

Why Startups Should Be Selective About Serving Stakeholders

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Employees, customers, investors, and communities all matter. But new research shows startups can suffer when stakeholder commitments stretch scarce resources too far.

Entrepreneurship depends on stakeholders. Investors provide capital and advice. Employees develop products and serve customers. Suppliers provide important inputs to the production process. Customers generate revenue and market feedback. Communities and government agencies can also affect whether a new venture gains legitimacy and access to resources. Because these stakeholders matter, entrepreneurs must strategically gauge which stakeholder relationships are important for growth, investment, and performance.

Recent research and practice show that involving a broad set of stakeholders in decision-making is important in established companies. That is, companies that manage broad stakeholder relationships well can build sustainable trust, cultivate a stakeholder-friendly environment, and create long-term value for not only for stakeholders, but also for the firm itself.

For entrepreneurs, however, this advice creates a practical challenge. If ventures have limited time and resources, how broadly should they try to accommodate stakeholder interests, and when might doing so become costly?

However, ventures are not simply smaller versions of established companies. They usually have fewer resources, shorter time horizons, and greater uncertainty about their future direction compared to established firms. These differences raise an important question: Does greater stakeholder orientation have the

same performance consequences for ventures?

Stakeholder orientation refers to the extent to which a company considers the expectations, needs, and interests of stakeholders when making decisions. For example, a company may increase its stakeholder orientation by offering more employee benefits, changing policies in response to customer or supplier concerns, or devoting more resources to community interests.

In this article, we examine what happens when ventures are pushed to broaden that orientation, rather than doing so based on entrepreneurs' own assessments of stakeholder relationships. Our research has shown that greater stakeholder orientation can reduce venture performance.

Why Stakeholder Orientation Can Be Costly for Ventures

Broader stakeholder orientation can be especially costly for ventures for three reasons. First, ventures have limited resources. Founders have only so much time, money, and managerial attention. Giving more attention to one stakeholder group often means giving less attention to another. For example, a young venture may need to choose between responding to additional stakeholder expectations and meeting with investors, improving its product, recruiting employees, or acquiring customers. An established company may be able to hire more managers to handle new stakeholder demands. A venture may not have that option. Greater stakeholder orientation can therefore divert scarce resources from the activities most closely tied to immediate growth and survival.

Second, ventures often have short time horizons. Many benefits of stakeholder orientation emerge gradually. A stronger reputation, greater public trust, and deeper



community relationships may create value over several years. Young ventures, however, face immediate pressure to secure funding, establish demand, generate revenue, and survive. Even when a stakeholder initiative could produce long-term benefits, the venture may not survive long enough to receive them.

Third, ventures operate under high uncertainty. Entrepreneurs may need to experiment, learn, and change direction as they discover what customers want. Greater stakeholder commitments can reduce this flexibility because relationships require time and resources, and some commitments are difficult to reverse. For these reasons, externally driven increases in stakeholder orientation can reduce venture performance.

What We Studied

The study examined 3,981 U.S. ventures founded between 1980 and 1995. To examine changes in stakeholder orientation, we focused on U.S. states that enacted constituency statutes.

These statutes permit, and in some cases require, corporate directors to consider the interests of groups other than shareholders when making decisions. These groups can include employees, customers, suppliers, and local communities. Prior research shows that constituency statutes encouraged companies to adopt more stakeholder-oriented policies. Different states enacted these statutes at different times, while other states did not enact them during our study period. For example, New York, New Jersey, and Pennsylvania adopted constituency statutes during the study period, while California, Delaware, and Texas did not. This created a natural experiment that allowed the study to compare changes in venture performance among ventures exposed to the statutes with similar ventures that were not.

The study focused on two indicators of venture performance. The first was whether a venture achieved a successful exit through an initial public offering or acquisition. The second was the cumulative amount of external funding received by the venture. In additional analyses, the study also examined successful patent applications and revenue growth.

What We Found

The results show a clear pattern. After constituency statutes were enacted, ventures became less likely to

achieve successful exits and received less external funding. Our estimates indicate that the probability of a successful exit declined by approximately one percentage point. The average successful exit rate in our sample was 2.3 percent. Relative to that baseline, the estimated effect represents a 43 percent reduction. Following statute enactment, ventures also received approximately 11 percent less cumulative external funding. For the average venture in our sample, this corresponded to about \$1.14 million less funding.

Less funding can limit a venture's ability to hire employees, develop technologies, enter new markets, and scale. A lower likelihood of an IPO or acquisition can also reduce the returns available to founders and investors.

The findings remained generally consistent when we shortened the observation period, and we also found similar patterns for successful patent applications and revenue growth. Our study shows that externally driven increases in stakeholder orientation can create significant costs for ventures.

These findings help illustrate the trade-off facing entrepreneurs. Broader stakeholder orientation may create long-term benefits, but for ventures with limited resources, short time horizons, and high uncertainty, the immediate costs of accommodating additional stakeholder interests can outweigh those benefits.

Takeaways for Entrepreneurs

The main lesson is not that entrepreneurs should care less about stakeholders. Ventures cannot succeed without strong relationships with investors, employees, customers, suppliers, and other important groups. The lesson is that stakeholder orientation involves trade-offs. Founders should think carefully about why the venture is expanding its attention to a stakeholder group; what resources the commitment will require; and how quickly the expected benefits are likely to emerge.

Some stakeholder relationships are directly connected to the firm's strategy. Investors may provide capital and professional connections. Employees may contribute specialized knowledge. Loyal customers may provide useful feedback. Other commitments may arise mainly from regulatory, political, or social pressure. These commitments may still be important, but they may require resources without producing immediate benefits for the venture.

Entrepreneurs should also consider opportunity costs. Time spent responding to additional stakeholder demands cannot be spent meeting customers, developing products, recruiting employees, or raising capital. Money committed to one initiative cannot be invested elsewhere. Founders may therefore want to watch for signs that new stakeholder commitments are beginning to crowd out core activities, such as customer interaction, fundraising, hiring, or product development.

Before expanding stakeholder commitments, founders should ask which current priorities will receive less attention, when the expected benefits are likely to appear, and whether the venture has enough time and funding to wait for them.

Timing also matters. A stakeholder initiative that makes sense for an established company may be difficult for an early-stage venture. As ventures grow, they may gain more employees, stronger cash flow, better routines, and greater stability. These resources can make it easier to address a wider range of stakeholder interests. Some commitments may therefore need to be introduced gradually or tested on a limited scale before they are expanded. This can help ventures respond to stakeholder concerns while preserving the flexibility needed to learn and adapt.

Takeaways for Policymakers

Policies that encourage companies to consider stakeholders other than shareholders may pursue important social and environmental goals. However, these policies may not affect ventures and established companies in the same way.

Large companies often have specialized personnel, established routines, stable cash flows, and enough organizational slack to absorb additional demands. Ventures generally have fewer resources and face greater uncertainty. A requirement that creates a manageable cost for a mature company may have a much larger effect on a young venture. Policymakers should thus consider company size and stage of development when designing stakeholder-oriented policies. Possible approaches might include phased implementation, flexible compliance options, reduced early-stage requirements, and targeted support for young firms. University entrepreneurship centers, accelerators, and industry associations can help by explaining regulatory changes, connecting founders with relevant expertise, and helping ventures respond to

stakeholder expectations without losing focus on survival and growth.

Ultimately, stakeholder orientation is not a simple matter of more being better. Its performance effects depend on the resources available to the venture, the time needed for benefits to emerge, and the uncertainty the venture faces.

Explore the Research

Park, M. D., Bylund, P. L., & Seo, E. (2026). [When stakeholders are imposed: Non-chosen stakeholder orientation and venture performance.](https://sms.onlinelibrary.wiley.com/doi/10.1002/sej.70041) (https://sms.onlinelibrary.wiley.com/doi/10.1002/sej.70041) *Strategic Entrepreneurship Journal*.