"An important and often overlooked reason for the argued decline of OD is that, despite having a rich history of innovative theory and practice, OD has, over time, had very little to say about how organizations create value and, as a result, there is no explicit 'theory of the firm' for OD."

The Future of OD from a Stakeholder Perspective

By Lisa M. Meyer

In a revelatory coincidence, two essays, both entitled *The Rise and Fall of OD*, have recently appeared in the OD literature (Burke, 2018; Goldberg, 2019). Although the esteemed authors of the two essays bring differing views to the factors that have contributed to both the rise and fall of OD, the general premise of both essays, as stated by Burke, is that "the field of OD, although not dead, is stagnant and not growing with respect to inventiveness and innovation" (Burke, 2018, p. 188).

The irony of this premise is that organizations are increasingly encountering the complex types of problems for which OD is best suited. These are grand challenges like sustainable growth, innovation, inclusion, design thinking, and safe, equitable workplaces. These challenges present extensive theorizing opportunities and call for novel ideas and unconventional approaches for tackling their evolving mix of technical and social elements. They also require individuals like OD scholar practitioners who are prepared to work with multiple perspectives, across multiple disciplines and in the messiness of real-world problems (Eisenhardt, Graebner, & Sonnenshein, 2016; Ferraro, Etzion, & Gehman, 2015).

Increasingly, OD practitioners are faced with the marginalization of OD logics in management and organization studies (Jacques & Durepos, 2015) and OD practitioners have been stuck in limited roles (Bradford & Burke, 2006). This has resulted in the relegation of OD practices to fixing mid-level problems or implementing "roll outs" as opposed to being involved in the co-discovery and co-invention that comes from integrating OD perspectives into the strategic fabric of an organization (Goldberg, 2019).

I argue that an important and often overlooked reason for the argued decline of OD is that, despite having a rich history of innovative theory and practice, OD has, over time, had very little to say about how organizations create value and, as a result, there is no explicit "theory of the firm" for OD.

In this article, I will examine how these circumstances have limited OD's influence at the highest level of organizations. I will also argue that by connecting OD to stakeholder theory as a theory of the firm, OD scholar practitioners are better prepared to participate in the necessary conversations about value creation and to help organizations grow in ways that are more purposeful, ethical, and sustainable.

Why OD Needs a Theory of the Firm

In order to elevate the impact of OD in organizations, a vocabulary that speaks the humanistic language of OD and also speaks the language of business and value creation is needed. This is, however, not new thinking. Kurt Lewin believed that in order to understand and address the issues inherent to the real-world problems of organizations it was essential to integrate the vocabularies of the social sciences, starting with economics (Colucci & Colombo, 2018; Burnes & Cooke, 2012).

An avenue to exploring a vocabulary for OD that speaks to both OD values and

value creation is to think about it in the context of the theory of the firm. To pursue this line of thinking I will, for clarity purposes, provide a simplified explanation of how I am differentiating between organization theory and theory of the firm.

Traditionally, the vocabulary of OD has been based on the values and language of humanism and social psychology (Bradford & Burke, 2004). This has produced organization theories that are behavioral in nature and mainly concerned with *how* organizations work. Whether it is implicit or explicit, there is some organization theory present and embedded in almost every OD intervention.

By contrast, a theory of the firm is managerial in nature and speaks to *why* an organization exists; its purpose, how it creates value and for whom. A theory of the firm provides the assumptions used by managers in setting strategy, allocating resources and measuring productivity.

The Dominance of Principle-Agent Theory.
The theory of the firm that has dominated mainstream economic and managerial thinking for the past several decades is the principal-agent theory (Jensen & Meckling, 1976), which is situated in a perspective that is more generally referred to as shareholder primacy or profit maximization. This perspective holds as its main argument that the singular goal of a firm should be to maximize the economic return to shareholders or owners (Bower & Paine, 2017).

Critics of principal-agent theory include Ghoshal (2005) who blamed the perspective of shareholder primacy for the absence of any moral or ethical considerations in management theories like

principal-agent, and Bower and Paine (2017) who wrote that the dominance of the principal-agent theory of the firm has resulted in more pressure for short-term results, less investment in people, and fewer transformational strategies and innovative business models.

This leads to my premise that an overlooked cause for the diminishment of OD work in organizations has been the rise and eventual dominance of the principal-agent theory of the firm. I support this

premise by observing how the foundational Lewin-based logics of OD—those involving equilibrium, behavior, and values—diverge in significant ways from the assumptions embedded in principal-agent theory. This results in most OD-based behavioral theories being fundamentally incompatible with principal-agent theory of the firm.

Table 1 outlines the divergence in assumptions between principal agent (shareholder primacy) theory and the theories of Kurt Lewin.

The Alternative of Stakeholder Theory.
A more compatible alternative to the perspective of shareholder primacy is

stakeholder theory, which is an alternative that speaks the language of business and value creation while sharing the assumptions found in OD regarding equilibrium, behavior and values.

Stakeholder theory is an approach to business that is about creating as much value as possible for the firm's stakeholders without resorting to tradeoffs. It is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.) communities and management

cooperate to create and trade value (Parmar, et al., 2010). Stakeholder theory is managerial in nature and, since its inception in 1984, it has influenced a variety of fields, including strategic management, finance, accounting, marketing, law, health care, public policy, and environmental studies (Freeman et al., 2010).

Stakeholder theory is described as a framework; a set of ideas from which a number of theories can be derived (Freeman et al., 2010). This is much like the way that Lewin saw field theory, not as a theory in a formal sense, but as an approach to the conceptualization of theories (Patnoe, 1988). From a stakeholder perspective,

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Table 1. *The divergent assumptions in Principal-Agent theory and Lewinian OD theory.*

Assumptions	Equilibrium	Behavior	Values
Principal Agent Theory	A dynamic equilibrium is controlled by equal, opposing forces.	A person will always make prudent, rational choices that are in his or her best self-interest.	Values-free (explicitly)
Lewin-based OD Theories	A quasi-stationary equilibrium is achieved through a combination of enabling and restraining forces.	A person's behavior is a function of the individual and his or her environment.	Values-based (explicitly)

business can be understood as a set of relationships among groups that have a stake in the activities that make up the business.

A theoretical integration of stakeholder theory and OD provides a rich set of ideas: a holistic integration of managerial and organizational concerns; sensitive to the dynamics of organizing at a systems level; and supportive of decisions that involve strategy development, organization design, work system design, goal setting, prioritization, and resource allocation (Beer, 2013; Freeman et al., 2010).

In *Table 2*, the relationship between OD and stakeholder theory is outlined through a set of shared and complementary dimensions.

Connecting Stakeholder Theory to OD. The concept for stakeholder theory was originated in 1984 by Edward Freeman and initially was called a stakeholder approach to strategic management (Freeman, 1984). In its development Freeman drew from various literatures including corporate planning, systems theory, and corporate social responsibility. He also incorporated the views of the original stakeholder theorists like Eric Trist who, along with Frederick Emery originated socio-technical systems thinking and heavily influenced the rise of OD. Freeman and Trist were, at the time, part of the Wharton Applied Research Center at the University of Pennsylvania's Wharton School of Business along with Russell Ackoff, James Emshoff and Ian Mitroff. Freeman described the research center at Wharton to be organized much like Trist's Tavistock Institute, which was modeled on Kurt Lewin's Research Center for Group Dynamics at MIT —a kind of real-world consulting firm combining a multi-disciplinary group of research staff, students, and faculty and focusing on real-world problems (Freeman, 1984; Trist, 1993).

Building from this model, the stakeholder approach to strategic management was, like OD, integrated, practice-based and problem-oriented. Characteristics shared by both OD and stakeholder theory include that they are both based in practice, and both hold the belief that people need

Table 2. *Shared and complementary dimensions of organization development and stakeholder theory.*

Dimension	Organization Development	Stakeholder Theory
Orientation	Integrated, Based in Practice	
Shared intellectual DNA	Kurt Lewin, Eric Trist, Tavistock Institute	
Disciplinary Influences	Behavioral Sciences	Economics
	Social Psychology	Ethics
	Organization Theory	Organization Theory
Nature of Theory	Behavioral in Nature	Managerial in Nature
Primary Focus of Theory	Relationships within Organizations	Relationships between Organization and Stakeholders
Phenomenon of Interest	Change	Value Creation

jointly to seek and create meaning within organizations (Freeman et al., 2010). However, they work in different ways.

OD theories like Lewin's field theory, Trist's socio-technical systems and Argyris' organizational learning theory are behavioral in nature and considered to be meso-level theories for how they are primarily concerned with relationships between individuals and groups within organizations (Cornelissen & Durand, 2014). Stakeholder theory is managerial in nature as it is concerned with the problem of value creation and trade against a backdrop of constant environmental turbulence that comes from things like corporate takeovers, shareholder activism, global markets, government regulations, consumer activism, increasing environmental concerns, and changes in communication technology. (Freeman et al., 2010; Laplume, Sonpar, & Litz, 2008). Stakeholder theory is considered a macro-level theory for how it speaks to relationships between internal and external stakeholders at the organization level (Cornelissen & Durand, 2014).

For the OD scholar practitioner, adopting stakeholder theory as a theory of the firm connects these integrated, multidisciplinary, macro- and meso-level approaches that draw from both economics and behavioral disciplines. This connection of the *how* and the *why* affirms a non-dualistic stance that says that business can be about both economics and ethics and also aligned with the traditional humanistic values of OD.

Reflecting on Stakeholder Theory, Kurt Lewin, and OD

Why is it that OD and stakeholder theory have previously not been connected? This seems to be due to what Slinger (1999) called "strange blind spots" in the literature and the lack of theoretical cross-pollination among the disciplines (Kozlowski & Klein, 2000). Slinger (1999) observed an almost complete exclusion of important socio-psychological work in the economics literature noting that work that is cited widely in the management and applied psychology literature is almost never cited in economics, including Emery and Trist's sociotechnical systems approach or McGregor's theory X and theory Y. Kozlowski and Klein (2000) observed that organizations may be integrated systems, but organizational science is not. Perspectives are spread across different disciplines and literatures, obscured by the barriers of jargon and confused by competing theoretical frameworks and analytic systems. Yet, it is interesting to note that almost in spite of this disciplinary isolationism, most contemporary arguments that favor a stakeholder perspective, regardless of their disciplinary origin, have some foothold in the integrated, system-based logics of Kurt Lewin.

Lewin introduced a stakeholder perspective to group behavior with the concept of the interdependence of task and fate. This concept is consistent with the views of stakeholder theory; seeing interests as joint and inherently tied together, forming

the group as a "dynamic whole," a concept that ties to systems theory (Bargal, Gold, & Lewin, 1992; Burnes, 2006; Parmar, et al., 2010).

By aligning organization development with stakeholder theory, the language of OD becomes incorporated into the language of business and value creation, and concurrently, a stakeholder perspective is supported by important OD practices like Lewin's action research, Argyris' double loop learning, and Schein's process consulting. This connection places less emphasis on discrete change projects in exchange for more emphasis on processes and designs that enable sustainable, continu-

Aided by a stakeholder vocabulary, leaders, managers, and OD scholar practitioners, instead of talking across competing theories and perspectives, can now engage in productive conversations about values and value creation. Even if stakeholder theory is not an espoused theory of the firm, it can still, through the language and values of OD, be useful in connecting different perspectives, different needs, and ethical considerations to questions of organization strategy, design, innovation, and value creation.

ous adaptation in ever-evolving environments. The necessity of economic success for all types of organizations, whether they are privately held businesses, publicly traded corporations, mission-driven non-profits or public institutions, is recognized in how stakeholder theory seeks to balance strategies for economic success with a concern for sustainability and healthy organizations. Aided by a stakeholder vocabulary, leaders, managers, and OD scholar practitioners, instead of talking across competing theories and perspectives, can now engage in productive conversations about values and value creation. Even if stakeholder theory is not an espoused theory of the firm, it can still, through the language and values of OD, be useful in connecting different perspectives, different needs, and ethical considerations to questions of organization strategy, design, innovation, and value creation.

Imagining A Different Future for OD

Support for alternatives to the shareholder primacy perspective comes from surprising corners. Jack Welch, the longtime CEO of General Electric, in March 2009, told the F*inancial Times*:

> On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy.... Your main constituencies are your employees, your customers and your products. Managers and investors should not set share price increases as their overarching goal.

In a 2017 *Harvard Business Review* article entitled "The Error at the Heart of Corporate Leadership," two Harvard Business School professors wrote:

> The time has come to challenge the agency-based model of corporate governance. Its mantra of maximizing shareholder value is distracting companies and their leaders from the innovation, strategic renewal, and investment in the future that require their attention. History has shown that with enlightened management and sensible regulation, companies can play a useful role in helping society adapt to constant change (Bower & Paine, 2017).

Had alternatives to principal-agent theory, represented by stakeholder theory and others, led to a pluralism of theories of the

firm instead of being lost in the dominance of shareholder primacy, one can imagine that the field of OD might be in a very different place today, with:

- » **Greater clarity** about a desired future state.
- » **Greater impact** at the highest level of organizations; concerned with alignment of purpose, organization design, culture, strategy, processes, policies, incentives and technology, at the systems level.
- » B**etter prepared scholar practitioners** who incorporate integrated, multi-disciplinary thinking into their practice and who are either a part of or a resource to senior management, helping to frame the right questions and facilitating ways to resolve them.
- » **Restored philosophical underpinnings**—a reunification of theory and practice through a restoration of a Lewinian logics in OD.

Conclusion

For OD to increase its value to organizations and the people in them, it is necessary to conceive of new approaches to OD practice. The explicit adoption of stakeholder theory as a theory of the firm for OD sets the stage for innovation, so that organization development in its many guises and manifestations can better support organizations looking to balance the needs of many stakeholders, and grow in ways that are more purposeful, ethical, and sustainable.

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