Applying The Stakeholder Concept

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Abstract

This paper reviews conceptual developments related to the stakeholder approach, identifies some critical research needs, presents a methodological approach that we are currently using to study this phenomenon, raises managerial issues related to the implementation of the concept, details one firm's utilization of the concept, and makes recommendations for research.

Introduction

Under the prevailing paradigm of organizational researchers top management has been viewed as the dominant coalition (Andrews, 1971). It is also assumed that this dominant coalition's principal focus is to secure economic objectives or to maximize stockholder wealth. Groups other than stockholders and top management are considered to impose constraints on the principal managerial function. Some writers (e.g. O'Toole, 1985) have called for a different perspective on management and organizations under which non-economic objectives are elevated to the status of economic objectives and other constituent groups' interests are put on par with those of stockholders. Such a perspective is known as the "stakeholder" approach, a term dating back to 1963 and generally attributed to the Stanford Research Institute (Freeman, 1984).

Simply put, a stakeholder is any group or individual, who can affect, or is affected by, the achievement of a corporation's purpose. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, and other groups who can help or hurt the corporation. (Freeman, 1984; p. vi)

Top management's interest in the stakeholder approach is easily explained. Harsh competitive realities have forced many companies to take a hard look at their management philosophy, strategies, and practices and to make changes. Successful companies are now thought to have leaner and flatter structures, more dispersed and inclusive decision making processes, chief executives who are leaders rather than managers, and increased sensitivity to the competing demands of various stakeholder groups (Beer, 1987).

Our purpose in this paper is to briefly review the conceptual developments related to the stakeholder approach, identify some critical research needs, present a methodological approach that we are currently using to study this phenomenon, and discuss some managerial issues related to the implementation of a stakeholder management philosophy.

Review of the Literature

According to Freeman, the term stakeholder has been in vogue for over two decades in various domains of the management literature. Literature in the fields of organization theory, strategic management, and business ethics all contain some of the ideas which are germane to the stakeholder approach.

Freeman has noted that all of these diverse streams of literature are in agreement on one basic fact; corporations do not function in isolation, they must consider the influence of specific

constituent groups on the attainment of their objectives. Agreement ceases on the issue of how to manage and respond to these various groups.

The strategy literature has viewed stakeholder groups as constraining factors but not directly involved in the strategic management process (Andrews, 1971). This literature has traditionally placed a very strong emphasis on the capabilities of the chief executive officer and top management. There has been a strong and pervasive trend in the strategy literature toward developing contingency theories (Hofer, 1975). The basic objective has been to develop a "fit" between environment and strategy, and between strategy and structure. The contingent factors are seen as being predictable and/or manipulable.

Organizational theorists, particularly the systems theorists (Boulding, 1956; Katz and Kahn, 1966; Thompson, 1967) have recognized that there are significant external factors, collectively labeled as the organizational environment, which have an effect on the performance of an organization. The complexity of an organization's environment is determined by a number of salient external factors and the rapidity with which they change. This assumption has led to a mass of literature detailing environmental typologies and contingency theories of how organizations respond or should respond to specific environmental types (Burns and Stalker, 1961; Dill, 1958; Emery and Trist, 1965; Lawrence and Lorsch, 1969; Thompson, 1967).

The business ethics literature (DeGeorge, 1986; Hosmer, 1987; Sturdivant and Ginter, 1987) deals primarily with the accountability of the corporation to its indirect constituents including local communities and society in general, and with the issue of whether a company ought to be solely driven by the profit motive. The argument in this literature seems to be that organizations that are socially responsible are also profitable or effective performers.

Our approach to classifying the literature related to stakeholders stems from the fundamental philosophical issue of whether organizations are manageable on the principle of self-determinism, and to what extent this holds true. In other words, to what extent are organizational processes and outcomes under managerial control?

If one adopts a self-deterministic view, as has been the case with much of the normative strategic management literature, then the importance of stakeholder groups declines in so far as the need to involve them in the planning and decision making process is concerned. Top management needs to gather information about these groups, predict likely responses, and make decisions accordingly (Andrews, 1971).

The population ecologists (Hannan and Freeman, 1977) suggest that the environment determines which types of organizations will survive. Survival depends less on managerial actions and more on chance.

The reality as one learns through case studies of companies is that there are some factors under managerial control and others that are not. For instance, even a company such as IBM, with all of its resources and planning capabilities, encounters setbacks in its attempts to implement well-conceived strategies. Every organization, it can be argued, has a different mix of controllable versus uncontrollable factors which determine its final outcome.

Strategy researchers have tried for years now to determine if there are any universally applicable rules for success, i.e., generic strategies (Porter, 1980), or if there is a framework of contingencies that each firm can use within its environmental and resource context (Hofer, 1975). For instance, Freeman (1984) has extended Porter's (1980) framework of generic competitive strategies into a framework of generic stakeholder strategies: Swing, Offensive, Defensive, and Hold strategies. Each strategy is based on an explicit recognition of the nature of the influence that a particular stakeholder group exercises on a firm and how to deal with that influence.

An organization can identify its stakeholders through a variety of mapping techniques. Weiner and Brown (1986) have developed a technique which they have called a stakeholder analysis module. It involves the use of probability matrices and assignment of weights to each stakeholder group.

It is a systematic procedure for determining the probable stakeholders in any given issue, how they are likely to react to the company's decisions, what weight their reactions will carry, and most importantly, how they might interact with each other to affect the chances for success of a proposed strategy (Weiner and Brown, 1986; p. 27)

A Methodological Approach

A company's commitment to the stakeholder management philosophy often begins as a result of top management's belief that implementing this philosophy will lead to superior long-term performance. There is a lot of anecdotal and non-rigorous empirical evidence to suggest that firms which demonstrate good stakeholder relations have good long term financial performance (Peters and Waterman, 1982; O'Toole, 1985). The review of the literature does not however, reveal any strong empirical basis to support this claim. The authors are currently involved in a research study designed to address some of these problems. The research design involves a survey of the 1000 most valuable companies of 1989, in terms of market value, as compiled by Business Week magazine.

The objectives of the study are to: 1) identify the extent to which these companies are familiar with general principles of the stakeholder management philosophy; 2) find out the extent to which these companies practice such a philosophy and how they do it; and 3) examine if there are any significant correlations between companies that rank highly on a stakeholder management scale and superior performers, while controlling for industry effects.

The questionnaire has taken into account the

fact that not all companies may recognize the stakeholder concept even though some of them may, by our definition, be have a stakeholder management philosophy. The methodological strategy has been to elicit responses about the planning and decision making process as well as organizational structure and philosophy to see if the company is implicitly practicing the principles of stakeholder management without necessarily calling the practice stakeholder management.

For instance, if a company's planning process reveals an active participation by suppliers or customers then it is reasonable to conclude that the company has a substantive role for those two important stakeholder groups. The presence of an Employee Stock Ownership Plan (ESOP) would suggest that employees are an important stakeholder group for the company. The questionnaire has been designed to elicit the company's management philosophy with respect to each stakeholder group. Companies that have active strategies to deal with widest possible range of stakeholder groups will be ranked higher on the stakeholder management scale.

The methodology includes the step of pretesting the questionnaire, by using a small sample of fifty companies from the larger list of one thousand companies. The revised questionnaire will then be mailed to the Business Week list of 1000 most valuable companies. The study will contribute to the development of a systematic body of empirical evidence regarding the stakeholder management concept.

Implementing the Stakeholder Approach

When implementing a stakeholder management philosophy the issues facing organizations are similar to those involved when implementing a corporate strategy. Structural and process adjustments become necessary. Matrix structures allow the sort of cross-communication and interaction between constituent groups that are an essential element of the stakeholder management philosophy. Top management support is crucial. Resource allocation and reward systems

must reflect the commitment of top management to the stakeholder management philosophy.

The empirical research on corporate social responsibility is indicative of the problems that face researchers trying to study the relationship between a given management philosophy and firm performance (Cochran and Wood, 1984; Foy, Keim, and Miners, 1982; Sturdivant and Ginter, 1977). First, performance is not the consequence of a single variable, or even a discrete set of variables. Second, performance can be measured using accounting-based or market-based measures. Using only one of these two types of measures may lead to inaccurate conclusions. Accounting measures tend to be historical and do not reflect the dynamics of changing market evaluations of the firm. The spate of takeovers is in fact based on the discrepancy between book-value (accounting measure) and market value of assets. The research on the efficacy of diversification strategies (Dubofsky and Varadarajan, 1987) clearly illustrates this discrepancy as does the empirical research on corporate social responsibility (Cochran and Wood, 1984). Third, objective measures have not been developed to rank companies on a stakeholder management scale. Subjective measures, such as expert opinions (Moskowitz, 1972, 1975) are still in vogue.

The implication for empirical research is that it is only possible to establish correlations between scores on some objective scale of stakeholder management and financial performance. Empirical research has to be longitudinal to see if performance levels are sustained over a period of time. It is also necessary to control for industry effects so that one can make legitimate comparisons across firms in diverse industries.

The Stakeholder Concept at NCR Corporation

The stakeholder concept has been implemented to varying degrees in a number of organizations around the world. Freeman (1984) points out that the stakeholder concept has immense implications for the day-to-day management of an organization. Given the implementation ques-

tions and problems which the stakeholder concept raises, it is of interest to consider case studies of companies that have gone through this process. One leading corporate proponent of the stakeholder concept is NCR Corporation. The experiences of the company are worth reviewing in order to gain insights into the implementation process.

The NCR Corporation makes and markets a group of data and information processing systems products at both domestic and overseas locations. It is not the dominant company in the industry. It is a successful, growing company with approximately 62,000 employees. The company has a tradition, dating back to its founding 105 years ago, of concern for the corporation's responsibilities. John H. Patterson, the founder, was active in local affairs, introduced pioneering concepts in employee development and compensation, and fostered close relations with the company's customers. The last two CEO's, William S. Anderson and Charles E. Exley, Jr., have continued to place emphasis on these values, while repositioning the company as the transaction processing technology changed and the computer industry evolved.

One of the principal success factors in the introduction of a theme or concept in an organization is support from the top of the organization. At NCR, top management has created a structure to implement the concept and appointed a champion for the approach with a vested interest in its success.

In 1986, NCR reorganized its Corporate Relations Division, changing its name to Stakeholder Relations, with Mr. Giuseppi Bassani appointed as vice president. The reorganization involved a matrix organization, with two areas of focus being stakeholder relations and communication/media. This matrix organization is shown in Figure 1.

The stakeholder departments are responsible for the needs of a constituent group and for coordinating programs to meet those needs. The stakeholder groups which have been established

at NCR include community relations, government relations, supplier relations, customer relations, shareholder and financial community relations, and employee relations.

The communications/media departments offer communications expertise and services to implement the programs for all stakeholder groups. The communication/media departments include public relations, audio-visual, editorial services, advertising and marketing communication, and executive support programs. Public relations is responsible for media relations, such as approval and distribution of news releases, planning and coordinating press conferences, and media inquiries that could affect the company's reputation, stock price, and ability to conduct business. It is responsible for shareholder communications, such as the annual report and the quarterly report, speech writing, consultant relations, and placing NCR articles in trade publications. Audio-Visual is responsible for the creation and production of videotape, slide, multi-media and other presentations. The editorial services department works with stakeholder managers and with the group /division stakeholder relations contacts to help determine the best way of relating information to all of NCR's stakeholders, using various formats and media. It also provides consulting to the groups/divisions regarding the content and form of messages they wish to communicate. Advertising and marketing communications helps to develop strategic objectives for corporate advertising programs. It functions as the primary corporate contact with external agencies in the creative development and execution of campaigns supporting those objectives. It provides creative services for the production of sales literature and collateral materials, as well as guidance and assistance in evaluating outside sources of creative services. It researches, writes, and publishes reference material for each major element of NCR's product line. The executive support programs staff provides a wide variety of services for the organization, management, and support of the annual meeting and special corporate meetings, including officers' meetings, shareholder meetings, and Board of Directors' meetings.

NCR uses the matrix design to facilitate internal communications and to coordinate the direction of the various stakeholder units. The various stakeholder relations units can call on the expertise of all the communications/media units in developing and carrying out programs with their respective constituent groups. Information concerning successful programs developed in one stakeholder unit is rapidly shared with other stakeholder relations managers. Successful media and communications tactics are routinely considered for other stakeholder audiences. The give-and-take associated with the stakeholder concept is supported by this matrix organization. The interaction needed for the development and interchange of ideas for more effective stakeholder management is supported by this structure.

In addition to this organizational structure adjustment, NCR has engaged in a number of activities to convey information about the stakeholder concept to its stakeholders. Employees at its world headquarters were oriented with a day of meetings, speeches, and an informal lunch. An 18-page section of the company's annual report explained and discussed the company's stakeholder orientation. Rosabeth Moss Kanter, a noted scholar on organizational change, published an article in the annual report which outlined the concept, and provided citations of surveys which supported the positive impact that can result from implementing a stakeholder management philosophy.

NCR sponsored a $300,000 essay contest for college students on the theme "Creating Value for All Stakeholders in Corporations and/or Not-for-Profit Organizations." A $50,000 cash prize was awarded to the first-place entry, along with $100,000 worth of computer systems equipment donated to the winning student's university. Over 2,500 essays were received. The winner was invited to speak at the First International Symposium on Stakeholders, held in June, 1988 in Dayton, Ohio. The conference included addresses by a number of leading figures in the field and represented a large gathering of interested parties from industry, government, and

academia who shared and developed their own and NCR's understanding of the stakeholder concept.

The example gives us some clues regarding the conditions needed for the successful introduction of the stakeholder concept in a corporate setting. The company had a long lived founder with a strong value orientation toward service. It consequently has a tradition orienting it toward the stakeholder concept. Corporate culture, support from the top, long term commitment, supportive organizational structure, and enabling events are integral elements of the NCR effort to date.

The beginnings of implementation of the stakeholder concept have required the expenditure of quite a bit of effort and corporate resources at NCR. It's too early to assess the complete payoff on this investment.

Conclusions and Recommendations

This paper's objective, as suggested by the title, was to provide an assessment of where the literature on the stakeholder concept stands after twenty-five years of research. It appears that the literature is not very well-developed. The concept has not received adequate operationalization. Existing "theory" is generally in the form of a scanty set of normative propositions. based on some notions of equity and justice for all. O'Toole (1985) refers to the search for justice as "the theory behind it all."

The moral tone in the literature is disappointing for several reasons, not the least of which is that one could argue that stakeholder management is no more than common sense capitalism. How can a capitalistic enterprise survive for the long term without having satisfactory relations with all of its constituent groups? The stakeholder management philosophy is not inconsistent with a view toward long term profit maximization. Every stakeholder group, including employees, managers, stockholders, suppliers, community groups, will presumably stand to benefit if the company has a long term profit

potential. It is difficult to conjure up a situation in which a company could maximize profits in the long run without satisfying all the groups that writers list as stakeholders. O'Toole (1985) goes even further maintaining that "Vanguard" companies who implement the concept perform better on both financial measures and also on qualitative measures auditing stakeholder relations. He cites only anecdotal evidence but does list several companies that practice the approach well, among others: Levi Strauss, ARCO, Dayton Hudson, and Weyerhaeuser.

O'Toole goes beyond the proposition that companies have to make tradeoffs between the competing claims of various stakeholder groups and states that not only are company/stakeholder system outcomes optimized with the implementation of a stakeholder approach but that outcomes for each of the stakeholder groups are maximized over the long term.

Stakeholder management as a field of inquiry needs to have better developed concepts, operationalization of those concepts and development and empirical testing of its propositions. One of our early attempts concept development is presented in Figure 2. The continuum contains no moral judgments and focuses on corporate behavior in involving stakeholder interests in the corporate decision making process. We are in the process of refining the concept as well as building objective measures of this and other concepts.

Theory building and research efforts on the stakeholder management concept will be well served by a focus on corporate behaviors and their effects rather than the supposed morality or "justice" of the subject companies. Objective variable measurement devices are critical to the field's success as a field of inquiry in the intellectual marketplace. Propositions regarding the relationship between various stakeholder management behaviors and measures of organizational effectiveness both quantitative and qualitative are required. Longitudinal research is a must since the claims of the stakeholder concept's proponents refer to long term results.

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Freeman's work in developing strategies for specific stakeholder groups is promising and should be pursued. Other potentially fruitful areas of investigation include the sociometry of the interacting corporate/stakeholder system and how firms can and do make tradeoffs between competing stakeholder interests.

The stakeholder concept, with its emphasis on building long- term relationships between the company and its key constituents, runs counter to the philosophies underlying leveraged buyouts and hostile takeovers and other such activities motivated principally by the opportunity for profiteering by a few.
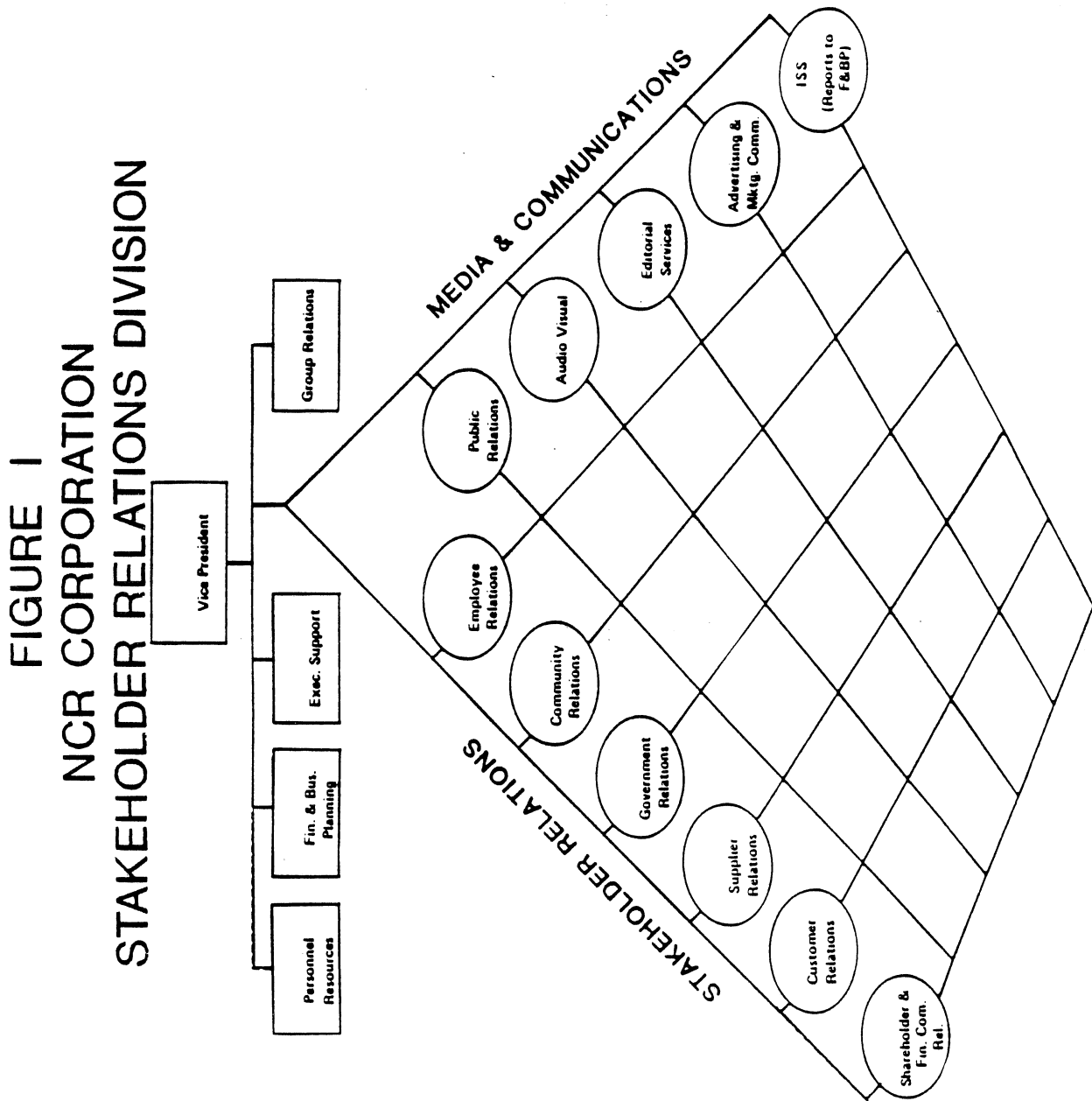

FIGURE I
NCR CORPORATION
STAKEHOLDER RELATIONS DIVISION

Figure 2

LEVELS OF CORPORATE STAKEHOLDER INVOLVEMENT

Low   Information retrieval regarding stakeholder interests. Assessment of potential stakeholder reaction to corporate activities revised accordingly.

Medium   Proactive communication with stakeholder groups, verbalizing a stakeholder type philosophy with those groups. Corporate structure in place to address stakeholder concerns, staff proxies argue for stakeholder interests in corporate decision settings.

High   Structure and procedure in place to allow direct stakeholder participation in corporate decision making.

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