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Executive Overview

The weakening of the traditional management hierarchy, the hollowing out of corporations, and an increasing management emphasis on boundarylessness have created a new mind set concerning external stakeholders. Increasingly, organizations are moving beyong traditional stakeholder management techniques to partnering tactics that lead to the achievement of common goals. In spite of these trends, there has been very little effort in the management literature to tie stakeholder management and partnering tactics. This article demonstrates how successful partnerships with stakeholders create such valued benefits as increased product success rates, increased manufacturing efficiency, the development of distinctive competencies arising from partnerships with local communities or government agencies, reduced unfavorable litigation, reduced levels of negative publicity, and favorable regulatory policies.

> Business already is moving to organize itself into virtual corporations: fungible modules built around information networks, flexible work forces, outsourcing and webs of strategic partnerships.[1]

This statement from a recent *Fortune* magazine cover story reflects the times we live in. Organizational boundaries are becoming fuzzy. Traditionally independent external stakeholder groups such as suppliers and customers are included in product design, quality training and other formerly confidential internal processes. Cross-ownership among organizations that have stakes in each other has created keiretsu-type alliances not only in Japan but in most other industrialized nations. These alliances can facilitate the flow of information and capital and enhance planning processes.

Ford, for example, has formed an extensive keiretsu through equity holdings, acquisitions, international alliances and research consortia. Ford has large equity stakes in five foreign vehicle assembly companies, including Mazda, as well as stakes in three U.S. and foreign auto parts producers. On the marketing side, Ford owns 49 percent of the Hertz car rental company, which is also one of its biggest customers. Ford is also involved in eight research consortia with other automobile industry participants and owns seven subsidiaries that offer financial services, among them dealer purchases and automobile loans.

This article aims to integrate state-of-the art theory and examples concerning management of external stakeholders. Questions addressed include: (1) Can external stakeholders be managed? (2) Which stakeholders deserve high levels of managerial attention? and (3) What are the most recent trends in stakeholder management? The answers to these questions should assist executives in stakeholder planning activities and also may stimulate new thinking about stakeholder management among management students and researchers.

Can External Stakeholders be Managed?

Stakeholders are groups or individuals who can significantly affect or are significantly affected by an organization's activities. Traditionally, at least in the United States, the focus in management has been on internal (e.g., employees) rather than external stakeholders, with organization boundaries drawn around the individuals and groups over which managers had direct supervisory control. An inherent assumption in the drawing of organizational boundaries was that external stakeholders could not be managed, in the traditional sense of the word, because they were not a part of the management hierarchy. However, several trends have blurred the distinction between internal and external stakeholders as they relate to management techniques and principles.

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The first trend is best illustrated by the change in the traditional management hierarchy in many (although not all) organizations. The importance of middle managers has decreased with the delegation of real decision-making authority to work teams and operating-level supervisors and employees. As Dick Daft and Arie Lewin put it:

> Leadership in these new organizations seems to reflect a shift from maintaining rational control to leadership without control, at least in the traditional sense . . . The notion of organizational leadership without control—moving away from traditional notions of bureaucratic control—in the new paradigm uses intangible qualities of vision, culture, shared values and information to set premises and imprint ideas throughout an organization. This source of influence over mind set is radically different from top down monitoring, vigilance and record keeping.[2]

The non-traditional management techniques described by Daft and Lewin are also useful for management of external stakeholders. Consequently, the techniques associated with managing internal and external stakeholders are converging.

A second trend closing the gap between internal and external stakeholders is the so-called hollowing out of corporations in the U.S. Organizations increasingly use subcontracting to perform functions that have traditionally been performed in-house and NAFTA is likely to further this trend. For example, Nike already subcontracts its shoe assembly operations and Liz Claiborne has all of its apparel manufactured overseas. In an extreme example of hollowing, Firestone once sold some of its radial tire operations to Bridgestone of Japan, only to buy back the tires to sell under the Firestone name.

Subcontracting of vital activities requires a high level of communication and control, especially in a global marketplace that requires quality. Furthermore, if a firm is to maintain state-of-the-art knowledge and experience in the core value-adding activities, it must create tight linkages with the subcontractors or run the risk of undermining its own competitiveness. Many organizations are managing relationships with subcontracting organizations as if they were part of their internal organizations.

Finally, some organizations are working to eliminate conceptual barriers between internal and external stakeholders by promoting a boundaryless organization. Top management at General Electric recently explained the company's vision for the 90s:

> In a boundaryless company, suppliers aren't "outsiders." They are drawn closer and become trusted partners in the total business process. Customers are seen for what they are—the lifeblood of the company. Customers' vision of their needs and the company's views become identical and every effort of every man and woman in the company is focused on satisfying those needs.[3]

In summary, these developments have weakened conventional boundaries between internal and external stakeholders as they relate to management principles and systems. As a consequence, stakeholders require more (and different) management attention than they have traditionally received. These ideas lay a foundation for understanding why more and more organizations are embracing a stakeholder management approach.

Why Should Firms Focus Attention on External Stakeholder Management?
It is not enough to state that organizations should engage in the stakeholder approach to management because that is what other organizations are doing. Two other perspectives offer additional support for the value of the approach. The instrumental perspective is that stakeholder management activities can lead to other outcomes, which can then lead to higher profitability or increased firm value. Examples of instrumental outcomes include (1) improved predictability of changes in the external environment resulting from better communication with external stakeholders (which may also lead to greater control), (2) higher percentages of successful innovations resulting from the involvement of stakeholders in product/service design teams, and (3) fewer incidents of damaging moves by stakeholders (e.g., strikes, boycotts, bad press) due to improved relationships and greater trust. These and other outcomes outlined in the first section of Table 1 can lead to increased efficiency and/or reduced costs (e.g., legal costs), which should lead to improved profitability and firm value.

In spite of the logical appeal of these arguments, there is little conclusive empirical evidence that proactive stakeholder management leads to higher

Table 1
Justification for Stakeholder Management

Instrumental Perspective ("We should do it because it will pay off in the end")
Enhanced ability to predict/control the external environment
Higher percentage of successful new product/service introductions
Higher levels of operating efficiency
Fewer incidents of damaging moves by stakeholders (i.e., boycotts, strikes, bad press)
Less conflict with stakeholders resulting in fewer legal suits
More favorable legislation/regulation
More reasonable contracts
Higher entry barriers leading to more favorable competitive environment
Higher levels of trust
Higher levels of profitability?
Greater organizational flexibility
Normative Perspective ("We should do it because it is the right thing to do")
Moral and philosophical basis for recognition of stakeholer interests
Increased media power and heightened interest in corporations
Statutes that allow board of director consideration of a broader group of stakeholders

profitability than other management approaches. Nevertheless, the anecdotal evidence is mounting. For example, two researchers recently discovered a strong tendency on the part of managers of high-performing companies to consider the interests of all major stakeholder groups in their decision making.[4]

Perhaps the most compelling instrumental argument for the benefits of proactive stakeholder management is that it creates and preserves organizational flexibility. Organizational flexibility "reflects not only the speed of response [to environmental change], but also an organization's ability to reduce the impact of environmental change and the costs of responding to it."[5] Without organizational flexibility, a firm will likely exhibit organizational inertia during stable periods in its environment and, worse, during turbulent periods. Successful responses to change require proactive efforts to understand—and to influence—forces in the operating environment. Stakeholders provide a lens for viewing and interpreting important trends in the operating environment.

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A second perspective is that proactive stakeholder management is simply the right thing to do. This view borrows from accepted philosophical principles such as utilitarianism or the notion that a social contract exists between the organization and its stakeholders. As two writers recently put it, "The issue we face today is not whether business has a responsibility to society, but what is the scope of such responsibility?"[6] The normative view is particularly important at present because of increasing public interest in corporations and an increasingly powerful media. These trends make organizations more vulnerable to attack on grounds of morality and ethics widely held within society. Recent changes in regulatory statutes for board behavior in 29 states reflect this normative view.

Which Stakeholders Deserve High Levels of Managerial Attention?

Exhibit 1 illustrates the influence of the remote environment, through external stakeholders, on the level and nature of uncertainty facing an organization. The arrows connecting external stakeholders to the organizations are a representation of interdependence. The nature of these interdependencies can change over time. For example, a bank increases its financial stake (e.g., becomes economically dependent) and its contractual power when it loans a company a large sum of money. Also, a supplier, customer, or competitor increases in importance when it buys stock in a company (e.g., becomes an owner). In the latter case, the purchaser gains formal voting power and could possibly increase its stake or attempt a takeover.

One of the key factors that determines the priority of a particular stakeholder is its influence on the uncertainty facing the firm. For example, political power influences environmental uncertainty. Stakeholders with political power have the ability to influence events and outcomes that have an impact on the organization, whether or not they have a financial stake in the organization. (If they are simply interested in its activities, they are said to possess a social stake in the organization.) Activists are most often thought of as having political power; however, political power is available to all stakeholders under certain circumstances. For instance, an angry customer, competitor or supplier can release information to the media that results in altered behavior from other stakeholders. Wal-Mart's experience with community activists illustrates how entrenched competitors might attempt to influence customers and other stakeholders.[7]

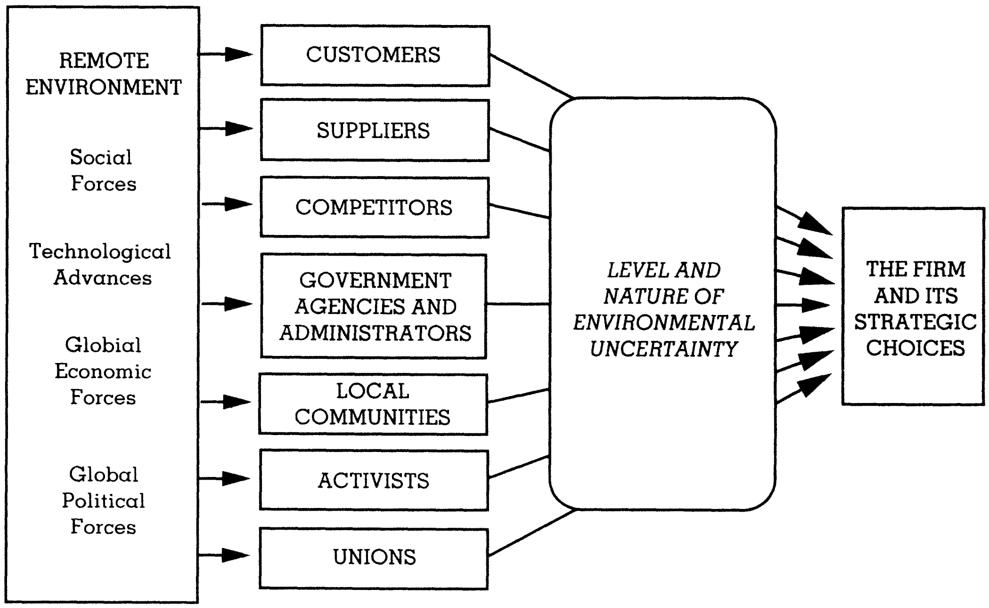

Exhibit 1. Sources of Environmental Uncertainty Stemming from External Stakeholders and the Remote Environment

Economic power also contributes to the nature and level of environmental uncertainty. The power of customers is altered by such things as the number of customers, the volume of purchases they make and the nature of the products they buy (i.e., generic versus differentiated). Supplier power is altered by factors such as the number of suppliers, the availability of substitutes, and switching costs. In general, the more bargaining power a stakeholder has, the more influence it has on environmental uncertainty.[8]

Strategic decisions at all levels influence the importance of various stakeholders.

Finally, it is important to understand the role of strategic choice in determining the nature of the interdependency that exists between a stakeholder and the organization. For example, if a firm alters its strategy to outsource a particularly critical component, then the supplier of that component becomes an important stakeholder. If the supplier is highly innovative and produces a high quality, technologically sophisticated component, but often provides unreliable delivery service, then the need to aggressively manage that stakeholder grows. If, further, there are few qualified suppliers of the component and competitors compete for positions with the best suppliers, the relationship between the firm and the supplier becomes even more critical.

Strategic decisions at all levels influence the importance of various stakeholders. If a firm pursues an aggressive growth strategy, financiers become more important. On the other hand, a firm following a differentiation strategy may need more control over suppliers to ensure quality and delivery. Finally, a firm that is following an acquisition strategy may need to pay more attention to government regulators (because of antitrust implications) or competitors (because of bidding wars).

In summary, the nature of the interdependence between a firm and a particular stakeholder is strongly influenced by firm strategy. At one extreme, an organization may virtually eliminate a stakeholder as a source of environmental uncertainty, as when a corporation divests itself of all businesses that are regulated by a particular government agency. At the other extreme, an organization may decide to create new interdependencies by diversifying into new markets or new industries. Between these two extremes, even minor strategic modifications may alter the importance of a stakeholder.

Exhibit 2 contains a simple illustration that reviews the main ideas of this section. The priority of a stakeholder, which we refer to as strategic importance, is determined by the contribution of the stakeholder to the environmental uncertainty facing the firm, the ability of the stakeholder to reduce environmental uncertainty for the firm, and the strategic choices of managers within the firm. Firm-specific strategic choices may alter the priority of a stakeholder. For instance, an organization may decide to increase the priority of a stakeholder because of management values, as when a top management team authorizes the donation of a large sum of money to a favorite charity.

Exhibit 2 also demonstrates that the strategic importance of a stakeholder helps determine the nature of the stakeholder management techniques that should be used. Specifically, stakeholders who are strategically important should be managed as partners. Having established guidelines for determining the strategic importance of stakeholders, the next step in proactive stakeholder management is to engage in effective strategic partnering.

Trends in Stakeholder Management—Creating Effective Partners

There are two basic postures organizations use when managing relationships with external stakeholders. One posture involves buffering the organization from environmental uncertainty through techniques designed to stabilize and predict environmental influences and, in essence, raise the boundaries higher. These are traditional stakeholder management techniques such as market

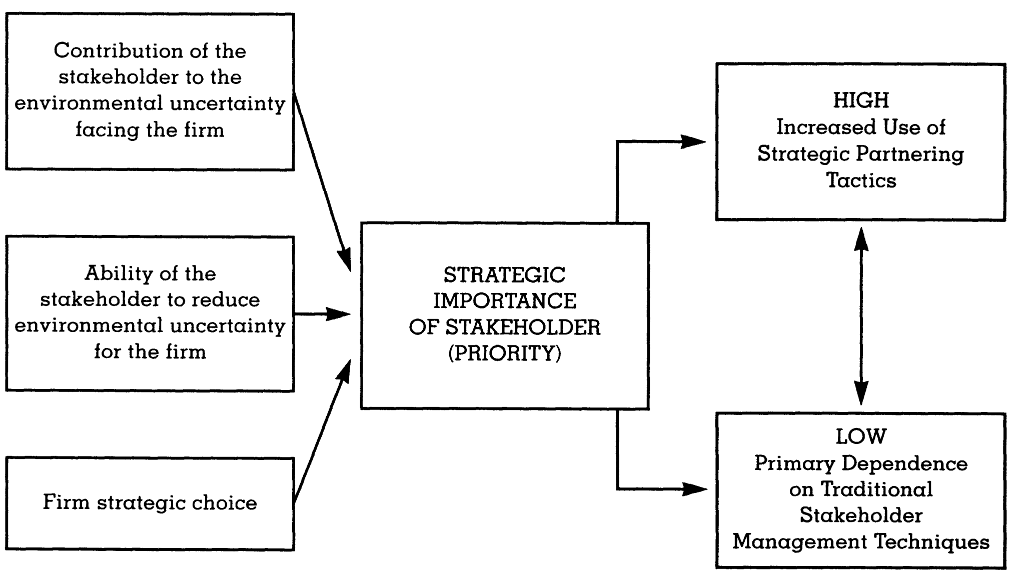

Exhibit 2. Factors Influencing the Strategic Importance of External Stakeholders and the Basic Approach to Managing Them

forecasting, inspection of raw materials, efforts to ensure regulatory compliance, special departments, and public relations efforts. The first column in Table 2 provides a list of examples of traditional stakeholder management techniques, grouped by type of external stakeholder.

When environments are more complex and uncertain, webs of interdependencies are created among stakeholders. In these environments, bridging (also called boundary-spanning) techniques are needed that build on interdependencies rather than buffer them. As Pfeffer and Salancik have argued, "The typical solution to problems of interdependence and uncertainty involves increasing the mutual control over each other's activities."[9] Joint ventures with competitors, cooperative product development efforts involving suppliers and customers and industry-level lobbying efforts are examples of partnering techniques that bring the firm into closer alliance with its critical stakeholders. Recent research suggests that strategic alliances are a device for reducing both the uncertainties that arise from unpredictable demand and the pressures that come from high levels of interdependence (strategic importance) among organizations.[10]

When environments are more complex and uncertain, webs of interdependencies are created among stakeholders.

Our thesis is that firms should consider proactive partnering techniques not only to increase control in the face of environmental uncertainty, but to create organizational flexibility. Partnering activities allow firms to build bridges with their stakeholders in the pursuit of common goals, whereas traditional stakeholder management techniques (buffering) simply facilitate the satisfaction of stakeholder needs and/or demands.

The potential benefits of bridges between partners may be illustrated using relationships with customers as an example. Firms with a traditional buffering posture toward customers focus on arms-length information gathering about new products needs and expected demand and compliance with current quality and service expectations, all in an effort to buffer the organization from uncertainty and customer complaints. With bridging techniques, a firm might choose to create stronger linkages with customers by involving them directly in the firm's product development programs, continuous improvement programs, and production planning and scheduling (via computer networks).

Bridging builds on an interdependency rather than buffering it. By working closely with customers, the firm will likely have earlier, more complete information about the direction of the market place, will anticipate the types of improvements and new products that the customer will need from the firm, will improve the likelihood of success and speed of new product introductions, and will create trust and respect between the two groups, possibly leading to an enduring relationship. The thrust of the proactive, bridging approach is to create common goals, rather than just adapt to stakeholder initiatives.

In the following sections, we will discuss some of the types of tactics that are used to partner with external stakeholders and the recent experiences of several firms.

Customers

Proactive tactics for managing important customers include joint planning sessions to identify driving forces for industry change, joint product and market development efforts, enhanced communication linkages, sharing of facilities, and joint training and service programs (other examples are found in Table 2).

Table 2
Tactics for Managing and Partnering with External Stakeholders

Stakeholder	Stakeholder Management Tactics	Stakeholder Partnering Tactics
CUSTOMER	Customer service departments Marketing research Advertising On-site visits 800 Numbers Long-term contracts Product/service development Market development	Customer involvement on design teams Customer involvement in product testing Joint planning sessions Enhanced communication linkages Joint training/service programs Sharing of facilities Financial investments in customer Appointment to board of directors
SUPPLIERS	Purchasing departments Encourage competition among suppliers Sponsor new suppliers Threat of vertical integration Long-term contracts	Supplier involvement on design teams Integration of ordering system with manufacturing (i.e., Just-in-Time Inventory) Joint information systemsJointly developing new products and applications Coordinated quality control (i.e., T.M.) Simultaneous production
COMPETITORS	Product and service differentiation Technological advances Innovation Speed Price cutting Market segmentation Intelligence systems Corporate espionage*	Kieretsu* Joint ventures for research and development Joint ventures for market development Collective lobbying efforts Informal price leadership or collusion* Industry panels to deal with labor and other problems Mergers (horizontal integration)
GOVERNMENT AGENCIES/ ADMINISTRATORS	Legal departments Tax departments Government relations departments Individual firm lobbying efforts Campaign contributions Individual firm political action committees Self-regulation Personal gifts to politicians*	Consortia on international trade and competitiveness Jointly or government-sponsored research Joint ventures to work on social problems such as crime and pollution Joint foreign development projects Panels on product safety Appointment of retired government officials to the board of directors Participation in government-sponsored initiatives
LOCAL COMMUNITIES/ GOVERNMENTS	Community relations offices Public relations advertising Involvement in community service/politics Local purchases of supplies Employment of local workers Donations to local government organizations Donations to local charities Gifts to local government officials*	Task forces to solve skilled-labor shortages Joint urban renewal programs Cooperative training programs Development committees/boards Employment programs for workers with special needs such as the handicapped Joint education programs
ACTIVIST GROUPS	Internal programs to satisfy demands Public/political relations efforts to offset or protect from negative publicity Financial donations	Consultation with members on sensitive issues Joint ventures for research/research consortia Appointment of group representatives to board of directors Jointly sponsored public relations efforts
UNIONS	Avoid unions through high levels of employee satisfaction Avoid unions by thwarting attempts to organize* Hiring of professional negotiators Public relations advertising Chapter XI protection	Mutually satisfactory (win-win) labor contracts Contract clauses that link pay to performance (i.e., profit sharing) Joint committees on safety and other issues of concern to employees Employee development programs Joint industry/labor panels Labor leaders appointed to board of directors included in major decisions

* These tactics are of questionable ethical acceptability to some internal and external stakeholders in the U.S. and elsewhere.

Efforts to strengthen linkages with customers often provide significant benefits. For examples, sales representatives at U.S. Surgical gown up and coach surgeons during surgery in the use of their company's instruments. Experiences with surgeons led to the development of laproscopic instruments, which are used to perform procedures through tiny incisions. U.S. Surgical has about an 85 percent share of the laproscopic instruments market, which is expected to be a $3 billion market by 1996. Caterpillar, the heavy equipment manufacturer, intends to create a jointly shared information system which will link its thirty manufacturing facilities with customers and suppliers. Through shared communications, Caterpillar will be able to better serve the needs of customers and also pass essential information and orders on to suppliers. Finally, IBM joined forces with Sears, an unlikely customer of its PC hardware and software, to form the Prodigy service network. Sears brought its market research and a desire to develop electronic retailing capacity. IBM contributed its considerable expertise with home computers.[11]

Suppliers

Many firms involve strategically important suppliers in product and process design processes, in quality training sessions and in on-line production scheduling. For example, Digital Equipment Corporation (DEC) and Hewlett-Packard include suppliers on their product planning teams. DEC also asks managers to evaluate suppliers as if they were part of the internal organization. Bailey Controls, a $300-million-a-year manufacturer of control systems, goes a step further by providing Arrow Electronics, a major supplier, with a warehouse in a Bailey factory. G&F Industries, a plastic components manufacturer, has dedicated an employee to Bose, one of its major customers. The employee works full-time inside the Bose facility.[12]

Competitors

Competitors pose a difficult stakeholder management problem because it is often in the best interests of one competitor to cause another competitor to falter. To combat collapsing product and process life cycles, however, and to get a jump on new emerging technologies, competitors are joining forces in increasing numbers. Rival organizations are coming together to form alliances for technological advancement and new product development, to enter new or foreign markets, and to pursue a wide variety of other opportunities. The underlying motive often seems to be to put unaligned firms at a competitive disadvantage.

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Very few international rivalries are as intense as the rivalry between film makers Kodak and Fuji. Consequently, some analysts were surprised when Kodak and Fuji began a joint research and development project with three Japanese camera makers to establish a new standard for photographic film. Eugene Glazer, an analyst at Dean Witter Reynolds, explained, "Fuji has to be granted the same technology. If they don't include Fuji, Fuji would fight very hard against the introduction of a new system." In the computer chip industry, IBM formed a joint venture with rivals Toshiba Corp. of Japan and Siemens AG of Germany to develop an advanced line of memory chips that will be suitable for computers in the next century. Apple and archrival IBM are also working jointly on new kinds of computer chips and software.

Keiretsu, strategic alliances and joint ventures provide outstanding opportunities for competitors to pursue common goals. While keiretsu are often accused of collusion and other competition-reducing actions, they also may lead to greater efficiency for keiretsu members. To remain internationally competitive, U.S. firms are beginning to adopt keiretsu-like cooperative practices in research, design, financing, production and marketing. Some competing manufacturers are selling and servicing each other's products. One example is IBM, which now sells Novell's network software. Competitors are also combining strengths to pursue markets dominated by larger rivals. For example, a pharmacy trade group formed a company that combines independent and chain drugstores in pursuit of a piece of the managed prescription drug programs that are currently dominated by Merck and McKesson's PCS Health Systems.

Because business organizations and governments share a number of common goals, many organizations form alliances with government agencies and officials to pursue a wide variety of objectives.

The pharmacy trade group example demonstrates the importance of determining when to join forces in selective joint activities or collective activities. Collective actions are appropriate in situations where stakeholders such as government agencies, activist groups, unions, and local communities influence many firms simultaneously. Collective activity includes membership in trade associations, chambers of commerce, and industry and labor panels. Firms join associations to have access to information and to obtain legitimacy, acceptance and influence. For example, the seven Baby Bells recently joined political forces to win the ability to compete with AT&T in long distance services and equipment. Some trade associations, such as the U.S. League of Savings Institutions, have had success influencing and sometimes even rewriting regulations before they are made law.

Government Agencies and Administrators

Because business organizations and governments share a number of common goals, many organizations form alliances with government agencies and officials to pursue a wide variety of objectives. Government-business partnerships are even more widely used outside of the U.S., where governments often play a more active role in economic development. One such effort resulted in the formation of the major aerospace company, Airbus Industrie, jointly owned by aerospace companies from Britain, France, Germany and Spain. Fearing Russian influence in the world aluminum market, the U.S. Department of Justice helped aluminum manufacturers form a cartel consisting of industry and government representatives from seventeen nations. The group, which included three DOJ antitrust lawyers, met in Brussels to decide who would produce how much aluminum and ultimately determined the price of aluminum.[13]

Local Communities

Organizations take a proactive role in their local communities for a variety of reasons. Good relationships with local communities and governments can result in favorable local regulation or tax breaks. In the case of the Kiamichi Railroad Company of Oklahoma and Texas, good relationships with the community were instrumental in turning around a failing business. Burlington-Northern sold the unprofitable railroad in 1987. Workers, afraid of losing their high-paying union jobs, resisted the sale and stirred up animosity among local communities. New management turned the community situation around through such efforts as establishing a service club, buying from local suppliers, sponsoring a rodeo, and taking an active role in the United Way. These efforts were a part of a turnaround plan that eliminated the need for a union and put the company in a strong financial condition. The company is now growing and profitable.[14]

Other organizations find opportunities to achieve financial operating objectives while satisfying a need in the local community. Creative Apparel of Waldo

County, Maine, helped a depressed local economy by establishing a partnership with a local tribe of Native Americans. A training program was put in place and a grant was obtained from the Department of Commerce to assist with the construction of a new manufacturing building. In 1990, the Department of Defense awarded Creative Apparel a $2.95 million contract for flame retardant flyer jackets.

Quasi-public alliances between local governments and business leaders are flourishing across many sections of the U.S. The Economic Development Commission of Mid-Florida, Inc., represents four central Florida counties. The Commission works with government and business leaders to create economic plans and initiatives. Recent activities include the development of an economic action plan for Osceola County, promotion of an industrial park, matching companies that sell goods with foreign companies that buy them, and finding ways to make use of the Orlando Naval Training Center, one of several military facilities the Navy has decided to abandon. The Commission is flush with cash, including $425,000 in state and local government grants.

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Martin Marietta, which recently merged with Lockheed (another corporation with a strong presence in Central Florida), is among the companies that has formed a partnership with the Commission to preserve employment, reduce operating costs and bring new business to the central Florida economy. Rick Tesch, who heads the Commission, describes its successes this way, "We've proven that partnerships like this work. By streamlining permitting, helping reduce operating costs and assisting them in obtaining state training and incentive dollars, we were able to solidify Martin's presence in metro Orlando and bring an additional 1,500 jobs into our community."[15]

Activist Groups

Activist groups are most often seen in an adversarial role relative to other organizational stakeholders. This adversarial stance, though common, can change. However, it is difficult for adversaries to reverse patterns and work to achieve common goals. To adopt a win-win attitude with activist groups, executives should consider potential benefits from partnering activities, especially in situations in which an activist is strategically important.

One of the best ways to reduce unfavorable regulation in an industry is to operate in a manner consistent with the values of society. Organizations that respond to the widely-held positions of public interest groups on issues such as pollution, fair hiring practices, safety and waste management do not need to be regulated. They find themselves in the enviable position of solving their own problems, instead of having a regulatory body of individuals with less experience in the industry dictating how problems will be solved. Public interest groups are particularly important in helping organizations avoid conflicts with social values, which can result in unfavorable media and a damaged reputation. They are experts in the causes they represent. As a result, many companies invite public interest group members to participate in strategic planning processes either as advisors or board members.

A benefit of such participation may be that there are fewer obstacles during strategy implementation. The groups involved would be less likely to protest or seek government intervention. This may also result in good public relations and publicity. For example, Sun Company (oil) worked directly with the Coalition for

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Environmentally Responsible Economies (CERES) in developing a new policy for health, safety and the environment. Sun has recently been cited by Friends of the Earth as a model company that other companies should follow.

Alliances with activist groups can also help companies develop new products. The increasing social emphasis on environmental protection has left companies rushing to introduce environmentally acceptable products. Examples include McDonald's recent conversion back to paper packaging and Rubbermaid's recent promotion of its environmentally friendly Sidekick lunch box.

Unions

Unions are making great strides in pursuing common goals with managers. The AFL-CIO recently took the unprecedented step of urging the 86 unions it represents to "become partners with management in boosting efficiency."[16]

Unions are partners in some of the companies that have had the greatest success with programs such as self-managed work teams. Xerox has implemented three teamwork programs since 1982 with its 6,200 copier assemblers, represented by the Amalgamated Clothing and Textile Workers Union (ACTWU). The efforts have worked so well that Xerox is now bringing 300 jobs home from abroad to a new plant in Utica, where it expects to save $2 million a year. Xerox shares internal financial documents with union leaders and provides executive development for them with their own managers. CEO Paul Allair commented on the success of these programs, "I don't want to say we need unions if that means the old, adversarial kind. But if we have a cooperative model, the union movement will be sustained and the industries it's in will be more competitive."[17]

Organizations that are successful in labor-management relationships sometimes include representative from labor unions on their boards of directors and/or involve them in strategic planning decisions. LTV Corp. signed a pact with the United Steel Workers (USW) in 1993 that allows the union to nominate a board member in return for its support of teams and other efficiency measures. Scott Paper Co. formed a committee in 1990 combining 10 of its top executive with 10 top officials from the union. They pledged to "work together to meet the needs of employees, customers, shareholders, the union and the community."[18] The results were so successful in terms of cutting costs and boosting quality that now other paper companies are following suit.

Conclusions and Suggestions

All stakeholder management activities involve a variety of people of widely varying backgrounds, values, abilities to absorb information, and tendencies to interpret situations differently. These differences in perspective are one of the primary reasons that stakeholders disagree. Wal-Mart, for example, pursues aggressive bargaining tactics with suppliers in order to provide low prices for customers. Some stakeholders would argue that these tactics are socially responsible behavior because they benefit society by forcing suppliers to be more efficient, producing savings that are passed on to members of society. Others may argue that the aggressive tactics are a misuse of market power and that some Wal-Mart suppliers cannot even pay their employees reasonable wages. Consequently, the stakeholder management task is formidable and requires judgment and tradeoffs at every turn.

Activist groups, in particular, often promote organizational activities and processes that conflict with the desires of other stakeholders. Environmental groups may want an organization to shut down a plant that is polluting the environment, but shutting down the plant could result in layoffs, reduced local taxes, and a substantial loss to the shareholders. A plant closing could also damage supplier organizations or place customers who need the product in jeopardy. Consequently, the concerns of activists need to be balanced with the desires of other stakeholders.

There should be a positive relationship between the strength of the alliance and the strategic importance of the stakeholder.

Organizations may also be accused of misusing stakeholder management techniques, at least from the perspective of society. The cigarette industry uses the Tobacco Institute to advance a public agenda and the textiles industry is well-known for extensive lobbying efforts leading to protectionist legislation and agricultural price supports. The National Federation of Independent Businesses, a professional affiliation of small businesses, is credited with much of the political pressure that stalled health care reform. One might question whether these activities are really of benefit to society as a whole. Although there are no clear answers, organizations that consistently pursue agendas that are contrary to societal values are likely to experience difficulty over the long term. This difficulty can be tempered by listening to and involving stakeholders in organizational processes.

Effective planning for stakeholder management activities should begin with identification of key stakeholders. Establishing the strategic importance of stakeholder groups then helps organizations determine what the nature of their stakeholder management strategies should be. There should be a positive relationship between the strength of the alliance and the strategic importance of the stakeholder. When forming a strategic partnership:

- Communicate frequently and openly to foster the development of a shared interpretation of the situation.
- Avoid formalization and monitoring of contractual agreements, which lead to conflict and distrust. Informal psychological contracts provide better safeguards over time.
- Strive for long-term agreements in which the partners are more likely to be willing to work out difficulties and devote adequate resources to the partnership.
- Make a commitment. Large investments of nonrecoverable assets to a partnership are critical to success.
- Avoid excessive trust, which leads to its violation (e.g., embezzlement, fraud).
- Retain some control over outcomes from the partnership, regardless of the amount of resources committed to the venture.
- Share information during the agreement stage and during the implementation of the partnership.
- Clearly delineate what is expected from the partnership and develop a strategy for achieving it through partnership activities.
- Resolve conflicts through joint problem-solving techniques.[19]

Endnotes

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