakeholders, and thus make sure that these interests are known to them. More recently, Valentinov (2022) argued that the firm may harness stakeholders' knowledge by nurturing stakeholder relationships. We argue that the availability of this knowledge to the firm is an essential precondition for the firm's ability to deserve what Sachs and Rühli (2011, p. 77) call licenses to operate, innovate and compete, which are "a comprehensive entitlement, granted to the firm by its stakeholders" (Sachs and Rühli, 2011). We argue that the formation of these licenses is the result of the firm's successful autonomous adaptation to its larger stakeholder environment, e.g. through adaptation to institutional pressures (Lebelhuber and Greiling, 2022) as well as comprehensive corporate social responsibility reporting (Balogh *et al.*, 2022). As argued in the previous subsection, this adaptation does not require the corporation to have formal contractual relationships with individual stakeholders to whose expectations it adapts.

The successful adaptation of a corporation to its larger stakeholder environment yields a valuable outcome: legitimacy. Legitimacy can be defined as the perception or understanding that a corporation operates in accordance with a set of norms or values, embodying what is considered desirable, proper, or appropriate (Yaziji and Doh, 2009, p. 41, citing Suchman, 1995). Maintaining corporate legitimacy assumes particular significance in warding off adversarial tactics used by activists, such as naming-and-shaming campaigns and boycotts (de Bakker and den Hold, 2023). The possibility of these tactics poses a substantial social risk (Yaziji and Doh, 2009). However, we note that social risk can also arise from seemingly positive actions, such as corporate endeavors to meet the expectations of ESG reporting. Herzig (2023, p. 367) asserts that ESG reporting can be susceptible to misuse as a tool to advance corporate self-interest, and its "central issue [. . .] lies in its struggle to establish a satisfactory level of accountability to stakeholders and society at large." Herzig's (2023) reference to "society at large" encapsulates the essence of a firm's adaptation to its larger stakeholder environment, aimed at forestalling public skepticism regarding the genuineness of ESG reporting (cf. Jauernig and Valentinov, 2019). Thus, the concept of autonomous adaptation not only encompasses the need to prevent adversarial activist tactics but also addresses the emergence of public skepticism surrounding the authenticity of ESG reporting in the face of escalating societal expectations. It recognizes the importance of aligning with stakeholder demands and maintaining transparency, thereby navigating the challenges and risks inherent in today's business landscape.

3.3 Nature of cooperative adaptation

We contend that, in the stakeholder theory context, the concept of cooperative adaptation refers to the direct interaction of stakeholders participating in joint value creation activities. In making the case for cooperative adaptation, Williamson (1996, p. 102) saw it as an instrument for forestalling destructive opportunistic behaviors in a situation of bilateral dependence. If the process of joint value creation among stakeholders is afflicted by team production problems, as pointed out by Bridoux and Stoelhorst (2022a), then precluding the potential for opportunism is equally pertinent in the stakeholder context. However, stakeholder theory's acknowledgment of human complexity suggests that cooperative adaptation can encompass a diverse range of moral motivations that can bolster collaborative efforts. Therefore, we argue that rather than solely focusing on curtailing opportunism, cooperative adaptation can mobilize stakeholders' motivation to furnish "above-the-norm" contributions to joint value creation (Sachs and Rühli, 2011). As Sachs and Rühli (2011) postulate, stakeholders' willingness to provide such contributions may emanate from their human commitment, sense of obligation, trust, loyalty and enthusiasm for specific technologies. More generally, this willingness is rooted in the ethical foundations of stakeholder relationships, such as justice, fairness and reciprocity (e.g. Bosse *et al.*, 2009; Harrison *et al.*, 2010).

By overcoming the focus on opportunistic behavior and embracing a more moral view of human nature, this stakeholder-theoretic interpretation of cooperative adaptation helps to imagine the business firm as a social and moral community (Kogut and Zander, 1992; Bowie, 2017). Just as Williamson (1996) saw the concept of cooperative adaptation to be grounded in the work of Barnard (1938), we bring to the foreground another Barnard's idea, namely, that the viability of corporations depends on the existence of morality, both organizational and personal. As Barnard stated:

> [o]rganizations endure [. . .] in proportion to the breadth of the morality by which they are governed. This is only to say that foresight, long purposes, high ideals, are the basis for the persistence of cooperation (Barnard, 1938, 282).

Contrary to the mainstream economic theory of the firm, Barnard saw a key role of the firm in mobilizing the "willingness of persons to contribute efforts to the cooperative system" (Barnard, 1938, p. 83). We argue that the cultivation of this willingness results from successful cooperative adaptation between the firm and its stakeholders, particularly the primary ones. Our argument rests on the assumption that the identities of these stakeholders are well-known to the corporation, and it is highly likely that formal contractual relationships exist between the corporation and these stakeholders.

Within the context of stakeholder theory, autonomous adaptation focuses on corporate legitimacy within a larger stakeholder environment, while cooperative adaptation emphasizes close collaboration and mutual activities with a smaller set of stakeholders. One prominent example of such collaboration is found in sustainability partnerships, which encompass not only organizations within the business sector but also include business-NGO partnerships, business-community engagement programs, business-government initiatives and multi-sector collaborations (Stadtler and Kourula, 2023, p. 373). Stadtler and Kourula (2023, p. 372) clarify that sustainability partnerships involve active collaboration among partner organizations in planning and implementing joint activities aimed at achieving a common sustainability-related goal. For instance, a recent article in the Wall Street Journal reports that the US Securities and Exchange Commission is considering the implementation of a comprehensive climate-disclosure rule. This rule would require public companies to disclose climate-related risks and emissions data, including Scope 3 emissions originating from their supply chains (Vanderford, 2023). While the rule has not been formally adopted yet, many US companies have already begun engaging in closer collaborations with their suppliers to assess and improve their greenhouse gas emissions (Vanderford, 2023). These efforts lay the groundwork for the potential emergence of new sustainability partnerships. Thus, through sustainability partnerships and similar collaborations, cooperative adaptation enables organizations to collectively address sustainability challenges, pool resources and work toward shared goals.

3.4 Contrasting transaction cost economics and stakeholder theory

Thus, the two types of adaptation discussed in transaction cost economics acquire distinct meanings in stakeholder theory. While transaction cost economics relates this meaning to the contrasting principles of market and hierarchical governance, we argue that stakeholder theory highlights the different types of firm–stakeholder collaborations (see Table 1).

As shown in Table 1, autonomous adaptation underpins those firm–stakeholder collaborations in which the firm seeks to adapt to the larger stakeholder environment by developing legitimacy and deserving the license to operate. The stakeholders within this environment may be numerous, remote, or dispersed; accordingly, not all of them can be assumed to have formal contractual relationships with the corporation. Cooperative adaptation underpins those firm-stakeholder collaborations that promote joint value creation by fostering the moral foundations of stakeholder relationships, such as trust, loyalty, justice and fairness. These stakeholders are likely to have formal contractual relationships with the corporation. While autonomous adaptation primarily concerns the firm's interaction with secondary stakeholders, it is also essential for addressing the concerns of primary stakeholders insofar as they pass judgment on the firm's overall legitimacy. On the other hand, cooperative adaptation mainly applies to the firm's engagement with primary stakeholders, but it is likewise relevant for those secondary stakeholders with whom the firm maintains close cooperative relationships (e.g. NGOs or civil society groups).

	Autonomous adaptation	Cooperative adaptation
Transaction cost economics view	Market governance	Hierarchical governance
Stakeholder theory view	Firm–stakeholder collaborations in which the firm seeks to adapt to the larger stakeholder environment by developing legitimacy and deserving the license to operate. Stakeholders may be numerous, remote or dispersed; not all of them can be assumed to have formal contractual relationships with the corporation	Firm–stakeholder collaborations that promote joint value creation by fostering the moral foundations of stakeholder relationships, such as trust, loyalty, justice and fairness. These stakeholders are likely to have formal contractual relationships with the corporation
How stakeholder theory goes beyond transaction cost economics	Corporations are seen as responsible to all stakeholders (including secondary ones) for any adverse side effects	The task of fostering the moral foundations of stakeholder relationships replaces the task of opportunism prevention
How transaction cost economics is informed by stakeholder theory	By attaining legitimacy within the larger stakeholder environment, corporations economize on transaction costs that may arise from litigation and adversarial activist tactics	By fostering the moral foundations of stakeholder relationships, corporations economize on transaction costs arising from the need to establish contractual safeguards

Source: Authors' own work

Table 1. Two types of adaptation in transaction cost economics and stakeholder theory

It is worth noting that these two types of adaptation are often intertwined, both in the context of transaction cost economics and stakeholder theory. In transaction cost economics, this intermingling is evident in the operation of various hybrid governance structures. In stakeholder theory, it is evident in the need for the firm to legitimize the value creation process jointly undertaken with primary stakeholders by treating secondary stakeholders in a morally acceptable way. At the same time, these secondary stakeholders may occasionally provide valuable insights that support the firm's value creation process. Thus, stakeholder theorists may view the two types of adaptation as ideal types that may be variously combined in specific cases of firm–stakeholder collaboration.

Table 1 also shows the way in which the two types of adaptation within stakeholder theory account for the complexity of human nature and thus go beyond the opportunism assumption of transaction cost economics. Unlike transaction cost economics, stakeholder theory understands cooperative adaptation not solely as a way to prevent opportunism but also as a means to establish moral human relationships that are vital to the joint value creation process. If opportunism is understood as immoral behavior, then establishing moral human relationships abolishes the very possibility of opportunism while unleashing new creative human energies needed for value creation. This stakeholder-theoretic understanding of cooperative adaptation can have particular value in transactional relationships that are complex and unpredictable, where it may be challenging to identify the risks of opportunistic behavior ex ante. Similarly, stakeholder theory's understanding of autonomous adaptation goes beyond transaction cost economics by not only embracing the possibility of moral behavior but also by including secondary stakeholders in the purview. Because these stakeholders, such as local residents, do not have any contractual relationships with the firm, they do not fall within the realm of transaction cost economics. However, stakeholder theory recognizes the moral standing of these stakeholders, which is demonstrated in the firm's autonomous adaptation to its larger stakeholder environment.

Excluding secondary stakeholders from consideration, transaction cost economics risks providing an inaccurate portrayal of the current business environment. A precise understanding of today's business landscape is crucial for transaction cost economics as it reveals opportunities to reduce transaction costs in both autonomous adaptation and cooperative adaptation. In the context of autonomous adaptation, adversarial activist tactics such as naming-and-shaming campaigns (de Bakker and den Hold, 2023) can lead to litigation processes and substantial transaction costs. The stakeholder theory perspective highlights the significance of legitimacy within the larger stakeholder environment, which helps minimize the likelihood of incurring such transaction costs. Thus, autonomous adaptation has the potential to reduce social risks (Yaziji and Doh, 2009) and economize on transaction costs arising from litigation and adversarial activist tactics. Cooperative adaptation focuses on establishing moral human relationships among stakeholders to mitigate opportunistic behavior and reduce contractual hazards. Minimizing contractual hazards eliminates the need for costly contractual safeguards. Stakeholder theorists have criticized transaction cost economics for overlooking the political nature of decision-making on the allocation of these costs, which constitute a distinct type of transaction cost (Freeman *et al.*, 2010, p. 17; Freeman and Evan, 1990) and may be substantial. By eradicating the possibility of opportunism through positive moral relationships among stakeholders, organizations can potentially save on these transaction costs. Accordingly, Table 1 illustrates how the two types of adaptation, as viewed through the lens of stakeholder theory, can impact transaction costs arising out of possible litigation as well as contractual safeguards. This way, Table 1 shows how stakeholder theory informs transaction cost economics within its own framework.

This difference between stakeholder theory and transaction cost economics can be illustrated by a unique passage in a 1996 book chapter jointly written by Williamson and Bercoviz, who admitted that corporations may keep environmental and health hazards of their business operations "undisclosed" (Williamson and Bercovitz, 1996, p. 348). Obviously, economic agents for whom the hazards are "undisclosed" are secondary stakeholders, such as local residents, but primary stakeholders, such as employees, could be obviously affected as well. The authors note that corporations could be counseled "to be socially responsible in this respect" but raise doubts about whether such counsel would be followed and whether responsibility would be even helpful if such hazards happened to be underevaluated, perhaps unintendedly (Williamson and Bercovitz, 1996). Williamson and Bercovitz (1996, p. 349) see the proper solution to such undisclosed hazards in:

> Realpolitik, which is the (sometimes) unseemly process through which sausage is made. Interest groups thus organize and contest the issues through the political process, the compromise results of which are then implemented through defective regulatory agencies and courts.

Needless to say, stakeholder theory would envisage a different solution. It would hold corporations directly responsible for the full disclosure of all hazards to all stakeholders and would see this disclosure as a precondition for the corporation's legitimacy in its larger stakeholder environment. In the context of the present argument, we see such disclosure as an element of the corporation's autonomous adaptation to its stakeholders.

4. Autonomous and cooperative adaptation in practice: the case of Walmart's stakeholder management

Walmart, Inc. is an American multinational retail corporation that operates a chain of hypermarkets, discount department stores and grocery stores. The company was founded in 1962 by Sam Walton and has its headquarters in Bentonville, AR. As of 2022, it operated over 11,000 stores worldwide, employed over 2.3 million associates and had revenue of $559bn. Walmart is known for its low-price strategy, which has made it one of the world's largest retailers. At the same time, the company has faced criticism for its labor practices, environmental impact and impact on small businesses (e.g. Carter and Jayachandran, 2012; DSCEW, 2004). For instance, Neumark *et al.* (2007) have empirically confirmed the detrimental effects of Walmart on local labor markets. According to their research, the opening of Walmart stores in the United States led to a decline of approximately $1.2m, or 1.3%, in county-level retail earnings during the years 1977–1995. Moreover, the critical scrutiny of Walmart has been prominently highlighted in the thought-provoking documentary film "Wal-Mart: The High Cost of Low Price" produced by Robert Greenwald (Crane and Matten, 2010, p. 204). Initially, Walmart's leaders responded with criticism toward the film and its producer (Crane and Matten, 2010). However, over time, they recognized the significance of collaborating with stakeholders to enhance legitimacy and promote value creation (Crane and Matten, 2010), aligning with the concepts of autonomous and cooperative adaptation in our framework. Today, the company states on its website:

> Our ability to create shared value depends on direct and frequent engagement with our customers, associates and community leaders, as well as people who supply our products, hold our stock and evaluate our performance. Stakeholder perspectives and feedback help improve the relevance and effectiveness of the products and services we offer and the initiatives we support [1].

Having reviewed secondary evidence on Walmart's stakeholder management (Tugce, 2021; Galbreth *et al.*, 2013; Carter and Jayachandran, 2012; Craig, 2007), we tentatively classify its stakeholder management activities into the rubrics of autonomous and cooperative adaptation as follows.

We argue that autonomous adaptation is exemplified by Walmart's policies that address the concerns of a larger stakeholder environment. These policies include sustainability initiatives to address environmental concerns, such as reducing waste and increasing the use of renewable energy sources; a code of conduct for suppliers to ensure ethical labor practices and sustainable sourcing; and diversity and inclusion initiatives to address concerns related to employees and communities, such as increasing the representation of women and minorities in leadership positions, providing education and training opportunities and investing in underserved communities. Another interesting autonomous adaptation strategy at Walmart is soliciting feedback and communicating with their customers through: focused research through surveys and in-person discussions; social media engagement through managed Facebook, Twitter, LinkedIn and Instagram pages; in-person communication in its stores; and outreach through email and phone, including communication through Walmart's customer call centers. Following the terminology of McVea and Freeman (2005), we believe that this communication with customers enables Walmart to apply the "names-and-faces" management approach to a stakeholder group that is very numerous and dispersed. We argue that all of the above-mentioned stakeholder management policies are intended to help Walmart preserve its legitimacy and license to operate in its larger stakeholder environment (Tugce, 2021; Galbreth *et al.*, 2013; Craig, 2007).

We also see evidence that Walmart uses cooperative adaptation by closely interacting with some of its stakeholders, particularly suppliers. To ensure close coordination of its activities with suppliers, Walmart undertakes several well-known initiatives, such as the Sustainability Milestone Summit, where Walmart brings together suppliers and nonprofits annually to discuss product supply chain sustainability. In October 2021, Walmart hosted this event virtually and welcomed more than 5,000 people from dozens of countries worldwide, including Walmart associates, NGOs and suppliers. Another initiative is the Supplier Growth Forum, where Walmart shares its strategic initiatives, key areas of focus and future growth strategies for the year ahead with invited suppliers. In 2022, the company welcomed over 500 supplier representatives in Bentonville, AR, and streamed the live event to more than 3,000 supplier representatives online. Importantly, suppliers were encouraged to ask questions and share their feedback on the messages they received. In addition, Walmart engages in joint sustainability planning sessions with strategic suppliers' top sustainability and business leaders, where they share experiences, ambitions and feedback to advance sustainability initiatives such as Project Gigaton (which aims to reduce greenhouse gas emissions), packaging and place-based initiatives. Furthermore, Walmart meets with relevant suppliers before launching new sustainability initiatives to obtain their feedback. For instance, before launching the company's pollinator commitments, Walmart met with produce suppliers to understand the impact of a potential change in approach on their business and chemical suppliers to share their perspective and hear theirs. These examples show that Walmart invests a lot of effort in developing trust and loyalty as the moral basis of its relationships with suppliers. The examples also suggest that the collaboration of suppliers is technically complex and requires extensive coordination and mutual adjustment, which presents the object of cooperative adaptation (Castañer and Oliveira, 2020; Ampe-N'DA *et al.*, 2019; Carter and Jayachandran, 2012).

An interesting lesson from the Walmart case is that stakeholder management policies, which may be classified as autonomous and cooperative adaptation, are highly intertwined. For example, there is little doubt that Walmart's sustainability initiatives, a code of conduct for suppliers, diversity and inclusion initiatives and consumer communication programs do increase Walmart's legitimacy in its larger stakeholder environment, but these activities are likewise likely to favorably influence value creation. On the one hand, Walmart's close collaboration and coordination with suppliers are a plausible example of cooperative adaptation, yet they clearly promote Walmart's legitimacy as well. In part, this intertwining may be because of the fact that legitimacy and value creation are inherently linked, as stakeholder theory indeed suggests. Also, it is possible to see legitimacy and value creation as distinct lenses through which various stakeholder management policies may be interpreted. But the important point is that both of these lenses are useful for understanding stakeholder management in its entirety. More precisely, this means that stakeholder management at companies such as Walmart includes two distinct tasks: addressing the concerns of their larger stakeholder environment and building relationships with some of its stakeholders to earn trust and loyalty. The case of Walmart shows that, even though these tasks may be closely interrelated, they provide distinct perspectives, allowing the interpretation of different stakeholder management policies in terms of two types of adaptation.

Practically, this means that Walmart uses a dynamic approach involving both autonomous and cooperative adaptation strategies across its diverse stakeholder relationships. In its interactions with customers, Walmart prioritizes autonomous adaptation by actively seeking and acting upon customer feedback to enhance its products, services and store experiences. A prime illustration of this is the introduction of the "Walmart+" program, which grants customers enticing benefits such as free shipping and grocery discounts – a direct response to customer input. Simultaneously, cooperative adaptation comes into play as Walmart engages in ongoing dialogue with customers through initiatives such as the Customer Council. This forum facilitates a deeper understanding of customer preferences and needs, fostering collaboration and mutual growth. When dealing with employees, Walmart practices both autonomous and cooperative adaptation. The company autonomously adapts by offering competitive compensation packages, comprehensive health insurance and retirement savings plans, demonstrating its commitment to employee well-being. Additionally, Walmart provides supportive programs, such as training, development opportunities and employee resource groups. Cooperative adaptation is evident as the company actively collaborates with employees through initiatives such as the "Open Door" program, allowing employees to voice concerns and contribute to a positive work environment.

Walmart's relationship with suppliers likewise showcases a combination of autonomous and cooperative adaptation. Autonomous adaptation is evident through the implementation of a comprehensive code of conduct, establishing standards for labor practices, environmental stewardship and product safety. Concurrently, Walmart supports suppliers in enhancing their sustainability performance through various programs. Cooperative adaptation takes shape as the company collaborates closely with suppliers through initiatives such as the "Supplier Growth Forum," where strategic insights are shared and feedback is encouraged, fostering trust and synergy. With regard to local communities, the corporation engages autonomously by investing in the communities where it operates, contributing to local charities and promoting educational programs. Simultaneously, Walmart embraces cooperative adaptation by partnering with community members to identify and address their unique needs, exemplified by initiatives such as the "Walmart Neighborhood Market," which brings essential resources to underserved areas. Walmart's interaction with NGOs again highlights the use of both autonomous and cooperative adaptation. Autonomous adaptation is exemplified by the company's support for various

NGOs focused on sustainability, education and poverty alleviation. Concurrently, cooperative adaptation is evident through strategic partnerships with select NGOs, such as the collaboration with the World Wildlife Fund to reduce environmental impact. We see that Walmart's adept use of autonomous adaptation enables proactive responses to stakeholder concerns, while cooperative adaptation fosters trust and loyalty. By seamlessly integrating both approaches, Walmart effectively upholds its legitimacy and operational license within its diverse stakeholder environment.

5. Contributions to the argument

The most direct contribution of our argument is enriching the conversation between stakeholder theory and transaction cost economics. We go beyond the commonly held view that some stakeholder relationships engender potential for opportunistic behavior that needs to be curbed through the employment of contractual safeguards (e.g. Ketokivi and Mahoney, 2016, 2017). Our point of departure is the appreciation of the uniquely systematic approach of transaction cost economics to explaining the meaning of the "economic institutions of capitalism" (to use the title of Williamson's famous 1985 book, Williamson, 1985). This systematic approach builds on the distinction between the two types of economic adaptation, autonomous and cooperative, which in turn are variously combined in a broad range of governance structures delimited by the polar cases of market and hierarchy. Consequently, revisiting these two types of economic adaptation in the stakeholder theory context constitutes the first step toward a similarly systematic understanding of what may be called, to imitate Williamson's book title, "the economic institutions of stakeholder capitalism" (cf. Freeman *et al.*, 2007). We show that these institutions encompass a potentially broad range of firm–stakeholder collaborations that are aimed not at curbing opportunism but at fostering moral elements.

Second, the distinction between autonomous and cooperative adaptation promotes a more nuanced understanding of stakeholder relationships, particularly in terms of differentiating relationships from transactions (Kujala *et al.*, 2022; Freeman *et al.*, 2020, p. 225). The concept of autonomous adaptation is pertinent for corporate relationships with dispersed, remote, or numerous secondary stakeholders. Maintaining direct personal relationships with such stakeholders can be challenging, as noted long ago by Kenneth Boulding, who emphasized the need for an "economy in personal relationships" to prevent organizations from experiencing communication breakdowns because of their sheer size (Boulding, 1953, p. 91). Some of Boulding's concerns were addressed by McVea and Freeman (2005), who recognized the challenge of managing generic stakeholder groups in such a way as to preserve the "names-and-faces approach." While McVea and Freeman (2005) discussed mass customization as a potential solution to this challenge, we generalize and even radicalize their thinking by advancing the concept of autonomous adaptation. This adaptation does not mean that corporate managers indeed know all their stakeholders by name, but it does mean that the rights and interests of all stakeholders are respected. The concept of autonomous adaptation thus contributes to stakeholder theory a deepened understanding of those stakeholder relationships that are sustained within what may be considered to be "a larger stakeholder environment," with its implications of stakeholder dispersion, remoteness and high numbers.

Third, we contribute to the existing stakeholder literature by recognizing a fundamental distinction. Unlike primary stakeholders, a subset of secondary stakeholders may remain anonymous to the corporation. This lack of corporate awareness regarding stakeholder identities implies the absence of formal contractual relationships with these stakeholders. Nevertheless, we contend that corporations should actively adjust to the interests and expectations of these stakeholders, despite the absence of contractual bonds. To address this unique dimension of secondary stakeholders, we introduce the innovative concept of the "stakeholder environment." This concept acknowledges that the corporation may not possess a comprehensive understanding of all stakeholders within its operational sphere. Within this stakeholder environment, we propose that the practice of "autonomous adaptation" becomes relevant. While the concept of autonomous adaptation traditionally originates from transaction cost economics, which primarily focuses on contractual relationships, our research demonstrates its applicability within the context of stakeholder theory, particularly in relation to non-contractual relationships. Our analysis illustrates how the concept of autonomous adaptation empowers corporations to respond effectively to the expectations of a diverse array of secondary stakeholders who lack formal contractual affiliations with the firm. This adaptive approach enables corporations to navigate the complexities of the stakeholder environment, where comprehensive personal knowledge of all stakeholders may not be feasible.

Finally, the concept of autonomous adaptation challenges the dominant narrative about stakeholder relationships that may be associated with market governance. While cooperative adaptation is intuitive for stakeholder theory, autonomous adaptation may be less so and may be assumed to involve egoistic and opportunistic behaviors as well as the exercise of bargaining power. For example, Bridoux and Stoelhorst (2016) discuss the different relational models of stakeholder interaction, including market pricing, authority ranking and communal sharing. They note the parallels between the market pricing model and market governance in transaction cost economics (Bridoux and Stoelhorst, 2016, p. 235) and show that market pricing has the lowest value creation potential because of its relatively weak ethical foundations. In another seminal paper, the same authors distinguish between the fairness and arms-length approaches to stakeholder management, with the latter being more effective for self-regarding stakeholders whose moral character has less moral worth than that of other stakeholders who care about fairness (Bridoux and Stoelhorst, 2014). In our argument, while autonomous adaptation is logically similar to market governance, its ethical value is not inferior to that of cooperative adaptation. This is because autonomous adaptation requires genuine moral efforts by corporate managers to consider the needs and interests of various stakeholders, even those whose identities are unknown.

6. Limitations and implications for further work

Just like autonomous and cooperative adaptation in transaction cost economics are often mixed in hybrid governance mechanisms, they are also mixed in stakeholder theory, perhaps even in more radical ways. As the discussion of Walmart has shown, the empirical differentiation of these types of adaptation in stakeholder theory, unlike in transaction cost economics, may be ambiguous and contentious. A corporation interacting with an NGO that tries to induce the corporation to implement sustainability standards may be seen as engaging in autonomous adaptation insofar as the NGO is a part of the broad stakeholder environment in which the corporation seeks to secure legitimacy. But the same corporate-stakeholder collaboration may be seen to embody cooperative adaptation if it is close, intensive and reliant on mutual trust and shared understandings of reciprocity, justice and fairness (e.g. Bosse *et al.*, 2009; Harrison *et al.*, 2010). Thus, the characterization of specific firm–stakeholder collaborations in terms of autonomous or cooperative adaptation will remain contestable, observer-dependent or even dependent on alternative viewpoints that may be sustained by the same observer.

Yet, the distinction between the types of adaptation *per se* arguably remains conceptually useful because it draws attention to the diversity of stakeholders as well as the strategies that corporations may pursue in treating their stakeholders in a moral way. For example, some transaction cost economics approaches explore the idea that transactions marked by particularly high transaction costs could be internalized in such a way that the owners of transaction-specific assets become the owners of a transacting firm (Hansmann, 1996; Staatz, 1987). In a somewhat similar way, corporations can be supposed to apply cooperative adaptation strategies to those stakeholders that pose particularly severe threats to corporate reputation or offer particularly high potentials for value creation, whereas other stakeholders may be treated along the lines of autonomous adaptation.

Furthermore, examining the diversity of stakeholders and their strategies can be enriched by considering the influence of local cultural contexts. This perspective allows for a more nuanced understanding of how culture shapes and impacts the dynamics between stakeholders and corporations. Geert Hofstede's seminal research provides valuable insights into this relationship, focusing on prevailing cultural norms within societies, particularly the individualism–collectivism continuum (Hofstede, 1980, 2001). Hofstede's studies highlight the intricate interplay between cultural values and the interactions between individuals and the organizations they engage with. The level of individualism or collectivism within a cultural context significantly influences the expectations, behaviors and preferences of individuals within that society. Applying this perspective to economic adaptation strategies, further research can explore the hypothesis that a firm's choice between cooperative and autonomous approaches may be influenced by the prevailing cultural norms and the degree of individualism or collectivism expected from specific stakeholder groups. For instance, in cultures that emphasize collectivism and communal values, cooperative adaptation strategies that foster collaboration and mutual support may be more effective in building positive stakeholder relationships. On the other hand, in individualistic cultures that prioritize personal autonomy and independence, autonomous adaptation strategies may be more suitable. By considering the influence of local cultural contexts, stakeholders' strategies can be better understood and aligned with the prevailing cultural norms. This understanding may also allow corporations to navigate stakeholder relationships more effectively, promoting adaptation strategies that resonate with the cultural expectations and preferences of the stakeholders involved.

While the empirical applications of the distinction between the two types of adaptation may be contestable and perspective-dependent, this distinction itself has the potential to stimulate several debates in stakeholder theory. For example, stakeholder scholars have paid much attention to the relationship between the conceptual frameworks of stakeholder theory and corporate social responsibility (CSR) (e.g. Freeman *et al.*, 2010, p. 261). Recently, Dmytriyev *et al.* (2021, p. 17) have suggested that while CSR uses a societal perspective, it is concerned only with a single aspect of business – its contribution to resolving social issues. In contrast, stakeholder theory takes a business-focused rather than societal perspective and does not address all the pressing issues that may be important from a societal viewpoint (Dmytriyev *et al.*, 2021). Importantly, Dmytriyev *et al.* (2021) connect and integrate the two frameworks by identifying a gray area where they intersect. They define this area as "CSR to stakeholders," which include the government, local and surrounding communities, employees, customers and consumer advocacy groups. Based on their seminal work, we see considerable potential for further research to explore the contribution of the concept of autonomous adaptation to the integration between stakeholder theory and CSR. If CSR encompasses corporate actions toward dispersed and numerous stakeholders or stakeholders with whom the corporation does not communicate personally, then these actions might fall within the rubric of autonomous adaptation. For example, what Dmytriyev *et al.* (2021) call "CSR to society at large" may turn out to be hardly distinguishable from the autonomous adaptation of the firm to such stakeholders as local and surrounding communities. Furthermore, the concept of cooperative adaptation may also be relevant to the integration of stakeholder theory and CSR, as it may apply to both of these frameworks depending on the nature of cooperation between the firm and its specific stakeholders. Future research could explore how the integration between CSR and stakeholder theory can be illuminated by the concepts of both cooperative and autonomous adaptation.

Finally, the concept of autonomous adaptation seems to hold considerable potential for overcoming what Johnson-Cramer *et al.* (2022, p. 1112) see as "the stakeholder-system divide" in stakeholder theory, i.e. "disconnection between the firm- and system level" of analysis. As the authors see it, this divide has resulted in an undue emphasis on the firm level, which fails to capture the full extent of stakeholder management's importance within the capitalist economic system (cf. Roulet and Bothello, 2021; Berman and Johnson-Cramer, 2019; Bevan *et al.*, 2019). Given this context, further research is needed to explore how far the concept of autonomous adaptation exhibits systemic dimensions that may contribute to overcoming the divide and the excessive focus on the firm level. We believe that this contribution is possible because autonomous adaptation characterizes the relationship of the firm to the stakeholder environment, which is unavoidably shaped by a broad range of "economic institutions of stakeholder capitalism." Stakeholder theorists, such as Freeman and Evan (1990), have long recognized the significance of these institutions and how they evolve to ensure better protection of stakeholder interests. Along these lines, further research could explore the evolutionary implications of the reciprocal relationship between autonomous and cooperative adaptation. For example, it would be exciting to have a much deeper understanding of how the newly emerging strategies of cooperative adaptation are influencing the institutional framework shaping autonomous adaptation and how that influence modifies the strategies of cooperative adaptation itself.

7. Conclusion

The intersection of stakeholder theory and transaction cost economics has yielded a productive conversation on how stakeholder relationships may give rise to contractual hazards and be reinforced by contractual safeguards. Nevertheless, this conversation has not addressed Williamson's (1996, 1991) distinction between autonomous and cooperative adaptation. We show that the idea of cooperative adaptation translates into stakeholder theory by highlighting the firm's interaction with primary stakeholders, where joint value creation often leads to team production problems. On the other hand, autonomous adaptation is more relevant when firms interact with secondary stakeholders, who are not directly engaged in joint value creation and may be numerous and dispersed. Many of these stakeholders, unlike the primary ones, cannot be assumed to have formal contractual relationships with the firm, thereby extending beyond the purview of transaction cost economics. While cooperative adaptation is vital in resolving team production problems by fostering moral human relationships among closely interacting stakeholders, autonomous adaptation addresses how the firm maintains its legitimacy within the larger stakeholder environment and thus forestalls negative publicity and adversarial activist tactics. We see the two types of adaptation as closely intertwined. For example, the growing demand for ESG reporting underscores the importance of autonomous adaptation. Simultaneously, the manifestation of cooperative adaptation can be observed in select firms willingly engaging in collaborations with stakeholders to develop innovative approaches to ESG reporting.

Elaborating on the meaning of cooperative and autonomous adaptation in stakeholder theory demonstrates one way in which stakeholder theory overcomes transaction cost economics' pessimistic view of human nature. In stakeholder theory, both types of economic adaptation rest on a more comprehensive and ethical view of human nature. This allows the notion of cooperative adaptation to affirm the idea of the firm as a social and ethical community committed to value creation, whereas autonomous adaptation emphasizes how this community is intertwined with a broader system of economic institutions of stakeholder capitalism.

Note

1. https://corporate.walmart.com/esgreport/stakeholder-engagement

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