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Rethinking competitiveness in an era of stakeholder returns

It’s not all about the bottom line, and firms can be strongly competitive even when they funnel fewer profits to shareholders.

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Recent years have seen growing interest in firms that show corporate responsibility toward a broader set of stakeholders, including society, employees and the environment.

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This shift in thinking contrasts sharply with the traditional, profit-driven approach of maximizing shareholder returns. The newer view argues that the purpose of the firm is to generate value for all *stakeholders* — not just shareholders.

There is widespread support for a more holistic view, except when it comes to assessing a company's competitiveness. In this area, a strong focus on a broader approach at times puts firms at a disadvantage when it comes to financial reporting and attracting investors. But in research published in the *Strategic Management Journal*, IESE Professor Jeroen Neckebrouck and co-author David Kryscynski challenge the idea that financial performance alone should define a company's value.

Alternative values for measuring competitive advantage

Imagine two firms that are nearly identical in size, product type and industry. However, Firm A reports $1 million in profits, while Firm B reports $1.5 million. It might be tempting to assume that Firm B is performing better, perhaps due to greater investments in technology or more efficient operations. Based on these numbers alone, we might quickly conclude that Firm B has a competitive advantage.

However, this quick assessment fails to take into account how much value a firm may be sharing with stakeholders.

Analyzing over 14,000 Belgian firms and looking specifically at the firm's workforce as a key stakeholder, the authors found that variation in "workforce rents" — how a firm pays its workforce relative to a calculated "market appropriate" level — equaled approximately 86% of average net accounting profits. In other words, a significant portion of a company's profits comes from the difference between what employees are paid and what they might earn in a competitive market.

Interestingly, many firms were found to pay employees well above market rates. It's not just a small margin of difference — this is a substantial factor that doesn't show up on a balance sheet but deeply impacts how firms are perceived and valued by investors and stakeholders.

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Why share benefits with other stakeholders?

There are many reasons why some companies may share substantial value with stakeholders, which influence their financial outcomes in ways that aren't immediately visible through traditional financial metrics.

1. **Owner philosophy:** Some business owners feel a moral obligation to share more of the firm's profits with stakeholders. One famous example of this is Gravity Payments, a credit card processing and financial services company, which received worldwide media attention in 2015 when CEO Dan Price announced a minimum salary of $70,000 for his entire workforce.
2. **Firm-specific stakeholder strategies:** Companies might opt to pay stakeholders more than the market rate if they foresee the need for strong future relationships. For example, a business could offer higher wages to employees or better terms to suppliers to build lasting partnerships, encourage innovation or foster loyalty.
3. **Firm-specific investments:** Sometimes, employees and suppliers need to learn specific skills that would not be useful in another context. In this case, the firm might pay them more to compensate for the time and investment.
4. **Stakeholder bargaining power:** A group of stakeholders (like a workforce) may have unique power to negotiate higher payments when they act together, for example, by threatening to disrupt operations through strike action.

The sum of all rents

Whether due to owner benevolence or strong employee bargaining power, a narrow view of competitiveness fails to account for the value firms create for stakeholders beyond just shareholders. In an era when more companies are adopting purpose-driven philosophies, focusing solely on the bottom line can paint an incomplete — and perhaps misleading — picture.

The authors' study focuses on workforce rents as a way of measuring stakeholder value, but it reminds us that compensation is just one part of the equation. Companies that prioritize their stakeholders — whether through better wages, sustainability initiatives, wellness programs or community outreach — shouldn't be penalized for distributing more value to society.

In fact, these practices often give them an edge in fostering loyalty, innovation and lasting

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relationships, offering a competitive advantage that isn't reflected in traditional financial assessments. While they may not directly boost shareholder returns, they create value that is crucial when evaluating a company's long-term competitiveness.

In other words, overall value — the sum of all rents — is what *really* constitutes competitive advantage.

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